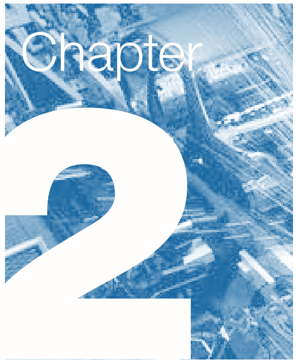


Ensuring decent employment for Africa's poor: key challenges

Interest in Africa's employment challenge is not new. On several occasions over the past three decades African governments have identified employment creation as the key to the fight against poverty.[1] Despite political agreement on the centrality of employment creation in African countries' development strategies, the employment content in Poverty Reduction Strategy Papers (PRSPs) remains weak. Because employment issues have not received the priority they deserve, detailed and reliable labour data are difficult to find for Africa. This could explain the rarity of systematic analyses of African labour markets. By devoting *Economic Report on Africa 2005* to this topic, the United Nations Economic Commission for Africa (UNECA) has acknowledged the need for a thorough analysis of employment issues to inform poverty reduction policies implemented in African countries.

"In Africa, rates of unemployment are among the highest in the world"

Understanding employment issues is particularly important in Africa, where the rates of unemployment are among the highest in the world: 10.9 per cent in Sub-Saharan Africa and 10.4 per cent in North Africa in 2003, the second and third highest in the world. However, these official figures do not fully reflect the extent of unemployment in Africa.

- Working poverty is very high, with 56 per cent of people employed in Sub-Saharan Africa not earning enough to provide for their families' basic needs.
- The number of discouraged workers is large.
- Unemployment is unevenly distributed across age and gender groups. The youth unemployment rate in Africa is twice the total unemployment rate. Generally underestimated, female unemployment rates are higher than male unemployment rates in North Africa but lower in Sub-Saharan Africa.
- Variations in regional and country unemployment rates are large. Western Africa had the lowest unemployment rate in 2003 (6.7 per cent), while Southern Africa the highest rate (31.6 per cent). Uganda had an unemployment rate of 7 per cent in 1997 and Lesotho 39 per cent. Even in the same country there are disparities, with the rural-urban split often the most visible.

How can Africa's labour markets create more and better paid jobs to reduce poverty? Why has the formal sector failed to create more and better paid jobs? And why has the informal sector failed to increase productivity and earnings? Nine answers:

- ***Slow employment-generating growth.*** Despite some recovery in Africa's growth rates, poverty has not decreased for two reasons. The 4–5 per cent economic growth rates may appear high by international standards, but they are not high enough to have a noticeable impact on the level of poverty, especially in relation to population growth. Using the benchmark of a minimum yearly average of 7 per cent growth rate to cut poverty by half by 2015, the current rates in Africa are well below what they should be. So far, growth appears to have been fuelled by capital-intensive industries rather than labour-intensive ones. Particularly in the last two years, growth has been largely influenced by oil exports, which in many African countries are highly capital-intensive.

- ***No structural economic transformation.*** African economies are still dominated by a low productivity agricultural sector. Low productivity and earnings account for the lack of structural economic transformation and diversification into higher productivity sectors, within agriculture or in the industrial and services sectors.

- ***High demographic pressure.*** The lack of demographic transition in Africa results in high demographic growth, exacerbating youth unemployment. The labour force has grown at 2.3 per cent a year in North Africa and 2.9 per cent a year in Sub-Saharan Africa, putting intense pressure on the labour market. Sub-Saharan African countries need to create 8 million new jobs each year to absorb the ever-increasing number of job seekers. This is a tall challenge in view of the continent's relatively slow economic growth.

- ***Inappropriate education and training policies.*** Inappropriate education and training policies result in both skills mismatch and low skill supply. Africa's functional literacy, defined as the ability to read and write in one's mother tongue or a foreign language, is low relative to other developing regions. In 2000 North Africa's 58.6 per cent literacy rate and Sub-Saharan Africa's 61.2 per cent literacy rate were the second and third lowest–and well below the world average of 79.1 per cent. However, there are signs of improvement: in 2000 youth literacy in Sub-Saharan Africa was 16.3 per cent higher than adult literacy. But there is also a mismatch between the skills offered and those required by thºe job market, due mainly to an education and training system tailored to suit the needs of the civil service because few graduates are employed in the private sector. Unfortunately, private sector expansion in many African countries has not yet been accompanied by appropriate changes in curricula to emphasize vocational training for practical and marketable skills.

- ***Failed labour regulations.*** With respect to labour policies, a balance is needed between job protection to ensure the welfare of employees and labour flexibility to cope with the effects of economic shocks—and the right balance is often difficult to find. For instance, minimum wages should be set high enough to minimize the number of working poor but not so high that they severely affect firm profitability and reduce employment. In Africa labour policies are neither sufficiently flexible to encourage employment creation nor effective for worker protection and equity. While the average effect of these policies on employment and job protection is small due to limited coverage and enforceability, the marginal impact could be large if they prevented potential investors from investing or forced them to go into the informal sector. This is the case when labour policies are generally perceived as increasing transaction costs.

- ***No enabling environment for investment.*** Investment in the private sector is still too low to result in sizable job creation, despite progress towards restructuring African economies. Macroeconomic volatility, political uncertainty, the lack of access to affordable credit and high transaction costs have been major impediments to investment. Consequently, Africa has the lowest investment rate of all developing regions—just 20 per cent of the foreign direct investment flows to Latin America and 9 per cent of the flows to Asia and the Pacific.

- ***Stiff competition facing firms in export markets.*** Coupled with low investment, the share of firms producing for the export market is small. The failure of African firms to significantly increase their exports is a key factor explaining why they remain small. As economic globalization intensifies, African firms will have more and more difficulty competing in the global market. At the same time, however, globalization has opened windows of opportunity to competitive firms, as developed countries delocalize their activities to low-cost economies in the developing world.

- ***Economic choices motivated by politics.*** Politics also shapes African economies, but economic choices guided by political considerations may result in inefficiencies and political instability. Distributive politics in Africa have often led to imbalances in resource allocation, especially for public goods. For instance, unequal distribution of land, the key asset supporting employment in agrarian economies, has increased unemployment and inequality. In some countries social imbalances have resulted in civil unrest, which in turn has destroyed these countries' economies.

"Low-productivity agriculture dominates Africa's economies"

- ***High HIV/AIDS prevalence and brain drain.*** The rate at which the prevalence of HIV/AIDS and brain drain are destroying human capital in Africa is unprecedented. Sub-Saharan Africa accounts for 75 per cent of global AIDS deaths, and the people affected are among the population's most productive workers. For example, schools, hospitals, the civil service and the mining and construction sectors are losing a large number of their personnel due to AIDS and its related infections. Additionally, human capital flight is an important concern for African economies. Brain drain reduces the supply of skilled and professional workers, which reduces employment opportunities for semiskilled and unskilled labour given the complementarity between skilled and unskilled labour in the production process. Moreover, the workers leaving Africa are usually young and highly educated, so the continent loses its most creative force. This loss hampers the creation of a more dynamic private sector, confining most work opportunities to the civil service.

Later chapters analyse in more detail these key issues to provide appropriate policy recommendations.

Employment-generating growth for poverty reduction

Africa and the transition economies are the only regions where poverty has been rising in the recent past (see chapter 3). So the consensus now is that eliminating poverty is the overriding objective of development in Africa. But the question is how. Most analysts argue that poverty reduction in Africa will result from a combination of sustained high levels of economic growth and drastic reductions in inequality to allow poor people to benefit from and contribute to the growth process (World Bank 2000).

> *Poverty is concentrated in rural areas*

The most direct and arguably most important channel through which growth will reduce poverty in Africa is employment. For a given level of technology, labour and capital are two key inputs required in the production process. An increase in aggregate demand increases the demand for labour and capital–and vice versa. During periods of economic decline firms tend to reduce their labour force, and during periods of economic growth they tend to increase their hiring. It is generally accepted that employment income is the main source of revenue for poor people.[2] Whether members of the household in Africa are wage earners or self-employed, they earn a living from the fruit of their labour, given the limited number of alternative assets they could depend on. This is particularly the case in rural areas in Africa, where poverty is concentrated. In other words, the observed unemployment, underemployment and low returns to labour in Africa can be considered as immediate causes of poverty. In this context, policies encouraging growth and employment are expected to be "essential for any poverty reduction strategy" (World Bank 2000, p. 99). This view is supported by cross-country empirical evidence showing that expanding remunerative employment reduces the incidence of poverty (Islam 2004).

That Africa's growth recovery has not been associated with poverty reduction may be explained by the fact that the growth rates have not been large enough (Soludo and Kim 2003). Moreover, the source of most of the growth in Africa in recent years has been from capital-intensive sectors rather than labour-intensive ones.

The scope of the impact on poverty of growth through employment goes beyond the income dimension of poverty. Employment-intensive growth increases the consumption potential of the population, especially food consumption, reducing malnutrition, which is particularly rampant in poor rural communities. Moreover, the additional resources generated by growth can be used to improve the accessibility of basic services essential for a decent living, such as education and health. There are several non-income aspects of poverty, particularly those related to the capabilities of poor people, who require specific measures; economic growth can, at best, act as a catalyst. For instance, the "human capital" dimension of poverty can be addressed by enhancing the employability of poor people through better nutrition, health, training and education. Where low human capital is due to unequal distribution of resources within a society, greater equity is the solution. Meanwhile, improving governance can contribute to alleviating exclusion, marginalisation and insecurity of poor people. Special targeting policies are also required in certain cases. For example, the gender dimension of poverty may be addressed by targeting employment opportunities towards women. Similarly, the spatial aspect of poverty is best tackled by targeting marginalised areas.

Labour markets in Africa: facts and figures

Africa's employment problem is severe and multidimensional. Unemployment, underemployment, informal employment and working poverty are high compared with other regions (see box 2.1 for definitions of these terms). Furthermore, these patterns display wide variations across countries and regions. Even within the same country there are splits between rural and urban groups, youth and adult, and male and female groups. These aspects are discussed in detail to provide a comparative picture of African labour markets relative to the rest of the world. The formal-informal split represents the most important distinctive feature of labour markets in Africa. The key issue in the formal sector is unemployment, whereas the main problem in the informal sector is the increase in income through, among other things, higher productivity. This is discussed later in this section.

> *"Improving governance can contribute to alleviating exclusion"*

Unemployment in Africa remains high—and unevenly distributed

In 2003 the average rate of unemployment was 10.9 per cent in Sub-Saharan Africa and 10.4 per cent in North Africa (ILO 2004a). These rates are high compared with other developing regions. Sub-Saharan Africa and North Africa have the second and third highest unemployment rates after the Middle East. Regional trends show that African unemployment has not improved over the last 10 years—in fact, unlike most regions the rate has remained stable around 10 per cent (figure 2.1). In 1999 unemployment in South America was slightly higher than in Sub-Saharan Africa, but it has since declined. Unemployment has also declined slightly in the Middle East and North Africa, but it is still higher than in Sub-Saharan Africa.

Box 2.1
Key terms

Unemployment
Unemployed people are working-age people without work, seeking work in a recent past period and currently available for work. In other words, individuals age 15 or older are counted as unemployed if they are actively looking for work but not finding any. This means that they are neither discouraged nor voluntarily staying in education and training. The unemployment rate is calculated as the number of unemployed people (for an economy or a specific group of workers) divided by the total number of people in the labour force.

Discouraged workers
Discouraged workers are working-age people who are not currently looking for work but may have looked for it in the past and clearly desire a job "now". Even though they want to work, these people do not actively seek work because they view job opportunities as limited, because they have restricted labour mobility or because they face discrimination or structural, social or cultural barriers.

Box 2.1 *(continued)*

Youth unemployment

The four measurements of youth unemployment are the youth unemployment rate (youth unemployment as a share of the youth labour force), the ratio of the youth unemployment rate to the adult unemployment rate, youth unemployment as a share of total unemployment and youth unemployment as a share of the total youth population.

Employment

The employment-to-population ratio is defined as the share of an economy's working-age population that is employed. As an indicator, the employment-to-population ratio provides information on the ability of an economy to create jobs. Although a high overall ratio is typically considered "good", the indicator alone does not provide information on labour market problems such as low earnings, underemployment, poor working conditions or the existence of a large informal economy.

Decent employment

Decent employment is an integrative concept that refers to both quality and quantity of labour. Decent employment should be productive and secure work, ensure respect of labour rights, provide an adequate income, offer social protection and include social dialogue, union freedom, collective bargaining and participation.

Time-related underemployment

Time-related underemployed people include all workers, who, during a short reference period, were willing to work additional hours, available to work additional hours and had worked less than a threshold relating to working time.

Working poverty

Working poor refers to people whose income from work is below the poverty line. These people usually do not benefit from the other items that define decent work, such as social protection or representation rights (voice).

Informal sector

The labour market in developing countries may be clustered in four sectors: formal urban, informal urban, formal rural and informal rural. The informal rural sector consists mainly of small operations involving self-employed persons and unpaid family members, most of whom are unskilled. The informal urban sector is characterized by self-employed individuals and privately owned enterprises producing mainly services or other nontradables. This sector is generally unregulated, wages and job security are low, and fringe benefits such as health insurance, life insurance or pension are usually nonexistent. Union activity is rare, legal minimum wages do not apply, and wages are flexible.

Source: *ILO 2005a; Fosu 2002.*

Although high compared with other regions, the unemployment rate in African might seem unrealistically low. First, the collection of employment data in Africa is fraught with difficulty. Many countries do not report information, reporting countries give incomplete data, and not all the reported information is comparable across countries (box 2.2).[3]

Box 2.2
Comparability problem

Labour market indicators may not be comparable across economies for several reasons:

- *Conceptual variation.* National statistical offices, even when using International Labour Organization conceptual guidelines, do not measure employment and unemployment the same way. For example, countries adopt different age limits in their definition of the labour force. Lower age limits in available data vary from age seven in Uganda to age 18 in Tunisia. And some countries use upper age limits in estimating unemployment rates: age 64 in Egypt and age 69 in Namibia. Moreover, countries such as Lesotho, Zambia and Zimbabwe estimate unemployment rates using the civilian labour force rather than the total.

- *Different sources.* National labour market estimates are based on information from different sources. These differences generate substantial discrepancies in unemployment rates. In South Africa the unemployment rate derived from employment office records was 5.4 per cent in 1997, while the rate from the 1999 household survey was as high as 25.3 per cent. Unemployment rates in Algeria, Burundi, Mauritius and Nigeria are obtained from official estimates, making them not comparable with unemployment rates in Egypt, Kenya, Uganda and Zimbabwe, which are derived from household surveys.

- *Changing number of observations per year.* Due to seasonality, statistics for a given year may differ depending on the frequency: monthly, quarterly, semiannually or annually. In some countries estimates are based on two observations a year: March and September for Mauritius and May and November for Egypt.

Source: *ILO 2005a, 2005b.*

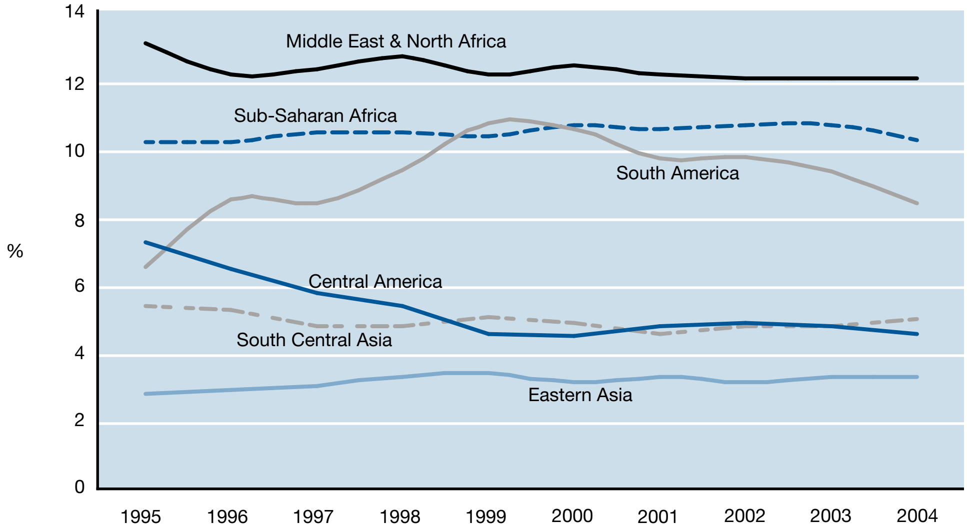
There is limited demand for formal jobs

Second, the average unemployment figure does not capture discouraged job seekers. The limited demand for formal jobs in Africa discourages large numbers of potential workers from seeking employment. By definition they are not counted as unemployed. This problem is thought to affect educated people in African cities in particular because they have high expectations of formal jobs.

Third, the figure masks a high level of working poverty. The computation of unemployment rates considers all informal sector workers as employed, although most are either seasonally employed or earn wages below the poverty line. Up to 56 per cent of people

Figure 2.1

Unemployment rates by region, 1995–2004 (%)



Source: *Tarantino 2003.*

employed in Sub-Saharan Africa are working poor. The average unemployment rate does not convey this reality. Although people are employed, their jobs do not qualify as decent employment.

Fourth, the rate of unemployment conceals large variations across regions and countries. In 2003 Western Africa had the lowest unemployment rate (6.7 per cent), while Southern Africa had the highest (31.6 per cent) (table 2.1).

Unemployment in Uganda, for example, affected 7 per cent of the labour force—low compared with Lesotho's 39 per cent in 1997 (table 2.2). All these dimensions of the

Table 2.1

Variations in unemployment rates across regions, 2003 (%)

Region	Unemployment rate
Western Africa	6.7
Central Africa	9.4
Northern Africa	10.4
Eastern Africa	11.0
Southern Africa	31.6

Source: *ECA, from official sources.*

Table 2.2
Variations in country unemployment rates

Country	Year	Unemployment rate (%)	Working age
Zimbabwe	1999	6	15+
Uganda	1997	7	7+
Egypt	2000	9	15–64
Zambia	1996	15	12+
Botswana	2000	16	12+
Kenya	1994	21	15+
Morocco	1999	22	15+
South Africa	2001	30	15–65
Namibia	2000	34	15–69
Lesotho	1997	39	15+

***Source:** ILO 2005b, based on most recent household surveys.*

labour market in Africa must be kept in mind to fully grasp the meaning of the average unemployment rate. Most particularly, unemployment and the excessively high number of working poor should be considered together.

Youth and gender dimensions of unemployment

Unemployment of youth is a particular problem in Africa (figure 2.2). At 21 per cent in Sub-Saharan Africa and 22.8 per cent in North Africa, the unemployment rate for youths ages 15–24 was twice that of the overall labour force in 2003 (ILO 2004b). These youth unemployment rates were the second and third highest in the world after the Middle East and barely changed between 1993 and 2003. In 2003 unemployed youth as a share of the total unemployed was 63 per cent in Sub-Saharan Africa, even though youths made up only 33 per cent of the labour force. Furthermore, in 2003 the youth-to-adult unemployment ratio of 3.5 in Sub-Saharan Africa meant that young people were much more likely than their adult counterparts to be unemployed.

“Unemployment of youth is a particular problem”

Youth unemployment is high not only because there are no jobs at all but also because youth, especially well educated youth, face a costly search process early on in their career. They may prefer to wait for well-paid jobs in the formal sector instead of going into low-level jobs in the informal sector. In Nigeria at least 17 per cent of the country's educational output is not absorbed into the labour market (Boateng 2001). Aware of the particular challenge faced by youth, UNECA is bringing youth issues to the forefront of the policy debate in Africa—for example, by hosting a Youth Symposium during the Fourth African Development Forum in 2004. Chapter 5 deals exclusively with the issue of youth unemployment.

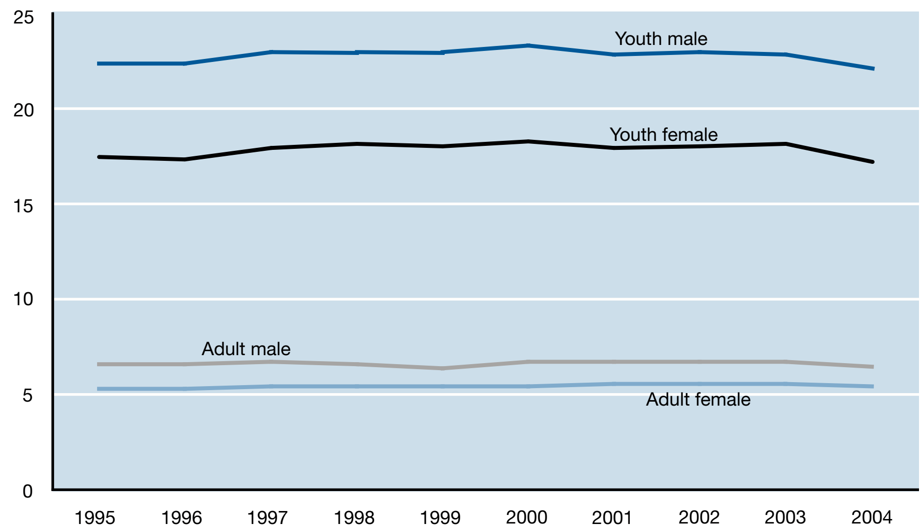
In addition to the adult-youth split, a gender gap in favour of women is found in Sub-Saharan Africa and East Asia (see figure 2.2). The gap does not reflect the dire situation of women in the labour force because the rate of female unemployment is underestimated for a number of reasons. First, social norms tend to require women to declare themselves as housewives involved only in unpaid domestic work, which places them outside the coverage of the labour force. Second, women are more likely to be discouraged workers in the context of limited opportunities because men are usually served first. Third, the criterion requiring availability for employment during the reference period penalizes more women than men because women need more time to make the necessary arrangements such as care of children or elderly relatives or other household affairs before starting a job. Female unemployment rates in Africa also mask the fact that female workers are mostly in informal employment, where they are more likely among the working poor. In Sub-Saharan Africa 84 per cent of female nonagricultural workers are in the informal sector compared with 63 per cent of male nonagricultural workers.

Challenges differ in formal and informal sectors

The employment problem in the formal sector is distinct from the problem in the informal sector. As noted earlier, the main issue in the formal sector is how to create more jobs to absorb the increasing number of jobless people. In the informal sector, by contrast, the problem seems to be how to increase incomes.

Figure 2.2

Unemployment rates in Sub-Saharan Africa, by gender and age group, 1995–2004 (%)



Note: *Youth refers to people ages 15–24 (or the closest available ages); adult refers to people ages 25–64.*

Source: *Tarantino 2003*

Employment generation is the key issue in the formal sector

The structure of formal employment in Africa reveals two major facts. First, formal employment in the public and private sector is a small share of total employment. Data covering 1994–2000 show that Sub-Saharan Africa has the lowest share of formal employment in non-agricultural areas (38 per cent) (ILO 2002b). This share would be even lower if agriculture were included. There are, however, important differences across countries. In Ethiopia, for example, formal employment represented only 7.2 per cent of total employment in 1999, while 28.4 per cent of Kenya's working labour force was in the formal sector in 2000 (ILO 2002a). The formal sector is also less dynamic than the informal sector. The formal sector accounts for only 7 per cent of new non-agricultural jobs in Sub-Saharan Africa (Xaba, Horn and Motala 2002).

"The relative size of the public sector has been declining"

Second, the relative size of the public sector has been declining for some time. In Ethiopia the share of the public sector declined from 4 per cent of total employment in 1984 to 2.9 per cent in 1999. The decline was more dramatic in Kenya, where the share dropped from 36 per cent in 1990 to just 11.4 per cent in 2000. Ethiopia and Kenya, like most African countries, have gone through a transformation aimed at reducing the size of the public sector to cope with ever-increasing budget deficits and other economic imbalances, especially since the late 1980s. What is more striking, however, is the trend in the size of the private sector. The reduction of the public sector may have pushed more workers into the private sector in Ethiopia, where the share of workers in the private sector doubled from 2.2 per cent of total employment in 1984 to 4.3 per cent in 1999, but this did not occur in Kenya, where the private sector still shrank from 36.5 per cent of total employment in 1990 to 17 per cent in 2000.

The "twin decline" phenomenon observed in Kenya can be explained by the informalisation of economies across the continent in the 1990s. As the formal sector shrank in Kenya, the informal sector was booming, tripling in size to 70.4 per cent of total non-agricultural employment from 1990 to 2000. If these two countries' experiences can be generalized, it becomes clear that the key employment challenge in the formal sector is to create more jobs to address the unemployment problem. The formal private sector is where these jobs should be created, given the characteristic inertia of public sectors in Africa. To this effect, as chapter 7 discusses, providing an enabling environment for private sector development is probably the most important service African governments can offer their citizens seeking decent employment in the formal sector.

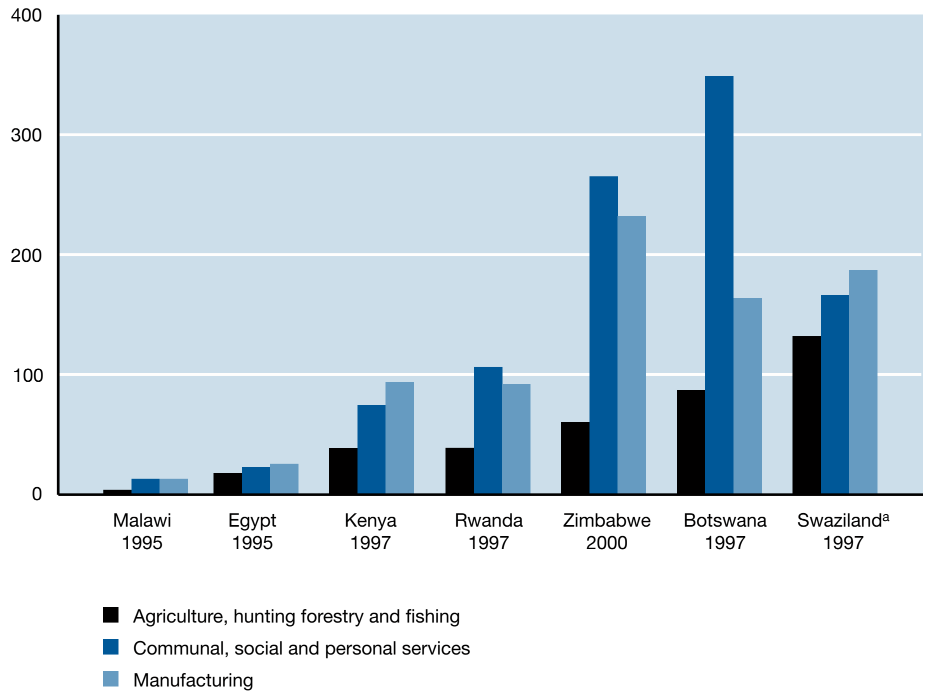
Since in the formal sector creating employment is more imperative than increasing productivity, should African countries adopt policies that decrease capital-labour ratios in production? Empirical evidence suggests that the incremental capital-output ratio in Africa is among the highest in the world. The key policy question is therefore whether African countries should change the relative input prices to encourage producers to adopt the "appropriate technology", meaning labour-intensive technologies. Most governments pursue policies that subsidize capital through interest rate, credit, trade and exchange rate policies, while increasing the cost of production through labour market regulations. In the end, producers in the formal sector have no incentive to hire more labour when capital is subsidized.

Low earnings and low productivity are the key issues in the informal sector

The informal sector in African economies has been acting as the "employer of last resort". As formal public employment declined in the 1990s in countries without welfare benefits or unemployment insurance for workers searching for other decent jobs, many were forced into the informal sector. The formal private sector is usually not an option because it is too small or because it is shrinking along with the public sector, as in Kenya. The informal sector is dominated by self-employment. Self-employment in non-agriculture represents 70 per cent of non-agricultural employment in Sub-Saharan Africa and 62 per cent in North Africa.

Low productivity and low earnings characterize informal employment in Africa. Sub-Saharan Africa is the only region where labour productivity decreased over the past decade. Productivity declined 0.2 per cent a year between 1993 and 2003 (ILO 2004c). Low and declining labour productivity is particularly pronounced in agriculture. The annual decline in agricultural labour productivity was 0.4 per cent between 1980 and 1990 and 1.5 per cent between 1990 and 1994 (Khan 1997). This has repercussions across the whole

Figure 2.3
Monthly wages by sector for seven African countries, various years ($)



a. Data are for unskilled workers only.

***Source:** ILO 2005b.*

economy, given agriculture's importance in Africa. It can be argued that the dependence on low productivity agriculture is the key factor that explains the low levels of earnings of the people employed in the sector (figure 2.3).

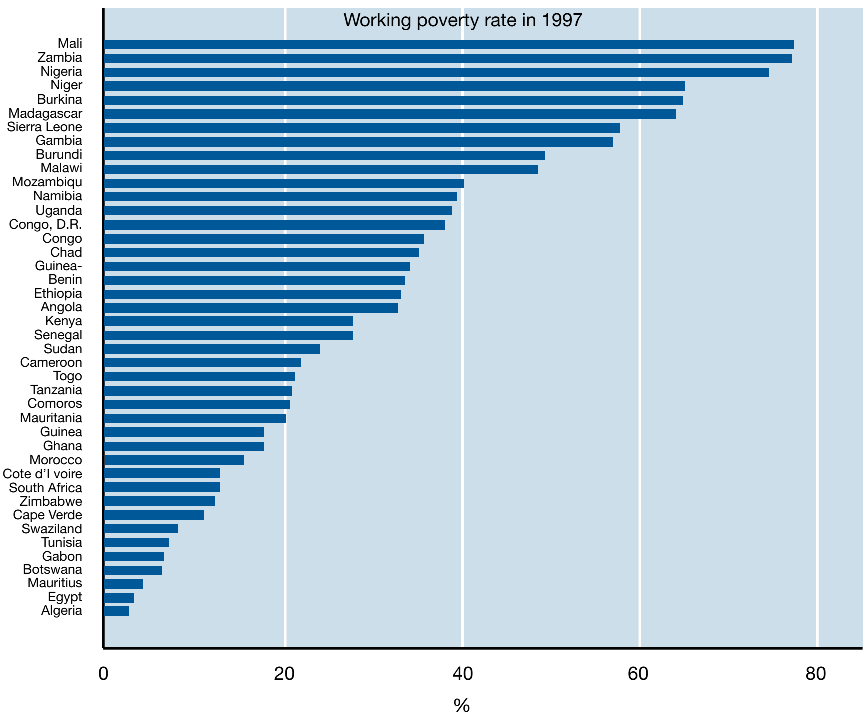
Low earnings also characterize the non-agricultural informal sector. Survey evidence based on five African cities shows high proportions of informal sector workers earning less than the minimum wage (Charmes 1990). The share of unskilled informal sector workers earning less than the minimum wage is 66.7 per cent in Yaounde, 43.1 per cent in Bamako, 32.9 per cent in Lomé and 22.5 per cent in Kigali. Econometric evidence shows that after controlling for other determinants of wages formal employment wages are 27 per cent higher than informal wages in Burundi's manufacturing sector (Nkurunziza and Ngaruko 2002).

As a result of low productivity and low earnings, workers in the informal sector have a substantially higher incidence of poverty in the sense that their daily income is below $1 a day. Some 56 per cent of total employment earned less than $1 a day, and 89 per cent earned less than $2 a day (ILO 2004c). However, these regional averages mask significant differences among African countries. In 1997, for example, the rate of working poor was about 75 per cent in Mali, while only 3 per cent of workers in Algeria lived on less than $1 a day (figure 2.4).

> *Most informal sector workers earn less than one dollar a day*

Figure 2.4

Working poverty rates, by country, 1997 (%)



Source: *Majid 2001.*

In addition to low earnings and high poverty incidence, informal sector workers are exposed to high risk for at least three reasons (Chen 2000). First, they live and work under harsh conditions, which are associated with shocks such as illness, loss of assets, loss of income, death of the breadwinner and the like. Second, they tend to have little or no access to formal risk-coping mechanisms such as insurance, pensions and social assistance. They also lack the resources to pay for proper housing and education. Third, given their low levels of income, on average, they are less likely to cope with these contingencies.

In summary, the key issues of concern to employment in the formal sector are different from those in the informal sector. For the formal sector, creating more well paid jobs is most important. But formal sector workers account for only a small share of the total number of workers. The issues facing the informal sector seem to be low productivity and low earnings, which keep most informal sector workers in poverty–a problem of paramount concern to policymakers.

Determinants of the African employment challenge

Nine determinants of the African employment challenge are identified here as the reasons behind Africa's failure to create more and better paid jobs and reduce poverty in the formal sector and to increase productivity and earnings in the informal sector.

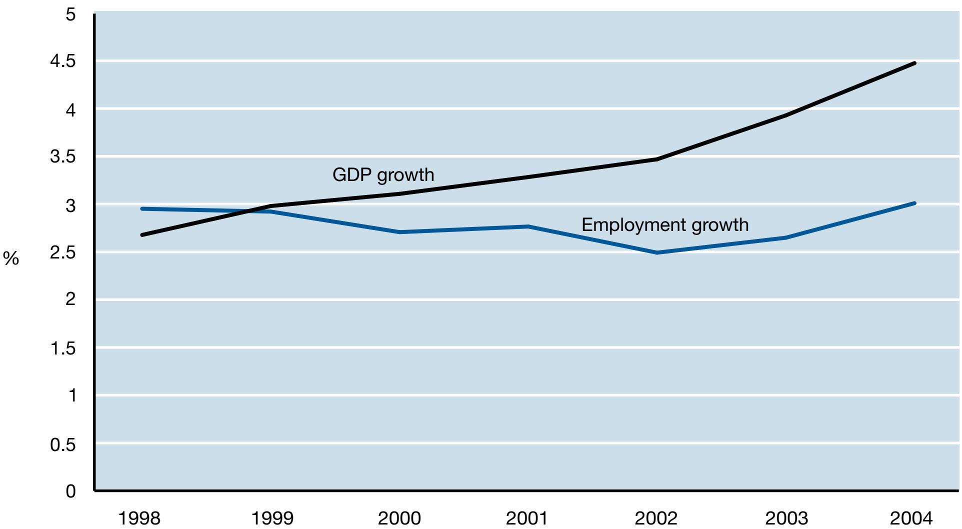
Growth has failed to generate employment in Africa

Despite the recovery in the rates of economic growth in Africa over the last few years, growth has failed to generate employment (figure 2.5). One reason is that the growth rates are still well below those required to have an impact on poverty through higher employment. For example, the current growth rate of 4.6 per cent is 2.4 percentage points below the minimum average needed to halve the continent's poverty rate by 2015, as advocated by the Millennium Development Goals. A second reason is that even observed growth is concentrated in the capital-intensive enclave industries that have few or no links to the rest of the economy. Chapter 1, for instance, shows that most of the growth in 2004 was realized in oil-exporting countries. On average, non-oil-exporting countries had a growth rate of 2.9 per cent in 2003 and 3.8 per cent in 2004—much lower than those in oil producing countries (5.4 per cent in 2003 and 5.3 per cent in 2004).

"Informal workers are exposed to higher risk"

The slow growth of African economies can be attributed to two factors: low factor accumulation, namely physical and human capital, and low productivity growth. Over the last 20 years the average ratio of gross investment to GDP has been 18 per cent in Africa compared with 33 per cent in East Asia and the Pacific. Microeconomic data on the manufacturing sector show that in Africa human capital investment has been much higher than physical capital investment (Bigsten and others 2000). In view of the complementarity between physical and human capital in the production process a continued focus on the supply of labour without an accompanying increase in physical capital may be counterproductive. Chapter 7 discusses the conditions under which investment in physical capital can be increased.

Figure 2.5
Economic growth and employment growth in Sub-Saharan Africa (%)



Source: *UNECA calculations based on Tarantino 2003.*

However, factor accumulation alone will not allow Africa to reach growth rates observed in other fast growing regions (Easterly 2001). Growth accounting shows that only half the difference in growth between Africa and other developing regions is due to slower accumulation of physical and human capital (Collins and Bosworth 1996). The other half is explained by slower growth in productivity, implying that productivity is as important as factor accumulation in explaining Africa's slow growth. As discussed in the previous sections dealing with informal employment, the need to increase productivity in Africa cannot be overemphasized.

Low productivity has resulted in the lack of a structural economic transformation

The lack of a structural economic transformation to diversify away from unproductive agriculture may be explained by low productivity in the agricultural sector. Most African economies have not achieved high enough productivity in the manufacturing and services sectors to absorb excess labour in agriculture. This transformation would increase wages—and thus incomes–in the agricultural sector. Manufacturing productivity has traditionally led agricultural productivity. In addition, transforming economies from agriculture to the expanding labour-intensive industrial and services sectors may increase formal employment in the nonagricultural sectors (Chenery and Syrquin 1975; Belser 1999).4 And, even within the agricultural sector, a shift from traditional nonmarket agriculture to high value marketable crops could help raise overall incomes and reduce poverty in rural areas. Chapter 4 discusses these issues in more detail.

One of the most important factors behind the lack of Africa's agricultural transformation is the bias observed against the agricultural sector in many countries. Pricing and resource allocation are made in favour of the sectors that are easy to tax, so agricultural productivity has remained very low over the decades. And the little investment made within the agricultural sector favours exportable cash crops at the expense of the other products, despite the fact that the majority of the population depends on the other products. Bates (1983) argues that cash crops generate rents through tax revenue and income from exports and that the policymakers who appropriate these rents have vested interests in the cash crop sector.

Demographic pressure exacerbates employment problems

"Increasing productivity in Africa is urgent"

Demographic pressure remains a serious concern for labour markets in Africa. With a labour force growth rate of 2.9 per cent in Sub-Saharan Africa and 2.6 per cent in North Africa between 1993 and 2003, an ever-increasing number of people are competing for a limited number of jobs in the formal economy. In Sub-Saharan Africa the annual rate of growth of the labour force is projected to be 2.5 per cent between 2003 and 2015. Absorbing new entrants in the labour force will require the creation of about eight million additional jobs every year. The urban labour force is projected to grow faster than the rural labour force and to account for half of the total labour force by 2015 (ILO 2004a). In Sub-Saharan Africa the youth labour force is projected to grow 28 per cent between 2003 and 2015, despite the effect of the HIV/AIDS pandemic that seems to have a disproportionate impact on young people. As Chapter 4 discusses in detail, this situation is largely explained by the lack of a demographic transition in Africa. These trends will be more damaging to the youth labour force than to any other part of the population, as Chapter 5 explains.

Inappropriate education and training policies hinder the productivity of supplied labour

There are two key issues regarding the supply of skills in the African labour market: low literacy and skills mismatch.

Individuals are functionally illiterate if they cannot, with understanding, read and write a short, simple statement about their everyday life (World Bank 2004b). However, this standard definition does not reflect the changing pattern of a globalized labour market where a competitive worker must know how to do more than read and write. For instance, literacy in information technology is becoming a basic requirement in today's competitive world.

There are substantial regional differences in literacy, and Africa's literacy rate is lower than that of other developing regions (table 2.3). North Africa's 58.6 per cent and Sub-Saharan Africa's 61.2 per cent literacy rates are the second and third lowest in the world—just above South Asia but below the world average of 79.1 per cent in 2000. There are large differences across and within Sub-Saharan African countries. Younger males in urban areas tend to have higher literacy rates than older rural females.

Table 2.3
Youth and adult literacy rates, by region, 2000 (%)

Region	Adult literacy rate	Youth literacy rate
Europe and Central Asia	97.1	98.9
East Asia and Pacific	90.2	97.9
Latin America and the Caribbean	88.5	94.5
World	79.1	86.6
Middle East and North Africa	68.4	86.5
Sub-Saharan Africa	61.2	77.5
North Africa	58.6	—
South Asia	55.8	69.5

— not available

Note: *Adult refers to people age 15 and older; youth refers to people ages 15–24.*
Source: *World Bank 2004b.*

Literacy rates for youth in Sub-Saharan Africa are 16.3 percentage points higher than those for adults, suggesting that recent efforts to strengthen the supply and quality of basic education programmes have been successful in raising literacy rates, even though they remain relatively low by international standards (Blunch and Verner 2000).

Low literacy is a compelling problem in Africa because functional literacy is a prerequisite for entering the formal labour market. In their analysis of the Ghanaian labour market, Blunch and Verner (2000) defined individuals as functionally literate if they can read or write in English, or any Ghanaian language, and perform arithmetic calculations. They found that literacy rates vary significantly across sectors. Opportunities for job seekers with none or limited formal education are mainly confined to the informal sector. As a result, low functional literacy is associated with low productivity and low earnings. For example, according to the 1991/92 Ghana Living Standards Survey, almost 60 per cent of people in the highest earnings quintile are literate, against a mere 14 per cent of people in the lowest earnings quintile.

Notwithstanding improvements in educational attainment in Africa, there is a mismatch between the skills workers possess and those required by the market. This problem is driven by changes in labour demand and the inability of the education system to adapt to them. One explanation for the changes in labour demand is the declining role of the public sector in recent years. Until recently, the public sector had been almost the only source of formal employment. The public sector's share of non-agricultural employment in Sub-Saharan Africa was 32.9 per cent in the 1990s (Fosu 2002). Because the public sector in Africa has traditionally placed a premium on educational achievement rather than on marketable skills, university graduates, absorbed primarily by the public sector, have overwhelmingly had a background in the social sciences and lacked specific marketable skills. With the role of the public sector declining in many African countries, the demand for employment is shifting towards the private sector. The private sector is looking for individuals with specific and practical skills who can operate in an evolving workplace. In Ghana, for example, 47 per cent of social sciences and liberal arts graduates are unemployed (Boateng 2001). The skills mismatch, in turn, increases pressures on the public sector to absorb graduates unable to find jobs in the private sector.

Demand for employment is shifting from the public to the private sector

Unfortunately, the education and training infrastructure in Africa is not responding quickly enough to these changes, and it is hard to see how this will improve in the short-term without changing the structure of incentives that motivate those providing formal training. What incentives are given to institutions of formal training to adopt the appropriate curricula? Moreover, what incentives are given to students to pursue difficult but more developmental subjects when they know that pay and remuneration do not discriminate on the basis of one's specialization? These are questions that policymakers will need to consider in order to come up with innovative policies to reform Africa's education system.

Without appropriate supply-side adjustments, the employment problem becomes even more serious as the workplace increasingly becomes upscale-service-oriented, requiring employee participation and the use of information and communication technology (Bresnahan, Brynjolfsson and Hitt 2002; Smith 1997). In the short-term skills can be upgraded through on-the-job and vocational training programmes. So far these programmes have remained rare and not carefully designed to respond to the specific needs of the labour market in many African countries. These programmes should target the informal sector not only because of the relative importance of the sector but also because of the low level of skills of those employed in the sector. Chapter 5 discusses these issues in detail.

Labour regulations fail to protect the majority of workers

Economists differ as to the costs and benefits of labour regulations such as minimum wage, nonwage compensation and hiring and firing rules. Proponents of labour policies view them as important for the social protection of workers to ensure that their rights are respected, that they work in a safe environment and that they are paid a living wage. Those holding this view advocate strict adherence of employers to these policies.

An opposing view emphasizes that these regulations raise the cost of labour and thus discourage job creation while favouring privileged insiders (Freeman 1993). Proponents of this view advocate flexibility of employment policies to help facilitate adjustments to economic shocks. They further argue that rules to protect job security may increase the number of stable jobs at the expense of higher long-term unemployment because policies usually result in fewer opportunities for regular employment in the formal sector, which penalizes certain groups of workers (women, youth and the unskilled or poorly educated) who are less likely to get the few jobs available. Many of these workers would remain jobless or move to the informal sector, where job protection policies do not apply. The net effect of these policies in Africa is the question of interest in this section. Do they protect workers or do they hamper employment creation? To answer this question, it is useful to distinguish between the average and marginal effects of these policies.

The average effect of labour regulations is small. Labour regulations in Africa are considered to be the most rigid in the world (World Bank 2004a). However, the average effect of these policies on workers' protection and employment levels is small for several reasons. First, the effect of these regulations is limited to the formal sector, which accounts for only a small share of the labour force. For example, in the countries forming the Communauté financière d'Afrique (CFA) only about 5 per cent of the labour force is effectively covered by labour regulations, which are some of the most inflexible regulations in Africa (Rama 1998). Second, even when the regulations are in place, they often are not enforced (box 2.3). For example, workers in the formal sector are entitled to nonwage compensation that includes medical, death and retirement insurance in most countries, but in practice these policies are poorly enforced and limited in scope. As a consequence of limited coverage and poor enforcement, very few workers are effectively protected by labour regulations.

Third, some regulations provided for in the labour code are not binding. Case in point: minimum wage in the formal sector. In many countries minimum wages are set at levels below actual starting wages, which may explain why individual as well as cross-country studies have found no significant effect of the minimum wage on employment in Africa. In Ghana, for example, real minimum wages have remained below starting wages in the manufacturing sector, despite substantial increases since the early 1980s, and there is no strong evidence of the minimum wage setting a binding floor for private sector wages in the country. The idea that fixed public sector wages or minimum wages prevent labour market adjustments in Africa is inconsistent with empirical evidence from Ghana and Kenya (Teal 2000). Along the same lines, contrary to common perception, minimum wage policies are

Box 2.3
Labour regulations are poorly enforced

In many developing and transition countries enforcement of labour market regulations is weak, hampering their effectiveness. Even in countries with labour regulations employers can easily avoid them, in practice, because of a lack of proper enforcement. In Côte d'Ivoire, for example, firms use alternative arrangements such as subcontracting and apprenticeship to bypass the most constraining labour regulations. In Cameroon only 2 per cent of managers of manufacturing firms in 1994 reported that labour regulations were a big or severe problem, compared with 85 per cent who considered them a slight or nonexistent problem. Similar results were found for wage costs, rules regarding layoffs and the cost of layoffs. In Senegal most managers did not view labour market regulations as a constraint, even before most regulations were dismantled. Developing countries typically do not allocate significant amounts of resources to enforce labour market regulations, even to police the most visible employers (for example, the public sector). Therefore, labour regulations should be realistic and encourage self-compliance to moderate the enforcement challenge. It is good practice to resolve as many disputes as possible through prejudicial arbitration. Indeed, many countries are relying increasingly on alternative dispute resolution mechanisms that emphasize fact-finding, mediation and conciliation as opposed to costly binding decisions made by government inspectors, arbitrators or judges.

Source: *Rama 1998.*

not the source of high wages observed in CFA countries (Rama 1998). Also, the level of the minimum wage has no significant effect on the level of employment in 31 developing countries, including 12 from Africa (Saget 2001). Moreover, hiring and firing rules have no statistically significant effect on the level of unemployment in developing countries (Lindauer 1999; Freeman 1993).

The marginal effect of labour regulations might be large. It is incorrect to conclude that labour regulations have no impact on the labour market based only on the average effect. It is very likely that potential new employment is influenced by labour market regulations. Especially since many developing countries compete to attract export-oriented foreign investors, a small difference in labour costs may have a large impact on the location of investment. Foreign employers will likely consider these regulations before deciding whether to enter the market or not. Once they enter, the level of these variables may not be a constraint. In the current context of globalisation, where African countries face fierce competition from other countries to attract foreign investment, the perception of rigidity of African labour markets might be particularly detrimental.

The choice a local entrepreneur faces is whether to invest in the formal or the informal sector. One reason that an entrepreneur may choose to invest in the informal sector is to avoid bureaucratic red tape and excessive costs. If the formal labour market is overly regulated, the informal sector provides an alternative to those who cannot or do not want to support the cost. In India, for example, a recent study found that the states that amended labour regulations in favour of workers experienced a decline in output, employment, investment and productivity in formal manufacturing firms, while output increased in informal manufacturing firms (Besley and Burgess 2002). By contrast, changes in the ratio of the minimum wage to average wage do not seem to have a significant impact on the share of the informal economy in Latin America (Saget 2001). These results suggest that labour regulations might be partly responsible for informalisation in India but not in Latin America. The role of labour regulations needs to be investigated with regard to the increase of employment in the informal sector at the expense of the more regulated formal sector in many African countries.

“Marginal effects of labour regulations might be large”

One aspect that may have an indirect effect on labour market outcomes is the level of unionisation. An expansive literature on the effect of unions on wages, investment and job creation in developed economies exists. Empirical studies generally find that unionisation increases labour costs and reduces investment, with a negative effect on job creation. Very little is known about these relationships in Africa. The limited empirical evidence shows that unionisation generates a wage premium and increases nonwage benefits. But these effects depend on the price elasticity of the demand and supply of labour (box 2.4).

These findings suggest a trade-off between job protection and the guarantee of a living wage on one hand, and flexibility of the regulations governing the labour market not to scare off potential investors on the other. The key policy challenge is to strike the right balance between these contradictory objectives. In this light, labour regulations can be used to reduce the high level of working poverty observed in Africa. They should ensure workers an income over the poverty line and other basic aspects of decent employment. However, they should not constrain firm profitability, essential for employment expansion, or discourage informal firms from becoming formal. To have a noticeable impact, labour

Box 2.4
What is the effect of unions on Africa's labour markets?

The limited empirical evidence shows the following. First, unionisation generates a wage premium. For example, South Africa experienced an increase in union wages during the period of rapidly increasing membership between 1985 and 1993. The wage premium was as high as 18.5 per cent of non-union wages (Hofmeyr and Lucas 1998). Given that South Africa has one of the highest rates of unionisation of wage employees in the developing world, unionization is expected to have an important impact across the economy. For example, industrial councils or wage boards, whose collective agreements are extended to the whole industry and areas where they have been negotiated, agree on minimum wage floors. These agreements become binding even to employers who did not participate in their negotiation (Teal 2000). In Ghana unions appear to have a positive impact on workers' earnings. Unionised firms pay 32–34 per cent more than non-unionised firms (Teal 1996, 1998). In the same context, full unionisation in Ethiopia's public sector in the 1990s resulted in job queues of private sector workers for public employment (Mengistae 1999).

Second, unionisation increases nonwage benefits, such as insurance and pension plan coverage, which are often provided at the discretion of the employer. As a result, the coverage of these policies should be higher for unionised workers depending on their negotiating power (Akyeampong 2002).

Third, trade unions are less effective when the price elasticity of the demand and supply of labour is high. Unions are also less effective when labour and capital are highly substitutable, as the case of South Africa's forestry sector shows (Goedecke and Ortmann 1993).

These results suggest that the power of unions in countries such as South Africa may be contributing to high unemployment rates. Investors wary of losing control over the cost of labour could opt for more capital-intensive technologies. Therefore, although unionisation may benefit those already employed, it limits firms' propensity to create new jobs, exacerbating the problem of unemployment.

"Labour regulations roles remain uninvestigated in most of Africa"

regulations need economic and regulatory incentives that transform the economy in a way that reduces the relative size of the informal sector (see chapter 7).

Lack of an enabling environment constrains investment and job creation

Investment has been shown to be an important determinant of economic growth and hence job creation. However, administrative barriers, lack of access to factors of production and poor infrastructure remain critical constraints to private investment in Africa, both domestic and foreign (box 2.5). As a result, the level of investment is particularly low in Africa. In 2002 gross private investment was only 15.3 per cent of GDP. With respect to FDI flows, only $15 billion of foreign direct investment was invested in Africa in 2003, compared with $39 billion in Latin America and $89 billion in Asia and the Pacific (UNCTAD 2004).

Box 2.5

Constraints to doing business in Africa

Compared with other regions, Africa has the highest regulatory obstacles to business activities. First, African countries have lengthy and costly procedures for starting a business: an average of 11 procedures, each costing 225.2 per cent of per capita income—high enough to drive many entrepreneurs into corruption or informality. Second, hiring and firing regulations in Africa are the most rigid in the world. The top 10 countries in the employment rigidity index are all African. Third, registering property is far more costly in Africa than in any other region. Complex procedures to register property also lead to more informality and corruption. Fourth, access to credit is limited by lack of credit information and weak legal protection of lenders. Fifth, without reliable financial information and effective protection of shareholders investment in business partnerships and publicly listed companies is relatively low. Sixth, contracts enforcement in Africa is weak because courts are often slow, inefficient and corrupt. The average cost of recovering a debt through administrative channels amounts to 43 per cent of the value of the debt. Seventh, inefficient bankruptcy regulations prevent viable businesses from reorganizing and unviable ones from closing. Claimants recover an average of only 17 cents on the dollar from insolvent firms—and the process takes an average of 3.5 years. This is the lowest recovery rate in the world.

Source: *World Bank 2004a.*

Whether economic agents choose to invest or consume their resources depends on the structure of incentives an economy gives to investors (Easterly 2001). One way to create an enabling environment for future private investment is through public investment in basic sectors such as infrastructure. This type of investment increases the productivity of private investment, particularly in developing countries (Agénor and Montiel 1996). Empirical studies have also clearly shown that growth is more responsive to private investment than to public investment (Agénor and Montiel 1996; Khan and Reinhart 2000). In this regard, policies that constrain private investment may have an important impact on job destruction. For instance, volatility in exchange rates, capital flows, interest rates, and inflation, compelled firms to freeze hiring, downsize or even close down in the 1990s in a number of African countries (box 2.6). Recent progress in stabilizing African economies has not eliminated these challenges.

“Small firms are more credit-constrained”

Although increasing investment may not necessarily increase employment directly, there could be an indirect effect because of the complementarity between human and physical capital noted earlier. Moreover, it is not just the level but also the character of investment that matters. Investing in sectors using labour-intensive technologies, particularly those that use unskilled labour, is probably the best way to generate employment. Policymakers could help by reducing the high levels of uncertainty prevailing in many countries to create strong investment opportunities, the missing link between the supply and demand of labour in many African countries (see chapter 7).

For small firms in the informal sector investment could be constrained by the lack of financial resources. Although studies have shown that small firms are more credit constrained than larger ones (Bigsten and others 2003), the use of credit could have, on average, a

Box 2.6

The effect of macroeconomic instability on firms in Kenya

Macroeconomic instability in Kenya during the 1990s resulted in high inflation, high interest rates and large devaluations that destabilized manufacturing firms. Uncertainty induced more and more suppliers to require cash payments instead of the usual trade credit. Firms relying on imported raw materials saw costs skyrocket because prices were quoted in dollars rather than in Kenyan shillings. Moreover, the doubling of interest rates in a context of economic decline forced many firms to collapse. It is not surprising, therefore, that the two most important problems identified by Kenyan firm managers in the 1990s were inadequate access to credit and low demand.

Source: *Nkurunziza 2004.*

"Some economies are managed on the basis of patronage and rent seeking"

positive effect on firm growth. If credit to small firms in the informal sector could help them raise their productivity, it would probably induce them to grow and graduate to the formal sector, where they would be able to create even more jobs. For example, an econometric study of the Kenyan manufacturing sector shows that the number of jobs created by surviving firms using bank credit was 93 per cent higher than that of firms not using credit (Nkurunziza 2004).

Globalization is a challenge for firms in export markets

Most African countries' domestic markets are so small that firm growth, defined as the increase in the total number of workers, can be realized only through exports. However, with the current trend towards globalisation of markets, exporting African firms face stiff competition from other regions. The failure of African firms to enter the export market of labour-intensive manufactures may explain the limited growth in labour demand (Teal 2000). For example, data on manufacturing in Ghana show that only 11 per cent of firms export any of their output, and only 4.2 per cent of total output is exported (Teal 1998). Exporting firms in Ghana are larger than non-exporting firms, but their size remains relatively small compared with firms in Mauritius, the only Sub-Saharan African country that has successfully grown through labour-intensive manufactures. The average size of a firm in Mauritius' textiles and garments sector (181 workers) is 11 times larger than that in Ghana (17 workers). The difference in firm size between the two countries is mostly attributed to different efficiency levels.

Why is globalisation a challenge in Africa when it is an opportunity in other developing regions? Generally, globalisation hurts African firms because of their low productivity and inefficiencies. A few African countries, such as Mauritius and Morocco, where productivity levels are comparable to those in other developing regions, have been able to tap into the opportunities brought about by globalisation (see chapter 6). To be able to export, firms need to reach a minimum level of competitiveness. Encouraging the creation of large, efficient and labour-intensive firms in Africa seems to be the right policy to develop the export sector. How to achieve this objective depends to a larger degree on the nature and structure of incentives put in place to create an enabling environment, as chapter 7 discusses.

Politics drive economic decisions that worsen unemployment

This topic is hardly covered in the empirical literature on labour markets in Africa, but unemployment has a political dimension in many African countries. Unequal or restricted access to key economic assets such as land, education and training determines who is and is not employed. The control of a country's wealth by a small group may result in a phenomenon of jobless growth, where economic growth benefits only a small part of society. These distributive inefficiencies are thought to be the root of high unemployment rates and poverty in several African countries.

One of the consequences of a distributive system based on politics rather than economic fundamentals is that it creates large inefficiencies. First, marginalizing a large part of the population implies that productive human resources are not allowed to fully contribute to the economy, which creates widespread unemployment or underemployment. Second, economies managed on the basis of patronage and rent seeking are usually focused on distributing rents rather than producing them. This is especially the case when the size of the elite is small relative to available rents to be shared (Adam and O'Connell 1999). Therefore, the economy declines with ensuing widespread unemployment. Third, predatory regimes impose high taxes on economic activities, discouraging production and increasing unemployment. Fourth, in predatory economies both human and financial capital tend to flee, reducing the stock of productive resources. In addition, unequal access to opportunities creates inequities and frustrations that can lead to social unrest and all sorts of destructions with a high economic cost.

> *"Unequal access to opportunity creates inequities and frustration"*

Unequal distribution of a country's resources and its impact on the level of unemployment result from two different phenomena: the first relates to historical factors. In a few countries–Namibia, South Africa and Zimbabwe, for example– colonisation dispossessed indigenous people of their ancestral land. In these countries unemployment and poverty are widespread among the landless black population. Unemployment rates are particularly high in Namibia (34 per cent) and South Africa (30 per cent). These countries also have some of the highest rates of income inequality in the world. The Gini index is 50 in Zimbabwe, 59 in South Africa and 74 in Namibia, while the Sub-Saharan Africa average is 42.8 (Fosu 2005) and the world average is 40.0 (UNDP, 2004). Such deep social imbalances have contributed to cause civil unrest in some countries.

The second phenomenon generating inequalities has to do with the patrimonial systems adopted by several countries, especially in the post-colonial period. Many governments instituted systems of governance where the distribution of public goods is truncated in favour of a privileged group or region at the expense of other groups or regions within the country. The distribution of education infrastructure is a good example. In some instances, leaders build the best schools in their own region, also employing the most qualified teachers. Mechanisms to filter access to education by other members of society may also be adopted. Commonly in these countries most jobs are in the public sector, where having an education is sine qua non to obtaining a post in the civil service. Since these jobs are often reserved for people from one privileged group, unemployment levels are disproportionately higher among the remaining portion of the population.

Imbalances in resource allocation, especially public goods, have been observed in many African countries. In Sudan Arabic-speaking northerners receive a disproportionately larger share of the country's resources than do southerners. In Rwanda under the reign of President Juvenal Habyalimana people from Gisenyi, the president's hometown, were more privileged in terms of employment, access to credit, scholarships and the like. In Burundi people from the south benefited from the fact that southerners controlled power for most of the post-colonial period. These few examples are relevant for most African countries. In these countries unemployment and poverty rates among marginalised groups are higher than among the privileged, leading some observers to postulate that poverty and inequality in Africa may be politically determined (Milanovic 2003).

Some 40 per cent of Sub-Saharan African countries experienced at least one episode of civil war over the past 40 years (Elbadawi and Sambanis 2000). This has created the simplistic perception that wars in Africa are caused by tribalism and ethnic hatred. However, careful analysis and comparison with other regions reveal that African political instability

Box 2.7

The impact of war on employment

War in Angola caused at least 1.5 million deaths and displaced another 2–4 million people, whose participation in the country's productive activities was severely curtailed. In an environment of insecurity and economic meltdown, the majority of the population – even those not displaced - witnessed a severe reduction in its capacity to engage in productive activities. Moreover, the destruction of infrastructure in war economies wipes out the foundations of employment generation. For the 470,000 Angolans who returned from neighbouring countries at the end of the country's 30-year war, chances are slim for finding jobs that can provide for their family's basic needs.

As a result of the current war in Burundi, manufacturing production declined by 13 per cent a year between 1993 and 1997. A firm survey showed that just one year after the start of the conflict only 45 per cent of firms had maintained their pre-crisis size or had reduced it by less than 10 per cent, 15 per cent shrank by 10 per cent–25 per cent, and 21 per cent declined by more than 25 per cent. These figures suggest a high rate of job destruction. Burundi witnessed disinvestments rather than investment during the war. Gross investment declined from 17.5 per cent of GDP in 1990 to a mere 5.6 per cent in 1998, implying important losses in potential jobs. The war wiped out 31 per cent of livestock, the main form of physical capital held by rural households. Not only did the war disrupt production, but it also profoundly affected the stock of human capital. Many Burundian professionals have been killed, and a large number of survivors have left the country.

In Liberia conflict has destroyed much of the country's infrastructure. The war claimed an estimated 150,000 lives (6 per cent of the population), and most skilled human capital emigrated. During the war in the 1990s employment in the formal sector was cut in half. Employment in alluvial diamond mining, a key sector of the Liberian economy, dropped from 60,000 before the war to a mere 6,000 in 2001 as a result of the war and the UN sanctions on Liberian diamonds.

Source: *ILO 2004a; Nkurunziza and Ngaruko 2002; Davies 2005.*

“*Deep social imbalances have contributed to civil unrest*” is caused by serious failures in economic and political governance. As discussed earlier, different forms of discrimination against large sections of the population by leading elites have sometimes led to violent revolts, which eventually resulted in civil wars. Civil wars, therefore, are more likely the result of a combination of greed of the elites and grievances of those marginalized (Collier and Hoeffler 2004).

The relationship between economic factors, including unemployment, and political instability is complex. These factors may be seen as both causes and consequences of political instability. The elites' greed implies that a small share of the population appropriates most economic opportunities, excluding large sections of the population. For instance, the regions with the highest density of education infrastructure produce more educated people, who have a higher chance of obtaining employment in the public and private sectors. These regions thus experience disproportionately lower rates of unemployment. Marginalized groups become unemployed and have no voice—and hence no peaceful way to convey their grievances. Because they are usually made to believe that they stand to gain more if they are successful, joining a rebellion becomes a tempting alternative. It is in this context that Collier and Hoeffler (1998) use the level of education to proxy for the opportunity cost of joining a rebellion. Other studies such as those in Fosu and Collier (2005) use unemployment rather than education as the proxy for the opportunity cost of joining a rebellion. This offers a direct relationship between greed, unemployment, grievances and political instability.

Wars destroy physical and human capital and create uncertainty that depresses investment, as argued in chapter 7. This blights employment opportunities for a long time (box 2.7).

Loss of human capital due to HIV/AIDS and brain drain

The emergence of HIV/AIDS and the resurgence of old diseases such as malaria and tuberculosis have resulted in drastic deterioration of health in Africa in the 1990s. HIV/AIDS is one of the deadliest diseases in Africa. More than 75 per cent of global AIDS deaths, 22 per cent of tuberculosis deaths and 90 per cent of all malaria deaths occur in Sub-Saharan Africa (UNECA 2004).

The negative effect of HIV/AIDS on the accumulation and productivity of human capital in Africa is astounding (see Hamoudi and Birdsall 2004). HIV/AIDS is concentrated in the most sexually active group (25- to 45–year-olds), which happens to be the most productive part of the population, as also discussed in chapter 5. For example, there is mounting evidence that teachers, health workers, civil servants, construction and mining workers and other professionals are being lost in Sub-Saharan Africa to HIV/AIDS and related infections. The attrition rate is so high that some countries cannot train new professionals fast enough (UNECA 2004). By forcing skilled workers out of the labour force, the HIV/AIDS epidemic not only hampers production capacities but also results in the loss of jobs for the unskilled workers in the labour force.

Table 2.4
Estimates of brain drain from Sub-Saharan Africa

Period	Total emigration of highly skilled migrants from Africa	Average per year
1960–75	27,000	1,800
1975–84	40,000	4,400
1984–87	70,000	23,000
1986–90	50,000–60,000 middle- and high-level managers emigrated from the continent.	
1960–87	100,000 trained and qualified Africans abroad, 30 per cent of them highly skilled.	
1960s	More than half of the Africans who went overseas to study physics and chemistry in the 1960s never returned home.	

Source: *Haque and Aziz 1998.*

An additional problem in Africa is rising human capital flight (table 2.4). Brain drain is viewed as a negative externality imposed on the population remaining behind that results in slower economic progress and living standards (Bhagwati and Hamada 1974). First, because it reduces the supply of skilled and professional labour, which is a necessary complement to semiskilled and unskilled labour, brain drain results in job losses for semiskilled and unskilled workers (Piketty 1997; Miyagiwa 1991). Second, as discussed in chapter 6, brain drain results in the loss of the potentially most enterprising and ambitious young population. This stifles the development of a more dynamic private sector, therefore reducing work opportunities (Ndulu 2002).

Human capital flight measured by educated emigrants as a share of the educated adult population, which for most of Africa's post-independence history has not been a significant problem, is rapidly increasing (Collier, Hoeffler and Pattillo 2004). For a sample of 24 African countries in 1990, 74.4 per cent of the emigrants to the United States had received tertiary education in their home countries (Carrington and Detragiache 1998). The emigration of the educated is projected to strongly intensify over the next few decades because emigration is subject to a powerful momentum effect. Migrants assist subsequent migrants, making it very difficult to reduce human capital flight once it has started.

In the context of globalisation brain drain can be explained as the failure of African countries to compete for their own citizens in international markets. Slowing human capital flight or reversing it by attracting back those who have left is extremely difficult. The causes of the high and increasing human capital flight are mostly within Africa itself: lower returns on education investments, lack of complementary facilities for practicing specialized professions and high political and economic risks that affect the ability to use human capital. Because the causes of brain drain are internal, the solutions should be, too. African countries should pursue policies that not only allow them to retain their highly skilled citizens but also make use of those who have already left. For example, a general improvement in the political and economic environment could reduce the number of potential new emigrants. For those who have already left, targeted incentives to those with the needed capital or skills could attract them back to invest or work for a limited period of time (Ndulu 2002). Ethiopia seems to be doing this with some success.

Conclusion

The fundamental issue in Africa's labour markets is the failure to create more and better paid jobs. The key challenge in the formal sector is the limited number of jobs or unemployment, whereas the main problem in the informal sector is low earnings and low productivity. This chapter has discussed nine factors explaining these two issues. First, slow employment-intensive growth limits job creation in the formal sector. Second, the lack of a structural transformation of African economies results in continued overreliance on an unproductive agricultural sector. Third, demographic pressure exacerbates the problem of youth unemployment. Fourth, inappropriate education and training policies result in both low skill supply and skills mismatch. Fifth, labour regulations are limited to the formal sector and are poorly enforced, making them ineffective in protecting the rights of the majority of workers, who are in the informal sector. Even though the average effect of these regulations on the level of employment might not be high, labour regulations may prevent investment or divert it to the informal sector. Sixth, a business-unfriendly environment inhibits investment, with an adverse impact on private sector development. Seventh, globalisation amplifies the challenges faced by firms in the export market. Eighth, economic choices guided mostly by political considerations lead to economic inefficiencies and contribute to political instability. Ninth, HIV/AIDS and brain drain destroy human capital within the economy.

Later chapters analyse in more detail these key issues in order to provide appropriate policy recommendations. Chapter 3 discusses the extent of poverty in Africa and shows that employment is the major route out of poverty. Chapter 4 addresses the problem of structural economic transformation to increase the demand for labour. Chapter 5 deals specifically with the issue of youth unemployment, focusing on education and demographic problems identified in this chapter. Chapter 6 analyses the impact of globalization on employment and proposes the best ways to take maximum advantage of the current trend towards globalization. Chapter 7 focuses on institutional and policy adjustments needed to promote investment, private sector development as well as economic and labour market and economic efficiency.

Endnotes

1 In 1979 the Lagos Plan of Action for the Economic Development of Africa, 1980–2000, noted that the lack of productive employment was a key factor in explaining high levels of poverty in Africa. It called for a number of measures, including more effective use of the continent's human resources. More recently, African leaders at the highest political level have adopted several declarations on employment promotion, including the 1991 Declaration on Employment Crisis in Africa, adopted by the 27th Ordinary Session of the Assembly of African Heads of State and Government; the 1994 African Common Position on Human and Social Development in Africa, adopted at the World Summit for Social Development; the 2002 Declaration and Framework for Action on Youth Employment; and the 2004 Plan of Action for the Implementation of the African Union Declaration on Employment Promotion and Poverty Alleviation in Africa.

The Treaty Establishing the African Economic Community, the Constitutive Act of the African Union and the New Partnership for Africa's Development have important provisions on promoting employment, developing human resources and fighting poverty. All these initiatives consider employment promotion the linchpin of poverty reduction strategies in Africa. But the long list of political declarations contrasts with the lack of tangible results in terms of employment creation in Africa over the years. Why the absence of progress? The declarations have not been implemented by their signatories because of a lack of commitment at the country level. More fundamental constraints may also explain the persistent high rates of unemployment in Africa, among the highest in the world.

2 However, microeconomic empirical studies generally do not find a strong statistical relationship between poverty and employment. This does not necessarily mean that the two variables are not related. The weak relationship may be explained by a host of factors, including the way both variables are defined as well as the problems of measurement (see boxes 3.1 and 3.2 in chapter 3).

3 To overcome the issue of incomplete information, interpolation techniques are used. To compute regional indicators, missing observations are dealt with by weighting the sample of respondent countries. To address country heterogeneity, the fixed effects technique is used to estimate unemployment rates. These adjustments provide the best data available for making international comparisons. In this light, the regional statistics used in this chapter are based on this data set, while national statistics are derived from the International Labour Organization's LABORSTA database. See Tarantino (2003) for more information on addressing data shortcomings in Africa.

4 In the case of the so-called enclave economies, where capital is concentrated in a specific sector with limited spillovers, employment is not guaranteed to increase.

References

Adam, C.S., and S.A. O'Connell. 1999. "Aid, Taxation and Development in Sub-Saharan Africa." Economics and Politics 11(3): 225–54.

Agénor, P.-R., and P. Montiel. 1996. Development Macroeconomics. Princeton, N.J.: Princeton University Press.

Akyeampong, E.B. 2002. "Unionization and Fringe Benefits." Perspectives on Labor and Income 14(3): 42–46.

Bates, R. 1983. Essays on the Political Economy of Rural Africa. Cambridge, U.K.: Cambridge University Press.

Belser, P. 1999. Vietnam: On the Road to Labor-Intensive Growth? Background paper for Vietnam Development Report 2000: Attacking Poverty. Joint Report of the Government of Vietnam–Donor–NGO Poverty Working Group, Washington, D.C.

Besley, T., and R. Burgess. 2002. "Can Labor Regulation Hinder Economic Performance? Evidence from India." CEPR Discussion Paper 3260. Centre for Economic Policy Research, London.

Bhagwati, J.N., and K. Hamada. 1974. "The Brain Drain, International Integration of Markets for Professionals and Unemployment: A Theoretical Analysis." Journal of Development Economics 1(1): 19–42.

Bigsten, A., P. Collier, S. Dercon, M. Fafchamps, B. Gauthier, J. W. Gunning, A. Oduro, R. Oostendorp, C. Patillo, M. Söderbom, F. Teal, and A. Zeufack. 2003. "Credit Constraints in Manufacturing Enterprises in Africa." Journal of African Economies 12: 104–25.

Bigsten, A., A. Isaksson, M. Söderbom, P. Collier, A. Zeufack, S. Dercon, M. Fafchamps, J. W. Gunning, F. Teal, S. Appleton, B. Gauthier, A. Oduro, R. Oostendorp, C. Patillo. 2000. "Rates of Return on Physical and Human Capital in Africa's Manufacturing Sector." Economic Development and Cultural Change 48(4): 801–28.

Blunch, N., and D. Verner. 2000. "Is Functional Literacy a Prerequisite for Entering the Labor Market? An Analysis of the Determinants of Adult Literacy and Earnings in Ghana." World Bank, Washington, D.C. Boateng, K. 2001. Higher Education and the Labor Market: A Logical Framework for Policy Makers. United Nations Economic Commission for Africa, Addis Ababa.

Bresnahan, T.F., E. Brynjolfsson, and L. Hitt. 2002. "Information Technology, Workplace Organization, and the Demand for Skilled Labor: Firm-Level Evidence." Quarterly Journal of Economics 117(1): 339–76.

Carrington, W., and E. Detragiache. 1998. "How Big is the Brain Drain?" IMF Working Paper 98/102. International Monetary Fund, Washington, D.C.

Charmes, J. 1990. "A Critical Review of Concepts, Definitions and Studies in the Informal Sector." In D. Turnham, B. Salomé, and A. Schwarz, eds., The Informal Sector Revisited. Paris: Organisation for Economic Co-operation and Development.

Chen, M. 2000. "Risk, Insurance, and the Informal Economy." Workshop on Risk, Poverty, and Insurance: Innovations for the Informal Economy, 6 September. World Bank, Human Development Network Social Protection and Financial Sector Development Department, Washington, D.C.

Chenery, H., and M. Syrquin. 1975. Patterns of Development 1950–1970. New York: Oxford University Press.

Collier, P., and A. Hoeffler. 1998. "On Economic Causes of Civil Wars." Oxford Economic Papers 50: 563–73.

———. 2004. "Greed and Grievance in Civil War." Oxford Economic Papers 56: 563–95.

Collier, P., A. Hoeffler, and C. Pattillo. 2004. "Africa's Exodus: Capital Flight and the Brain Drain as Portfolio Decisions." Journal of African Economies 13: ii15–ii54.

Collins, S., and B. Bosworth. 1996. "Economic Growth in East Asia: Accumulation versus Assimilation." Brookings Papers on Economic Activity 2: 135–203.

Davies, V. 2005. "Liberia and Sierra Leone: Interwoven Civil Wars." In A. Fosu and P. Collier, eds. Post-Conflict Economies in Africa. New York: Palgrave Macmillan.

Easterly, W. 2001. The Elusive Quest for Growth. Cambridge, Mass.: MIT Press.

Elbadawi, I., and N. Sambanis. 2000. "Why Are There So Many Civil Wars in Africa? Understanding and Preventing Violent Conflict." Journal of African Economies 9(3): 244–69.

Fosu, A. 2002. "International Trade and Labour Market Adjustment in Developing Countries." In D. Greenaway, R. Upward, K. Wakelin, eds., Trade, Investment, Migration and Labour Market Adjustment. New York: Palgrave Macmillan.

———. 2005. "Inequality and the Growth-Poverty Nexus: Evidence from Sub-Saharan Africa." Paper presented at the ESPD Seminar Series, 10 February. United Nations Economic Commission for Africa, Economic and Social Policy Division, Addis Ababa.

Fosu, A., and P. Collier, eds. 2005. Post-Conflict Economies in Africa. New York: Palgrave Macmillan.

Freeman, R.B. 1993. "Labor Market Institutions and Policies: Help or Hindrance to Economic Adjustment?" Proceedings of the World Bank Annual Conference on Development

Economics 1992. Supplement to the World Bank Economic Review and the World Bank Research Observer. World Bank, Washington, D.C.

Goedecke, E.J., and G.F. Ortmann. 1993. “Transaction Costs and Labor Contracting in the South African Forestry Industry.” South African Journal of Economics 61(1): 67–83.

Hamoudi, A., and N. Birdsall. 2004. “AIDS and the Accumulation and Utilisation of Human Capital in Africa.” Journal of African Economies 13(Supplement 1): i96–i136.

Haque, U.N., and J. Aziz. 1998. “The Quality of Governance: Second Generation Civil Service Reform in Africa.” IMF Working Paper 164. International Monetary Fund, Washington, D.C.

Hofmeyr, J.-F., and R.E.B. Lucas. 1998. “The Rise in Union Wage Premia in South Africa.” Boston University, Institute for Economic Development, Boston, Mass.

ILO (International Labour Organization). 2002a. Profile of Employment and Poverty in Africa. Geneva.

———. 2002b. “Women and Men in the Informal Economy: A Statistical Picture.” Gender and Employment Sector, Geneva.

———. 2004a. Global Employment Trends 2004. Geneva.

———. 2004b. Global Employment Trends for Youth 2004. Geneva.

———. 2004c. World Employment Report 2004–2005. Geneva.

———. 2005a. Key Indicators of Labor Market. Geneva. [www.ilo.org].

———. 2005b. LABORSTA database. Geneva. [http://laborsta.ilo.org].

Islam, R. 2004. “The Nexus of Economic Growth, Employment and Poverty Reduction: An Empirical Analysis.” Issues in Employment and Poverty Discussion Paper 14. International Labour Organization, Recovery and Reconstruction Department, Geneva.

Khan, A.R. 1997. “Reversing the Decline of Output and Productive Employment in Rural Sub-Saharan Africa.” Issues in Development Discussion Paper 17. International Labour Organization, Development Policies Department, Geneva.

Khan, M., and C. Reinhart. 2000. “Private Investment and Economic Growth in Developing Countries.” World Development 18(1): 19–27.

Lindauer, D.L. 1999. “Labor Market Reforms and the Poor.” Background paper for World Development Report 2000/01. World Bank, Washington, D.C.

Majid, N. 2001. “The Size of the Working Poor Population in Developing Countries.” International Labour Organization, Employment Strategy Department, Geneva.

Mengistae, T. 1999. “Wage Rates and Job Queues: Does the Public Sector Overpay in Ethiopia?” Policy Research Working Paper 2105. World Bank, Washington, D.C.

Milanovic, B. 2003. “Is Inequality in Africa Really Different?” Policy Research Working Paper 3169. World Bank, Washington, D.C.

Miyagiwa, K. 1991. “Scale Economies in Education and the Brain Drain Problem.” International Economic Review 32(3): 743–59.

Ndulu, B.J. 2002. “Human Capital Flight: Stratification, Globalization and the Challenges to Tertiary Education in Africa.”, The World Bank, Washington, D. C.

Nkurunziza, J. 2004. The Effect of Credit on Firm Growth and Survival in Kenyan Manufacturing. Doctoral thesis. Oxford University, Department of Economics, Oxford, U.K.

Nkurunziza, J., and F. Ngaruko. 2002. “Explaining Growth in Burundi: 1960–2000.” Working Paper WPS2002/03. Oxford University, Centre for the Study of African Economies, Oxford, U.K.

Piketty, T. 1997. “Immigration et Justice Sociale.” Revue Economique 48(5): 1291–1309.

Rama, M. 1998. “Wage Misalignment in CFA Countries: Are Labor Market Policies to Blame?” Policy Research Working Paper 1873. World Bank, Washington, D.C.

Saget, C. 2001. “Is the Minimum Wage an Effective Tool to Promote Decent Work and Reduce Poverty? The Experience of Selected Developing Countries,” International Labour Organization, Employment Strategy Department, Geneva.

Smith, V. 1997. “New Forms of Work Organization.” Annual Review of Sociology 23: 315–39.

Soludo, C., and J. Kim. 2003. “Sources of Aggregate Growth in Developing Regions: Still More Questions Than Answers?” In G. McMahon and L. Squire, eds., Explaining Growth: A Global Research Project. New York: Palgrave Macmillan.

Tarantino, G.C. 2003. “Imputation, Estimation and Prediction using the Key Indicators of the Labour Market (KILM) Data Set.” International Labour Organization, Employment Strategy Department, Geneva.

Teal, F. 1996. “The Size and Sources of Economic Rents in a Developing Country Manufacturing Labour Market.” Economic Journal 106(437): 963–76.

———. 1998. The Ghanaian Manufacturing Sector: Firm Growth, Productivity, Exports and Investment, 1991–1995. Oxford University, Centre for the Study of African Economies, Oxford, U.K.

———. 2000. Employment and Unemployment in Sub-Saharan Africa: An Overview. Oxford University, Centre for the Study of African Economies, Oxford, U.K.

UNCTAD (United Nations Conference on Trade and Development). 2004. World Investment Report 2004. Geneva.

UNDP (United Nations Development Programme). 2004. Human Development Report: Statistics, http://hdr.undp.org/statistics/data/excel/hrd04_table_14.xls

UNECA (United Nations Economic Commission for Africa), 2004. Scoring African Leadership for Better Health. Addis Ababa.

World Bank. 2000. Can Africa Claim the 21st Century? Washington, D.C.

———. 2002. "Employment Regulation: Rules for Hiring and Termination." Employment Policy Primer 1. Washington D.C.

———. 2004a. Doing Business in 2005. Washington, D.C.

———. 2004b. World Development Indicators 2004. Washington, D.C.

Xaba, J., P. Horn, and S. Motala. 2002. The Informal Sector in Sub-Saharan Africa. International Labour Organization, Geneva.