Remarks by José M. Salazar-Xirinachs
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"Perspectives from the UN System on Africa's Opportunity for Transformational Development: Seizing the Opportunity"

At UNDP Regional Bureau for Africa: 2010 Regional Management Team (Cluster) Meeting Accra; Ghana, 15 July, 2010

Good afternoon. It is a privilege to take part in this distinguished panel discussion. I bring to you the greetings of Mr. Juan Somavia, who regrets not being able to be here.

I am going to talk about the overall strategy to address employment and labour market challenges in Africa from the perspective of the ILO. I am going to argue two main points:

a) First, that the overall employment strategy in Africa can only be properly addressed if it is put in the context of the overall growth, poverty reduction and development strategy and,

b) Second, that the ILO's Decent Work Agenda, and its application for crisis response, the Global Jobs Pact, contain a well balanced framework to accelerate the achievement of many of the MDGs, particularly MDG 1. And that therefore cooperation between the ILO and UNDP, as called for by the joint letter by Mr. Juan Somavia and Ms Helen Clark, has great potential both to support African efforts to promote recovery from the crisis, but also to support the acceleration of the achievement of MDG 1.

1. The African growth predicament: high but not sustainable, jobless and insufficient to attain the MDGs

The appropriate starting point to discuss employment is the long standing debate about African growth.

Even though high before the crisis, African growth had at least three problems: it was not sustainable, it was job-less and insufficient to attain the MDGs. This is the basic diagnosis of the Economic Commission for Africa 2010 Economic Report on Africa, and we at the ILO fully agree with it.

African growth was not sustainable because it was driven mostly by external engines of growth: high commodity prices, aid, debt and capital flows. These factors are readily reversible, making Africa vulnerable to external shocks, as the crisis showed.

Growth was job-less: it did not translate into major improvements in labour markets. High unemployment, vulnerable employment and working poverty continue to characterize African labour markets.[1]

The employment content of growth has been very low because the main drivers of growth have been capital-intensive, extractive industries and enclaves. Most seriously, Africa has not experienced broad-based industrialization and diversification. On the contrary, manufacturing has been in decline for decades: it stood at 14% of GDP in 1990 and it was only 9.3% in 2008. So, except of mining, Africa has de-industrialized. A combination of excessive and too hasty trade liberalization, cheap imports and lack of explicit industrialization policies has influenced this trend. This poses the question: Can Africa claim the 21st century without industrializing? And if the answer is no, then how can significant industrialization be promoted? Will bilateral free trade agreements achieve this?

Also, can Africa claim the 21st Century without serious investment in agriculture? 60% of the population is still employed in agriculture, but the vast majority are small holders with very low productivity levels.

The result of this pattern of growth is a weak link between growth and employment. And this in turn is the fundamental reason why the share of the population living below US$ 1.25-a-day is as high today, at 50%, as it was in the 1980s. The lesson is that the road to accelerate MDG 1 is via generating inclusive, employment-intensive growth, a lesson that is rightly drawn quite clearly in the recent and important UNDP document on *What will it take to achieve the Millenium Development Goals*?. The impact of the global financial crisis only makes this employment imperative more urgent.

This is a sobering diagnosis, but of course, not everything is bad news. Africa has many examples of local developmental successes that show that Africa can break vicious circles of poverty. Some commentators have even spoken of a “renaissance” in Africa in the years leading up to the crisis. And the Financial Times recently ran a series entitled “Emerging Africa”. For instance, mobile telephony has been of the biggest African entrepreneurial success stories. Africa

[1] The numbers tell us a dramatic and shocking story:
(a) The informal sectors in many African countries are as large as 80 and 90% of the total economy. (b) In sub-Saharan Africa the share of people in vulnerable employment was estimated to be above 70%, for women it is 84%, and this is before the crisis. (c) Despite significant progress, education and skills gaps between African countries and international benchmarks are still very large. (d) The African population is overwhelmingly young: 60% is below 25 years of age. Over 200 million Africans are now designated as youth, but 72% of them live under US$ 2-a-day. Educating and developing skills for these young people is one of the best investments Africa can make.

as a whole has been the fastest growing market in the world over the past decade. Between 2002 and 2007, the mobile phone market in Africa grew by 49%, by comparison, Asia grew at 27%. By some estimates increased economic activity associated with telecommunications contributes a percentage point to GDP growth each year. And, most important, the growth of the industry has changed attitudes to business in Africa.

Other developmental success stories include the success of fertilizer subsidies in Malawi; the growth of other services such as more inclusive banking models, the growth of Information and Communications Technologies in Rwanda, etc. The counterpart to all of this is a surge of well paid employment in banking and telecoms.

And yet, despite cases like these, Africa does not yet have high performers capable of lifting millions out of poverty such as in Asia.

2. A Framework for Recovery and Development

Policies by themselves cannot do miracles, but they matter and can make a big difference. What seems to be needed, first of all, is **a new policy vision**. The policy packages of the past contained good elements, such as macroeconomic stability, but also incorporated many mistakes and key elements were missing. Africa needs a new, more balanced policy vision and framework for recovery and development. As I just suggested it is not just a question of simply “getting back on track” to the growth pattern before the crisis. Instead, this is a good moment to rethink past policies, as old certainties are falling everywhere and even in developed countries there is a lot of soul-searching about economic paradigms.

A missing element in past policies was a good operational link between growth- employment- and social protection. Governments, employers and workers at the ILO have developed a framework that is useful. We call it the Decent Work Agenda. This agenda emphasizes the mutually supportive nature of economic and employment growth, social protection measures, respect for labour standards, and social dialogue.

Inclusive, job-rich growth is a key element for transformational development in Africa. This can be promoted by focusing on:

(a) sustainable enterprises as the major drivers of job creation;
(b) mainstreaming employment in major policy frameworks via employment targets and good evaluation systems;
(c) investing in education and skills as major drivers of productivity, technology and employability;

(d) expanding aggregate demand through regional and global integration and exports, but also through domestic income and wages growth;
(e) expanding social protection to workers through a basic social protection floor. A basic social protection floor for all, is not just good social policy, but an investment that leads to higher productivity though a more productive work force, and boosts incomes that benefit aggregate demand and therefore domestic markets, all of which produces a virtuous circle between incomes, aggregate demand, expansion of markets and job creation.

The ILO strongly believes in doing all of this based on strong public institutions and public policy, and on strong social dialogue institutions.

The ILO is very pleased to see how African governments and regional institutions have in the last few years embraced the idea of putting employment, social protection and decent work at the heart of major policy and development frameworks. Progress in adopting this new policy vision has been notable. The ECA 2010 Economic Report speaks for itself in this regard, as was the conversation between Ministers of Finance and Planning in Lilongwe, Malawi last March, in which I had the privilege of participating. And we are glad that this policy approach has now been also widely embraced by the UN System, in particular UNDP.

This policy vision is also at the core of the Global Jobs Pact, adopted by the International Labour Conference last June, 2009. We think that a stronger partnership between the ILO and UNDP in the spirit of the Clark-Somavia letter can be really transformational in the outcomes we can achieve together. I will be happy to further discuss with you how we can concretely cooperate more closely, in giving effect to the GJP in Africa.

In many key African meetings and Summits, such as Ouagadougou in 2004, the ILO and its constituents have been instrumental in bringing this policy vision of inclusive, job-rich growth based on decent work into key outcome documents and pronouncements.

But, while the vision is there in outcome documents and pronoucements, what seems to be missing is **real implementation**, and this is the overriding challenge. To fully implement the new vision, better coordination and policy coherence between line Ministries, planning and implementing agencies is essential. This is a very practical political and institutional challenge in which the UN can do more and better to be a more effective transformational partner of African countries.

3. Productive transformation and catching-up: accelerating learning, productivity and value addition

A second missing element in past policies is a clear productive transformation policy. In this respect the ambition should not just be how Africa can grow in a high and sustained way, but how it can catch-up?

Experience shows that the catching-up process is fundamentally a learning process, a process of accumulating organizational and technological capabilities by enterprises, workers, public and private institutions. These processes are the essence of development.

In Africa, issues of productive transformation, infrastructure, productivity, agriculture and industrialization were relatively neglected in the past. There has recently been a welcome new big push on infrastructure investment and renewed interest in the agricultural sector in many countries. The World Bank itself has shifted towards these priorities. These are important drivers of growth. But catching-up policies need to go beyond this by investing in local capabilities and promoting economic diversification.

Much learning can be obtained from the world economy via trade and FDI, by emulating international best practice, and this is why integration to the world economy is so important. But, learning from the world's best practices ultimately requires the development of local capabilities: of the labour force, domestic enterprises in particular SMEs, schools, universities, technical colleges, agricultural extension services, R&D systems. Therefore, in the final analysis, sustainable growth and development cannot be imported, it has to come from within.

There is a strong mood among African policy makers about the need to have homegrown solutions to African problems, rather than accepting imported recipes. This includes a strong emphasis on the need to increase domestic resource mobilization, and on the huge potential of regional integration in Africa as a driver of growth, as well as on the importance of agriculture. All this is excellent. In my view UN agencies trying to help local policy makers need to build on this drive towards homegrown solutions to seize the opportunity for transformational development.

The high performing economies are those that have found a way to deliberately move their productive structure in the hierarchy away from "low quality activities" (characterized by diminishing returns, flat learning, low productivity, low wages, etc) and into "high quality activities" (characterized by economies of scale, steep learning curves, high growth of output, rapid technological progress, high productivity growth, high wages, etc).

I would argue that this is how African countries should conceptualize the challenge in order to seize the opportunity for transformational development. Several related avenues are important to promote productive transformation and employment in Africa:

- One is the promotion of the private sector, or sustainable enterprises, as we call the challenge in the ILO. Africa's private sector consists of mostly microenterprises, operating alongside large firms. Between the large and the microenterprises, SMEs are relatively underdeveloped and constitute a "missing" middle. SMEs are weak in many African countries because of many factors: small local markets, lack of finance, very difficult business conditions, poor infrastructure, unattractive tax regimes. Promoting entrepreneurship and SMEs is key to catching up and transformational development in Africa, and also to promote the transition from the vast informal economies of many African countries to formality.[2] We at the ILO have significant programmes and tools to promote private sector development and entrepreneurship, with a focus on women and youth, improving enabling environments, value chains and other techniques, and this is a rich area of potential cooperation with UNDP.

- Another avenue is promoting labour-intensive manufacturing exports. China is quickly becoming an expensive country for labour-intensive manufacturing as wages rise and it upgrades into more sophisticated products. Therefore, attracting investment for labour-intensive manufacturing exports should be in Africa's job creation agenda.

- Yet another avenue for productive transformation and job creation is the agricultural sector. Attention to the green revolution, large scale commercial agriculture, Genetically Modified technology, are all important but insufficient. The local capabilities approach and the nature of rural labour markets strongly suggest that African countries should empower small farmers to lead the productivity revolution by investing in extension services, improving farm pricing, marketing and transport infrastructure, allowing access of small farmers to credit and supporting them to engage in national, regional and global value chains. Malawi's example of fertilizer subsidies illustrates the high returns of this approach.

- The Africa Regional Employers meeting in Johannesburg last April called for getting more jobs and value out of Africa's abundant natural resources, harnessing the backwards and forward linkages in agriculture and mining. They also called for a greener mining and agriculture sector. All of this requires education and training.

[2] See ILO, 2009, The Informal Economy in Africa. Promoting Transition to Formality. Challenges and Strategies, ILO, Geneva.

- Successful catch-up countries have managed to put in place massive investments in education and skills creation, in technological and physical infrastructure, and in sectoral support policies. You can call it economic diversification policy, industrial policy, competitiveness policy, or promoting clusters or value chains. These are all different names for the same fundamental objective: accelerating the accumulation of capabilities, of learning, with a broad base. [3] In the catching-up concept, education and training must be considered as a public good. Korea, China, VietNam, Costa Rica were all able to benefit from globalization because they invested in expanding access to education and had institutions for vocational training. They were then more "trade ready". Public investment in education spurred private investment, and it paid off in higher growth, upgrading and value addition later.

- It is also essential for transformational development in Africa to target young people and women with at least three E's in mind: empowerment, education and employment. For instance, women are the majority when it comes to agriculture and food production in Africa. However, due to entrenched patriarchal systems and discrimination, particularly with regard to access to resources such as land and credit, one finds that their productivity is very low.

- And finally, in this short list, it is essential for transformational development in Africa to rethink trade policies and to see trade policies at the service of productive transformation and job creation. For instance:

    - Intra-regional trade in Africa is much lower than in other regions, but it has been growing twice as fast as total trade. Intra-regional trade in Africa can become a major driver of growth. With better physical integration and more trade facilitation the regional African market of 1 billion people is full of promise, particularly as incomes rise and middle classes expand.

    - Africa is in effect marginal in world trade, and most exports are based on natural resources and primary commodities. This needs to change via, export promotion and diversification. But Least Developed Countries in Africa should be allowed to engage in a two track trade policy: moderate import protection to nurture some infant industries and avoid local industry being wiped out by international competition, and proactive export promotion initially based on labour-intensive manufacturing.

[3] For more on this approach and the comparative experiences of Asia and Latin America see Mario Cimoli, Giovanni Dosi and Joseph E. Stiglitz, *Industrial Policy and Development: The Political Economy of Capabilities Accumulation,* The Initiative for Policy Dialogue Series, Oxford University Press, New York (2009).

- Least Developed Countries in Africa also need improved market access in developed and G20 countries with 100% duty-free and quota free access, but with liberal rules of origin and long periods of certainty, not three-yearly renewal requirements.

4. Operationalizing employment-rich growth: take employment targets seriously

How can inclusive, employment-rich growth be operationalized? A good start is to take employment targets seriously in policy planning, from macro-policy to sectoral policy, rather than to see employment as a residual variable.

Most governments have agricultural development plans, export promotion plans, investment attraction plans. These plans target exports, flows of FDI, production or area cultivated, but they rarely target employment. Monetary authorities have inflation targets, and fiscal authorities have fiscal targets, but are the employment consequences of fiscal and monetary policies explicitly considered? All these targets are usually measured, monitored and performance discussed in light of results. And, yet, although employment is always present in the political discourse, it is rarely used with the same degree of commitment by policy–makers as a criterion for performance, achievement and feedback on policies and programmes.

To improve the employment content of growth this has to change. Planning frameworks at the macroeconomic level and sectoral level should incorporate employment targets, in both the quantitative and qualitative dimensions. We are developing a series of tools in the ILO to help planning ministries to do this. I think this is another area where cooperation with UNDP would be very helpful.

Of course, this is not a central planning exercise, this is indicative planning in market economies, working through incentives and enabling environments, because most employment is not generated by the state but by the private sector. But this does not detract from the targeting exercise. Scenarios can be built, the employment implications of macro and sectoral development strategies can be thought through and measured.

For instance, a country normally knows how many tourists it receives per year, how many hotel rooms it has, how much foreign exchange earnings it receives, broadly how much investment it needs to match a certain growth of tourist visitors. These indicative sectoral plans should also incorporate the employment generation expected, and the skills profiles of the necessary labour force. This permits not just to determine the potential contribution of the sector to job creation, but the education and skills needs and possible bottlenecks. Similar indicative planning exercises can be done for industrial and agricultural sub-sectors, and for specific exports.

A major obstacle to integrating employment targeting systematically in this way is lack of data. So investing in having appropriate labour market statistics is crucial.

5. The developmental state and its institutions

The catching-up and jobs agenda is very much tied to how to make the state developmental again. The agenda of liberalization, of reducing the size of the state and the relative neglect and underinvestment in public services and infrastructure in the past, has left many states incapable of being developmental. The development community must avoid the trap of choosing between the market and the state. Both strong markets and strong states are necessary.

A developmental state is one with vision and leadership, transparency, accountability and reduced corruption, and it is also one with the institutional capacity to use its power to provide direction to the process of growth and development via market mechanisms.

The practical challenge is then the design of appropriate policies and institutions, including good governance. In the case of industrial and sectoral policies and institutions, there are important lessons from Asia and Latin America.[4]

6. Fiscal foundations for growth and employment policy

My final comment is on financing. African countries should hold donors accountable to their commitments to increase aid. But it is also very important for African countries to reduce extreme levels of dependency on foreign aid. Domestic resource mobilization by enhancing the tax-to-GDP ratio in countries with a low tax burden is key.

Increasing the tax-to-GDP ratio does not mean that tax rates should be increased. In fact the best is to broaden the tax base, including through gradually bringing the informal sector into the tax net by promoting the transition to formalisation, as several African countries are already doing. Also important is more effective tax collection as well as rationalizing tax incentives that are often excessive and even ineffective to attract investment.

A number of studies by the ILO show that with a relatively modest increase in tax revenues it is possible to finance a basic and universal social security floor. Several countries have also shown

[4] See Annex 1.

that 1 or 2 percent of GDP can go a long way in financing conditional cash transfer programmes with wide coverage and impressive benefits, like the Bolsa Familia programme in Brazil and the Oportunidades programme in Mexico. [5]

Two major tools to put the financial sector at the service of the real economy and employment generation are development banks and microfinance. Bad experiences with development banking in the past do not mean they are a bad idea. They can be a major tool to bring credit to agriculture, non-farm rural areas and SMEs and to promote economic diversification. Microfinance is a well tested tool in Asia and Latin America, with a record of tremendous success. Financing for decent and productive jobs in Africa should make the most of it.

Finally, Africa should take advantage of the paradigmatic change in the IMF that now recognizes the need for countercyclical policies in developing countries and seems to be moving towards less intrusive conditionality, more sensitivity to protecting social spending, and a more flexible approach to debt, as reported by the managing director of the IMF, Mr. Dominique Strauss-Kahn in his recent speech in Nairobi (8 March). Regional efforts to find fiscal cushions and new financing sources can also make an important contribution.

[5] ILO (2009) Social Security for All, Social Security Policy Briefings, Paper No 7, Geneva.

Annex 1. Making the Developmental State work.

Some of the institutional and governance mechanisms at the heart of the developmental state are the following:[6]

- First, "collaborative games" to identify and remove binding constraints and to promote a system of discovery of opportunities that combines both autonomy by policy-makers and bureaucrats with close involvement by private sector networks and agents, while avoiding capture and rent-seeking that has derailed industrial policies in the past. This question is the heart of the matter when one looks at the internal organization of the successful developmental states. Specific institutional mechanisms include the systematic use of public-private deliberation bodies such as deliberation councils, supplier development forums, "search networks", investment advisory councils, sectoral round-tables, private-public venture funds, etc. In this way industrial and sectoral policy is not just a list of policy instruments, as in the traditional model, but a process of discovery, a process that focuses on learning where the binding constraints are.

- Secondly, smart use of incentives, carrots and sticks. The main contrast between the way Latin American countries and Asian countries implemented industrial and export promotion policies, is that Latin Americans succeeded in putting in place carrots but not sticks and disciplines. Features of good incentive programs include: clear conditions and time limits to enjoy incentives, automatic sunset clauses, built in program reviews, close monitoring, the establishment of clear benchmarks for success or failure, reliance on agencies with demonstrated competence, periodic evaluations and a degree of autonomy from politics.

- The third area is accountability. It is not just a matter of getting the relationship between the private sector and the policy makers and bureaucrats right. Who monitors the bureaucrats? The answer is that this has to be done by the general public and the trick is to make industrial and sectoral policies responsible to the public. To keep these policies honest accountability and transparency are key: clear targets, good reporting, well integrated deliberation councils, all information in the public domain, a clear political responsibility for the program, clear mandates for the responsible agencies with clear monitoring and reporting procedures.

[6] See Dani Rodrik (2008) *Normalizing Industrial Policy*, Commission on Growth and Development, Working Paper No 3.