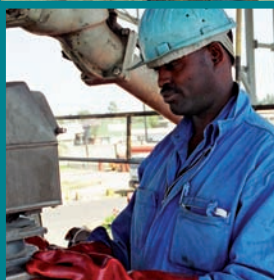




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Efficient Growth, Employment and Decent Work in Africa



Time for a New Vision



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Efficient Growth, Employment and Decent Work in Africa:

Time for a New Vision

Employment Sector

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Preface

In the last decade many African countries experienced a growth revival, some with exceptionally high growth rates. Yet the record of decent employment creation and poverty reduction has been very disappointing. So something is wrong with the focus on growth per se, and with the prevailing patterns of growth. What is it? And how can policy better respond to the challenge? Do African countries need a new more efficient and more balanced growth strategy? How can such strategy be promoted? These are the issues discussed in this report.

The policy challenge ahead is twofold: (a) to accelerate and sustain economic growth in the context of an increasingly volatile international environment; and (b) to make growth more inclusive and job-rich, enhancing the resilience of local households and local enterprises and upholding social and political stability.

The report explores multiple issues that are at the core of Africa's current growth, employment and decent work agenda. It reviews trends in growth, employment and decent work in Africa, highlighting challenges and opportunities for structural transformation, job creation, poverty eradication and transition to formality and decent work. They encompass labour market institutions, macroeconomic policy, sectoral policies and the role of trade and regional integration in acting as engines of durable and employment creation. The African continent is home to many conflict-afflicted societies and the report devotes also attention to the particular circumstances of such societies and the policy challenges that they face.

The report calls for shaping a long-term national development vision that encompasses the central goals of productive employment and decent work and it is widely shared through social dialogue. This provides the necessary compass to monitor progress and to enhance coherence and complementarities between measures in different policy domains. The ILO has a wealth of distinctive experience and knowledge in the area of employment and decent work. It is ready to partner with African countries, donors and other international and regional organizations in a new era of growth, development and social justice.

To that end, the report suggests a portfolio of policy guidelines or directions anchored in the diagnosis of this report and in the "New Vision for inclusive job rich growth for Africa" adopted by ILO African constituents at the 2nd African Decent Work Symposium in Yaoundé end 2010. Although the guidelines need to be tailored to country needs and circumstances, it is hoped that they provide a reasonably comprehensive and useful checklist against which countries can think about better policy rebalancing.

This report was prepared under the general guidance of José Manuel Salazar-Xirinachs, Executive Director of the Employment Sector. It is the result of a collective effort by staff at the Employment Sector and from other sectors of the Office. Iyanatul Islam and Frédéric Lapeyre coordinated the report based on key contributions from following colleagues: Girma Aguné, Sarah Anwar, Christina Behrendt, Azita Berar Awad, Florence Bonnet, Duncan Campbell, Michael Cichon,, Cleopatra Doumbia-Henry, Iyanatul Islam, Marion Jansen, Jayasankar Krishnamurty, Frederic Lapeyre, Alfredo Lazarte, Moazam Mahmood, Federico Negro, Irmgard Nübler, Clara van Panhuys, Per Ronnas, Terje Tessem, Erik Von Uexkull, Sher Verick, and Veronika Wodsak.

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Executive Summary

This summary presents a succinct account of the key findings of the chapters of this report. The main policy guidelines derived from these findings are presented in the last chapter. Their main objective is to promote a new inclusive and job-rich growth strategy in Africa.

Growth and Employment in Africa: A Turning Point?

The thesis that Africa in general and SSA in particular has experienced a growth turnaround since the mid-1990s has been developed by a number of influential studies in the late 2000s. This evidence of growth acceleration together with evidence that Africa has weathered the global recession rather well has engendered new found optimism for a region that is used to negative stereotyping.

The chapter notes that a conspicuous aspect of the literature on growth revival in SSA is that it offers a selective interpretation of recent economic history. By ignoring the growth record of the 1960s, and even earlier, the current literature exaggerates the extent of the growth take-off in Africa simply because it starts from the nadir of the mid-1990s when SSA was struggling to emerge from 20 years of stagnation. Between 1950 and 1960, SSA as a whole was richer than non-African developing countries, while growth in the 1960s was reasonable, but this was succeeded by 20 years of zero or even negative per capita growth. Relatively little intellectual capital has been invested in deciphering why the 'lost decades' emerged and persisted. A plausible conjecture is that external factors, such as oil shocks and the ensuing debt crisis played a significant role, as did egregious policy mistakes and poor governance. Critics have always maintained that the growth failures of the SSA prior to the mid-1990s coincided with the Bretton Woods-led structural adjustment programs of the 1980s and 1990s.

Whatever the reasons behind the 'lost decades', their devastating impact on living standards in SSA cannot simply be reversed by ten years of good growth. It is thus not surprising that the SSA as a region has a per capita GDP in the late 2000s that is barely above the level of the 1980s. This is a case of a 'catch up' rather than a growth take-off from favourable initial thresholds. Using binary comparisons, the chapter notes the sharp growth divergence that has developed over time between such SSA stalwarts as Ghana and Nigeria and successful East Asian economies such as China and Indonesia. This growth divergence is also evident between SSA and North Africa. This reflects the fact that the latter, unlike SSA, did not become a victim of the 'lost decades'.

The chapter argues that the literature on the growth revival in Africa has made an important contribution by noting that one cannot simply ascribe it to a commodity and oil price boom. On the other hand, by attributing the growth acceleration in SSA to a narrow set of factors – most notably prudent macroeconomic policies and market-oriented reforms, this literature – or at least some versions of it – appears to have

overlooked some important issues even as it seeks to vindicate economic orthodoxy. These pertain to the challenges of meeting the MDGs, the global aspiration to develop and extend social protection systems in developing countries, the inadequate evaluation of the employment dimensions of growth and the lack of structural transformation as an impediment to durable and productive job creation. All of these issues highlight the deficient nature of African growth and raise some doubts about its sustainability.

Several policy implications and messages emanate from the above discussion. First, African governments would have to make a renewed commitment to domestic resource mobilization without which sustainable and predictable sources of financing both for the attainment of MDGs and national social protection floors are not going to emerge. Currently, SSA economies rely on foreign aid to a far greater extent than other non-African developing countries.

Second, monitoring and understanding the employment dimensions of growth are vital. This will require the development of regular and reliable labour statistics and an appreciation of the fact that appreciable reductions in the incidence of the working poor and vulnerable employment cannot be attained through growth alone.

Third, a much needed debate is necessary on the nature of structural transformation in Africa. Should one be worried about 'de-industrialization' in SSA or should one focus on service sector led growth as both feasible and appropriate for the specific conditions of the region? Whether one focuses on the manufacturing or the services, several prerequisites need to be met in formulating sectoral strategies: (a) it is necessary to understand the impediments to productive expansion of employment at the sectoral level; (b) one should not neglect the agricultural sector and (c) one should tap into pan-African markets that should compensate for the narrowness of domestic markets and the challenge of accessing inter-continental markets.

Macroeconomic Policy, Growth and Employment

This chapter argues that the prevailing macroeconomic framework as it has evolved in Africa since the structural adjustment era of the 1980s and 1990s has placed a premium on governments acting as guardians of stability. This has entailed the development of a nominal targeting approach in which the essential roles of central banks and finance ministries are to attain and sustain prudential targets pertaining to debts, deficits and inflation over the medium to long run. The expected dividends from such an approach are enhanced investor confidence that can support growth and lead to durable and productive employment creation.

The chapter notes that such an approach has made an important contribution by reducing the risks of growth collapses that can be engendered by macroeconomic extremes. On the other hand, one needs to go beyond a preoccupation with the risks posed by macroeconomic extremes. In Africa, macroeconomic policy managers need to act as agents of development within a framework of price stability and fiscal

sustainability. This implies significant modifications to the prevailing macroeconomic framework.

The chapter then uses a combination of Africa-wide evidence and country-level experiences to propose the following recommendations that add up to a development and employment-friendly macroeconomic framework. First, policy makers in the region should focus on the country-specific adaptations of the basic principles of price stability and fiscal sustainability. There is not much to be gained, and a good deal of policy autonomy to be lost, by mechanically sticking to predetermined inflation and fiscal targets that are uniformly applicable to all countries in the region. Second, economic volatility can adversely affect long term growth. Hence, reducing the incidence of volatility by adopting counter-cyclical policies is an important role of macroeconomic policy managers. Third, fiscal policy should not be viewed exclusively through the lens of debt sustainability. Instead, the emphasis should be on a sustainable resource mobilization strategy that can enable policy-makers to meet financing needs pertaining to nationally adapted MDGs and SPF. Finally, macroeconomic policy managers have a critical role to play in aiding and abetting the private sector to become the key actors of structural transformation and economic diversification. This will require an understanding of the binding constraints on private sector growth and using macroeconomic policy tools to alleviate such binding constraints. They pertain to access to finance, and resources to invest in infrastructure and skilling of the work-force. In addition, maintaining stable and competitive real exchange rates and engaging in prudent capital account management are essential to support the process of structural transformation and economic diversification in Africa.

National Employment Policy and Labour Market Institutions in Africa: Way forward

After almost three decades of National Development Strategies based on growth and narrow orthodox macroeconomic policy framework, the chapter argues that a new shift in development planning is emerging which is prioritizing employment generation, especially for youth. Many African countries have already formulated or are in the process of formulating a National Employment Policy (NEP) which is increasingly linked to the poverty reduction strategy (PRS). Experience in many countries has shown the potential of policy interventions for restructuring the pattern of growth towards sustainable job-rich growth. The aim of NEPs is to present a clear strategic vision of the challenges facing the countries and enable to channel policy makers' efforts towards priority measures to promote employment and decent work. The chapter argues that prioritization of employment in PRS and national policy frameworks in general should be associated with explicit and quantitative employment targets in order to move beyond non-quantitative references to the importance of productive employment and decent work to the introduction of firm and measurable commitments to achieve these goals. The chapter stressed the challenge of youth employment and analyzes some key

components for job creation such as youth entrepreneurship, skills development, sustainable micro, small and medium enterprises or public employment programmes.

The chapter also addresses the issue of labour market institutions in Africa and how they interact with employment policies. Formal labour market institutions exist in Africa where most countries have a range of labour laws and regulations. However acknowledging the existence of formal labour market institutions is not sufficient. In particular, given the low shares of formal employment, regulations and labour laws such as minimum wages and employment protection legislation (EPL) are only applicable to a minority of workers. In Africa, it is estimated that as many as nine in ten rural and urban workers have informal jobs, and this is especially the case for women and young people, who have no other choice than the informal economy for their survival and livelihood. Moreover, formal labour market institutions in Africa must face not only the challenge of coverage but also the one of compliance.

There is an acute controversy regarding formal labour regulations in Africa as a cause of the weakness of formal employment and growing informal employment in both the formal and informal sectors. The chapter emphasizes not only the methodological difficulties in identifying the costs of labour market institutions but also the beneficial role they can play in terms of protecting workers' employment conditions, and ultimately, improving both economy efficiency and distribution of incomes. It is indeed important to remember the goal of labour market institutions: these regulations seek to protect a particular dimension of employment because, in the absence of government intervention, the resulting market failure would be detrimental to the welfare of workers and the economy in general.

Finally the chapter addresses the issue of informality which is one of the key features of African countries' labour markets. At the root of the problem of the informal economy is the inability of African economies to create sufficient numbers of formal jobs. Trends show that formal employment growth is delinked from economic growth and has lagged behind the growth of the labour force; and these trends are likely to continue in future. The informal economy is operating in an environment marked by multidimensional public policies, complex formal/informal economy linkages, global economy trends and endogenous associative dynamics which are affecting in various ways: i) the functioning and level of vulnerability of informal economy units and ii) the transition path to decent work and formality. The chapter argues that the first step toward designing effective interventions in African countries to improve conditions in informal forms of employment is to recognize the heterogeneity of informal activities. To facilitate transition to formality and decent work there is no universal policy framework to implement but a set of multidimensional policies which should target simultaneously 3 objectives: i) Promoting formal employment, ii) Reducing informal employment and iii) Increasing decent work in the informal economy. Finally, one of the promising paths in

Africa to facilitate transition to formality and decent work is the development of the social economy. In a long term prospect, the social economy can provide complementary paths to development that bring together in a coherent manner the concerns of economic sustainability, social justice, ecological balance, political stability, conflict resolution and gender equality. And as Social Economy Enterprise and Organization can be found in both the formal and informal economy, they could link – or bridge – the informal to the formal economy.

Promoting productive transformation: Sectoral Strategies for Job-Rich Growth

The employment challenge for African countries is rooted in their inability to diversify their economy and promote productive employment for a fast-growing labour force while the need for it is dire, as much for human development as for economic development. As a consequence, there is a growing interest from African countries for pro-employment sectoral policies within integrated policy frameworks aimed at generating employment and have more inclusive growth paths. Productive structural transformations are crucial for sustainable development in Africa. While self-employment plays in the short-term a key role for securing livelihood of a vast number of workers, any long-term strategy to promote better living and working conditions for people should focus on the development of wage-employment. The chapter argues that sectoral targeting goes hand in hand with employment targeting. Thus, the new generation of development strategies in Africa needs to take employment generation and labour-intensity into account as key factors in determining which sectors to prioritize in policy interventions. The chapter presented some tools to both identifying priority sectors as sectors that generate a lot of value added and employment, and have large multiplier effects and linkages to the domestic economy. From this perspective, the chapter stresses the key role of labour intensive public investment in infrastructure as well as skills and human development to facilitate the process of productive transformation and accumulation of domestic capabilities. Finally, the chapter emphasizes the fact that any skills development policy should consider not only formal training programs but also non-formal vocational training systems and apprenticeship schemes within the informal economy to support some value chains development.

Agricultural Development and Productive Transformation

There is a long history of neglect and stagnation in agriculture in Africa. For example, in 17 out of 32 countries in SSA, per capita food production actually fell between 1990 and 2005. As a result, undernourishment remains endemic in SSA.

This neglect of agriculture appears in part to be the consequence of structural adjustment programmes that swept through SSA in the 1980s and 1990s. Publicly funded and publicly run infrastructure for rural and agricultural development was largely dismantled in favour of market-based solutions. There was a decline in

investments in rural physical infrastructure. Donor support to agriculture also waned as the focus shifted to social sectors and investments in human resource. Trade liberalization in agriculture meant that local producers could not withstand international competition. Real exchange rate appreciation (most notably during 2004 to 2010), induced by sharp inflows of external resources and macroeconomic policies, have compounded the predicament of the agricultural sector. Parallel to the dismal development of agriculture is the lacklustre development of the manufacturing sector and both are interlinked.

But a bleak past does not forebode a bleak future. Past improvements in human resources are bearing fruit, while there has been a very welcome demographic transition. At the same time, the rule of law and quality of governance has improved across the region as has the record of macroeconomic stability. The numbers of newly infected cases with AIDs are leveling off. Country-specific experiences (eg. Rwanda, Malawi and Ethiopia) suggest a resurgence of pro-agricultural policies and agricultural growth. This development now needs to be complemented with strategies to increase non-farm employment. Such a two-pronged approach can be a basis for sustainable and job-rich growth and should be complemented by inclusive human resource development strategies. A future challenge for SSA is the need to have proactive strategies in place that can enable the region to adapt to climate change.

Exports, economic diversification and employment creation

The discourse on industrial development and structural change in Africa usually highlight the high dependence on primary commodities and insufficiently diversified production structure of many, if not most, economies in the region. A corollary message is that unless such economies are able to engage in exports of manufactures, the twin goals of economic diversification and sustainable growth will remain unfulfilled aspirations. The lack of an export-led transformation manufacturing in SSA is sometimes related to the high cost of doing business in the region. The policy message seems to be that a reduction in the cost of doing business specifically related to the tradables goods sector might be the key to unlocking the export potential of SSA in the manufacturing sector.

There are those who question whether an East-Asian style industrialization strategy can be readily replicated in African conditions within a reasonable time-frame, especially for relatively small, low income, land-locked countries. Given that the bulk of the population derives their livelihood in agriculture, and given some natural location-specific advantages, promoting non-traditional and HVA agricultural exports might be a feasible diversification strategy for the medium-term. The key agenda of regional integration in Africa suggests, based on the case study presented here and a complementary exercise using a 'product space approach', that regional integration does indeed promote diversification within agriculture in a number of SSA countries. Hence, regional integration and export diversification complement each other.

Regional integration in SSA, once again based on the case study presented here, seem to create a trade-off between skilled and unskilled labour in the sense that deeper integration increases the demand for unskilled, rather than skilled labour. On the other hand, regional exporters at the firm-level seem to display characteristics in terms of wages, working conditions that skill profile of workers that are similar to global exporters. In any case, the appropriate policy response is not to impede the process of regional integration but to use the education and training system to alleviate potential deficits in skills. As an ILO study has shown, education and skills policies prepare the ground for new export products. Furthermore, lowering trading costs in the regional market could allow more firms to start exporting even if they are currently less productive and thus contribute to more employment generation from regional trade.

The chapter proceeds to provide a couple of sector-specific case studies from two SSA economies – Ethiopia and Rwanda – that are representative of land-locked low income countries that are heavily dependent on agriculture and export of a few primary commodities. The chapter documents some export success stories in the area of HVA agricultural commodities: cut flowers in the case of Ethiopia and specialty coffee in the case of Rwanda. In both cases, sector-specific support by the government played a role, while the lack of such support in another SSA country (Uganda) partly explains the collapse of cut flower exports after 2003.

The employment and social dimensions of these export success stories need to be probed further. Direct job creation is relatively modest in the specialty coffee sector, but the indirect benefits accruing to 500,000 Rwandan coffee producers might be significant. Incidentally, this is also the projected magnitude of job creation if Ethiopian cut flower exports double in the next few years, a feasible scenario given the extraordinary rapid growth of this nascent industry. What matters is the need to devise a ‘win-win’ strategy by the government that will preserve the employment creating potential of the nascent exports while upholding labour and environmental standards.

Challenges Facing Conflict-Affected Countries

A number of African countries have been affected by fragility and armed conflict. They are marked by low growth rates of GDP, slow growth of agriculture and food production, slow growth of manufacturing and high levels of poverty. The chapter analyzes the specific policy approach ILO, along with its UN partners, has developed and adopted to assist country affected by armed conflict. It is the great strength of this new policy approach to conflict-affected countries to combine three *concurrent* or *simultaneous* tracks which, by their interaction, lead to income stabilization and emergency employment creation; recovery and reintegration; and sustainable employment creation along with decent work. The chapter addresses the three tracks approach and the issue of sequencing and combining: Track 1: *Stabilization* (Stabilizing Income Generation and Promoting Emergency Employment); Track 2: *Local Reintegration* (Local Recovery of

Employment and Reintegration) and Track 3: *Transition* (Sustainable Employment Creation and Decent Work).

The chapter stresses the need in conflict-affected countries to adopt such an approach which is both context-specific and context sensitive. It aims at minimizing the negative impacts and maximizing the positive impacts of interventions, viewed from the perspective of reducing the risk of conflict. At the same time, it must move the country forward on the path to decent work when, in the aftermath of a conflict, the context begins to change, when there is progress towards stability, and when the other requirements for orderly policy development and implementation are in place.

Social Protection in Africa: Investing in people

Sustainable economic and social development in Africa requires effective social protection policies as key investment in human development and a contribution to growth, productive employment and Decent Work. Many African countries at different levels of development have acknowledged the need to embark on more inclusive development paths which are based on a broad-based expansion of productive capacities and the well-being of the population, as reflected in various commitments at the level of the African Union, the ILO and the UN. Such efforts to create a more enabling environment for sustainable and inclusive economic growth require the investment in the human capital of the population throughout the life cycle through access to health, education and other social services, as well as at least a minimum level of income security that empowers people to engage in productive employment and income-generating investments.

The limited access to social protection mechanisms is one of the main policy challenges in achieving sustainable growth, productive employment and Decent Work in Africa. The ILO's two-dimensional strategy for the extension of social security, which includes the establishment of national social protection floors, emphasizes the importance of investing in people's social protection as a means to achieving substantial progress in poverty reduction and to realizing human right to social security for Africa's people. Such investments will help African countries to develop the full productive potential of the population, contribute to the formalisation of employment, support economic and social change, foster sustainable and equitable growth, reduce vulnerability and boost economic and social development.

Various examples from a number of African countries have already embarked on the progressive extension of social security, and have included social protection is an indispensable – and feasible – element of a broad-based social and economic development strategy.

International labour standards

Fundamental values of freedom, human dignity, social justice, security and non-discrimination are essential for sustainable economic and social development and efficiency. The chapter argues that freedom of association, the right to collective

bargaining, the right to equal treatment, the abolition of forced labour and child labour reflect not only fundamental human rights, but also essential conditions for stable and strong democracies and for sustainable social and economic development.

The global economic crises, the events in North Africa and the Middle East and, more generally, the ongoing need to face the growing challenges of globalization, underlines once again the continuing relevance of the International Labour Standards. Urgent measures need to be taken to address these concerns including the rights of women, migrant workers, domestic workers, workers in export-processing zones.

The chapter highlights that In Africa, only 12 ratifications are needed (out of 424) to reach a full regional ratification of the eight fundamental conventions. However, the major challenge for Africa remains translating commitments into effective protection and guarantees, with real enforcement of the relevant provisions. Many African countries have not yet fully developed the governance structures and institutions necessary for promoting the rule of law, implementing labour law reform and complying with international obligations, including ILO Conventions ratified by these countries. The labour inspection systems are under-resourced, and thus function poorly. Moreover, trade unions and employers' organizations generally lack the capacity and resources necessary to enable them to function effectively and social dialogue institutions are weak.

Chapter 1: Growth and Employment in Africa: A Turning Point?

Introduction: The diversity of the African continent

North Africa and Sub-Saharan Africa

Africa, populated by more than 50 nations, is a vast continent of considerable diversity. Attempting to generalize the nature and pattern of African growth and development is certainly a hazardous enterprise. The continent includes relatively prosperous Mauritius with a per capita GDP of USD 4677 as well as fragile states such as Democratic Republic of Congo with a strikingly low per capita GDP of USD 89. Resource-rich economies coexist with resource-poor landlocked countries as well as coastal states with considerable promise and potential. The continent encompasses both populous Nigeria (pop: 155 million) and tiny Seychelles (pop: 88,340).

Several typologies are available to capture this diversity. Two examples of such a typology are shown in the appendix to this chapter, one proffered by the IMF and the other by McKinsey Global Institute (MGI). They seek to reflect geographical diversity (land-locked vs. coastal), variations in nature resource endowments (oil exporters, other mineral resource-rich economies vs. the rest), the degree of economic diversification (diversified vs. non-diversified economies) and vulnerability to conflicts (fragile states vs. others). Using a variation of this classification adopted by the IMF, one can count 13 landlocked countries, 18 coastal economies, seven oil exporters, and six non-oil, resource-rich states. This typology excludes North Africa (which the IMF and the World Bank includes with the Middle East) and focuses solely on Sub-Saharan Africa (SSA). The MGI classification includes North Africa but uses data on 31 countries that accounts for the vast bulk of African GDP.

This chapter focuses on both North Africa and SSA as broad regional groups in seeking to reflect the diversity of the African continent. It would, of course, be greatly preferable to adopt the textured typology noted above or even more disaggregated regional groups, but data limitations on the employment dimensions of growth – which is the focus of this study – preclude such a course of action. Nevertheless, the North Africa vs. SSA dichotomy represents distinct regional economies embodied in one continent. North Africa, in general, is more economically diversified than the SSA and richer than its counterparts south of the Sahara. For example, North African labour productivity is more than three times the levels prevailing in the SSA. The incidence of working poverty in North Africa is much lower than in SSA. A broad based measure of poverty (the multi-dimensional poverty index) suggests that the average incidence of deprivation is 1.5 times higher and the proportion of poor is seven times higher in SSA than in North

Africa. On the other hand, the North African youth unemployment rate is almost twice the SSA benchmark.¹

North Africa is certainly in the news these days, with Egypt and Tunisia bearing the distinction of a relatively peaceful transition that saw the ouster of authoritarian regimes that ruled for decades. What is less well known is that at least one study has conferred on these two countries the rare membership of a group of twelve economies (mostly Asian) that have grown at rapid rates for more than two decades. SSA on the other hand trumps North Africa by engaging in a political transition that goes back decades, the crowning glory being the emergence of a post-apartheid and democratic South Africa in the mid-1990s. The latter is also a member of the G20 – a privilege that has not been extended to a single North African country.

Africa's turn?²

Despite its democratic transitions that pre-date current political developments in North Africa, SSA has for years been seen as a region that is home to HIV aids, home-grown conflicts, famines, and endemic poverty.³⁴ According to one influential thesis, 70 per cent of SSA countries are part of the 'bottom billion' of the global community who are entrapped in exogenously determined traps consisting of unfavourable geographic location, ethnic conflicts, poor governance and a 'natural resource curse'. These countries cannot escape from endemic poverty because they are unresponsive to normal economic and social policy interventions. SSA needs to be saved and salvaged by carefully calibrated external interventions led by Western donor nations.

As if in reaction to the bleakness of the 'bottom billion' thesis, a sizeable literature has emerged in the late 2000s that seeks to celebrate a growth renaissance in SSA⁵. According to this view, after being the tragic victim of the 'lost decades' of the 1980s and 1990s, SSA is experiencing its 'best decade' in the 2000s.⁶ The region as a whole has demonstrated a great deal of resilience during recent crises that include the food and energy price shocks of the late 2000s and the Great Recession of 2007-2009. After a sharp growth deceleration – but no outright recession – SSA is projected to grow at rapid rates in the medium-term. It is now 'Africa's turn' claims one study; yet others proclaim that 'African lions are on the move', while some document the rise of '17 emerging economies' in SSA.

¹ Authors' estimates based on Alkire and Santos (2010).

² This expression comes the title of a recent book by Miguel (2009)

³ The Economic Commission for Africa (ECA), for example, uses – but sporadically – five regional groups: North Africa, Central Africa, East Africa, West Africa, Southern Africa. See ECA (2011)

⁴ The current famine sweeping through the Horn of Africa is a stark reminder that this scourge is not a thing of the past.

⁵ Collier (2007)

⁶ Kenny (2010) develops the thesis of the 2000s as the 'best decade' based on progress in social indicators across the developing world, including SSA. This is part of his broader thesis on development optimism argued in Kenny (2011). In his account, the employment dimensions of development are not given any prominence.

How valid is this optimism? What are the sources of such growth resurgence in Africa in the 2000s? What policy initiatives are needed to sustain this growth resurgence such that it is associated with structural transformation and durable and productive employment creation? These are the issues that are explored in this chapter.

A reader's guide to the chapter

The discussion concentrates on an evaluation of the view that the African continent faces a bright future based on the current configuration of policies and institutions. It acknowledges that this 'revisionist' thesis makes a valuable contribution by challenging negative stereotyping of Africa. Yet, this perspective is also marked by significant deficiencies: a selective reading of recent African economic history in which the growth record of the 1960s is generally neglected; failure to distinguish between North Africa and SSA; the lack of any substantive discussion on the employment dimensions of African growth as well as the challenge of meeting the Millennium Development Goals (MDGs) and expanding social protection. The fact that many observers see SSA as a case of stalled structural transformation is not highlighted by the growth optimists.

A concluding section summarizes key findings and highlights policy implications and messages. These implications and messages are then developed more fully in the subsequent chapters.

The African growth revival since the mid-1990s: issues and evidence

Box 1 collates a series of prominent pronouncements from a variety of sources that highlight the optimism about Africa's future. Several traits are noteworthy. First, the focus is on SSA rather than North Africa and within SSA the focus is on a group of 'emerging economies'. Second, the focus is on the evolution of growth since the mid-1990s. Third, the focus is on an interpretation of the sources of the African revival that endorses a particular policy framework, although one widely noted study offers a broader view. Finally, the focus is on growth rather than the employment dimensions of growth.

Box 1.1: Celebrating Africa's Growth Revival: Some Proclamations

The pronounced pickup in sub-Saharan Africa's economic growth in recent years is garnering a lot of attention...In the fall of 2008, (the IMF) identified a set of 17 "Great Sub-Saharan Africa Take Off" economies which had achieved average per capita growth above 2.25 per cent since the mid-1990s. The group was diverse, but shared the common features of macro-stability, good institutions, and pro-growth structural reforms'.⁷

'(The World) Bank concludes that Africa could be on the brink of an economic take-off, much like China was 30 years ago, and India 20 years ago'.⁸

'Much has been written about the rise of the BRICs (Brazil, Russia, India and China) and the shift in economic power eastward as Asia outruns the rest of the world. But the surprising success story of the past decade lies elsewhere. An analysis by *The Economist* finds over the ten years to 2010, no fewer than six of the world's ten fastest-growing economies were in sub-Saharan Africa...Looking ahead Standard Chartered forecasts that Africa's economy will grow at an average annual rate of 7% over the next twenty years, slightly faster than China's.'⁹

'Africa's economies are on the move...Today, Africa ranks among the fastest- growing economic regions in the world...Africa's growth surge can be attributed in large part to internal structural changes that created political and macroeconomic stability and to microeconomic reforms aimed at creating a more market-driven business environment...'¹⁰

'There's good news out of Africa. Seventeen emerging countries are putting behind them the conflict, stagnation, and dictatorships of the past. Since the mid-1990s, these countries have defied the old negative stereotypes of poverty and failure by achieving steady economic growth, deepening democracy, improving governance, and decreasing poverty.'¹¹

Interpreting recent economic history: the lessons from the 'lost decades'

There is little doubt that the 1995-2007 period (that is, just prior to global recession of 2009) represents the best decade of growth in SSA, especially for a group of 17 to 20 economies – see Figure 1.¹² The growth revival in the mid-1990s in SSA was preceded by a prolonged period of stagnation that started in the mid-1970s or what some scholars have dubbed the 'lost decades'.¹³ SSA was simply the most conspicuous victim of a growth slowdown that lasted two decades and engulfed large swathes of the developing world.

⁷ Global Monitoring Report (2010)

⁸ Ibid.

⁹ The Economist (2011)

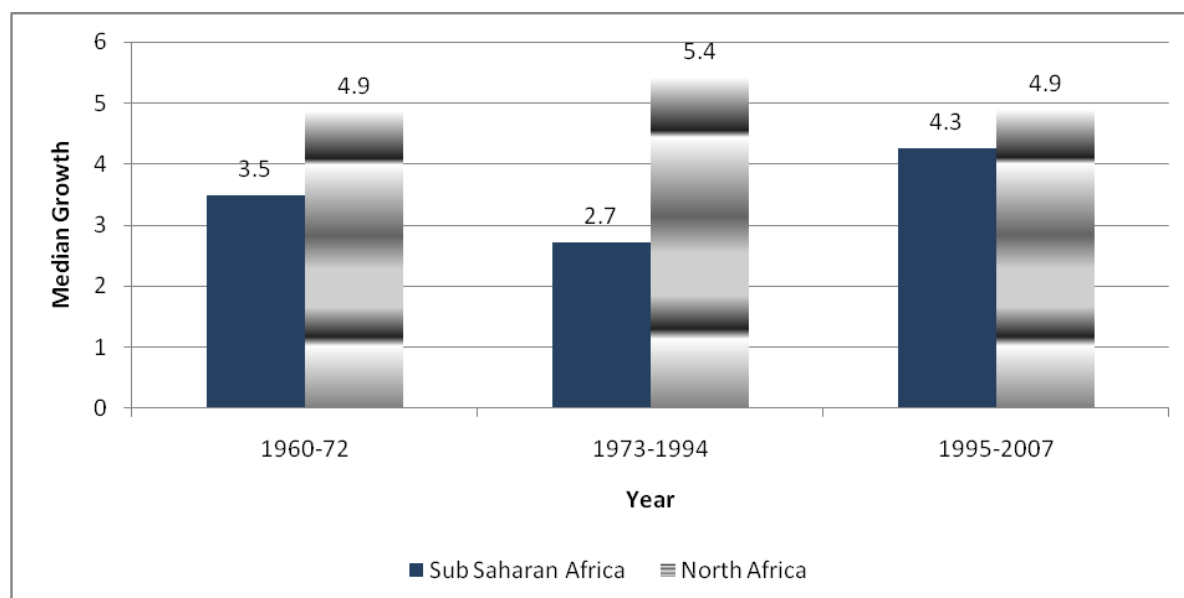
¹⁰ McKinsey Global Institute (2010)

¹¹ Radelet, 2010:1

¹² See the appendix for the list of seventeen emerging countries and corresponding growth for this group relative to others in SSA.

¹³ Easterly (2001)

Figure 1.1: Median Growth in SSA and North Africa by Period



Source: World Bank, World Development Indicators, regional medians calculated by authors

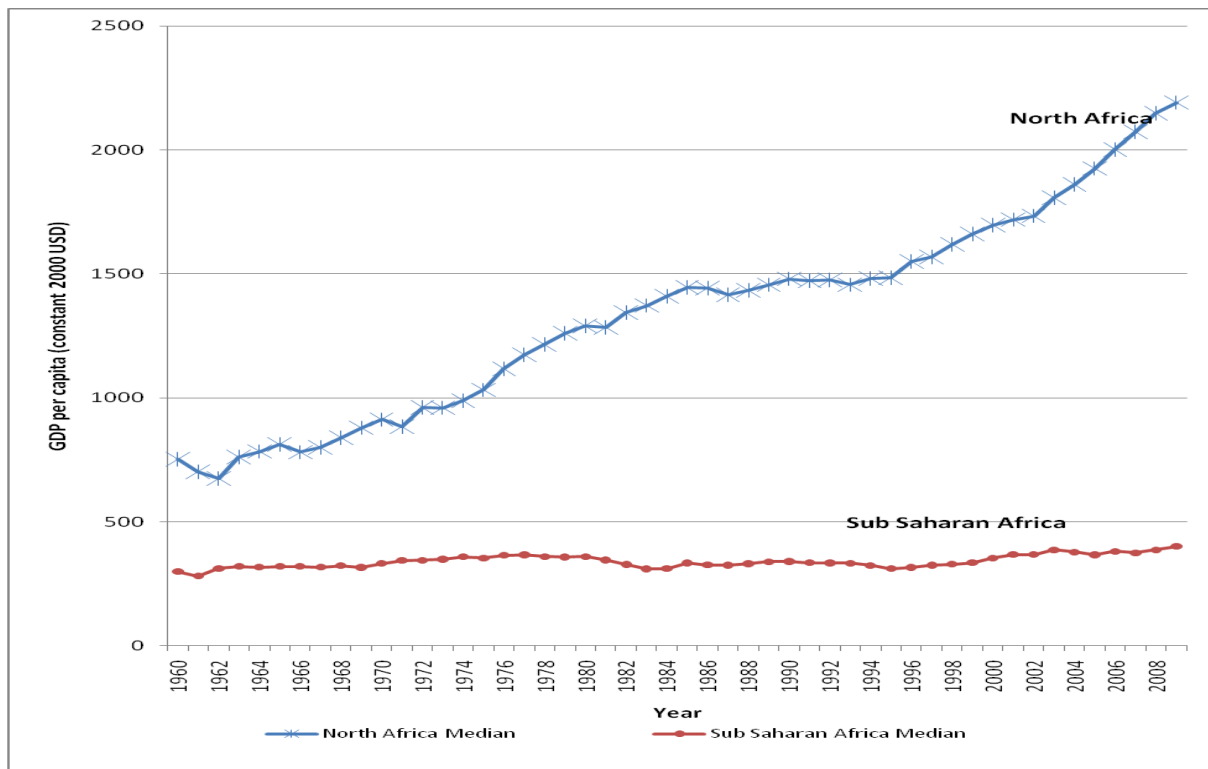
It is, however, important to highlight the diversity of the African experience. As Figure 1 shows, North Africa did not suffer from a growth deceleration between the mid-70s and mid-90s, although growth volatility was high. What Figure 1 also shows is that the 1960s were a period of reasonable growth for SSA as it was for the developing world at large. While a small group of scholars has drawn attention to the growth record of the 1960s and contrasted it with the growth slowdown in subsequent decades, this important aspect of recent economic history has been neglected in the current literature that has embraced the thesis of an emerging Africa.¹⁴ Indeed, if one goes back to the 1950s, then it can be readily shown that SSA was richer than other non-African developing countries.¹⁵

Taking account of recent economic history is critical in understanding why relatively rapid growth since the mid-1990s in SSA is merely enabling the region to catch up with levels of per capita GDP that prevailed decades ago. This stark reality is brought out clearly in Figure 2. As can be seen, it was not until the early 2000s that SSA had a median per capita GDP that matched the level in 1977. On the other hand, the divergence between North African and SSA median GDP - which was modest in 1962 - has grown ever sharper and is now at its highest. Thus, the lost decades have really exacted a heavy price on SSA.

¹⁴ See Milanovic (2001) and Weisbrot et al (2001). See also Islam (2005) who replicates the results obtained by Milanovic and Weisbrot et al.

¹⁵ Easterly (2009:378)

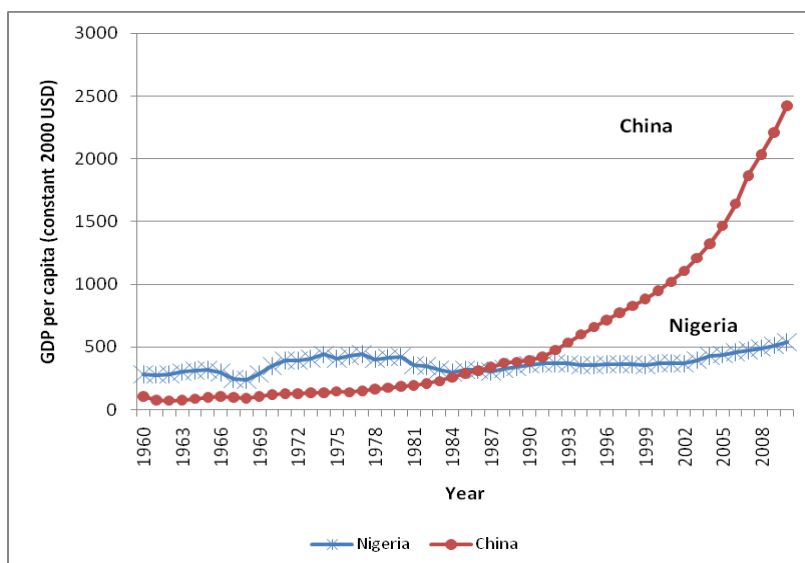
Figure 1.2: Median GDP per capita for Sub-Saharan Africa and North Africa



Source: World Bank African Development Indicators, medians are author's calculations

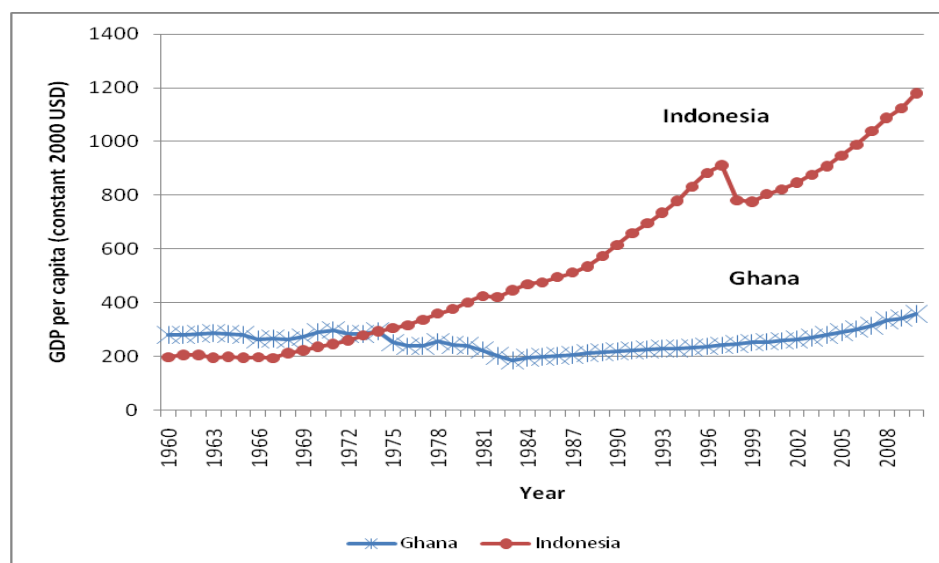
Figure 3 compares SSA's most populous country (Nigeria) with the most populous country in the world (China). Nigerian per capita GDP was higher than China until 1982, but after the early 1990s rapid growth in China has propelled it to the rank of a middle income country while Nigeria has languished as a low income country.

Figure 1.3: Nigeria vs. China



Source: World Bank African Development Indicators

Figure 1.4 : Ghana vs. Indonesia



Source: World Bank African Development Indicators

A similar account can be offered when one compares Indonesia, Southeast Asia's most populous country with an SSA stalwart, Ghana – see Figure 4. As some observers have noted: 'In 1960, Ghana, the world's leading cocoa producer and a proud possessor of Africa's most developed middle class had an economy larger than Indonesia's and a per capita income on a par with South Korea's'.¹⁶ The growth divergence between Indonesia and Ghana became evident in the mid-1970s. By 2010, Indonesia had a per capita GDP that was three times more than Ghana's, despite the fact that Indonesia suffered a calamitous decline in income during the terrible recession of 1998 that followed in the wake of the 1997 Asian financial crisis.

It is thus clear that, unless one takes on board the implications of the long run GDP per capita levels and GDP growth record of SSA using the 1960s (or even the 1950s) as a reference point, the growth revival in the region can be exaggerated.¹⁷ In any case, as an iconic study has claimed, growth accelerations for a decade or so are quite common, but maintaining such accelerations over decades is much rarer.¹⁸ Nevertheless, one can still claim that this growth revival is historically unprecedented and it is necessary to understand why this is happening. To some of the advocates of an emerging SSA, the answer is unequivocal as Box 1 suggests. This is the result of prudent macroeconomic policies and pro-growth structural reforms. To this, some would add more democratic and accountable governments, the end of internal conflicts in many places, the end of the

¹⁶ Padayachee and Hart (2010 :2)

¹⁷ There is a tendency among some scholars, such as Bates et al (2007), to overlook the 'lost decades' by reporting on SSA long run average growth rate from the 1950s to the early 1990s. Because the growth slowdown starting in the mid-70s and continuing to the mid-1990s is not even mentioned, it creates the misleading impression that SSA was always a region of economic stagnation.

¹⁸ Hausmann *et al* (2005)

long debt crisis and a changed relationship with the donor community, the introduction of mobile phones and new IT-enabled technologies and a new generation of private and public leaders committed to development.¹⁹

One can raise some concerns about such an interpretation. To start with, extolling the virtues of prudent macroeconomic policies and pro-growth structural reforms might be construed by critics as a disingenuous way of rehabilitating the tarnished reputation of IMF and World Bank-led structural adjustment programs (SAPs) that held sway in SSA and other parts of the developing world between 1980 and 1998. During this period 958 SAPs were implemented in developing countries.²⁰ An enormous emphasis on prudent macroeconomic policies (a euphemism for fiscal austerity and restrictive monetary policies) and structural reforms (a euphemism for privatization and liberalization) were the hallmarks of the SAPs and became known as the 'Washington Consensus'. The rationale was that the SAPs would induce self-sustaining growth that would lead to durable poverty reduction and employment creation. The fact that the SAPs coincided with economic stagnation in SSA in the 1980s and 1990s was, at least according one to knowledgeable observer, a key reason behind the formal withdrawal of the SAPs by the Bretton Woods institutions in 1998 and the launching of 'poverty reduction strategies' (PRSPs) since then.²¹ At the same time, the neglect of the growth record of the 1960s, hailed by a former Chief Economist of the World Bank as the 'golden age of growth', cannot merely be dismissed as an innocent omission.²² The period between 1960 and the onset of the oil shocks in the 1970s were interpreted by the advocates of SAPs as the era of failed *dirigiste* policies that needed to be dismantled to make way for pro-growth market-oriented reforms. The awkward fact that this outcome did not materialize in SSA relative to the 1960s possibly explains the neglect of that period in the current literature on an African growth revival since the mid-1990s. At least such a selective interpretation of African economic history allows one to suggest that policies associated with SAPs are paying dividends, but with a lag.

There does not seem to be a great deal of interest in finding out why SSA succumbed to such growth failures after the mid-1970s. One suggestion is that external factors, such as the oil price shocks, the ensuing debt crisis and a growth slow-down in the rich nations had a significant impact, but internal factors, such as poor governance and economic mismanagement, probably exacerbated the adverse consequences of external factors.²³

Recent research that reflect on the policy reforms the 1980s and 1990s now concede that macroeconomic stabilization efforts that often accompanied SAPs probably reversed growth collapses but were not designed to bring about self-sustaining growth.²⁴ In some cases, they had deleterious consequences, such as cutbacks in capital

¹⁹ Radelet (2010)

²⁰ Easterly (2001)

²¹ Easterly (2009)

²² Bruno (1995)

²³ Easterly (2001)

²⁴ Zagha et al (2006)

expenditure to meet fiscal consolidation exercises that led to a decline in public investment in SSA and elsewhere.²⁵ Other areas crucial to private sector development, such as access to finance, were not addressed as part of growth-promoting monetary and financial policies.

Africa's Achilles Heel: the challenge of meeting the MDGs and the continued dependence on foreign aid

Ever since the declaration of the MDGs in 2000, progress towards attaining them has become the accepted international yardstick in measuring socio-economic progress in developing countries. Judged from this perspective, a decade of rapid growth in SSA has not been enough to enable the region to meet the MDGs by 2015, although there are significant variations across countries.²⁶ What is noteworthy – and expected – is that during the long period of economic stagnation in SSA, poverty as measured by USD 1.25 a day rose in the 1990s. By 1999, poverty was at roughly the same level as it was in 1990.²⁷ This partly explains why SSA as a whole is likely to underachieve relative to the 2015 targets.

One should also highlight the particular case of fragile and conflict-prone states in Africa. They have grown at a slower rate even in the growth boom of the 2000s. They are the ones that are far off-track from the perspective of the MDGs. Hence, the experiences of fragile states deserve particular attention and are thus explored more fully in a subsequent chapter.

Critics have pointed out methodological deficiencies in the MDG-driven monitoring framework that does not give sufficient credit to the many African countries that have made significant progress towards poverty reduction.²⁸ One also does not know whether the current monitoring framework on tracking global poverty will be overhauled after 2015. Nevertheless, the MDGs – at least until 2015 – will remain the global yardstick for measuring socio-economic progress in developing countries. The sizeable literature on the growth acceleration in SSA seems to have avoided any substantive discussion on tracking socio-economic progress from the perspective of the MDGs. Indeed, the growth rate that is generally assumed to be required to meet the MDGs (around 4 per cent per capita GDP) has been met briefly by the SSA in the mid-2000s, but the projections up to 2012 suggest that this threshold is unlikely to be met in the medium term. This point highlights once again that growth accelerations need to be maintained over long periods of time.

A process of self-sustaining growth requires a graduation out of a heavy reliance on foreign aid and a greater reliance on domestic sources of revenue, especially in financing

²⁵ Islam (2009). This experience during the SAPs prompted the Commission on Growth and Development (2008) to declare that fiscal consolidation based on cutting capital expenditure is one of the 'bad ideas' in development.

²⁶ See appendix to this chapter

²⁷ Global Monitoring Report (GMR) (2010:13)

²⁸ Clemens and Moss (2005) and Easterly (2007)

the MDGs. Global estimates suggest that the financing gap with respect to the MDGs is quite large.²⁹ While foreign aid can fill this financing gap up to a certain point, continued dependence on external sources of funding affects the viability and vitality of home-grown development efforts. Between 1960 and 2006, total aid to Africa amounted to USD 714 billion dollars in real terms.³⁰ More importantly, foreign aid was close to 12 per cent of SSA GDP in 2006, while it was less than 6 per cent of SSA GDP in 1964. For all non-African developing countries, the foreign aid-to-GDP ratio was less than 2 per cent in 2006. The point is that the need to graduate out of foreign aid dependence means a commitment to enhance domestic resource mobilization. This is a key issue that is notably absent in the literature on the growth take-off in Africa since the mid-1990s.

The missing dimension in the current growth optimism on Africa: employment

One of the conspicuous aspects of the burgeoning literature on the growth revival in SSA is the lack of any substantive discussion on the employment outcomes of this growth, although some studies do note that in passing.³¹ This neglect of the employment dimensions of growth is neither new nor is it limited to Africa. Even in the case of the global monitoring framework on tracking progress in poverty reduction in developing countries, MDG 1b which pertains to monitoring progress towards 'full and productive employment and decent work for all', receives scant attention relative to other targets.³² Yet, as the continuing jobs crisis that emerged in the rich nations in the wake of the global recession of 2009 has shown, policy-makers cannot afford to ignore the issue of job creation. At the same time, political turmoil in North Africa has at least partly been attributed to poor employment opportunities for young people.³³

The relative neglect of the employment dimensions of African growth has been compounded by the lack of regular and reliable labour statistics. Despite these limitations, the discussion in this section uses a range of MDG-compatible employment and labour market indicators that enables one to focus on following issues:

- Unemployment
- Growth of employment
- Quality of employment encompassing (a) structural transformation and productivity growth (b) the incidence of the working poor and (c) vulnerability
- Gender disparities in the labour market that cut across both quantitative and qualitative indicators of employment

²⁹ Islam and Anwar (2011)

³⁰ Easterly (2009: 383)

³¹ IMF (2011: 3)

³² In the Global Monitoring Report (GMR) 2010 only one paragraph is devoted to monitoring employment trends across the developing world using one indicator (employment-to-population ratio: EPR). It shows that between 1990 and 2007 EPR either remained constant or fell in all regions. See GMR (2010:18)

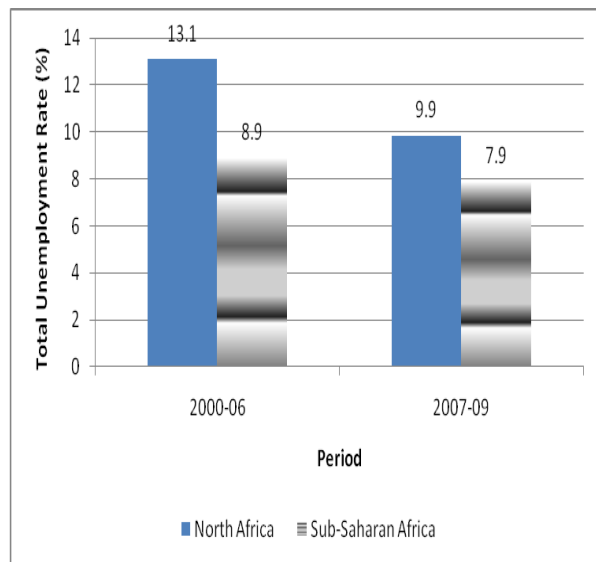
³³ Abdi (2011)

What this brief empirical account, drawing largely on the ILO's most recent monitoring of *Global Employment Trends* (GET 2011), shows is that the high growth period of the 2000s in both SSA and North Africa certainly exhibits improvements, but the rate of progress has been modest in many cases. In particular, the incidence of low quality employment remains strikingly high in SSA while there is a lack of structural transformation.

Unemployment and employment

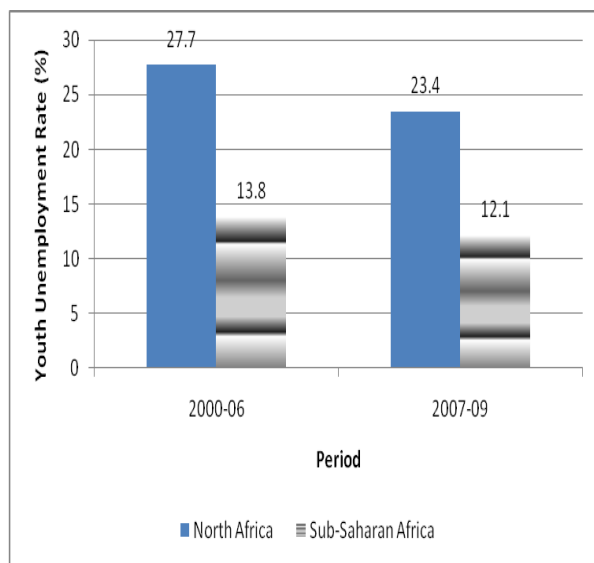
In 2000, North Africa had the unenviable distinction of having the highest unemployment rate in the world (14.1 per cent) driven very largely by the very high youth unemployment rate (close to 30 per cent). In SSA, the unemployment rate in 2000 was three percentage points lower (8.4 per cent). In order to track changes through the 2000s, sub-period averages (2000-2006 vs. 2007-2009) are used to smooth out yearly fluctuations and also take account of the impact of the global financial and economic crisis of 2007-2009. Both SSA and North Africa show improvements, with the rate of decline in both aggregate and youth unemployment in North Africa being faster (three to four percentage points between the two sub-period) than in SSA (approximately one percentage point) - see Figure 5 and 6. The modest decline in the rate of progress against unemployment in 2007-2009 indicates a moderate impact of the global recession of 2009.

Figure 1.5: Unemployment



Source: ILO, *Global Employment Trends* 2011, period medians are based on the author's calculations

Figure 1.6: Youth Unemployment

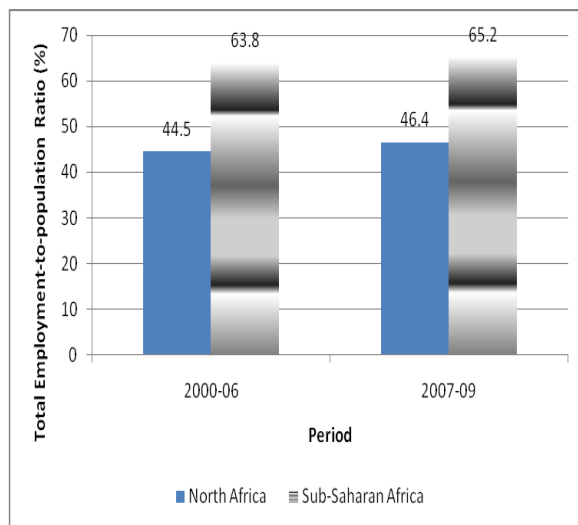


Source: ILO, Global Employment Trends 2011, period medians are based on the author's calculations

During the first half of the 2000s, Africa as a whole distinguished itself for having one of the highest employment growth rates in the world: three per cent and above. This decelerates to below three per cent in the 2007-2009 period reflecting once again some impact of the global recession of 2009.

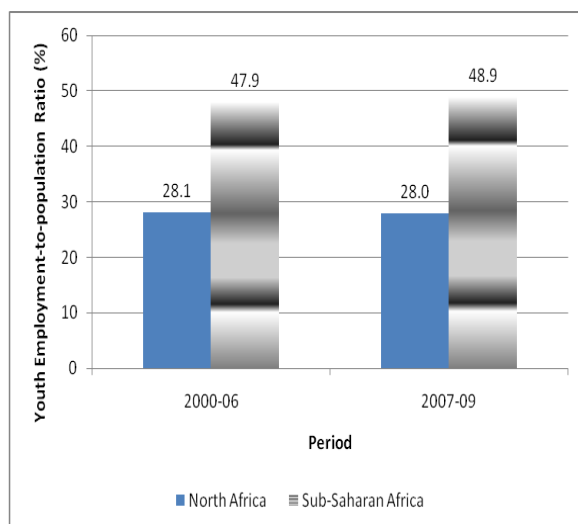
The employment-to-population ratio (EPR) is widely regarded a better indicator of employment trends than the unemployment rate. There is a modest improvement (about two percentage points) in the EPR in North Africa and about a one percentage point improvement in SSA – see Figure 7. This reflects the fact that employment has grown a little in excess of population growth. There is no appreciable impact of the global recession of 2009 on region-wide EPRs. The youth EPR has stayed the almost same in both periods for North Africa and slightly increased by one percentage point in SSA - see Figure 8.

Figure 1.7: Adult EPR



Source: ILO, Global Employment Trends 2011, period medians are based on the author's calculations

Figure 1.8: Youth EPR



Source: ILO, Global Employment Trends 2011, period medians are based on the author's calculations

Quality of employment: vulnerability and the working poor

Two key indicators that track progress towards the attainment of MDG 1b are the share of 'vulnerable employment' (measured as sum of own account workers plus family workers as a share of total employment) and the incidence of the 'working poor' (that is, those who are employed but earn below the international poverty lines of USD 1.25 a day and USD 2.00 a day). Admittedly, these indicators have limitations. For example, the focus on own account workers imply that those in wage employment do not carry any economic risks. The use of international poverty lines is subject to various criticisms and questions have been raised about their reliability.³⁴ Despite such limitations, these are

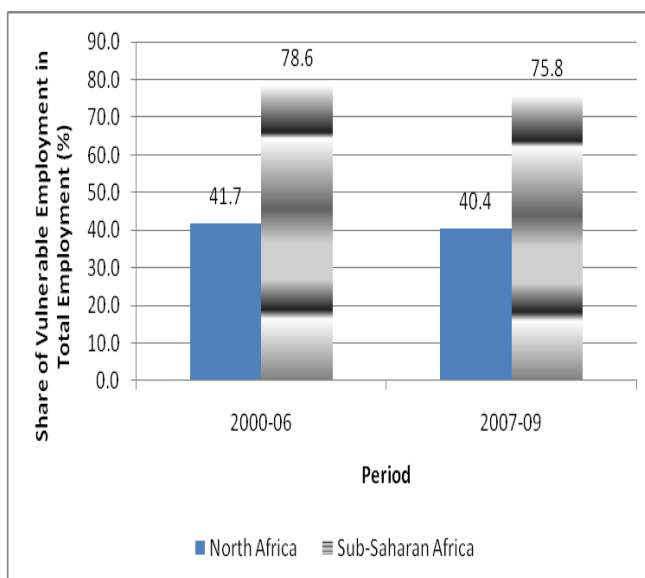
³⁴ Reddy and Pogge (2005)

the agreed indicators of the monitoring framework on global poverty and hence can be legitimately, but prudently, used to gauge changes in the quality of employment in Africa.

To start with, and as expected, there are major differences in the incidence of vulnerable employment between SSA and North Africa, with the latter having an incidence of vulnerable employment that is almost half of SSA. Nevertheless, there has been a notable decline in SSA and a moderate decline in North Africa in the share of vulnerable employment during the 2000s - see Figure 9.

A recent ILO study highlights the difference in the decline in vulnerable employment from the 1991- 2000 period to the 2000- 2008 period (from a decline of -1.5 percentage points to a decline of -5.6 percentage points for SSA)³⁵. This indicates that the lost decades and slow growth in the 1990s had a deleterious impact on the quality of employment in SSA in the 1990s. However, in North Africa the decline in the incidence of vulnerable employment was higher in the 1990s than in the 2000s (reducing from a decline of -4.9 percentage points between 1991-2000 to a decline of -2.8 percentage points between 2000-2008). This is consistent with the fact that growth in the 1990s in North Africa, unlike SSA, was higher than in the 2000s (see Figure 1).

Figure 1.9: Vulnerable Employment



Source: ILO, Global Employment Trends 2011, period medians are based on the author's calculations

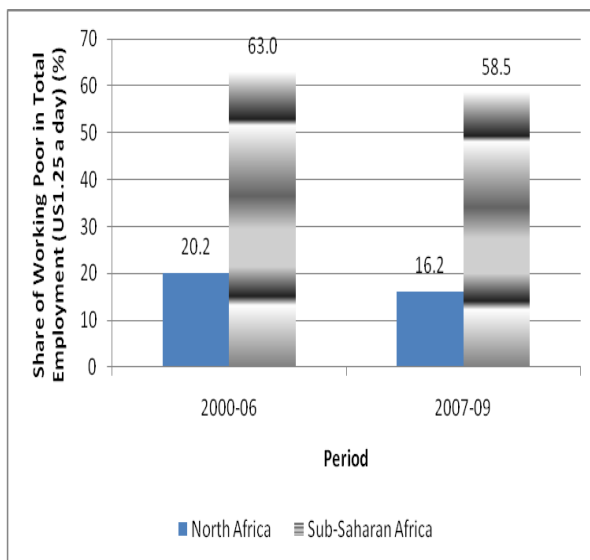
A similar verdict can be issued on the incidence of the working poor. They are, as expected, strikingly high in SSA - ranging from 58.5 per cent of total employment in the 2007-2009 period using the USD 1.25 a day poverty line to 81.5 per cent using the USD 2.00 a day poverty line- see Figure 10 and 11. These thresholds are two to three times higher than the incidence of the working poor in North Africa. At the same time, both

³⁵ Albee and Sparreboom (2011: 61)

SSA and North Africa experienced a notable decline in the incidence of the working poor in the 2000s.

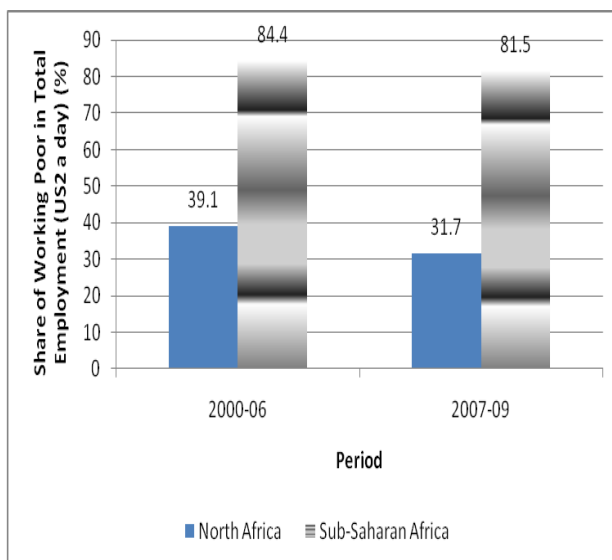
The aforementioned ILO study also highlights that both SSA and North Africa have experienced an accelerated decline in working poverty (USD1.25 a day) in the 2000s compared to the 1990s.

Figure 1.10: Working Poor (USD 1.25 a day)



Source: ILO, Global Employment Trends 2011, period medians are based on the author's calculations

Figure 1.11: Working Poor (USD 2.00 a day)



Source: ILO, Global Employment Trends 2011, period medians are based on the author's calculations

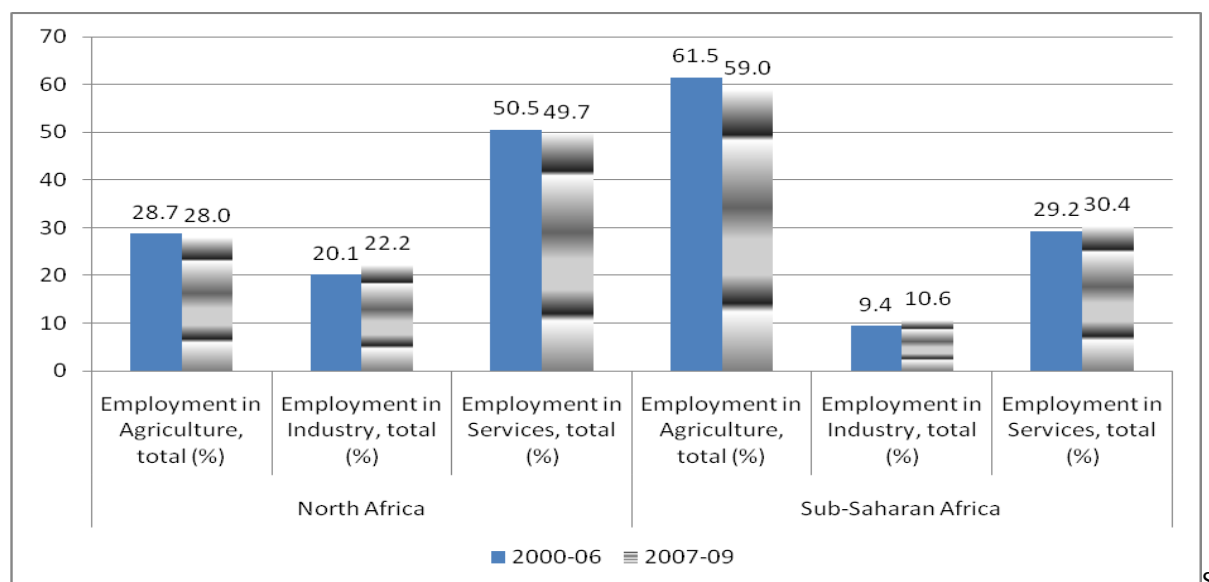
The evidence that the incidence of vulnerable employment and the working poor has declined in the 2000s in Africa as a whole does not answer the critical question of whether this is enough. Using the MDG framework, one might ask: what kind of

employment growth would be required in Africa to halve both vulnerable employment and the incidence of the working poor by 2015? Posing the question in this way makes these targets aligned with other time-bound targets in the MDG framework. It turns out that the employment growth –and the GDP growth rate that is implicit in bringing about such employment growth – that would be needed to halve both vulnerable employment and the share of the working poor by 2015 is of unattainable magnitude.³⁶ While such a prognosis might be a source of dismay, it also suggests that a growth alone strategy will not work in propelling Africa towards the attainment of MDG 1b. Given a feasible rate of growth (around 5 per cent per annum), one can seek to extract more ‘social returns’ out of such a growth rate through a mix of targeted and economy-wide policies that can nurture and nourish broad-based, durable and productive employment creation.

Quality of employment: structural transformation and productivity growth

Rapid growth in SSA since the mid-1990s has not translated into a notable phase of structural transformation- see Figure 12. Agriculture remains a major source of livelihood for the majority of the work-force in SSA, although there has been a modest decline in its employment share (61.5 per cent in 2000-06 vs. 59 per cent in 2007-09). The employment share going to industry has increased slightly from 9.4 per cent to 10.6 per cent and the employment share going to services increased from 29.2 per cent to 30.4 per cent, suggesting that some workers have moved into industry and services.

Figure 1.12: Employment by Sector



Source: ILO, Global Employment Trends 2011, period medians are based on the author's calculations

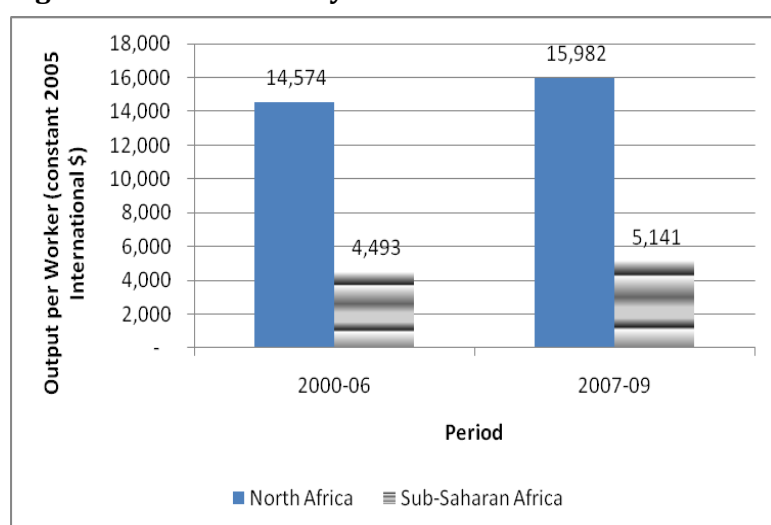
In North Africa, agriculture is a much less significant source of employment and its significance has declined in the 2000s moderately (28.7 per cent in 2000-06 to 28 per

³⁶ See ILO (2011b:10), Report on LDCs, which includes African economies

cent in 2007-09). Similar to the case of SSA, the employment share of industry has gone up a little, while unlike SSA that of service has declined slightly.

There is a significant productivity gap between North Africa and SSA, with the former exhibiting a level of labour productivity (as measured by GDP per worker) that is three times higher than the latter, a gap that persisted despite a modest improvement in labour productivity in SSA in the 2000s – see Figure 13. Both in the case of SSA and North Africa, modest labour productivity growth (1.3 per cent in the first half of the 2000s in North Africa and 2.3 per cent in SSA) has been one of the weaknesses of recent economic growth and compares unfavourably with developing Asia in which labour productivity growth has ranged between four and eight per cent annum.

Figure 1.13: Productivity



Source: ILO, Global Employment Trends 2011, period medians are based on the author's calculations

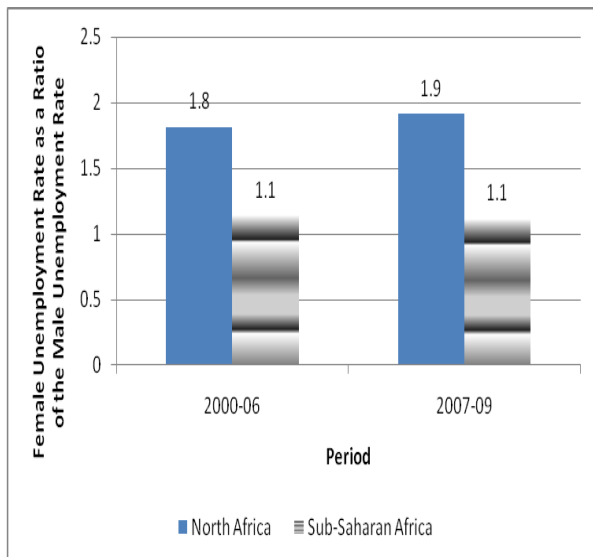
The stylized facts thus suggest lack of industrialization and modest labour productivity growth in SSA, despite the fact that SSA has grown at unprecedented rates since the 1990s. Whether the increase in service sector-led employment in SSA is a source of concern or a source of comfort is open to debate. As the subsequent discussion will show, there is one view that projects optimism on the future of structural transformation in SSA. This view argues that far from denigrating the emergence of service sector-led employment in SSA as 'de-industrialization', it is much more realistic and appropriate to build on this as part of a new growth strategy, while at the same time ensuring that the agricultural sector is not neglected as it has been done in the past.

Gender disparities in the labour market

North Africa, as a region, displays significantly higher gender gap in unemployment with a high ratio of female to male unemployment at around 1.8 in the 2000s – see Figure 14. In contrast, SSA displays a female unemployment rate almost at parity with male unemployment rates. The startling gender gap in North Africa is further elaborated by looking at the ratio of female EPR to male EPR - see Figure 15. North Africa has less than

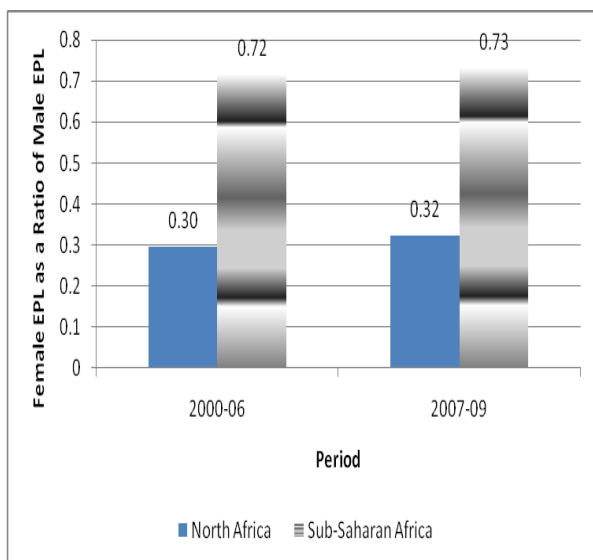
half the SSA ratio, meaning there are significantly fewer women employed in comparison to men in North Africa. Moreover, female employment in SSA is also far from parity with men.

Figure 1.14: Female UR as a ratio of Male UR



Source: ILO, Global Employment Trends 2011, period medians and ratios are based on the author's calculations

Figure 1.15: Female EPR as a ratio of Male EPR

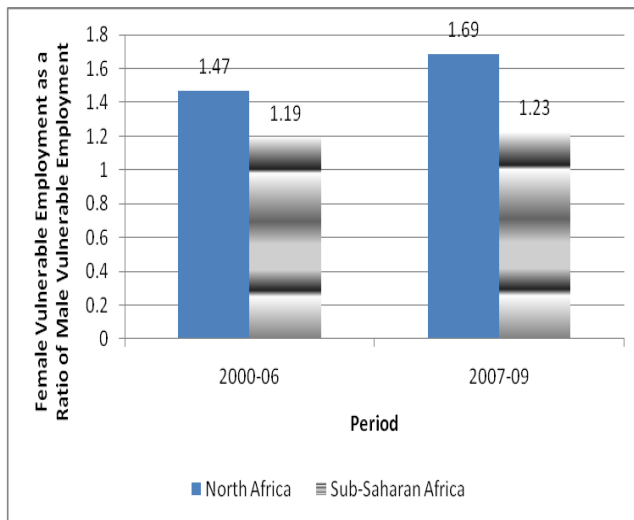


Source: ILO, Global Employment Trends 2011, period medians and ratios are based on the author's calculations

The share of women in vulnerable employment compared to men is higher in both North Africa and SSA – see Figure 16. The situation is more dire for women in North Africa than SSA in terms of how they compare to men, with ratios of female vulnerable employment to male vulnerable employment in North Africa high at 1.47 in the 2000-06 period and increasing quite rapidly over the last decade to 1.69 in the 2007-2009 period.

Thus, gender disparities appear to have increased in North Africa in terms of range of employment indicators.

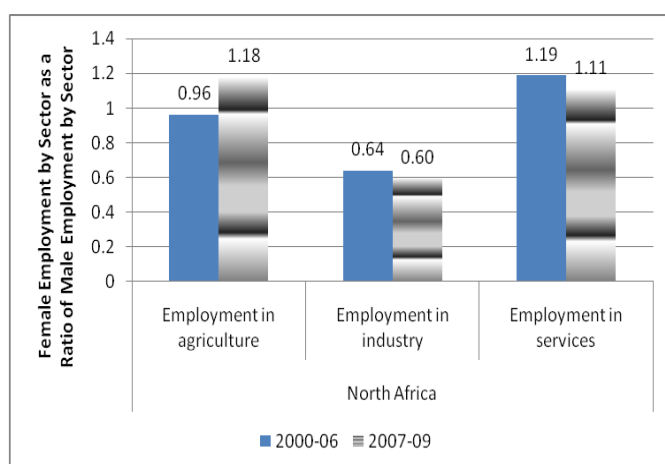
Figure 1.16: Female Vulnerable Employment as a ratio of Male Vulnerable Employment



Source: ILO, Global Employment Trends 2011, period medians and ratios are based on the author's calculations

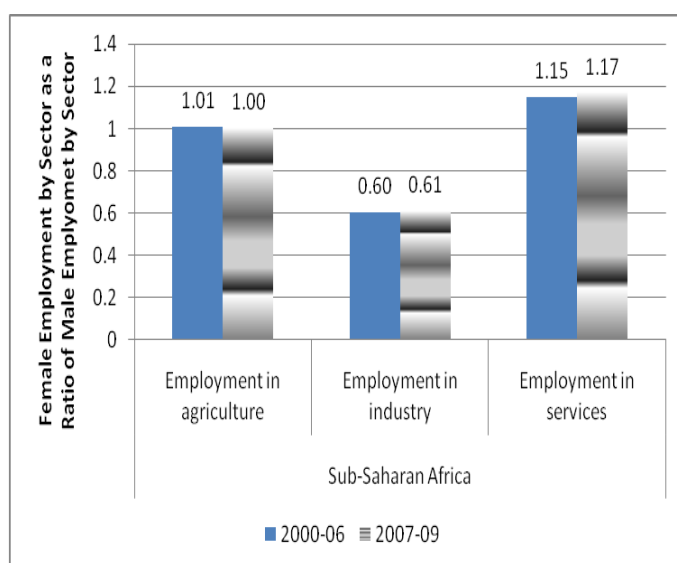
To get a sense of which segments of the economy women are working in compared to men, one can examine employment share by sector - see Figure 17 and 18. In North Africa, it is clear that there is a shift with women moving towards working in agriculture and away from industry and services in the 2007- 2009 period, compared to the 2000-2006 period. Looking at the median ratio of female employment in agriculture to male employment in agriculture, it is less than parity in 2000 to 2006, meaning a higher share of men worked in agriculture than women. However, by the 2007 to 2009 period, the share of women in agriculture became higher than men. Correspondingly, less women in North Africa work in industry and services, compared to men, from the beginning to the end of the decade. Unlike North Africa, shares in various sectors have remained stable in SSA over the period. Women continue to have similar shares in agricultural work as men, whereas, slightly more women work in services and less women work in industry.

Figure 1.17 Female Employment by Sector as a ratio of Male Employment by Sector: North Africa



Source: ILO, Global Employment Trends 2011, period medians and ratios are based on the author's calculations

Figure 1.18 Female Employment by Sector as a ratio of Male Employment by Sector: SSA



Source: ILO, Global Employment Trends 2011, period medians and ratios are based on the author's calculations

The missing dimension in the current growth optimism on Africa: social protection and its links to employment

Neither the current MDG framework nor the literature hailing the growth resurgence in Africa has paid much attention to the issue of social protection. Lack of development means that not only is there a high degree of existing deprivation, but individuals and

communities also face a high risk of falling into at least a transient phase of poverty. The global financial and economic crisis has demonstrated in a stark fashion that such risks are ever-present in both rich and poor nations. Neither informal forms of social protection (support from a network of friends and family) nor private insurance solutions are sufficient to protect large parts of the population from falling into poverty, and are inadequate in dealing with economy-wide risks, such as the global recession of 2009. Furthermore, it is rather difficult to buy insurance against labour market risks entailing spells of unemployment and underemployment. Hence, there is a strong case for countries across the world to develop a comprehensive social protection system that can help to reduce economic risks.

The 2007-2009 global financial and economic crisis gave a boost to an emerging global coalition to support social protection for developing countries. In April 2009, the UN system as a whole endorsed the Social Protection Floor (SPF) Initiative with a view to supporting countries to plan and implement national social protection floors that ensure that their populations at least have access to a basic set of transfers and services that reduce labour market risks and provide access to affordable health care, and income security for children and those unable to work. The ILO, in conjunction with the WHO, is the lead agency of the UN SPF initiative. The conclusions adopted at the 100th Session of the International Labour Conference in June 2011 have provided another impetus for the role of social protection in developing economies (see in more detail in Chapter 8).

Three developments have lent credibility to this cause. First, one could argue that a silent revolution has been underway in the sphere of social policy in developing countries. A number of developing countries have implemented innovative social protection programmes that have defied the formerly widespread view that social security was a matter of rich countries only. So-called cash transfer programmes emerged as an integral element of modern development policies that are conducive to both economic and social development. Such programmes included 'conditional cash transfers' (CCTs) that started in Latin America and have spread to other regions.³⁷ The basic premise is that income transfers directed towards poor and vulnerable households can be linked to human development objectives such as education or health through conditions aiming at ensuring that prospective beneficiaries use the income transfers to invest in children's education and health. Non-conditional cash transfer programmes, such as social pensions or child allowances, have also found to have similarly beneficial effects on nutrition, health and education indicators. Second, cash transfer programmes have grown in tandem with active labour market policies, such as the employment guarantee scheme in India, in which payments provided to unemployed and underemployed workers are linked to their participation in government funded public

³⁷ ILO, 2011: *Social security for social justice and a fair globalization: Recurrent discussion on social protection (social security) under the ILO Declaration on Social Justice for a Fair Globalization* (Geneva: International Labour Office), <http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_152819.pdf>.

employment programmes. Third, ILO estimates have shown that, in principle, a set of basic social protection benefits is not out of reach for developing countries, yet its progressive implementation may require a renewed commitment to domestic resource mobilization and, in some cases, transitional assistance from donors.³⁸ Finally, meta-analysis of existing empirical investigations has suggested that investments in basic social protection as promoted by the SPF initiative have positive effects on human capabilities and employability, which are key prerequisites for sustainable growth and development.³⁹

In sum, the extension of social security and the SPF initiative, are of considerable relevance to the promotion of growth and decent work in Africa. Rapid growth alone will not ensure that labour market risks and economic insecurity will be alleviated, even if the current incidence of vulnerable employment is reduced. Some promising examples have emerged in a number of African countries. Programmes that aim at linking employment and social protection objectives, include the Productive Safety Net Project in Ethiopia (which, with 7.3 million beneficiaries, is the largest in Africa), the Expanded Public Works Program in South Africa, the Public Works Programme in Rwanda, as well as the Social Opportunities Project in Ghana, which aimed at enhancing access to employment and income-earning opportunities in the agricultural slack season, to increase access to CCTs and to improve economic infrastructure in target districts in the relatively poor northern parts of the country.⁴⁰ Other social protection programmes (see Chapter 8 for further detail) are equally important to ensure at least a minimum level income security and effective access to health care, and thus contributing to productive and decent employment and broader economic and social development.

The African growth revival: is it sustainable? And can services spearhead a new growth strategy?

It is tempting to suggest that the recent growth acceleration in SSA is largely due to commodity and oil price booms. This in turn has manifold implications. First, the growth acceleration will peter out once the commodity and oil price boom subsides. Second, there is the perennial issue of the ‘natural resource curse’. This is the thesis that natural resource booms lead to real exchange rate appreciation, have deleterious consequences on international competitiveness and impede the development of export-oriented industrialization. Furthermore, natural resource booms usually induce substantial windfall for governments that are then tempted to engage in unsustainable fiscal expansions leading to boom-bust cycles.

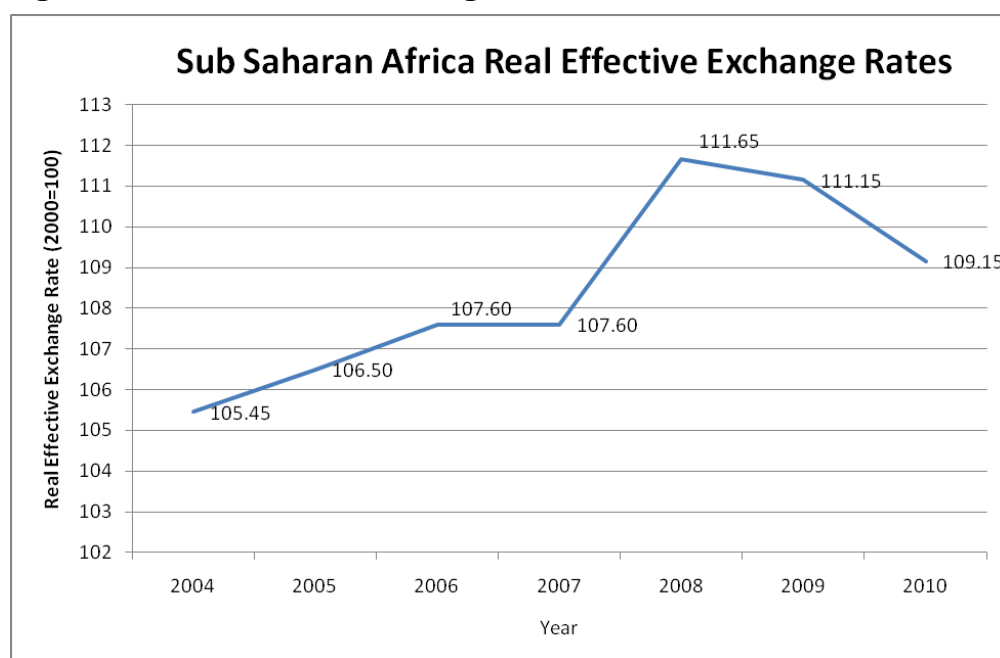
³⁸ ILO, 2008: *Can Low-income Countries Afford Basic Social Security?*, Social Security Policy Briefings 3 (Geneva: ILO), <http://www.ilo.org/public/english/protection/secsoc/downloads/policy/policy3e.pdf>

³⁹ ILO (2011b:79)

⁴⁰ See ILO (2011b:55). Ellis *et al* (2009) document 15 cases of social protection initiatives in Southern Africa.

Proponents of an emerging Africa can offer a plausible defense. The current generation of African policy-makers seems to have learnt from the egregious mistakes of the past. There is evidence of better economic management and better management of natural resource revenues.⁴¹ Conspicuously overvalued exchange rates are a thing of the past, although there has been a moderate real exchange rate appreciation in SSA in recent years - see Figure 19.

Figure 1.19: Real Effective Exchange Rates



Source: IMF African Regional Outlook, medians are author's calculations

Certainly, commodity and oil price booms have played a role, but not a dominant role in recent African growth. Simple growth accounting exercises suggest that the natural resource sector in 15 African economies accounted for 24 per cent of the growth in 2002-2007, while the rest came from agriculture, manufacturing and a diversified portfolio of services.⁴² Furthermore, for the oil exporting countries, non-oil GDP growth for the 2004-2008 period was two percentage points faster than overall GDP growth⁴³.

Despite this, some observers harbor nagging concerns about the sustainability of recent growth, especially in SSA. One study suggests that secular increases in savings, investment and manufactured exports that are usually associated with sustainable growth accelerations are not evident in the case of SSA.⁴⁴ This point is reinforced by another study that claims that all sustainable growth cases (twelve in all) of the past 40 to 50 years have been associated with manufactured exports playing a key role. Yet, this has not happened in the case of SSA, though it is evident in the case of two North African

⁴¹ Beny and Cook (2009)

⁴² McKinsey(2010:2)

⁴³ IMF (2011:78)

⁴⁴ Page (2009)

economies, namely, Egypt and Tunisia⁴⁵. Indeed, the standard verdict is that, taking a long-term perspective, there is a persistent lack of structural transformation in SSA that has not been reversed by a decade of rapid growth.⁴⁶ In fact in some respects structural transformation has had negative rather than positive characteristics. For example, the GDP share of manufacturing in SSA in 1965 was 18 per cent, but in 2008 it was 15 per cent, suggesting a process of de-industrialization.⁴⁷ Furthermore, based on the experience of nine SSA economies, structural change has not been growth-enhancing, instead it has been growth-reducing because labour seems to have moved in the wrong direction from more productive activities such as industry and agriculture, into low or even lower productivity activities, such as the informal economy.⁴⁸

There are critics of this view who maintain that the fixation with manufacturing-led growth strategies has inhibited the capacity of policy analysts and policy-makers in Africa from identifying alternative growth strategies. An obvious omission is services which is often seen as a low-productivity, non-tradable sector. Yet, the scope for the service sector to play a leading role in fostering growth and employment creation should not be overlooked. One study has amassed cross-country data to show that the ‘...effect of services growth seem to be stronger than the effect of manufacturing growth on aggregate economic growth’.⁴⁹ In the specific case of SSA, one leading expert has chided ‘growth experts’ for overlooking the role that the service sector can play in African growth and employment creation⁵⁰. It contributes close to 50 per cent of GDP growth. It employs 30 per cent of the work-force in SSA and about 50 per cent of the work-force in North Africa. The point is that services represent a diverse portfolio of activities cutting across health, education, travel, transport, trade, financial and telecommunications. Undoubtedly, the services sector has a significant incidence of low productivity, non-tradable activities. On the other hand, India’s emergence as a major exporter of IT-enabled services suggests an alternative to East Asian style manufacturing as a leading growth sector. A service sector -led growth strategy, according to its advocates, might be more suited to African circumstances because competition from China and other major emerging economies has constrained the capacity of economies from SSA to emerge as leading centres of manufactured exports.

In focusing on service sector or manufacturing sector-led growth, several issues are worthy of consideration. First, it is necessary to understand the binding constraints on productive employment expansion at the sectoral level, whether it is manufacturing or services. Second, one should guard against the risk that in tapping into new sources, traditional sources of growth, most notably agriculture, can be neglected. Third, deepening regional integration and South-South cooperation rather than being

⁴⁵ Johnson *et al* (2007)

⁴⁶ Bigsten and Soderbom (2011); Ajakaiye and Stein (2007)

⁴⁷ Bigsten and Soderbom (2011:2)

⁴⁸ McMillan and Rodrik (2011)

⁴⁹ Ghani (2011: 3).

⁵⁰ Te Velde (2008:2)

preoccupied with access to developed country markets might be a pragmatic way of overcoming the narrowness of domestic markets and enhancing the scope for economic diversification.⁵¹

The thinking on growth strategies in Africa is well advised to consider the great potential and contribution that agriculture and services can make, but industrialization continues to be essential, and the option of attracting investment for labour-intensive manufacturing should not be discarded by concerns from Chinese competition. As wages rise and it upgrades into more sophisticated products, China is quickly becoming an expensive country for labour-intensive manufacturing. This means that over the next decade there will be increasing opportunities for African countries to promote its industrialization. However, this requires improvement in the investment climate, in infrastructure and massive investments in education and skills.

Constraints on productive employment expansion at the sectoral level: the perception of the business community

There are now several firm-level and executive opinion surveys that seek to capture the perceptions of the business community major constraints to doing business that in turn can retard the growth of the private sector and hence the way such growth can support employment creation. The evidence, based on more than 120,000 firms in more than 125 countries suggest that, across all regions of the world, firms identify multiple constraints on business operations, labour market regulations being one of them, but by no means the most important one. Access to finance, use of a reliable transport network, and reliable supply of electricity are usually more important constraints from a business perspective than labour regulations, especially in SSA.⁵²

A similar pattern emerges when alternative data sources are used. For example, the well known *Global Competitive Surveys* produced by *World Economic Forum* typically includes cross-country 'executive opinion surveys' on key 'problematic factors in doing business'.⁵³ Using that source, one can arrive at the following conclusions. Out of 141 countries, respondents in 47 cases or 33 per cent of the sample reported that restrictive labour market regulations are indeed one of the top five constraints on business operations. Yet, this statistic pales into insignificance when one considers that lack of access to finance is considered as one of the five 'most problematic factors in doing business' by respondents in 85 per cent of the cross-country sample that includes SSA and North Africa. Incidentally, the quality of the macroeconomic environment (as proxied by executive opinions on inflation) is considered as a significant concern for business in only 13 per cent of the cases. This view is held despite the fact that the global economy was subjected to energy and food price shocks in the mid to late 2000s.

⁵¹ ECA has played a major role in documenting the process of regional integration in Africa. The ECA contributions are highlighted in UNCTAD (2009). South-South cooperation entailing trade, investment and aid is discussed at length in UNCTAD (2010).

⁵² Authors' estimates based on the World Bank Enterprise surveys

⁵³ World Economic Forum (2010) *Global Competitiveness Report 2010-2011*

Agriculture and its role in sectoral strategies: reversing past neglect

Agriculture still remains a major source of livelihood in SSA accounting for 59 per cent of total employment in 2009, although it is less significant in North Africa and in 2009 employed approximately 28 per cent of the work-force. The agricultural sector has suffered from considerable neglect in the past. Africa is the only region in the world where per capita food production declined over the last thirty years. External assistance has favoured education and health at the expense of agriculture. Yet, SSA has enormous untapped potential for revitalizing the agricultural sector as a flourishing, export-oriented cut flower industry in Ethiopia, exporting of fresh fish (such as chilled Nile Perch from Lake Victoria) from Tanzania, the exports of mangoes from Mali and the exporting of fully washed high quality coffee from Rwanda have demonstrated.⁵⁴ One must not also forget that Africa has huge tracts of uncultivated, arable land (accounting for 60 per cent of the world's supply) that China and other foreign investors have been attracted to.⁵⁵

Regional integration and South-South Cooperation as routes to job creation and economic diversification

The importance of both regional integration and South-South Cooperation has increased in recent years. Much of the African growth in exports is regional. The export share of the average SSA to destinations outside the region has declined from 71 per cent in 1994 to 53 per cent in 2008.⁵⁶

South-South trade has also increased in importance. For example, the share of non-African developing countries in Africa's extra-regional trade has gone up from 19.6 per cent in 1995 to 32.5 per cent in 2008.⁵⁷ The presence of China looms large in these trade flows as does its role in aid and investment. Other large developing countries, such as India, are developing increasingly closer ties with the African continent.

An important study, using a 'product space' approach, has shown that in the case of five African countries, full regional integration will primarily give a boost to economic diversification in agriculture.⁵⁸ One should also note that intra-regional trade is less sensitive to quality and more to labour costs. This suggests that intra-regional trade is likely to be more conducive to supporting labour-intensive activities in export sectors.

The case of South-South trade is more complex. It has been shown that, in its current configuration, it is perpetuating Africa's dependence on export of primary commodities and energy and imports of manufactures that are probably impairing local

⁵⁴ Easterly and Reshef (2010). There are some concerns about employment and working conditions in these industries, as well as concerns about environmental sustainability that are discussed in a subsequent chapter.

⁵⁵ McKinsey Global Institute (2010)

⁵⁶ Easterly and Reshef (2010:2)

⁵⁷ UNCTAD (2010:30)

⁵⁸ Hidalgo (2011)

manufacturing capability. What this suggests is that, unlike regional integration, South-South trade might not be as effective a route to economic diversification.

In sum, any sustainable growth strategy in SSA needs a triple track approach: supporting the development of high productivity activities in industry and services by seeking to reduce major constraints on productive employment creation at the sectoral level; continued nurturing of agricultural activities through diversification; deepening regional integration and, to some extent, South-South cooperation to overcome the narrowness of domestic markets. This triple track approach is the essence of a growth and development strategy that seeks to go beyond standard conceptions of industry and trade policy.

Conclusion: summary of key findings and policy implications

The thesis that Africa in general and SSA in particular has experienced a growth turnaround since the mid-1990s has been developed by a number of influential studies in the late 2000s. This evidence of growth acceleration together with evidence that Africa has weathered the global recession rather well has engendered new found optimism for a region that is used to negative stereotyping. It would be churlish to deny the many positive features that characterize recent African growth and development but an overly rosy narrative can breed a sense of complacency and reduce the urgency to implement a range of policy initiatives that can transform the recent growth acceleration into a virtuous and self-sustaining process.

The growth turnaround literature typically focuses on SSA and thus has little to say about North Africa. The latter is significantly richer than the average SSA economy, more productive and has a reasonably diversified economic structure. Two North African economies – Egypt and Tunisia – have been identified by at least one study as one of select group of ‘sustainable growth’ cases, that is, countries that have grown at relatively rapid rates for decades. Of course, both these countries have undergone a major political transition thus raising doubts about the value of such ‘sustainable growth’ per se, if such growth is not inclusive, rich in opportunities for decent employment, and is not accompanied by political freedoms. A more positive interpretation is that one has to move beyond a focus on growth and consider the pattern of growth as well as multiple dimensions of socio-economic progress.

The chapter noted that a conspicuous aspect of the literature on growth revival in SSA is that it offers a selective interpretation of recent economic history. By ignoring the growth record of the 1960s, and even earlier, the current literature exaggerates the extent of the growth take-off in Africa simply because it starts from the nadir of the mid-1990s when SSA was struggling to emerge from 20 years of stagnation. Between 1950 and 1960, SSA as a whole was richer than non-African developing countries, while growth in the 1960s was reasonable, but this was succeeded by 20 years of zero or even negative per capita growth. Relatively little intellectual capital has been invested in deciphering why the ‘lost decades’ emerged and persisted. A plausible conjecture is that

external factors, such as oil shocks and the ensuing debt crisis played a significant role. But it is even more plausible that egregious policy mistakes and poor governance played an even larger role. Critics have always maintained that the growth failures of SSA prior to the mid-1990s coincided with the Bretton Woods-led structural adjustment programs of the 1980s and 1990s.

Whatever the reasons behind the 'lost decades', its devastating impact on living standards in SSA cannot simply be reversed by ten years of good growth. It is thus not surprising that the SSA as a region has a per capita GDP in the late 2000s that is barely above the level of the 1970s. Poverty rose in the 1990s, while poor employment outcomes were perpetuated. This is a case of a 'catch up' rather than a growth take-off from favourable initial thresholds and also partly explains why the 2015 MDG targets are so difficult to attain.

Using binary comparisons, the chapter noted the sharp growth divergence that has developed over time between such SSA stalwarts as Ghana and Nigeria and successful East Asian economies such as China and Indonesia. This growth divergence is also evident between SSA and North Africa. This reflects the fact that the latter, unlike SSA, did not become a victim of the 'lost decades'.

The chapter argued that the literature on the growth revival in Africa has made an important contribution by noting that one cannot simply ascribe it to a commodity and oil price boom. On the other hand, by attributing the growth acceleration in SSA to a narrow set of factors – most notably prudent macroeconomic policies and market-oriented reforms, this literature – or at least some versions of it – appears to have overlooked some important issues even as it seeks to vindicate economic orthodoxy. These pertain to the challenges of meeting the MDGs, the global aspiration to develop and extend social protection systems in developing countries, the inadequate evaluation of the employment dimensions of growth and the lack of growth and productivity-enhancing structural transformation as an impediment to durable and productive job creation. All of these issues highlight the deficient nature of African growth and raise some doubts about its sustainability.

Several policy implications and messages emanate from the above discussion. First and foremost, African governments would need to embrace, as the Economic Commission for Africa has argued, the ethos of the 'developmental state' that can reinforce the capability of democratic governments in the region. A developmental state is guided by a shared and long-term vision that pursues both social development and structural transformation. The commitment to social development means a sustained commitment to nationally adapted MDGs, the pursuit of job creation as a fundamental objective of the growth process, and the pursuit of the social protection floor initiative. Enhanced domestic resource mobilization plays a key role in this paradigm because without adequate domestic revenue sustainable and predictable sources of financing for the MDGs, employment creation and the social protection floor initiative are not going to

emerge. Currently, SSA economies rely on foreign aid to a far greater extent than other non-African developing countries.

Second, monitoring and understanding the employment dimensions of growth are vital. This will require the development of regular and reliable labour statistics and an appreciation of the fact that appreciable reductions in the incidence of the working poor and vulnerable employment cannot be attained through growth alone. Monitoring and evaluating MDG 1b would need to be at the core of any development strategy.

Third, a much needed debate is necessary on the nature of structural transformation in Africa. Should one be worried about 'de-industrialization' in SSA or should one focus on service sector led growth as both feasible and appropriate for the specific conditions of the region? Anyway, whether one focuses on the manufacturing or the services sector, several prerequisites need to be met in formulating sectoral strategies: (a) it is necessary to understand the impediments to productive expansion of employment at the sectoral level; (b) it is necessary to support agricultural development and diversification (c) it is necessary to deepen regional integration and use South-South cooperation to supplement the traditional reliance on developed country markets.

The chapter noted the fact that, based on the perceptions of the private sector, lack of access to finance, inadequate supply of infrastructure and lack of a skilled work-force emerge as binding constraints on productive employment creation. Labour market regulations play a role, but appear to be more significant in North Africa than in SSA. Even then, the appropriate response is to reconfigure labour regulations that can protect workers against labour market risks while preserving employment opportunities. More importantly, enhancing access to finance, investing in infrastructure and skilling of the work-force can make significant contributions to durable and productive employment creation. At the same time, improving productivity in the agricultural sector by engaging in economic diversification is essential and will reverse the persistent neglect of the agricultural sector. Deepening regional integration and South-South cooperation will also help the cause of employment creation by enlarging the demand for goods and services of domestic firms.

Thus, there are a range of policy initiatives that African governments can undertake to make significant progress towards MDG 1b or 'full and productive employment and decent work for all'. These initiatives – which are developed more fully in other chapters – are neither novel nor radical. Yet they can be easily overlooked if one remains enamoured with the view that the growth acceleration in SSA since the 1990s proves that economic orthodoxy is both necessary and sufficient for unlocking the region's promise and productive potential.

Chapter 2: Macroeconomic policy regimes, growth and employment

Introduction

The prevailing macroeconomic framework in developing countries in general, and Africa in particular, was launched through the structural adjustment programs of the 1980s and 1990s. By 1999, the era of structural adjustment lending came to an end and was replaced by ‘poverty reduction strategies’ (PRS), but the focus on the standard macroeconomic framework remained intact. While such a policy framework monitors multiple aggregates, there is a good deal of emphasis on what might be called ‘nominal targeting’. In other words, attaining and maintaining prudential targets pertaining to debts, deficits and inflation instils investor confidence, supports growth and employment creation.

This chapter draws on the experience of African countries and suggests that the prevailing macroeconomic framework is good at reducing the risk of growth collapses engendered by macroeconomic extremes, but not sufficient for sustained growth and structural transformation. The standard macroeconomic framework is also not particularly effective in enabling policy-makers to make significant progress towards the attainment of MDG 1b⁵⁹ or the SPF initiative⁶⁰ that are key elements of the development agenda in Africa. There is a need to build on the current mainstream macro economic framework. The primary aim is to empower macroeconomic policy managers in Africa to act as agents of development within a framework of price stability and fiscal sustainability.

The chapter proposes a modification of the current macroeconomic framework in four spheres.⁶¹ These are:

- An emphasis on basic principles rather than specific nominal targets, such as low, single digit inflation. The basic principles pertain to price stability and fiscal sustainability that should be upheld but adapted to country specific circumstances.

⁵⁹ Following the 2005 World Summit the Inter-Agency and Expert Group on MDG indicators developed a new target under MDG1 (Target 1b): *Achieve full and productive employment and decent work for all, including for women and young people*

⁶⁰ On 5 April 2009, the High Level Committee on Programmes (HLCP) of the United Nations System Chief Executives Board for Coordination (CEB) committed to decisive and urgent multilateral action to address the global crisis, deploying all UN resources and capacities to rapid and effective responses. An agreement was reached on nine joint initiatives. The sixth initiative is the Social Protection Floor Initiative (SPF-I) providing essential services and transfers to all in need of such protection in order to not fall into abject poverty. The term Social Protection Floor is a global and coherent social policy concept that promotes nationally defined strategies that protect a minimum level of access to essential services and income security for all in the present economic and financial crisis and beyond.

⁶¹ See appendix (Figure A5) for a diagrammatic depiction of these ‘four spheres’.

- An emphasis on economic volatility as a barrier towards achieving sustained growth in Africa and the importance of counter-cyclical policies in countering economic volatility.
- Assessing current financing gaps in Africa pertaining to MDGs and SPF and the need to mobilize domestic and external resources to meet these gaps in a fiscally sustainable way.
- Supporting structural transformation and economic diversification that lie at the core of durable and productive employment creation. This will entail alleviating binding constraints on the growth of the private sector, maintaining competitive and stable real exchange rates and engaging in prudent capital account management.

Re-thinking the standard macroeconomic framework: basic principles versus specific targets

The macroeconomic framework that prevailed in the pre-crisis era and continues to prevail today offers a clear prescription: focus on stability and predictability in key nominal targets pertaining to inflation, debts and deficits. Such nominal targets usually pertain to (1) low, single-digit inflation and (2) prudential limits on debt-to-GDP ratios supported by low fiscal deficits. As noted in the introduction, the rationale is that a commitment to key nominal targets over the medium to long-run boosts investor confidence, promotes growth, creates jobs and reduces poverty.

Concerns about attaining prudential targets on inflation, debts and deficits have shaped the design of fiscal and monetary policies in Africa and the utilization of aid inflows in public expenditure programmes. As a 2007 study from the IMF's Independent Evaluation Office for 29 Poverty Reduction Growth Facility (PRGF) countries in SSA observes:

....inflation control and domestic debt management have been key drivers of (aid) programmed spending levels. Program documents frequently cite the control of inflation as a factor in explaining program design, especially the setting of monetary and fiscal targets. And interviews with staff confirm that inflation remains a key driver of program design. Desk reviews show that domestic debt considerations loom large in PRGFs—with most programs limiting domestic financing of the government amid concerns about inflation, debt sustainability, and private sector crowding out.

The study also notes that 'cross-country analysis shows that on average SSA PRGFs have targeted inflation rates below 5 percent'.⁶²

However, one can express reservations about the focus on this targeted approach. First, setting low single digit targets ignores the non-linear relationship between inflation and

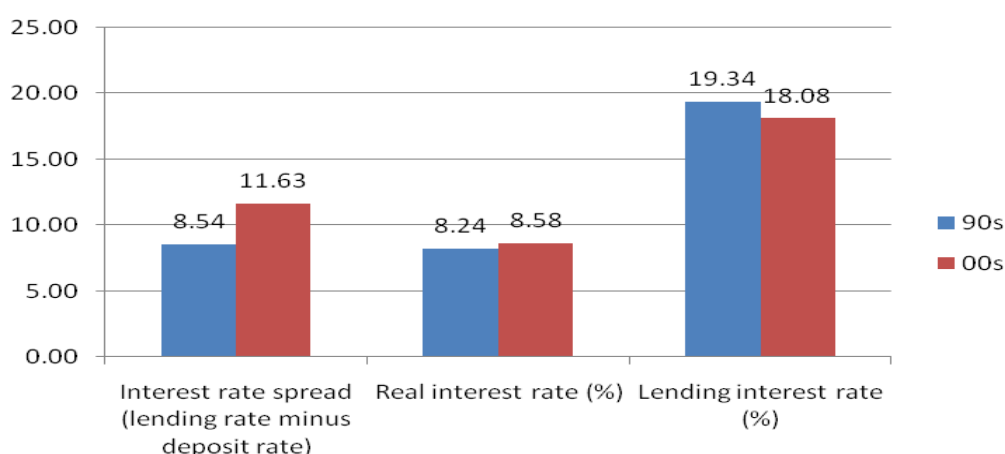
⁶² Independent Evaluation Office (2007), p.8

growth found in the literature. In other words, low rates of inflation are associated with low growth, but after a certain threshold is reached⁶³, inflation appears to be associated with a negative impact on growth. This threshold appears to be in the low double digit range. An ILO evaluation finds that the preferred inflation targets for African countries, in common with other developing countries, are probably too low relative to the threshold and relative to inflation rates that have typically prevailed over the last fifty years.⁶⁴ The implication is that setting low, single digit inflation might impose an opportunity cost in terms of foregone growth and employment creation.

Moreover, African policy-makers often face significant constraints on their capacity to use monetary policy to influence aggregate economic activity and hence the aggregate inflation rate. The effective implementation of monetary policy requires (a) a well developed bond market and (b) policy autonomy of monetary authorities. One study of 45 African countries finds that 17 have either narrow or no market for public bonds. In addition, 17 participate in a common currency area, thus precluding the effective use of national monetary policies.⁶⁵

The emphasis on using monetary policy to attain predetermined inflation targets is an appropriate approach when inflation is driven by excess demand, but much less so when temporary inflation surges occur due to supply-side shocks – which happened during the late 2000s as a result of the sharp increase in food, fuel and energy prices. It is important to avoid attempts to curb cost-push inflation through restrictive monetary policies because they are usually ineffective in taming inflation and, by raising the cost of borrowing, undermine investment and growth prospects. Indeed, the median real interest rates in the African region are quite high (above 8%) and have risen between the 1990s and 2000s (Figure 2.1). Furthermore, the region is saddled by double digit median lending rates (18 to 19%) and afflicted by rising interest rate spread (Figure 2.1).

Figure 2.1 Change in Median Interest Rates from the 1990s to 2000s



Source: World Development Indicators, (2010), medians are the author's calculations

⁶³ The same can be said for the targets set on debt to GDP ratios as debt and growth also display a non linear relationship and policy should be tailored to country specific circumstances.

⁶⁴ Anwar and Islam (2011)

⁶⁵ Weeks, J (2010)

Therefore, it is clear that in the area of monetary policy and inflation targeting, policy-makers in the region might wish to adopt a more flexible approach and focus on broader goals and objectives. It is worth resurrecting the original intent and spirit of the IMF's article IV consultations which called on member states to attain 'reasonable price stability' within a framework of growth-promoting policies. The precise interpretation of what is reasonable price stability should be tailored to country-specific circumstances in order to avoid a global, 'one-size-fits-all' target.

In the case of specific targets on public debts and deficits, there is also a proclivity among international financial institutions that provide policy advice to African countries to aim for a global target. This happens to be 40 per cent debt-to-GDP ratio supported by low fiscal deficits (usually below 3 per cent of GDP). The 40 per cent threshold was enunciated in a 2002 IMF report that suggested that, in the specific case of external debt, crossing this threshold raises the risk of sovereign debt default⁶⁶. Yet, the 2002 IMF report also cautioned readers that the 40 per cent threshold was rather imprecise and could also be interpreted to mean that there is an 80 per cent probability that breaching this threshold will have no consequences.⁶⁷ More recent IMF research has identified a negative impact on growth of high public debt when this variable is included in a standard growth equation using cross-country panel data. The predicted impact, however, is modest suggesting that a 10 per cent increase in public debt to GDP ratio is associated with a 0.2 per cent decline in the growth rate.⁶⁸ On the other hand, other variables in the cross-country growth equation, such as schooling, have a much greater and positive impact on growth.⁶⁹ In any case, the composition of public debt matters. If it is used to finance productive investment, then increments to public debt today can be absorbed via higher growth and productivity tomorrow.

The pertinent literature on the debt-growth relationship also points to a variety of possibilities. These are: (a) a negative linear relationship; (b) a non-linear relationship, with rising public debt having either a positive impact or no impact on growth up to a certain threshold and then a predicted negative relationship; (c) so-called 'debt irrelevance' where, after a certain point, additions to high public debt has no impact on growth. Given these diverse possibilities, it is difficult to maintain that African policy-makers will be unambiguously rewarded with higher growth and more jobs if the public debt -to-GDP ratio is maintained below 40 per cent over the medium to long term.

It should also be noted that the SSA average is clustered around the 40 per cent debt-to-GDP ratio. Many SSA countries have suffered from a prolonged debt crisis during the 1980s and 1990s. After going through the protracted process of debt relief, it is unlikely that African policy-makers today have the appetite for higher public indebtedness. What

⁶⁶ IMF (2002)

⁶⁷ Ibid.

⁶⁸ Thus, if in a typical African country the public debt -to -GDP ratio goes up from 40 to 50 per cent, one can infer from the growth equation that, *ceteris paribus*, the growth rate might decline, after some lag from, say, 5 per cent per annum to 4.8 per cent annum.

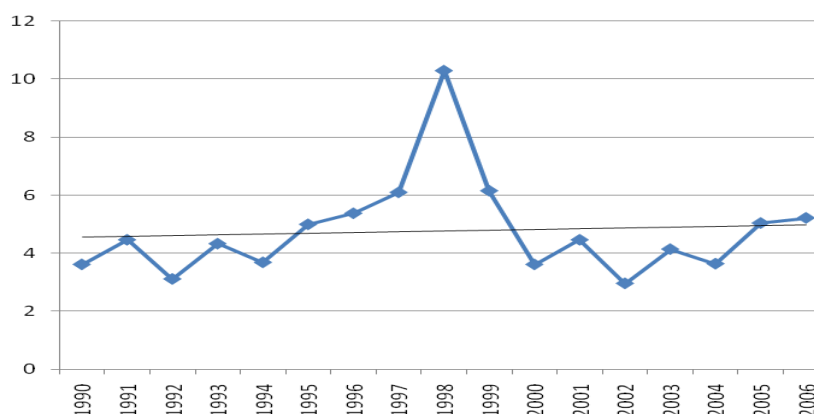
⁶⁹ Kumar and Woo (2010)

matters is how the principle of fiscal sustainability is interpreted and adapted to country-specific circumstances. Rather than mechanically aiming for a 'one-size-fits-all' fiscal target that is not anchored in robust evidence, policy makers in the region should focus more on how public debt can be utilized to expand the productive capacity of the economy. In particular, they should avoid getting into another cycle of external debt crisis that have plagued them in the past. This means reducing the incidence of liability dollarization (whether acquired through private capital markets or bilateral and multilateral donors), rely more on external grants and developing domestic bond markets over time that can enable the raising of domestic debt in a prudent manner.

Reducing economic volatility through counter-cyclical policies

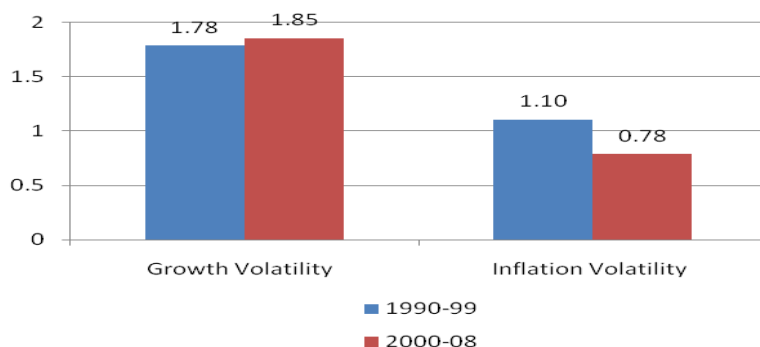
As noted in chapter 1, the African region (most notably SSA) experienced a growth revival in the 2000s after the 'lost decades' of the 1980s and much of the 1990s. This growth revival was also associated with a significant reduction in both inflation and inflation volatility - although growth volatility in the 2000s did not decline relative to the 1990s (Figures 2.2 and Figure 2.3).

Figure 2.2 Africa: Median inflation



Source: World Development Indicators (2010). Angola, Congo, Sudan and Zimbabwe were omitted as outliers

Figure 2.3 Inflation and Growth Volatility in Africa



Source: World Development Indicators (2010). Volatility measured by the coefficient of variation

These declines in inflation and inflation volatility have been associated with substantial improvements in fiscal and current account balances between the 1990s and 2000s (Table 2.1).

Table 2.1 Fiscal and current account balances in Africa, 1973-2008

Indicators	1970s and 1980s	1990s	2000s
Budget balance (per cent of GDP)	-6.01	-4.66	-1.3
Current account balance (per cent of GDP)	-6.01	-14.01	-4.43

Source: Extracted from Aydin, B (2010), p.6

The evidence also shows that African countries with lower growth volatility, as measured by the coefficient of variation, are associated with higher real GDP per capita growth, whereas the countries with higher volatility are associated with lower real GDP per capita growth (Table 2.2).

Table 2.2: Growth and Growth Volatility, 1960-2007

Volatility (coefficient of variation)	Average annual real per capita GDP growth rates (per cent)			
	Less than 0	0-1	1-2	2+
Low (1-3)			Tanzania (2.8, 1.5) South Africa (1.5, 1.5)	Botswana (1.1 5.5) Cape Verde(2, 3.2) Egypt (1.6, 3.2) Eq. Guinea (2.8, 8.4) Lesotho (2.5, 2.9) Mauritius (2.1, 3.2) Morocco (2.1, 2.8) Seychelles (2.1, 4) Swaziland (2.8, 3.5) Tunisia (1.2, 3.4)
Moderate (3-6)	Central African Republic(4.4, -1) Congo, Dem. Rep. Of (3.4, -2.6) Somalia (4.7, -1.6)		Benin (3.7, 1.2) Burkina Faso (5.1, 1.2) Mali (4.9, 1.3) Mozambique (3.7, 1.7) Namibia (4, 1.1) Nigeria (4.9, 1.8) Sudan(4.3, 1.9)	Angola (5.3, 2.1) Congo (3.9, 2.8) Gabon (4, 2.2) Ghana (5.4, 2.9) Malawi (4.4, 2) Mauritania (4.2, 2.6)

High(6+)	Djibouti(6.5, -1.5) Niger(7.8, -0.7) Senegal (9.7, -0.4) Liberia (13.8, -1.6) Libya (10.7, -1.1) Madagascar (57.6, -0.2) Sao Tome and Principe(27, -0.3) Zimbabwe (20.6, -0.5)	Cameroon (6.6, 0.8) Comoros (6.5,0.7) Cote D'Ivoire (7.5,0.7) Kenya(9.7, 0.4) Uganda(8.2, 0.6) Burundi (20.7, 0.3) Gambia (34.1, 0.2) Guinea (17.2, 0.2) Rwanda (26, 0.5) Sierra Leone (19.3, 0.4) Togo(24.1, 0.2) Zambia(69.7, 0.2)	Algeria (7, 1.2) Chad (8, 1.2) Eritrea (6.3, 1.3) Ethiopia (7.1, 1) Guinea-Bissau (7.9, 1.6)	
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Source: UNECA, Economic Report on Africa 2011, p79, the first number in the bracket is the coefficient of variation and the second number in the bracket is the average real per capita GDP.

Despite growth and volatility improving over the last decade in Africa, it is clear that macroeconomic policies that reduce the risk and frequency of growth decelerations and recessions are essential. A key factor that differentiates successful countries (those that reduce their per capita GDP gap with industrial economies) from unsuccessful ones (those that do not) is the ability to reduce the volatility of growth, which, in turn, reflects decisive responses to shocks and macroeconomic policies that reduced vulnerabilities and, hence, the costs of shocks⁷⁰. Between 1960 and 2002, developing countries experienced a year of negative per capita growth 14 times, compared to East Asia with, one-half that rate, at only seven times.⁷¹ However, Sub Saharan Africa (SSA) experienced negative per capita growth rates 18 times, meaning they have a much higher frequency of downturns compared to East Asia, thereby inhibiting their potential for sustained growth. Therefore, despite some gains in growth and reduced inflation volatility, Africa has a long way to go and must be vigilant about tackling volatility for sustained growth.

Despite the evidence that economic volatility can adversely affect long-term growth, the standard macroeconomic framework did not seem to endow policy-makers in Africa with the capacity to engage in counter-cyclical policies. Indeed, pro-cyclical policies in Africa and other regions in the developing world were quite common in the past. The available evidence suggests that such pro-cyclical policies have been inimical to job creation. For example, in the case of Tanzania, a moderate reduction of its generally high

⁷⁰ Zagha et al (2006), p 1

⁷¹ Ibid.

degree of pro-cyclical spending could have added almost 170,000 jobs per year over the period 1991-2008 which is equivalent to 10 per cent of its current employment level.⁷²

A renewed interest in counter-cyclical policies in developing countries emerged during the Great Recession of 2008-2009. Many countries across the world had to deal with the deleterious consequences of the global recession by putting in place counter-cyclical fiscal and monetary policies. In the case of Africa, the policy advice offered by the IMF during 2008-2009 was that countries with fiscal space should allow both automatic stabilizers and discretionary fiscal policy to support countercyclical measures.⁷³ South Africa, for example, had a fiscal stimulus package worth 4.03 per cent of GDP and devoted 55.7 per cent of its package to social protection measures.⁷⁴

The counter-cyclical moment seems to have passed. There is a preoccupation with fiscal consolidation in both developed and developing countries to rein in recession-induced deterioration in the state of public finances. African countries are also being asked to engage in fiscal adjustment and monetary restraint to rebuild 'policy buffers'.⁷⁵ What matters is to assess these 'policy buffers' in terms of their capacity to cope with macroeconomic volatility. Simply reverting to fiscal and monetary restraint in order to attain pre-determined prudential targets would be counter-productive.

Domestic resource mobilization to support MDGs, the SPF and investment in infrastructure

Policy-makers in the African region run the risk of overlooking another fundamental developmental role of governments, namely, resource mobilization to meet core development goals. This oversight is likely to happen if fiscal policy is viewed exclusively through the lens of debt sustainability.

How can one assess financing gaps with respect to core development goals? One way to do so is to focus on the financing needs of the MDGs and the SPF. In terms of financing for the MDGs, the World Bank estimates that, if countries improve their policies and institutions, the additional foreign aid required to reach the MDGs by 2015 is between \$40 and \$60 billion a year⁷⁶ and the ADB estimates the additional per person costs for the poverty income goal to be between US\$550 and US\$880 (Markandya A. et al, 2010). To meet these per capita costs, foreign aid commitments would have to be twice their current projected size.

⁷² ILS (2010) *The World of Work Report*, chapter 3.

⁷³ Berg, A et al (2009)

⁷⁴ Zhang, Y et al (2010)

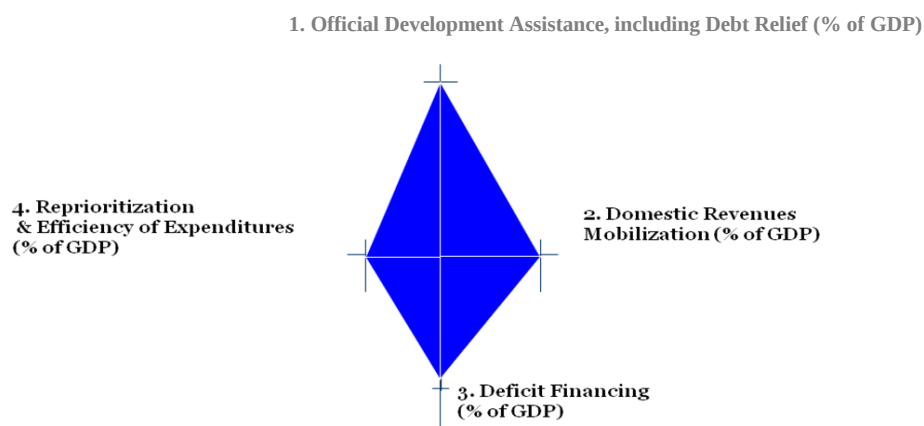
⁷⁵ IMF (2011:16-17)

⁷⁶ Devarajan S. et al, (2002)

One way of estimating the financing needs of SPF is to use some country-specific illustrations of the fiscal implications of adopting a ‘basic social security package’, proposed by the ILO in 2008. The study examined 12 countries, out of which seven are in Africa (Burkina Faso, Cameroon, Ethiopia, Guinea, Kenya, Senegal and Tanzania) to calculate the fiscal requirements using projections for the 2010 to 2030 period⁷⁷. It was found that the fiscal requirement ranged from over 10 per cent of GDP (Burkina Faso) to a little over 4 per cent (Guinea).⁷⁸

Improving budgetary execution and raising the tax-to-GDP ratio in countries with a low tax burden – of which there are many in Africa - are core planks of a resource mobilization strategy to meet the financing gaps outlined above. This can be complemented by other initiatives, such as public-private partnerships.⁷⁹ The aim is to identify a country’s ‘fiscal diamond’ as shown in Figure 2.4. The fiscal diamond is a compact, but critical, summary of the way one can increase fiscal space to meet the core development goals. This entails mobilizing domestic and external resources within a framework of fiscal sustainability to support enhanced public investment in health, education, water supply, sanitation and infrastructure that are critical in attaining the MDGs and the SPF.

Figure 2.4: Fiscal Space Diamond



Source: Roy, R., (2009)

Domestic resource mobilization needs to be supported by enhanced development assistance from donors. Hence, maintaining aid commitments, and exploring feasible options for identifying alternative sources of reliable and low-cost development finance to supplement traditional sources, is an important element of a pro-employment macroeconomic framework.

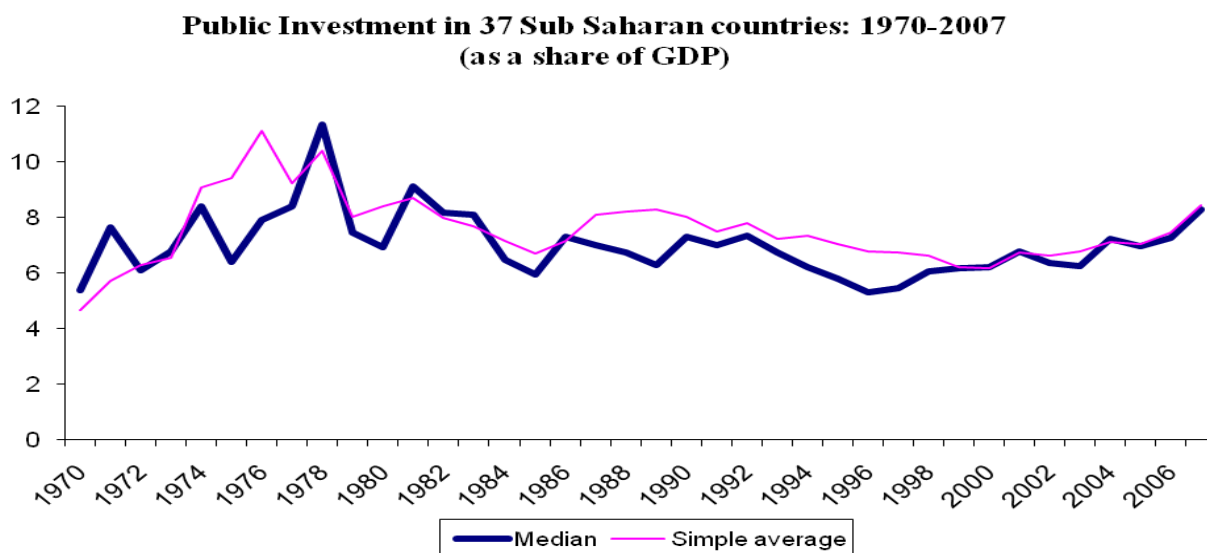
⁷⁷ ILO (2008d)

⁷⁸ Such a package includes the following elements: (1) a) basic old age and disability pensions (benefits set at the rate of 30 per cent of GDP), (b) benefits at the rate of 15 per cent of GDP for the first two children below the age of 14, (c) 100 days guaranteed employment at a wage of 30 per cent of per capita GDP for a maximum of 10 per cent of all people of all ages and (d) essential health care based on one health professional per 300 persons.

⁷⁹ Salazar-Xirinachs, J.M (2009)

Attaining the MDGs and SPF is also closely linked to the challenge of meeting the infrastructure deficit in Africa. The available evidence suggests that there has been a secular decline in public investment in Africa since the mid-1970s (Figure 2.5), despite the fact that such investment makes a significant contribution to growth and employment.⁸⁰ In South Africa, for example, public investment in infrastructure on a per capita basis fell by 72 per cent between 1976 and 2002.⁸¹

Figure 2.5: Public investment in Africa: long-term trend



Source: Muqtada, M (2010) 'A critique of orthodox macroeconomic policy: pre- and post-crisis perspectives' in Islam, I and Verick, S eds (op.cit).

According to a recent study, infrastructure contributed to over half of Africa's improved growth performance and Africa's current infrastructure spending needs are about \$93 billion.⁸² The *Growth Commission* suggests public investment rate of around seven per cent of GDP in infrastructure is needed as an important element of a national development strategy.⁸³ However, currently, in Sub-Saharan Africa Infrastructure Public Spending as a per cent of GDP is around five per cent.⁸⁴ After potential efficiency gaps are accounted for, Africa's infrastructure spending gap is around \$31 billion, mostly in the power sector. This means both domestic resource mobilization (which accounts for about 66 per cent of Africa's infrastructure spending) and overseas development assistance need to be scaled up to bridge this gap⁸⁵.

⁸⁰ Arslanalp, S et al (2010)

⁸¹ Perkins, P et al (2005)

⁸² World Bank (2010)

⁸³ Commission on Growth and Development (2008) , pp.33-35

⁸⁴ World Bank (2010), p6

⁸⁵ World Bank (2010), p9

Supporting structural transformation

The prevailing macroeconomic framework is, in some respects, too 'passive'. Its premise is that if central banks, finance ministries and national planning agencies act as guardians of stability, they are simultaneously playing the role of agents of development. This is by no means the case. In order to become active agents of development, the strategic ministries of a national government need to aid and abet the private sector in spearheading the process of structural transformation which lies at the core of sustaining productive job creation. This means understanding the binding constraints on private sector growth and how macroeconomic policy tools can be fine-tuned to alleviate these binding constraint

Alleviating Binding Constraints on Private Sector Growth

Those who believe in the primacy of the prevailing macroeconomic framework also believe that it should be complemented by structural reforms that reduce the regulatory costs on business. This assumes that regulatory costs (especially costs embedded in complying with restrictive labour market regulations) are the binding constraints in the enabling environment for private sector growth in developing countries in general and Africa in particular. The available evidence is not consistent with this premise.

According to the World Bank's Enterprise Surveys, the SSA region has the highest proportion of private sector firms in the world, at 46 per cent, that regard lack of access to finance as a major constraint on business operations and their employment creating potential (Table 2.3). This is compared to just 19 per cent in East Asia and Pacific. Moreover, electricity and transport (infrastructure needs) are a major constraint in 50 per cent and 27 per cent of firms respectively in SSA. Thus, major investment needs to be carried out in these areas. Relative to other regions, labour regulation played a relatively small role, with only 8 per cent of firms identifying it as a major constraint.

Table 2.3: Constraints on private sector development: global and regional averages

<u>Region</u>	per cent of firms identifying a major constraint			
	Electricity	Transport	Finance	Labour regulations
All	39.3	20.7	30.94	11.43
East Asia and Pacific	24.1	16.4	19.42	8.91
Latin America	39	19	27.76	18.04
Middle East and North Africa	42.9	21.5	33.59	23.65
OECD	6.1	7.4	13.01	10.15
South Asia	53.4	18.6	23.33	10.75
Sub-Saharan Africa	50.1	26.8	45.64	7.76

Source: World Bank Enterprise Surveys, 2010 update, based on more than 100,000 firms and 118 countries.

Evidence presented in the World Economic Forum's Competitiveness Report 2010-2011 indicates that in 94 per cent of the 32 SSA and North African countries access to finance is a top five most problematic factor in doing business, compared to only nine per cent for labour regulations and inflation (Table 2.4). Inadequate infrastructure and an inadequately educated work force are top five problematic factors in 72 percent and 47 per cent of the countries respectively.

Table 2.4: Five Most Problematic Factors in Doing Business

Country	Labour regulations	Access to finance	Inadequate infrastructure	Inflation	Inadequately educated workforce
1. Algeria		x			x
2. Angola		x	x		x
3. Benin		x			
4. Botswana		x	x		x
5. Burkina Faso		x	x		x
6. Burundi		x			
7. Cameroon		x	x		
8. Cape Verde		x			x
9. Chad		x	x		
10. Cote d'Ivoire		x			
11. Egypt		x		x	x
12. Gambia		x	x		x
13. Ghana		x	x	x	
14. Kenya		x	x		
15. Lesotho		x	x		
16. Libya			x		x
17. Madagascar		x			
18. Malawi		x	x		
19. Mali		x	x		
20. Mauritania		x	x		x
21. Mauritius		x	x		x
22. Morocco		x	x		
23. Mozambique		x	x	x	
24. Namibia	x	x			x
25. Nigeria		x	x		
25. Rwanda		x	x		x
26. Senegal		x	x		
27. South Africa	x				x
28. Swaziland		x			x
29. Tanzania		x	x		
30. Tunisia	x	x			x
31. Uganda		x	x		
32. Zambia		x	x		
33. Zimbabwe		x	x		
% of total countries one of the factors as five most problematic in doing business	9	94	72	9	47

Source: WEF Global Competitiveness Report 2010-2011, Top five most problematic factors for doing business

The policy message is clear. Alleviating binding constraints on private sector growth in Africa includes enhancing access to finance. Central banks and financial authorities should seek to enhance financial inclusion without forsaking their prudential obligations and their role in safeguarding price stability. Enhancing financial inclusion means (1) increasing access to finance for the private sector, especially small and medium-sized firms; (2) encouraging the development of efficient and well-regulated microfinance

institutions (MFIs) that can respond to the financing needs of poor and vulnerable households who seek durable self-employment. Moreover, investment in infrastructure and skills need to be priority areas. This means, as noted in a previous discussion, a domestic resource mobilization strategy to meet the spending needs in these areas. As the previous discussion has also shown, this strategy will also enable policy-makers to meet the MDGs and SPF.

Exchange Rate Regimes and Capital Account Management

The available evidence suggests that the real exchange rate exerts a powerful influence on structural transformation.⁸⁶ More specifically, a study on SSA using data for the 1970 to 2004 period shows that real exchange rate overvaluation reduces growth and impedes export diversification.⁸⁷ The policy implication is that the aim should be the adoption of institutional arrangements that sustain real exchange stability. The recent evidence (2004-2008) also suggests that countries with fixed exchange rate regimes in SSA experienced a higher real exchange rate appreciation than countries with a flexible exchange rate regime.⁸⁸ As Box 2.1 shows, in the case of Malawi, moving towards a competitive and stable real exchange rate regime is an essential component of a pro-employment macroeconomic framework.

Box 2.1: The exchange rate regime and its implications for growth and employment in Malawi

A study commissioned by the ILO shows that ‘macroeconomic policy, particularly exchange rate policy, matters a great deal’ in affecting economic growth and employment creation. The study maintains that Malawi has a ‘tradition of attempting to maintain a stable nominal exchange rate, i.e., fixing the value of the Kwacha in terms of US dollars’ ...The official purpose of maintaining a stable exchange rate is primarily to reduce inflation’, with the government arguing that this anti-inflation dimension of exchange rate policy is worth preserving because export supply is not very responsive to the exchange rate. This might be true in the short-term, but ignores the role that a competitive real exchange rate plays in supporting structural transformation in the medium-term. The study shows that, given the higher inflation rate in Malawi relative to its trading partners, attempting to maintain a nominal exchange rate leads to a real appreciation and also induces volatility. There is also evidence that the real appreciation is associated with a sharp jump in import penetration from 44% of GDP in 2007 to 53% of GDP in 2008. The study urges policy-makers to recognize that with a competitive and predictable real exchange rate regime ‘firms would most likely have created more jobs, invested more and diversified more in Malawi’.

Source: ILO and Government of Malawi Ministry of Labour (2010) Employment Diagnostic Analysis on Malawi, pp.84-87.

⁸⁶ See Epstein, G and Yelden, E (2009) ; Frankel, J.A (2010; Frenkel, R and Rapetti, M (2010); UNCTAD (2010a); Rodrik, D (2008)

⁸⁷ Elbadawi, I *et. al* (2008)

⁸⁸ IMF (2011:100)

In cases where unrestrained capital flows pose a policy challenge, a more prudent approach to capital account management might be justified as this opens up policy space for initiatives that create employment.⁸⁹ In addition, open capital accounts exacerbate the problem of sustaining competitive and stable real exchange rates, as South Africa has found to its cost.⁹⁰ It should also be emphasized that 40 per cent of African countries have significant restrictions on the capital account, but for the remaining 60 per cent there is little or no evidence that capital account liberalization has necessarily provided them with the capacity to boost the recovery process from the global recession of 2008-2009.⁹¹

Policy-makers in Africa are, of course, fully aware of the need to engage in structural transformation and economic diversification. Countries such as Ethiopia and Rwanda have made substantial progress in economic and export diversification by moving into high value-added agricultural activities.⁹² They have used macroeconomic policy tools pertaining to both financial and fiscal policies to pursue their aims. In the case of South Africa, The National Framework Agreement of February 19, 2009 clearly suggests the emergence of a 'developmental' approach to economic management that is now reflected in a comprehensive industrial policy unveiled in February 2010.

Concluding remarks

This chapter has argued that the prevailing macroeconomic framework as it has evolved in Africa since the structural adjustment era of the 1980s and 1990s has placed a premium on governments acting as guardians of stability. This has entailed the development of a nominal targeting approach in which the essential roles of central banks and finance ministries are to attain and sustain prudential targets pertaining to debts, deficits and inflation over the medium to long run. The expected dividends from such an approach are enhanced investor confidence that can support growth and lead to durable and productive employment creation.

The chapter noted that such an approach has made an important contribution by reducing the risks of growth collapses that can be engendered by macroeconomic extremes. On the other hand, one needs to go beyond a preoccupation with the risks posed by macroeconomic extremes. In Africa, macroeconomic policy managers need to act as agents of development within a framework of price stability and fiscal sustainability. This implies significant modifications to the prevailing macroeconomic framework.

⁸⁹ Ostry, J.D et al (2010)

⁹⁰ It has suffered a 25 per cent appreciation of the real exchange rate in recent years, largely as a result of short-term capital inflows. See IMF (2011:21)

⁹¹ The 40 per cent figure is reported in Berg, A et al (2009). The reference to the limited role of capital account liberalization in boosting the recovery of the crisis can be found in Cerra, V et al (2009)

⁹² See Chapter 5

The chapter then used a combination of Africa-wide evidence and country-level experiences to propose the following recommendations that add up to a development and employment-friendly macroeconomic framework. First, policy makers in the region should focus on the country-specific adaptations of the basic principles of price stability and fiscal sustainability. There is not much to be gained, and a good deal of policy autonomy to be lost, by mechanically sticking to predetermined inflation and fiscal targets that are uniformly applicable to all countries in the region. Second, economic volatility can adversely affect long term growth. Hence, reducing the incidence of volatility by adopting counter-cyclical policies is an important role of macroeconomic policy managers. Third, fiscal policy should not be viewed exclusively through the lens of debt sustainability. Instead, the emphasis should be on a sustainable resource mobilization strategy that can enable policy-makers to meet financing needs pertaining to nationally adapted MDGs and SPF. Finally, macroeconomic policy managers have a critical role to play in aiding and abetting the private sector to become the key actors of structural transformation and economic diversification. This will require an understanding of the binding constraints on private sector growth and using macroeconomic policy tools to alleviate such binding constraints. They pertain to access to finance, and resources to invest in infrastructure and skilling of the work-force. In addition, maintaining stable and competitive real exchange rates and engaging in prudent capital account management are essential to support the process of structural transformation and economic diversification in Africa.

Chapter 3: National Employment Policy and Labour Market Institutions: Way forward for job-rich growth

Introduction

After almost three decades of National Development Strategies based on the narrow pursuit of growth under an orthodox macroeconomic policy framework, a new shift in development planning is emerging which is prioritizing labour intensity of growth. The new generation of Poverty Reduction Strategies (PRS) is more and more based on integrated policy frameworks, in which growth is better articulated with the creation of productive jobs, the improvement of working and living conditions, the development of workers' rights, a fairer distribution of income and the meeting of a minimum social protection floor.

Employment policy is now high on the policy agenda of African countries which are strengthening the employment dimension of their development strategies and adopting or announcing employment targets (even if mostly focusing on quantity rather than quality). Employment is increasingly seen as a cross-cutting objective in Growth Strategies/National Development Plans (including Poverty Reduction Strategies) and the crisis has created a window of opportunity for focusing on centrality of employment goals in economic strategies, rehabilitating pro-employment macroeconomic policy instruments, rebalancing on demand management (and increasing domestic demand) and developing a more proactive approach to sectoral policy.

Putting employment at the heart of Poverty Reduction Strategy

The 2004 Ouagadougou Summit Declaration, Plan of Action and Follow-up Mechanism on Employment and Poverty Alleviation in Africa marked a major step forward in the development of African countries action on the agreed priority of placing employment creation for poverty alleviation as an explicit and central objective of economic and social policies at national, regional and continental levels. The primary goal of this Plan of Action was to reverse the current trends of pervasive and persistent poverty, unemployment and under-employment on the continent; and to have tangible improvement in the living standards of the people and their families at the national and community levels in Africa. The Decent Work Agenda in Africa (DWAA) 2007-15 adopted by the 11th ILO African Regional meeting in 2007 constituted a consolidation of this new development paradigm for job-rich growth. For member states, the DWAA provided guidance for formulating their own implementation mechanisms based on their national needs and specificities.

The ILO Global Employment Agenda (GEA)⁹³ provides the core elements of an employment policy framework. It calls for an integrated approach with interventions on

⁹³ http://www.ilo.org/employment/AreasOfWork/lang--en/WCMS_DOC_EMP_ARE_GEA_EN/index.htm

the demand side and the supply side, and at macro and micro levels, which aim to improve the quantity and quality of employment. The implementation strategy for the GEA (2006)⁹⁴ endeavoured to make it operational and directly applicable to the design and implementation of national employment policies. It structures the content of the GEA around five key employment policy areas, plus social protection: employment expansion; skills, technology and employability; enterprise development; labour market institutions and policies; and governance, representation and advocacy. Efforts have been made to integrate gender equality and a new tool has been developed to assist with mainstreaming gender in all policy areas of the GEA framework⁹⁵.

The GEA's goal of making employment central to national economic and social policies, as well as to international development strategies, is also restated in the ILO Declaration on Social Justice for a Fair Globalisation⁹⁶. The Declaration underscores the importance of this integrated approach by recognizing the synergies across decent work objectives. It reaffirmed the commitment by all Members of the ILO to "*place full and productive employment and decent work at the centre of economic and social policies*". The four equally important strategic objectives of the ILO, through which the Decent Work Agenda is expressed, are (1) rights at work; (2) employment promotion; (3) social protection; and (4) social dialogue. These four strategic objectives are inseparable, interrelated and mutually supportive. The failure to promote any one of them would harm progress towards the others. These objectives hold for all workers, women and men, in both formal and informal economies; in wage employment or working on their own account; in fields, factories or offices; in their home or in the community. Thus, the Decent Work Agenda helps build a common framework to address the diversity of the informal economy.

As a follow up to the Social Justice Declaration, the June 2010 International Labour Conference adopted a Resolution on employment that underscored the importance of the formulation and implementation of employment policies to promote full decent productive and freely chosen employment⁹⁷. The conclusions specifically call the Office "*to strengthen its capacities and expanding its services to provide timely and customized advice on employment policies, to evaluate their impacts and to draw lessons*"⁹⁸.

The 2nd African Decent Work Symposium on "Building a social protection floor with the Global Jobs Pact", held in Yaoundé in October 2010, while recognizing that "no one size fits all", considered that the key elements of this new policy vision should especially: i) Promote policy coherence by mainstreaming employment targeting and employment impact assessment in economic strategies at macro, sectoral and local levels, ii) Remove

⁹⁴ Vision document on operationalizing the employment component of Decent Work Country Programmes, March 2006, GB.295/ESP/1/1. http://www.ilo.org/employment/Whatwedo/Publications/lang--en/docName--WCMS_103335/index.htm

⁹⁵ ILO (2009)

⁹⁶ http://www.ilo.org/wcmsp5/groups/public/@dgreports/@cabinet/documents/publication/wcms_099766.pdf

⁹⁷ Section IV. Pars 28-30. Conclusions concerning the recurrent discussion on employment. ILC, June 2010.

⁹⁸ Section IV. Par 30 (ii). Conclusions concerning the recurrent discussion on employment. ILC, June 2010.

binding constraints in the African economy for quality employment generation, especially through demand side policies and a better enabling environment for sustainable enterprises iii) promote sectoral policies that encourage economic diversification, structural change, regional integration with higher employment content and productivity growth, iv) Create adequate policy space and institutions for including the working poor, informal workers and entrepreneurs, through innovative public employment schemes, employment-intensive infrastructure investments, entrepreneurship promotion and social protection and facilitating their transition to formality, v) Strengthen labour market institutions, including labour administration and social dialogue for wage/income- led productivity growth and vi) Build the Social Protection Floor to protect persons and families, especially the most vulnerable and those in the informal economy. Achieving this vision requires better mainstreaming of employment targeting in development planning, mobilizing public and private partnerships, implementation of agreed policies and commitments, and stronger monitoring and accountability.

There is in the normative global framework a powerful tool to develop national employment policy as a core component of PRS. It is the Employment Policy Convention from 1964 (No. 122), ratified by 104 countries – but only 18 African countries - as of January 2011 which creates a basic obligation on States to make an explicit formal pronouncement of their employment policy to achieve full, productive and freely chosen employment. This can be expressed in a number of ways. Some countries, for example, pronounce the objective of full employment, whereas others articulate the duty of the State to promote conditions for the realization of the right to work. The Employment Policy Recommendation, 1964 (No. 122), and the Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169), outline in some detail policy approaches to support Members' efforts to design and implement effective employment policies and programmes. Some 20 other instruments adopted by the ILO in the area of skills and enterprise development, employment services, disability, employment relations and multinational enterprises guide advocacy and technical work in those fields. In particular, the resolution concerning promotion of rural employment for poverty reduction, adopted by the ILC in 2008, called for an integrated decent work perspective to promote rural employment. Countries need to prioritize rural development programmes in their development strategies with explicit employment, social protection and labour standards goals.

Many African countries stress the many obstacles to the adoption of C122 related to i) the lack of human and institutional domestic capacities and financial resources to formulate, implement and monitor the employment policy framework associated to C122; ii) the need to strengthen and consolidate first social dialogue institutions and practices and iii) the need for advocacy to promote the idea that the promotion of full and productive employment is a key component of any strategy aiming at promoting sustainable economic growth, social development and poverty reduction. However, there is some policy space to adopt National Employment Policies (NEP) which can

provide the appropriate environment to the adoption/ratification of the C122. This issue of sequencing is crucial as some countries have ratified the C122 and have formulated a NEP (such as Cameroon, Madagascar, Senegal, Uganda or Mozambique). Some other countries have ratified the C122 but have not yet formulate a NEP (such as Central Africa Republic, Gabon or Sudan) whereas many countries that have not yet adopted/ratified the C122 have already formulated a NEP (such as Liberia, Mali, Tanzania, Togo or Zimbabwe) or are in the process of formulating a NEP (such as Mauritius or DR Congo). Moreover, some countries have ratified the C122 but not developed a comprehensive NEP; however they have already implemented some active employment policy frameworks to promote employment (such as Algeria or Morocco).

Overall, it is worth noting that where the C122 or/and NEPs (and alternative employment policy frameworks) have been adopted, tripartite institutional frameworks and social dialogues practices have been developed and strengthened. Social partners were involved in the formulation process of the NEP and they are participating in tripartite committees that are implementing and monitoring the NEP. Moreover, the Ministry of Employment and Labour and the social partners are increasingly contributing to the decision making process of the Poverty Reduction National Strategy (PRS) – as observed in the formulation process of second generation PRS - through a more comprehensive employment section and the mainstreaming of the employment dimension in macroeconomic and sectoral policies (such as in Burkina Faso, Uganda, Cameroon or Madagascar). As a result, there is a better articulation between NEP and PRS where the former becomes an important component of the later to promote a job-rich and pro-poor growth.

This evolution led to: (i) the establishment of monitoring and evaluation institutions such as National Observatory for employment and vocational training (such as in Burkina Faso, Mali or Madagascar) and, (ii) the development of more efficient labour market information systems based on capacity building and a better articulation between National Statistics Institutes and other providers of information on the situation/evolution of the labour market (such as in Liberia).

To conclude, employment policy frameworks when they exist take special account of main characteristics of labour market institutions in Africa; and especially segmented labour markets where a large part of the labour force is in the informal economy and most of the (self) employed have no other choice than the informal economy for their survival and livelihood.

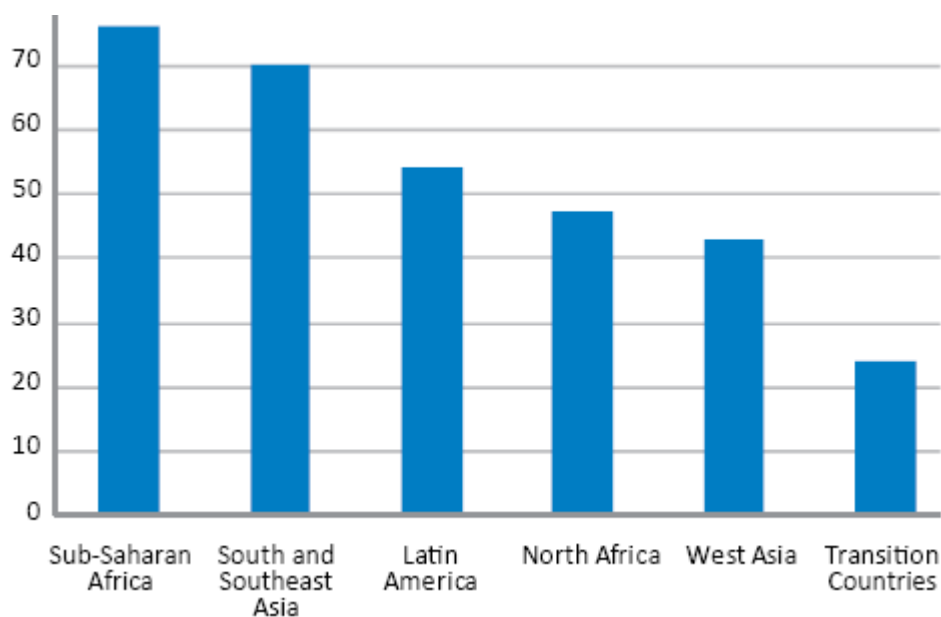
Labour market institutions in Africa

Formal labour market institutions exist in Africa where most countries have a range of labour laws and regulations, which, for example, stipulate how workers are protected from unfair dismissal, are paid a minimum wage or benefits social security schemes. But labour market institutions can vary considerably in Africa, while collective bargaining is

weaker than in advanced countries⁹⁹. Moreover, acknowledging the existence of formal labour market institutions is not sufficient. In particular, given the low shares of formal employment, regulations and labour laws such as minimum wages and employment protection legislation (EPL) are only applicable to a minority of workers.

In Africa, it is estimated that as many as nine in ten rural and urban workers have informal jobs, and this is especially the case for women and young people, who have no other choice than the informal economy for their survival and livelihood. Informal employment is generally a larger source of employment for women than for men in Africa. Outside of North Africa, where 43 per cent of women workers are in informal employment, 60 per cent or more of women workers in the developing world are in informal employment (outside agriculture). ?? In sub-Saharan Africa, 84 per cent of women non-agricultural workers are informally employed compared with 63 per cent of male non-agricultural workers¹⁰⁰. Figure 3.1 shows one of the main features of labour markets in African countries which is the high level of informal employment and, as a consequence, the fact that a vast majority of workers are operating outside the formal reach of the law.

Figure 3.1 Share of informal employment in total non-agricultural employment, by regions (%)



Source: OECD, 2009, *Is informal normal?* (Paris: OECD), based on data from the latest available period in each region

While some activities in the informal economy offer reasonable livelihoods and incomes, most people engaged in informal activities: i) are exposed to inadequate and unsafe working conditions, and have high illiteracy levels, low skill levels and inadequate

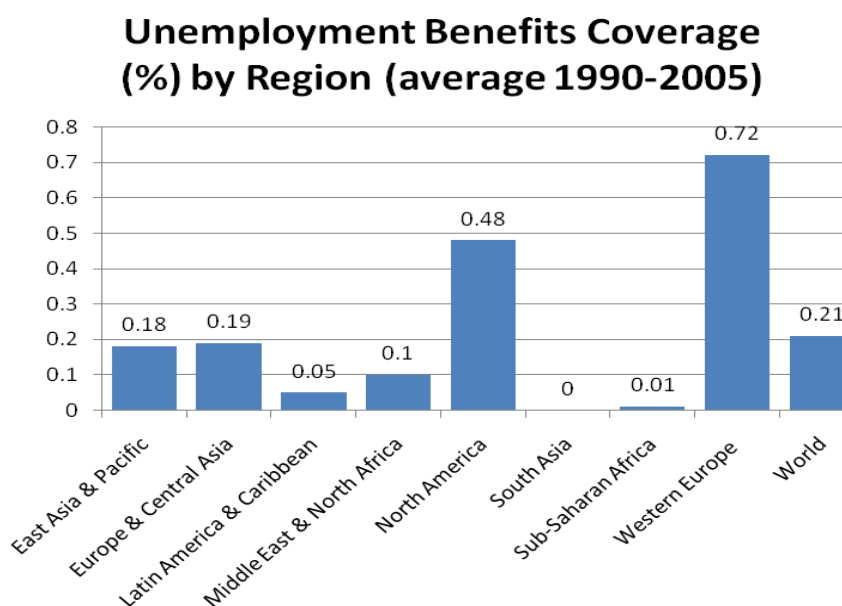
⁹⁹ Freeman (2009)

¹⁰⁰ ILO (2008)

training opportunities, ii) have more uncertain, less regular and lower incomes than those in the formal economy, suffer longer working hours and an absence of collective bargaining and representation rights, and often have ambiguous or disguised employment status and iii) face more physical and financial vulnerability by the very fact of working in the informal economy, which is either excluded from or effectively beyond the reach of social security schemes or safety and health, maternity and other labour protection legislation.

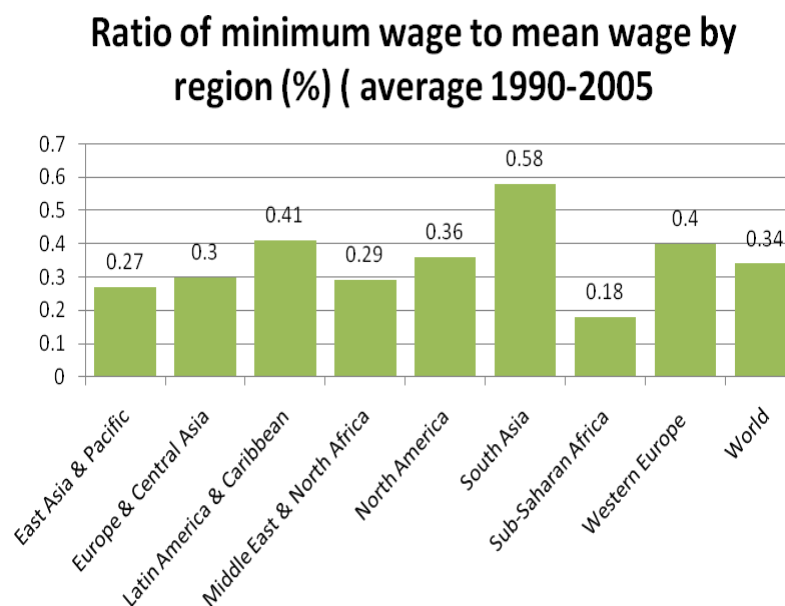
Figure 3.2 below shows that Sub-Saharan Africa has the lowest unemployment coverage in the world (with South Asia) with only 1 per cent workers covered by this arrangement as compared to 21 per cent in average for the world and 10 per cent for Middle East and North Africa¹⁰¹. Turning to another institution, minimum wages policies are not only a common labour market feature in high-income countries but also in many low and middle income countries. In Africa, a minimum wage is in force in many countries but only for the formal sector which means only a fraction of the labour force. Its level varies considerably but in average for sub-Saharan Africa (see figure 3.3), the ratio of minimum wage to mean wage is much lower than in any other regions in the world as it reaches 18 per cent as compared to 34 per cent in average for the world and 36 per cent for Middle East and North Africa..

Figure 3.2: Unemployment Benefits Coverage



Source : IMF Labour Market Regulations Database (2011)

¹⁰¹ IMF(2011b)

Figure 3.3: Ratio of Minimum Wage

Source : IMF Labour Market Regulations Database (2011)

Formal labour market institutions in Africa must face not only the challenge of coverage but also the one of compliance. As stated in the conclusions of the general discussion on informal economy that took place during the International Labour Conference in 2002, informal employment does not only refer to the problem of not being covered or insufficiently covered by formal arrangements, when activities are not included in the law. It refers also to the activities that are not covered in practice “although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs” (paragraph 3). Indeed, due to weak enforcement stemming from poor governance and weak institutional capacity (including inadequate labour inspection), many workers in the formal economy do not benefit from the provisions of legislation; and informal employment is growing through both the informalization of the economy and the increase of informal employment within the formal economy. Thus, even if institutions are seen as strict (in a *de jure* sense), the *de facto* impact on the labour market is likely to be muted.

When labour laws are *de facto* not applied or not enforced, there can be many reasons for such situations. The laws may not be adapted, for example because they do not take into account binding constraints affecting MSMEs functioning. In many circumstances, workers are not covered in practice by labour legislation, because the enterprises they work in are not registered. In some cases, the laws are highly complex, as are the work-related procedures. Several countries have carried out reform to simplify their labour laws and work-related procedures. This includes reducing or eliminating the expense involved in registering enterprises with labour administrations and social security

authorities; simplifying the requirements, forms and procedures for hiring workers through public employment offices; and recognizing contracts of employment irrespective of the form in which they are concluded, and accepting any means of evidence.

Another important reason for the non-application or non-enforcement of labour laws is the weak capacity of labour administration and, in particular, labour inspection, in many countries. Frequently, labour inspectors are not sufficiently resourced even to inspect medium-sized and large enterprises adequately and regularly; they can rarely if ever turn their attention to the problems of informal economy enterprises and workers. Expanding the scope of labour inspection to include all categories of workplace would in most cases require an increase in the resources allocated to the services in question. When resources are scarce, focusing on selected priorities such as occupational safety and health conditions and eliminating child labour and bonded labour in the informal economy may be particularly cost-effective.

What is the role of labour market institutions in Africa?

The role of institutions, such as employment protection legislation, minimum wages, unionization (including collective bargaining) and unemployment benefits schemes, is arguably one of the most controversial issues surrounding the labour market, and has been at the centre of policy debates for some decades. The discourse on these institutions has mostly been in the context of OECD countries and has typically focused only on the economic costs¹⁰². Though the evidence on the impact of institutions on labour market outcomes is far from clear cut, the general impression conveyed to policy-makers is that these regulations hinder adjustment, promote segmented or dualistic labour markets and drive informality.

There is an acute controversy regarding formal labour regulations in Africa as a cause of the weakness of formal employment and growing informal employment in both the formal and informal sectors. Indeed, many studies have reported on factors that impede the formalization of the informal sector emphasizing the high cost of formalization and the lack of incentives for operating in the formal sector. Moreover, many World Bank funded research are based on theoretical models where the size of informal employment is determined by the relative costs and benefits of informality and the distribution of workers' skills. In that context, the issues of the functioning of labour markets in African countries and how legal and regulatory factors affect the allocation of workers across sectors and segments of the labour market are crucial when formulating a national employment policy. Some studies show, for example, that the productivity gap is much smaller for large informal firms than for small informal firms suggesting that the former have the requisites to formalize but choose not to do so because of some binding constraints.

¹⁰² Cazes and Verick (2010)

Labour market policies can have important spill over effects on the informal sector as it affects the mix of worker types and number in the two sectors. These compositional effects are important to consider in highly segmented labour markets. Interestingly, there are empirical findings showing that minimum wages can raise wages in the informal sector¹⁰³. Though there is very little evidence yet in the case of African countries, these findings suggest that a minimum wage can play a positive role in decreasing inequality in incomes between formal economy workers and informal economy workers. Informal economy may experienced significant wage increases when the minimum wage is raised while formal workers may not. This result highlights that non-compliance with some labour legislations, such as social security contribution for example, does not necessarily imply non-compliance with other labour laws such as the minimum wage even if it is on an *ad hoc* manner as the activity escaped from the formal reach of the law.

There is also considerable debate in the literature – but, importantly, no consensus – regarding regulatory barriers, such as stringent labour laws, said to keep the size of the formal economy artificially small: as employers seek to evade their stringency by remaining informal, or as formal firms remain small, either to avoid a firm-size threshold of labour law coverage or because employers find labour law provisions a disincentive to hiring and/or formalize wage workers¹⁰⁴. As there is a “cost” to formality (compliance with the law, payment of taxes, etc.), the informal entrepreneur will make a rational decision on whether the benefits of formality outweigh its costs. This will depend as well on the opportunity costs of formality relative to informality. Informal economy units rational choice resides in the fact that there can be both incentives and disincentives to remaining informal.

The ILO and other analysts present a more nuanced view that stresses not only the methodological difficulties in identifying the costs of labour market institutions but also the beneficial role they can play in terms of protecting workers’ employment conditions, and ultimately, improving both economy efficiency and distribution of incomes¹⁰⁵. It is indeed important to remember the goal of labour market institutions: these regulations seek to protect a particular dimension of employment because, in the absence of government intervention, the resulting market failure would be detrimental to the welfare of workers and the economy in general. For example, without any form of dismissal protection (provided by EPL), employers would not internalize the social costs of dismissing workers (i.e. the costs of unemployment borne by the government and society at large). As argued by Blanchard (2004), severance pay forces employers in such a case to internalize the cost of firing, while it protects workers’ incomes. Ultimately, it is crucial to remember the goal of labour market institutions rather than

¹⁰³ Khamis (2008)

¹⁰⁴ Kucera and Roncolato (2009); Maloney (2004); Perry, Maloney et al., (2007); Jütting, Parlevi and Xenogiani, (2008)

¹⁰⁵ see, for example, Berg and Cazes, (2007); Berg and Kucera, (2008); Cazes and Verick, (2010); and Freeman, (2009)

focusing alone on their unintended consequences. As found in the case of minimum wages in developing countries, labour market institutions can indeed meet the intended goal of protecting workers. However, as seen in the context of EPL, there is less evidence that such regulations are doing their job. This leads to the question: how can low income countries utilize labour market institutions more effectively to promote decent work without creating perverse effects and unnecessary judicial and administrative hurdles for employers?

Moving from these issues to the context of African countries requires fully acknowledging the profound differences in labour markets as described above. Thus, the main issue for most African countries is not unemployment and the lack of jobs per se but the lack of productive employment and decent work pushing most young people to access informal employment rather than formal employment or to be trapped in youth unemployment. These characteristics have fundamental implications for understanding both the impact and role of institutions in African countries, and especially in low-income countries. As chapter 2 argued, the main 5 factors from a list of 15 factors pointed out by business executives as the most problematic for doing business in their economy rarely cites restrictive labour regulation. The challenge in Africa for sustainable enterprises is elsewhere as causes of informality are manifold and most of these are unrelated to the legal field itself. Enhancing rules of law and transparency, improving access to financing, developing economic infrastructure (especially power supply, rural roads, etc) and developing human capital are the main priorities for the private sector in Africa for doing business; while the reform of the labour regulation is not.

A coherent national strategy to overcome the trap of informality should also recognize that the “regulatory” costs of working informally are high to businesses, workers and the community. The absence of law does not mean the absence of rules and rule enforcers. Private means of imposing some order in the informal economy are often very costly to businesses and workers and sometimes rest on the threat of violence. If the costs of moving into formality can be eased, many businesses may volunteer to come above ground, pay their taxes, observe labour laws and benefit from the security that access to the judicial system can give to property and contracts. ILO research in seven developing countries found that MSEs which complied with basic registration requirements had better access to financial services and provided their workers with better access to social security coverage. Enterprises that complied with registration requirements were found to create more employment over time than those that did not¹⁰⁶.

Responsive labour legislation must balance low cost with incentives for compliance. Application of labour legislation to MSEs should be gradual, starting with the fundamental principles and rights at work: (a) freedom of association and the effective recognition of the right to collective bargaining; (b) the elimination of all forms of forced or compulsory labour; (c) the effective abolition of child labour; and (d) the elimination

¹⁰⁶ ILO, (2009b)

of discrimination in respect of employment and occupation. The fundamental principles and rights at work and the Core Conventions apply to all workers. A two-tiered system with parallel labour regimes is thus not needed. Nor is there any need for partially or completely exempting MSEs from the scope of law. However, there is a need for different approaches and mechanisms for guaranteeing the application of laws to the informal economy. Traditional approaches to labour inspection may need to be adapted to the specific circumstances of the informal economy. It seems advisable to initiate innovative labour inspection approaches combining advisory and information services, public and private interventions, and incentives with prevention and enforcement procedures, to improve compliance. Finally, to be effective, improvement of the labour inspection system should go hand-in-hand with easy and rapid access to legal aid and the judicial system as well as with a sound and mature industrial relations system.

The above results point to a conclusion that labour and social security laws are not the main or “binding” constraints on MSE formalization and growth, and that issues such as taxation, skills, management, proximity and access to markets, exports and finance provide a larger disincentive to formality. Nevertheless, if labour law is a constraint, easing the regulatory burden through (negotiated) labour law reform and creating incentives for compliance could provide the basis for a transition towards formalization.

Formulating a National Employment Policy for Job-Rich growth

NEP aims at formulating an integrated policy framework to enhance the labour intensity of growth, quality of employment and access to job for vulnerable groups. Experience in many countries has shown the potential of policy interventions for restructuring the pattern of growth towards sustainable job-rich growth. NEPs should be based on a pragmatic approach which is *not* meant to be universal nor prescriptive, nor does it suggest a single roadmap to the formulation and implementation of a NEP but rather a sequencing – from the identification phase to the implementation phase and, at last but not least, the monitoring/evaluation phase –which can be adjusted to national circumstances. The steps and the speed of the process of setting priority policies and their implementation will differ according to countries.

At the end, the NEP should present a clear strategic vision of the challenges facing the country and enable to channel policy makers' efforts towards priority measures to promote employment and decent work. The hardcore of the NEP comprises priority measures, employment targets, instruments and mechanisms that should be considered globally and call for policy coherency. Thus a NEP is seldom limited to conventional labour market policies but aims at providing an integrated policy framework which covers macroeconomic and the microeconomic aspects as well as the institutional aspects of employment in the national development context. A strong emphasis is given to the need of NEPs to include an integrated policy framework corresponding to other national policies – macroeconomic, trade, financial sector, industry, agriculture, infrastructure, etc - in order to mutually strengthen the impact on employment.

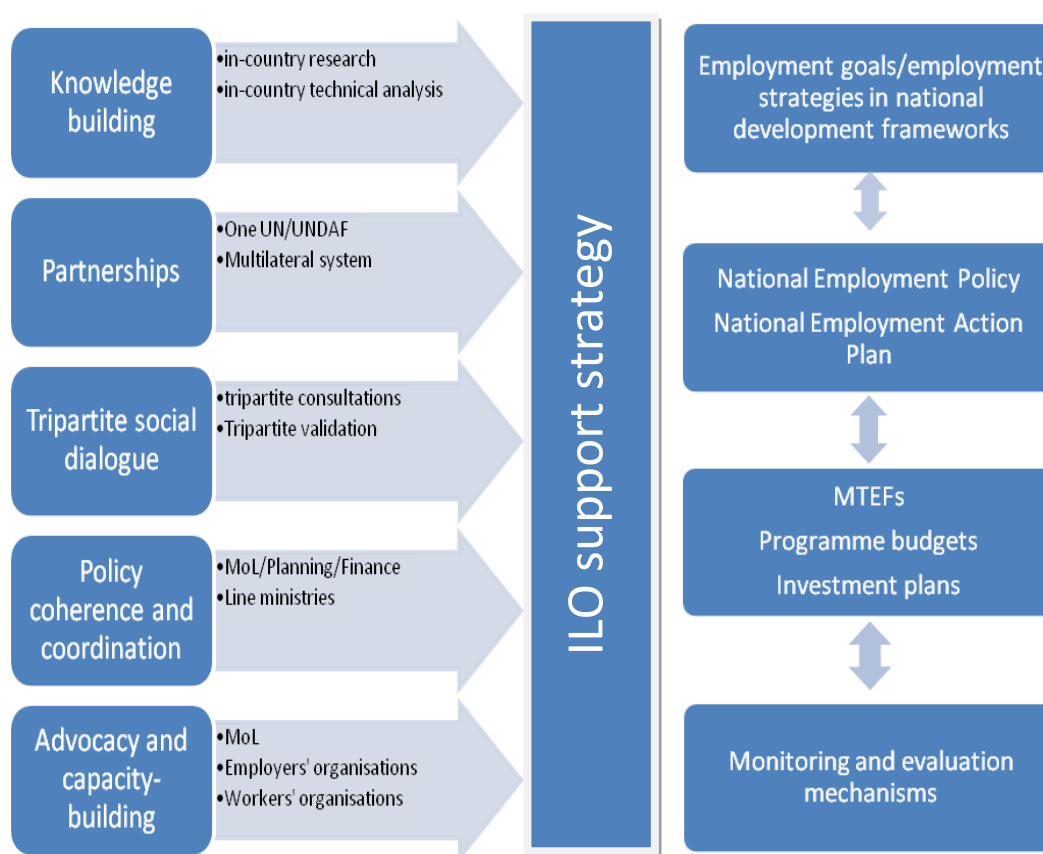
From this perspective, such an integrated policy framework is at the opposite of a narrow conception of employment policies focusing mostly on the supply side and on targeted programmes/funds administered by Ministries of Labour and Employment (MOLEs). It requires capacity building at the MOLEs level to allow them to play effectively their new role of policy formulation and inter-ministerial policy coordination but it requires also capacity building at the other line Ministries, central bank and Bureau of Statistics level for integrating employment in their policies and monitoring systems. This new policy framework calls for well-coordinated actions and commitments of all government ministries and agencies, in order for the employment objectives to be fully realized. In this context, its implementation entails that all Government agencies integrate in their policies and programmes, elements of this policy that maximize productive employment, including improvements in working conditions. There is also a crucial need to strengthen capacities of social partners to engage and influence growth and economic policy through their participation in national development strategies/plans formulation and monitoring processes.

The key sequences for formulating relevant and effective NEP are:

- 1. Knowledge building for policy making:** In order to be effective and maximize impact NEPs need to be based on solid in-depth analysis identifying the main constraints on achieving full and productive employment and decent work. At present, most national employment policies address the problems of insufficient productive employment and decent work in a broad and intuitively sound manner, but the depth of the diagnostic analysis preceding the policy prescriptions vary widely. It is often confined to an identification of the key problems (such as high rates of unemployment or under-employment) with little or no analysis of the underlying causes of the problems, and without sufficient linkage to the overall growth and macroeconomic strategy of the country. Moreover, the absence of an analysis which clearly and convincingly identifies the root causes behind the employment problems brings with it several consequences and first of all the problem of focus and prioritization which comes out clearly in many African countries. This lack of analysis – most often resulted from the lack of data - implies that the potential to effectively address employment issues through relevant policy instruments at the government's disposal may not be fully exploited. In-depth situation analysis and the policy review which aim at filling in the knowledge gaps in the present labour market situation are crucial to address main elements that have significant impacts on employment creation and decent work.
- 2. Implementing inter-ministerial and tripartite institutional frameworks:** Employment is a cross cutting issue and therefore the policy making process depends on the involvement of all stakeholders. There is a crucial need for a participatory framework bringing together all stakeholders to guarantee policies and programmes' success. The ILO experience shows that where capacity is devoted to multi-stakeholder processes and social dialogue, the pay-offs – in

terms of effectiveness, efficiency and viability - are significant. Since employment issues involves various Ministries and Executive Agencies, financial institutions, Local Authorities, Various Private Sector Agencies, Development and social partners and various NGOs, then institutional innovation and coordination is of critical importance. Appropriate governance must be built on the promotion of participation and responsibility at all levels and capacity building. ILO technical assistance aims at promoting an enabling environment and mechanisms to facilitate NEPs' formulation and effective implementation and monitoring/evaluation through legal and institutional frameworks. The objective is to encourage cooperation between line ministers and employers and workers associations, to ensure the promotion of full and productive employment.

Figure 3.4: Institutional partnerships and the Employment Policy Process



3. **Defining priority policies:** NEPs need to be effective in creating a large consensus on priority policies to tackle employment problems at country level, requiring a robust presentation of the rationale and justification for these priorities. The policies and actions identified as needed typically address four areas (i) enhancing the employment-generating capacity of the economy through a variety of measures aimed at improving the overall business climate, promote SMEs or specific sectors and, sometimes, promoting more employment-intensive technologies; (ii) increasing the employability of the labour force through more

and better education and vocational training, often coupled with interventions addressing the needs of disadvantaged groups; (iii) policies aimed at improving the functioning of the labour market; and (iv) capacity building of key institutions and strengthening of social dialogue.

The Liberia NEP, for example, stresses that Liberia cannot do everything at once, and trying to do so will risk not achieving the highest priorities: “Given the tight public budget and declining revenues, priorities must be made requiring much harder choices than expected at the time of the Liberia Poverty Reduction Strategy formulation. Direct emergency job creation, initially through large scale programmes to build essential infrastructure (viz. rural roads and primary school classrooms), and a focus on food security (through increasing rice and cassava yields in particular) are examples of core priorities which can yield large scale employment opportunities.”¹⁰⁷

Example 1: Liberia identified three key challenges for its 2009 National Employment Policy

Situation analysis	Key challenge
Most people in the labour force are among the working poor. Approximately two thirds of all Liberians live in poverty. Female poverty is a concern: 27 per cent of Liberian households are female-headed and 62 per cent of those live below the poverty line. The widespread poverty reflects a large and acute deficit of productive employment opportunities. In the absence of any social security, the vast majority of citizens depend entirely on work for their sustenance. For most this implies putting in long hours of hard work every day, but at very low levels of productivity and income. As many as 70 per cent of working Liberians work longer than 40 hours a week. Labour productivity is low: US\$718 in 2006, in nominal terms.	increasing productive employment for the 500,000 working poor who despite efforts do not earn enough to live above the poverty line
Open unemployment is widespread, particularly in urban areas and among the young. Approximately half of the openly unemployed are found in the capital, Monrovia.	creating approximately 120,000 jobs for the unemployed
More than half the population is below the age of 20. Around 19 per cent of young Liberians are not working and not in school. Women represent almost 60 per cent of this figure. Those young women and men are probably discouraged as they face barriers to becoming integrated in the labour market and in the economy. Barriers are not only related to employable skills but also to the limited number of available jobs.	creating 250,000 productive jobs in the next five years (2009-2014) for new entrants into the labour force

¹⁰⁷ Republic of Liberia, Ministry of Labour, Employment Policy (2009), NEP, p.9

- 4. Integrating the employment dimension into national PRS:** In order to move from wishful intentions to effective implementation and concrete results, the government as a whole needs to assume ownership over the NEP and it needs to be anchored in Parliament and in the political processes and establishment of a country. Many, if not most, national employment policies display weaknesses when it comes to fulfilling the function of being an organic and logical part or extension of the overall strategic development framework of the country. While most employment strategies mention, indeed often stress, the need to link up with the overall national development strategy (PRS), public investment programmes and medium-term expenditure frameworks, the degree of success varies considerably. Once employment is recognized as a national priority, the priority is for the NEP to be coherent with the overall development strategy as outlined in the Poverty Reduction Strategy Paper (PRSP) or other Poverty Reduction Policy Frameworks. In practical terms this has meant: (i) Coordinating the timing of the NEP formulation process with the PRS revision schedule, so that the NEP was ready on time and integrated in the PRS; (ii) Promoting policy coherence between the NEP and the PRSP; (iii) Facilitating and reinforcing the collaboration between the Ministry of labour and Employment and the leading structures of the PRS process (Ministries of Economy and Finance).

The manner and degree of success of linking and integrating the employment policy with the overall development strategy and policies is one of the most critical aspects for achieving results. To that aim, further actions have to be undertaken to better anchor national employment actions into the overall development strategy. For this purpose, three main frameworks have been designated to strengthen integration of employment matters. These are:

- **PRSP's action plan:** through active participation in sectoral and thematic committees and cooperative dialogue with the executive secretariat in charge of the PRSP's monitoring. Tanzania's Youth Employment Policy is a good example of a skillfully designed policy that adds a stronger employment dimension to an existing overall development strategy through a complementary package of programmes and activities. In DRC, the Ministry of Labour, Employment and Social Protection (MLESP) has formulated a National Employment and Vocational Training Policy and was invited by the Minister of Planning to strengthen the employment dimension of their PRSP 2 which at the end included a specific section on "Promoting employment".
- **Budget support's framework:** This framework puts together main donors involved in budget support to promote employment and decent work programs. General and specific objectives of the NEP should be

communicated to the donors and discussed with them for funding and technical assistance.

- **Budgetary process:** through recognition of employment in resources allocations within Medium Term Expenditures Framework and Public Investment Programmes. The ILO is also supporting Public Expenditure Reviews (PER) focused on employment which assess past and future performance of resource allocation (national budget) and service delivery, linked to national employment targets. They are frequently used to inform Budget Guidelines and Medium Term Expenditure Framework (MTEF) process¹⁰⁸. In Burkina Faso, the Ministry of Youth and Employment has decided to undertake PER on employment in order to mainstream employment targets into sector MTEF and National Budget. In Tanzania, the Ministry of Labour, Employment and Youth Development (MoLEYD) has decided to undertake PERs on employment in order to mainstream employment targets into sector MTEF and National Budget and to insure effective implementation of the National Employment Policy and Programme, with support of Ministry of Finance and sector ministries.

5. **Developing a monitoring and evaluation system:** The goal of promoting full and productive employment can only be achieved if the policy is vigorously pursued and fully implemented. Being a dynamic exercise, the Employment Policy implementation strategies will have to be reviewed regularly to ensure their continued relevance. From this perspective, information, monitoring and evaluation systems are needed to ensure the relevance and effectiveness of the National Employment Policy. The objectives are to: (i) strengthen the employment dimension of the PRS Monitoring and Evaluation system by including quantitative employment targets; (ii) collect and disseminate adequate, accurate and up to date labour market information; (iii) Enhance Research for providing inputs for Employment Policy and Legal reforms for enhancing employment growth and poverty reduction interventions; (iv) Strengthen capacities within government ministries and para-statal and related agencies, with the responsibility of monitoring and evaluating programmes and projects aimed at employment promotion and the reduction of unemployment and underemployment.
6. **Implementing and monitoring the NEP:** It requires that all relevant ministries, government agencies and other stakeholders consciously integrate in their policies and programmes policy initiatives and strategies that maximise productive employment and the improvement of the general working conditions. Effective implementation of any policy depends on clarity on assigning

¹⁰⁸ A MTEF corresponds to a multi-year detailed programming and an output-based budgeting system (at sector level and national level).

responsibilities and roles to different stakeholders. This facilitates smooth operationalisation of programmes and strategies with clear separation of levels of accountability. To achieve that result it is crucial to: (i) Formulate an action plan presenting employment promotion activities to be implemented according to a logical framework model; (ii) Define an appropriate institutional architecture to clearly define roles and responsibilities of all stakeholders in promoting and creating employment; (iii) Establish some institutional bodies to facilitate coordination, synergies and exchange of information between key stakeholders (inter-ministerial bodies, civil society platforms, Social dialogue, etc.); (iv) Promote a participatory approach in implementing the NEP to strengthen ownership of NEP objectives among stakeholders; (v) strengthen NEP stakeholders' capacities to successfully promote full and productive employment.

Example 2: Roles and functions of the coordination structures of Burkina Faso's NEP

A relevant organizational plan, which meets the needs of the implementation of the NEP, avoids as much as possible institutional proliferation and is in line with similar structures elsewhere, was formulated in Burkina Faso. It has four key structures:

1. The steering committee

An existing structure, the Comité Technique Permanent du Conseil National de l'Emploi et de la Formation Professionnelle (CNEPF), planned by the labor code and which follows-up on all the obligations stemming from the Extraordinary Summit of the African Union on Employment and Poverty, was chosen to be the NEP steering committee. The composition of this structure is sufficiently wide to represent those most concerned at the level of the State, the organizations of employers, workers and craftsmen, as well as representative regional actors and civil society acting in the employment field. The committee can create as and whenever necessary ad hoc committees to deal with specific questions. The presidency of the committee rests with the most senior official of the Ministry in charge of Employment. The committee will hold at least two annual sessions. It assumes the following functions:

- Guide the initiatives of the coordination mechanism and of the actors, watch specially the convergence and the complementarities of the interventions and the actions;
- Monitor the initiatives and the implementation activities of the NEP;
- Exercise a watch on the inertia, the difficulties, the obstacles, the new facts, the opportunities touching the implementation of the NEP and more generally employment;
- Formulate appreciations on the initiatives and the actions, under the angle of their opportunity, their rhythm, their degree of commitment, their quality, their calendar, etc;
- Formulate suggestions to improve the relevance and the efficiency of the interventions and the actions or provoke, as and whenever necessary, their reorientation;
- Deliberate on the evolution of the employment situation and formulate any relevant suggestion towards the NEP;
- Oversee the monitoring and evaluation activities

2. The executive structure

The format chosen in Burkina is the appointment of an Executive Coordinator who conducts the implementation process of the NEP. He is responsible for the activities and for the work of animation, organization, monitoring and evaluation of the execution of the NEP action plan,

under the supervision of the Ministry in charge of Employment. As such, the Executive Coordinator has the following functions:

- Give the operational impetus to the various actors of NEP in the associated and/or concerned domains;
- Lead and be responsible for the organizational process necessary for the progress of the diverse activities of implementation: communication, consultations, periodic meetings, decision on studies, launching of reflections, working groups, workshops, deadlines to respect, sequences to be followed, links to be organized, etc.
- Centralize all the information about the monitoring and the realization of all or any of the taken measures, technical actions developed and initiatives undertaken;
- Organize and oversee the technical work and the activities of the Technical Secretariat;
- Assure the necessary relations with the regional levels for the needs of the implementation of the NEP
- Prepare the meetings of the steering committee and the necessary documentation

3. The technical structure

A Technical Secretariat composed of competent executives takes daily care of the whole technical and organizational work required for the implementation of the NEP. The Technical Secretariat has the following functions:

- Take all the necessary relational and organizational steps to support the activities of the action plan;
- Ensure that the programming of tasks and work schedules are respected;
- Collect and analyse the information on the progress and the conditions of realization of the activities of the action plan;
- Prepare, at the request of the Coordinator, any study, analysis or thinking pursuant to the activities of the action plan and within the means of the Secretariat;
- Prepare, at the request of the Coordinator, any report or note on elements of execution of the activities of the action plan;
- Prepare, as and whenever necessary, the documentation and/or the necessary organizational measures for the consultations, the meetings or the working groups, the workshops, the events related to employment promotion, the communication material, terms of reference, missions, etc;
- Tie working relations with the implementing actors.

4. The structures at regional level

The regional Director of the Ministry in charge of employment is, under the authority of the regional Governor, the relay of the NEP at the regional level. He supports voluntary actions aiming at building knowledge of the local employment situation, the formulation and the realization of strategic and operational approaches of the treatment of employment issues within the regional development framework and the regional support to the national policies on employment. The Regional Director has the following functions:

- Raise awareness on employment issues and the NEP, its objectives and activities included in action plan;
- Lead the mobilization of the local actors and social partners on the treatment of the questions of employment and the actions to be led at the regional level;
- Study the employment situation in the region and the actions conducted to promote employment and share this information locally as well as with the national level;

- Elaborate an Annual report on the employment situation and the actions to promote employment in the region;
- Promote analyses and debates susceptible to help in the formulation of responses to the employment problems and of interventions to promote employment at the regional or municipal level;
- Contribute to the implementation of NEP action plan, and more generally in the actions in favour of employment promotion.

Source: Plan d'action opérationnel pour la mise en œuvre de la politique nationale de l'emploi, Gouvernement du Burkina Faso, mars 2008.

Employment targeting: The issue of quantitative and qualitative targets

There is a need for explicit and quantitative employment targets in PRS and in National Employment Policies in order to move beyond non-quantitative references to the importance of productive employment and decent work to the introduction of firm and measurable commitments to achieve these goals¹⁰⁹. The current landscape of national PRS coordinated mainly by Ministries of Finance has elevated the demand for annual monitoring and tracking of national indicators. However, employment indicators, within the national indicator sets have been generally weak in both definition and data sources. Many use “unemployment” as a top level indicator despite its limited usefulness in contexts with high labour participation in the informal economy. Thus, concerted effort to strengthen national employment indicators, and more generally labour market information systems is urgently needed in Africa, and especially in most of Sub Saharan Africa.

Quantitative employment targets play a crucial role in enforcing Governments' commitment to promote full and productive employment. From this perspective, information, monitoring and evaluation systems are needed to ensure the relevance and effectiveness of the National Employment Policy. The absence of an efficient and effective mechanism necessary for collecting, processing and disseminating labour market data and information may affect policy formulation, planning and the achievement of policy objectives. Governments need therefore to address the issue of strengthening the labour market information systems. Some of the issues that will need consideration include upgrading labour market information systems; introduction of data bases on job vacancies, working conditions and pay; introduction of computer systems linking all labour offices in the country, etc.

The issue of quantitative employment targets is deeply linked to the issue of prioritisation. The problem of focus and prioritisation comes out clearly in most NEPs. The list of proposed activities and actions tend to be long, sometimes excessively so, with little or no explicit prioritisation or sequencing. In a situation with limited institutional and financial capacity this implies that efforts to do too many things at the same time may result in doing too little of everything. Quantitative employment targets

¹⁰⁹ ILO, (2009c)

must reflect select priorities among the vast range of different policy instruments and possible actions. Such targets must reflect national concerns and priorities, and as such targets also demonstrate commitments to the MDGs regarding *Achieving full and productive employment and decent work for all, including women and the young.* Employment targets clearly have to vary from country to country to reflect specific national contexts and ensure relevancy. Employment targeting can be undertaken at three levels: the macroeconomic framework, at the sectoral level, and in terms of specific target groups of the population, such as young people or vulnerable groups.

The establishment of targets would also have to be subjected to the same democratic and participatory processes as the PRS processes as a whole. The establishment of quantitative employment targets would need to be accompanied by analysis bringing out the necessary prerequisites in terms of rates and patterns of economic growth and, in its turn, the implications for macroeconomic, industrial, investment, educational and other policies. At the first stage, identification should be made of relevant employment targets which should be followed by an assessment of desired productive employment growth in aggregate terms. Targets for productive employment can be derived from national poverty reduction targets and national MDG targets combined with labour force growth projections and should be gender-specific. Often, countries may have established various types of employment targets through political commitments to reduce unemployment, increase youth employment, reduce regional differences in employment etc. Where appropriate, targets may also be related to specific, vulnerable groups. The identified or proposed employment targets should be cast against the development and employment dynamics analysis. This will yield a good understanding of the magnitude of the 'employment challenge'. It will also give a good idea of the nature and magnitude of changes in terms of rate and quality of growth – and not least the sector composition – needed to achieve the targets as well as some information on challenges in the areas of employability and access.

The development of employment diagnostic tools should facilitate the inclusion of employment targets into overall policy monitoring system. It has important implications for a wide range of policy areas, including Central Bank policy and institutional structure, financial policy and regulation, industrial policy, and fiscal policy which will need to: i) focus not only on macroeconomic stability, but also on creating a supportive environment for employment generation and provide and ii) provide strong evidence they have a positive impact on employment.

Youth employment: A major challenge for Africa

The annual growth of the youth labour force in Africa shows little likelihood of slowing down adding pressure to the already urgent deficit of decent jobs for young people. With a very youthful population structure and a fast growing labour force, most African countries are confronted with a massive employment challenge. Reducing poverty and peace building under these circumstances requires that the economy create productive

jobs and livelihoods at a very fast pace. In Mali, for example, it has been estimated that the number of new entrants to the labour force was 171,800 in 2005 and this will increase to a peak of 447,800 per annum in 2045, when the annual additional labour force will start to decline. In Madagascar, the new entrants to the labour force in 2005 are estimated at 286,200 and their number will increase to 473,400 per annum by 2035, when the additional labour force will begin to decline¹¹⁰. Given the limited number of employment opportunities in the formal sector, women and men are increasingly resorting to finding different ways of generating livelihoods in the informal economy and are for most of them trapped into informal employment.

Sub-Saharan Africa, as the region that consistently demonstrates the second highest youth employment-to-population ratio, merits special attention because of both the volume and nature of youth employment in the region. Indeed, it was only in Sub-Saharan Africa that the number of youth who engaged in work increased by a noteworthy 33.3 per cent between 1998 and 2008. Unfortunately, this does not represent a positive development for the region and serves as a reminder that a trend of increasing employment for young people is not necessarily a good thing. This then begs the questions: when is rising employment among youth a negative trend, and how does one judge? In response to the first question, increasing youth employment and employment-to-population ratios are not positive indicators when they mean that more young people face an economic need to work for income in an environment marked by widespread poverty and a lack of social protection¹¹¹.

Meanwhile, unemployment rate in North Africa continues to be one of the highest in the world at 9.9 per cent in 2009 and an estimated 9.8 per cent in 2010¹¹². The high overall rate is primarily the result of an extremely high unemployment rate for young people. North Africa is the third fastest-growing region in terms of population growth, with the working-age population growing by 27.8 per cent between 2000 and 2010. But GDP growth rates of 4 to 5 per cent are not sufficient to create productive and decent jobs for this growing population, which is reflected in very low labour productivity growth rates and the high number of unemployed people (especially youth and women) who represents only the tip of the iceberg. Indeed, many of the existing jobs are of low quality, underpaid, insecure and without respect for basic labour standards or representation of workers. This is reflected in the high share of the informal employment and the persistence of working poverty.

What are the main causes of the continuously large deficit of decent work in the region and the difficult situation facing, in particular, young people and women? Given that economic growth does not create sufficient high-quality jobs, current population growth has clearly become a burden. In addition, the mismatch between skills in demand and skills offered by young people is growing. This can be seen, for example, in the high and

¹¹⁰ UNCTAD, 2010b

¹¹¹ ILO, 2010

¹¹² ILO, 2011

sometimes increasing unemployment rates of university graduates in Africa. Also, the matching process between labour supply and demand is a challenge, as many young people complain that they would be willing to work if they knew where to find a job. Moreover what the labour market offers is very different from the expectations that young people have when they are looking for jobs: traditional government jobs have become scarce, while such jobs are what most young people aspire to. Private sector jobs are often considered too demanding, and self-employment continues to be seen as a non-option because of the deficit of youth entrepreneurship and lack of incentives for young entrepreneurs.

Even though, in the years to come, population growth is expected to slow, this will leave a lost generation of unemployed young people. The longer they are without a job, the more difficult it will be for them to find one at a later stage. As a result, they risk losing skills as well as motivation. This is why a strong focus on this young generation is needed in the region. Encouragingly, all countries in the region have identified youth employment issues as a top priority in their national development plans. In some countries, national action plans for youth employment have been developed, and some countries (including Egypt, Sudan and Tunisia) see the development of regional action plans as a promising approach to tackle youth employment issues. An important part of the strategy to address these issues should be to enhance skills, especially technical, IT and language skills (as in the successful case of Rwanda). Also, support for self-employment as well as job creation in modern economic activities (e.g. green jobs, and jobs in the IT sector and eco-tourism) could become part of youth employment strategies. Strengthened institutions for social dialogue can be made instrumental in fostering more positive attitudes among young people as well as employers.

Following the “Arab Spring” and growing demands from youth for accessing decent work, youth employment is now considered as a core component of PRSs as it is a major issue for both development and peace building. At the last African Union Heads of State and Government meeting in Malabo on June 2011, all member states reaffirmed their commitment to accelerate efforts to reduce unemployment and underemployment of Africa’s youth and women and to develop a youth employment pact. But full, productive and freely chosen employment for young people cannot be achieved through isolated and fragmented measures; it needs long-term, coherent and concerted action over a wide range of economic and social policies. National policies and programmes promoting youth employment are most effective if they are integrated into the overall macroeconomic and sectoral policies. Policy-makers have increasingly recognized that achieving decent and productive work for young people entails long-term action on a range of economic and social policies. This requires an integrated and coherent approach combining intervention at the macro- and the microeconomic level, focusing

on labour demand and supply, and addressing both quantitative and qualitative aspects of employment.¹¹³

Given that youth employment is highly dependent on overall employment, policies seeking to improve young people's employment prospects are most effective if they are part of broader policies that increase aggregate demand. Employment must be central to economic and social policies, to ensure that growth translates into decent jobs. This requires a comprehensive framework addressing youth employment through an integrated approach to employment growth¹¹⁴. However, the integration of national policies and programmes promoting employment into overall macroeconomic and development policies is a necessary, but not a sufficient condition. Young people's employment prospects vary according to factors such as age, sex, ethnic origin, social class, household size, and education and training levels. It is therefore crucial to complement broader employment and other economic and social policies with targeted measures to overcome the specific disadvantages many young people encounter when entering or remaining in the labour market.

Over the past three decades, many countries have sought to address the youth employment challenge. Despite these efforts, young people's prospects of securing full, productive and freely chosen employment have not improved. Several reasons explain the limited impact of these initiatives. First, most of them paid only modest attention to the development of policies and strategies promoting youth employment, focusing rather on specific programmes, many of them narrow in scope and limited in time. Second, a mostly random priority was given to these interventions and it was often linked to the business cycle, as young people are usually the first to be affected by recession and the last to benefit from economic expansion. Third, the focus was mostly on pre-employment programmes, with little attention paid to the poor working conditions of many young workers, who are over-represented in the informal economy or in temporary employment. Finally, many programmes failed to address numerous aspects of the youth employment challenge, focusing either on job creation or on enhancing the employability of young people.

Hence many African countries are taking necessary steps to reduce the prevalent high levels of youth unemployment and Africa offers now many lessons and best practices from active labour market programmes for youth that have shown positive and promising impacts on their employment and earnings outcomes. They aim at: i) offsetting the mismatch of technical skills among youth which entails facilitating access to vocational training, ii) creating an enabling environment for the development and expansion of a competitive job training sector and iii) providing effective active labour market programmes to unemployed youth and youth living in isolated areas where the market does not reach. It may also involve workplace training schemes, the creation or improvement of apprenticeships systems, the promotion of subsidized training

¹¹³ See ILO (2005a); and ILO (2005b), para. 17

¹¹⁴ ILO, (2004)

programmes that provide financial incentives to employers for in-service training and the delivery of entrepreneurship skills training for youth seeking self-employment opportunities. They focus on the needs of the productive sector and deliver training in the corresponding demanded skills.

From this perspective, Tanzania is reviewing TVET policy in response to labour market demand. Employers in the hospitality industry are developing apprenticeship training system. Programmes for training, testing and certification of skills of persons in the informal economy have been taken up. Training curricula in the non-formal and formal Vocational training system were reviewed to follow competency based and training approach. South Africa has made substantial progress in the area of skills development. The National Skills Development Strategy III has been launched and the Skills Development Act amended to overcome the identified shortcomings of the existing system. To better focus on skills training, a new quality council for trades and occupations has been set up. Focus is also on young men and women who are not in education or employment or, not in training and not employed for young women and men.

Meanwhile, the promotion of youth entrepreneurship is increasingly seen as an important means of creating employment and ensuring that countries are able to benefit from the socioeconomic potential of their young populations. However, programmes to promote entrepreneurship as a career path for young people need to be carefully planned and long term; entrepreneurship is both demanding and inherently risky, particularly for young people who are already passing through a tenuous and vulnerable transition in life, while at the same time generally having accrued limited life experience and material assets. This can be seen in the fact that many youth are pushed into self-employment by necessity rather than by choice and are often found struggling in the informal economy.

Private sector development and enterprise development programmes are not alien to Africa. On the contrary, bi-lateral and multi-lateral organisations have increasingly supported such programmes over the past decade. However, little attention has been paid to systemic and integrated youth-specific entrepreneurship development programmes and emphasis has rather been on *generic* business development services that are relevant for many sub-sectors. Whereas this approach is relevant for enterprise development as such it can result in the dilemma that young people may be successful in starting a business (*how to start*) but not which business to venture into (*where to go*). As a direct result, young entrepreneurs emerging from these start-up programmes often crowd in few popular industries where competition is fierce and margins are low.

Based on the observations above and in order to ensure long-term and sustainable impact on youth entrepreneurship in Africa, interventions must target the very specific challenges that youth face i) in the enabling environment for youth entrepreneurship, ii) at the service provider and financial provider level, and iii) at the individual level, i.e. in

the minds of young Africans themselves inspiring them and motivating them towards entrepreneurship. Three essential system levels of inter-action can be distinguished for supporting young entrepreneurs in Africa:

- The *macro-level* of the system is captured by stakeholders with a mandate for defining and coordinating a policy and regulatory framework that is conducive to doing business. These will be ministries of industries, trade and commerce, interior, labour etc. There is a need for policy coordination and coherence within government and between ministries since the promotion of sustainable youth enterprise ventures transcend line ministry boundaries and thus calls for effective intra-government coordination and collaboration.
- The *meso-level* of the system is constituted by stakeholders with a mandate to facilitate or physically deliver BDS, in this context understood as any non-financial *and* financial services meant to improve physical and business infrastructures that results in improved performance of a business. These are industry associations, young entrepreneur associations, consultancy companies or vocational/technical institutes and other training institutions and service providers for youth.
- The *micro-level of the system* (the market level) is made up by the stakeholders directly involved in the market exchange of products, goods and services, either by taking a stake in the production and provision of the product (the entrepreneur), or by buying it (the customer). At this level improving young entrepreneurs' awareness of and access to BDS including responsible enterprise practices is crucial, as well as the stimulation of an entrepreneurship culture for in-school and out-of school youth and stimulation of demand for social entrepreneurship.

Any multi-level intervention mix should comprise activities to: i) improve the legal and regulatory environment at the macro level with emphasis on the specific constraints and barriers faced by young entrepreneurs - and especially young women entrepreneurs - in the national business environments and subsequent policy advice to ease identified barriers, establishment of regional and national network of young entrepreneurs and the promotion of successful young entrepreneurs as role models for African youth; ii) introduce entrepreneurship education for in-school youth in secondary high schools and technical and vocational training institutions, support to business start-up and firm level improvement for out-of-school youth for both potential and existing young entrepreneurs, responsible enterprise practices, specific support to the empowerment of young women entrepreneurs, market diagnostics and analysis of economic sectors with employment creation and "value added" business potential, improving access to various types of finance (micro, equity, venture capital, credit guarantee funds) and the financing of innovative and social enterprises that meets social needs through business models; and iii). Stimulate at the micro-level a culture of entrepreneurship, of social entrepreneurship, ensuring that young aspiring entrepreneurs can access business

development services such as basic business management training, training on social entrepreneurship, business idea competitions along various thematic themes (young, women, social, sector specific) with finalists having access to capacity building, finance, mentorships, and support to young entrepreneurs associations.

Promoting micro, small and medium-sized enterprises for job creation

The business environment in Africa is highly insecure and this tends to thwart enterprise creation, encourage informality and retard good governance. However, it is clear that the private sector – from micro-enterprises through to large multinational firms, and including the agricultural sector where most Africans still work – has a central role in driving growth and poverty reduction. Making improvements to the business environment is thus essential in helping markets work better and improving the investment climate in Africa. This implies the need to focus on the “basics” (basic education and health, macroeconomic stability, good governance and addressing infrastructure weaknesses) that create the opportunity for the private sector to grow and diversify and thus provide more productive and decent jobs for women and men. It is also important to recognize that country-specific challenges and solutions will vary, and countries must develop their own strategies to address them.

In line with the ILO’s Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189), enterprise policies should have a dual focus. They should aim at improving productivity and having access to competitive resources, and they should ensure that conditions at work result in equity (in particular between women and men), poverty eradication and social welfare. Meeting these interlinked challenges requires a mixture of policies at the international, national, sectoral and local levels to raise productivity, promote innovation and make small enterprises more competitive.

By improving job quality in small enterprises, increasing economic opportunities for women, promoting association-building by employers and workers, and upgrading employment for workers in the informal economy, the goal is to unlock the potential for creating more and better jobs in small enterprises. For small enterprises, acquiring the management skills to survive and grow is vital. Support is needed to build national and local capacity to deliver cost-effective and sustainable business development services, such as management training, access to finance, information on technologies, export and domestic market access, and inter-firm linkages.

Due to their limited resources and the lack of effective advocacy means, small enterprises are typically absent from the policy-making process. As a consequence, they tend to face greater obstacles in accessing markets, such as for government procurement, as well as financial and non-financial services. The regulatory framework is usually hostile and the cost of operating in the formal economy often prohibitive. It is therefore important to give small enterprises a voice in the policy process, strengthening the capabilities of their organizations and the skills of their leadership. An

innovative way of giving informal economy operators a voice in the policy reform process is demonstrated in Uganda, where an ILO project supports radio stations in focusing on small businesses' concerns and channelling their demands to policy-makers, who respond via phone-in broadcasts.

When it comes to the legal and regulatory environment for business, fewer and simpler laws and regulations usually lead to a more dynamic and efficient private sector. But if sustainable enterprises are to be fostered, the regulatory framework should not compromise international labour standards and they should be gender-sensitive. Reforms to the business environment should make it easier for informal enterprises to enter the formal economy and should provide them with incentives to do so. It is also important that policy reform be integrated into national development plans and poverty reduction strategies, and that donors work together and in close collaboration with governments so that national and regional initiatives such as the Investment Climate Facility are given the best chance of success.¹¹⁵

Policies also need to support the inclusion of African enterprises in value chains at the global, national and local levels; horizontal linkages between firms through approaches such as partnerships and clustering, networks and area-based development strategies; and vertical linkages between producers, suppliers and market buyers. Such linkages can be particularly effective in overcoming many of the traditional constraints facing African enterprises, particularly enterprises owned by women, such as access to markets, services, technologies and know-how. Once such access is provided, African enterprises can create and maintain quality jobs by increasing their productivity, market presence and share.

Cooperatives of various types play an important role in many sectors of the African economy, especially in rural areas. The cooperative movement has, however, had to overcome the legacy of heavy state intervention, which in many countries severely damaged the credibility of cooperatives in the eyes of their members and customers. Following the adoption of the Promotion of Cooperatives Recommendation, 2002 (No. 193), many African countries have used ILO advisory services to help revise their legislation on cooperatives. The Cooperative Facility for Africa (CoopAfrica) is a technical cooperation programme for the promotion of cooperative development in Africa. Together with a wide range of international and national partners, CoopAfrica promotes an enabling legal and policy environment and effective cooperative unions and federations, as well as demand-driven services for cooperatives, currently in nine countries.

Business development services play an important role in upgrading the productivity of informal economy units. It is important to increase access to appropriate services in

¹¹⁵ The ICF is a private-public partnership, focused on improving the continent's investment climate by removing obstacles to domestic and foreign investment and by promoting Africa as an attractive investment destination. The Donor Committee for Enterprise Development has published "Supporting Business Environment Reforms – practical guidance for development agencies", which aims to document lessons learned and good practice.

finance, training, marketing, quality improvement and information. Access to finance is a vital concern for operators in the informal economy. Often they resort to moneylenders or tontines for emergency loans, but many other financial needs are not covered. Microfinance can facilitate the passage to the formal economy for those wishing to undertake that step, and it is also a catalyst for group organization. The business development services can be delivered between businesses within value chains and clusters, by constituents and independent organizations or by mass media, which can provide a platform for information, advocacy and dialogue. Business development services to upgrade workplace practices can only be sustainable and effective if rooted in understanding and promotion of the benefits to all enterprise stakeholders, including the workers, owners and managers as well as the ultimate customers. By focusing enterprise development initiatives on value chains with higher relative growth rates, they are more likely to be cost-effective.

The ILO's Start and Improve Your Business (SIYB) methodology has proved to be an effective vehicle in this context. Used in more than 90 countries worldwide, 34 of them in Africa, it follows a capacity-building multiplier strategy, working with 75 ILO-licensed Master Trainers who train trainers from existing local and national organizations; they in turn train the small entrepreneurs, thus reaching large numbers of people on a sustainable basis. The ILO GET (Gender and Enterprise Together) Ahead for Women in Enterprise programme, which primarily addresses the needs of women entrepreneurs, is particularly relevant for use in Africa. While formality is associated with a higher quality of working conditions and social protection than informality, the differences can sometimes be marginal. So, in providing enterprise development with a view to promoting increased employment opportunities and a transition into formality, it is vital that job quality is addressed explicitly, with an emphasis on the contribution it can make to improved productivity.

An integrated approach that is sensitive to gender differences is also required in order to equip women entrepreneurs with the means to enable them to shift from marginal income generation to profitable business. At the micro level, this includes combining provision of skills training with basic business development and other soft skills, which in many cases may include literacy. This is in addition to a range of support services which include legal-awareness-raising, support for unpaid family responsibilities and access to information, including on markets and microfinance opportunities. At a meso level, policy needs to ensure that business development support and financial providers do not exclude women, and that indeed when necessary they develop targeted approaches towards women. Market access is also essential and encompasses a range of strategies, from encouraging women to participate in trade fairs to e-commerce programmes, development of fair-trade initiatives, supporting women producers in design, quality control and marketing strategies and linking women to trade and export markets. At a macro level, equality-promoting legislation and policies to enhance access to productive resources for women including land, property, inheritance, technology, skills development and credit are a vital component of an enabling environment for pro-

poor growth strategies. Fiscal and trade policies need to be designed in ways that avoid distortions in favour of male producers and towards large-scale and foreign-owned businesses. Investing in infrastructure, roads, utilities, sanitation, health facilities, childcare and labour-saving technologies in the home can significantly increase the amount of time women can devote to remunerative production.

The role of public employment programmes

Public works programmes provide direct and temporary employment opportunities at low-wage rate in public works and other activities that produce public goods or services. These jobs comprise labour-intensive infrastructure projects as well as community activities and civic projects. Public works have been widely implemented in African countries and are regularly managed by governments aiming to reduce unemployment rates and improve prospects for the target population, namely, disadvantaged workers, including the poor, the unskilled and the long-term unemployed (as for example the very effective work employment programmes in South Africa during the recent financial global crisis). Evaluation evidence indicates that public works can be an effective safety net strategy to tackle poverty in times of crises by providing relatively low wages to poor families.

Introducing innovations in public employment programmes

The role of the State in providing direct employment through policies promoting productive growth and investments is being more widely recognized, and can contribute to ensuring an employment floor for those that are able to work, as a complement to a social protection floor for those who are not able to work. Public Employment Programmes (PEPs),¹¹⁶ such as Public Works Programmes (PWPs) and Employment Guarantee Schemes (EGSs), have been shown to be very useful tools to protect the most vulnerable against shocks whether in response to a crisis, or as part of longer-term, counter-cyclical employment policy. At the same time, infrastructure, assets and services are developed that promote social and economic development using local resources.¹¹⁷

While emergency PWPs have been used widely for a long time and are generally well documented, there has been significant innovation in the area of public employment in recent years focusing on sustainability, which also changes the scope of options available for public policy in this area. First, such programmes are not only crisis

¹¹⁶ PEP refers to any direct employment creation by government through an employment programme rather than through the expansion of the civil service.

¹¹⁷ For India, the Government expenditure for 2009–10 on NREGA was US\$10.7 billion (a fourfold increase in four years), over 112 million households had registered with NREGA and over 52 million households had been provided with employment (Lieuw-Kie-Song and Philip (2010); case study, The Mahatma Gandhi National Rural Employment Guarantee Act (NREGA) India). For Ethiopia, the budget represents approximately 1.2 per cent of GDP with the scope to benefit 1.2 million people annually providing 150 days of work each combined with transfers to those that are not able to work (Lieuw-Kie-Song and Philip (2010); case study, Productive Safety Net Programme (PSNP)). For South Africa, the expenditure in 2009 was approximately 1.0 per cent of GDP with a target to benefit 4.5 million people over five years (Lieuw-Kie-Song and Philip (2010); case study, Expanded Public Works Programme (EPWP)).

responses; in many countries in the world, unemployment is an ongoing challenge, with markets unable to create employment on the scale required. PEPs are able to complement employment creation by the private sector, and offer an additional policy instrument with which to tackle the problem of un- and underemployment, as part of a wider employment and social protection policy. Second, the range of work undertaken has changed. PWPs and EGSs have been strongly associated with infrastructure and construction “works”, but this has evolved, with examples of work in the social sector, environmental services, and multi-sectoral, community-driven programmes. And most significantly, the introduction of the National Rural Employment Guarantee Scheme (NREGS) in India has moved towards a notion of the right to work, by making 100 days of work per household a legal entitlement in rural areas. This also raises new options for alignment and convergence between public employment and wider social protection policy, and also between sustainable productive employment and natural resources conservation.

These developments significantly expand the range and scope of policy choices and opportunities available in relation to public employment, whether as part of a crisis response, as part of long-term employment policy, or as a complementary element within wider social protection policy.

PWPs and EGSs in Africa

There is a renewed interest in PEPs in many African countries with a view to combining the objectives of generating short-term employment, providing income support and creating and preserving infrastructure and other assets, including a productive natural resource base. The impetus comes from large-scale programmes such as the Productive Safety Net Project (PSNP) in Ethiopia and the Expanded Public Works Programme (EPWP) in South Africa. Many new PWPs and EGSs are now being established in Africa with financial support provided by development partners, creating a whole range of additional challenges. One of those is the Ghana Social Opportunities Project, including labour-intensive public works and conditional cash transfers (see box 3.1).

Box 3.1. Ghana Social Opportunities Project

The Ghana Social Opportunities Project has been designed to support targeted social protection spending, to increase access to employment and cash-earning opportunities for the rural poor during the agricultural off-season, to increase access to conditional cash transfers, and to improve economic infrastructure in target districts, mainly located in the relatively poor northern parts of the country. The US\$91 million project will be implemented over a five-year period, and is part of the Government's National Social Protection Strategy (NSPS). The Government's NSPS vision is to create an all-inclusive and socially empowered society through the provision of sustainable mechanisms for the protection of persons living in situations of extreme poverty and related vulnerability and exclusion.

The Labour-Intensive Public Works (LIPW) is the largest component (US\$56 million), with an objective to provide targeted rural poor households with access to employment and income-earning opportunities, through rehabilitation and maintenance of public or community infrastructure. This pertains particularly to seasonal labour demand shortfalls during the agricultural off-season or due to external shocks such as floods or droughts. The aim is to maximize local employment while rehabilitating productive infrastructure assets, which have potential to: (i) generate local secondary employment effects; and (ii) protect households and communities against external shocks. This component will establish a LIPW-based scalable instrument that provides quick-response mechanisms during a crisis.

The second largest component is the ongoing Livelihood Empowerment Against Poverty Programme (LEAP). The current programme is a pilot conditional cash transfer that is financed and implemented by the Department of Social Welfare with technical assistance and other support from donors. There is recognition of the need to build additional capacity within the programme's administration at the national, regional, district and community levels to allow for the rapid expansion of the programme and improve targeting. The US\$20 million programme component will also finance incentive payments to the unified treasury account to ensure that LEAP meets its target of 164,370 households by 2012 and thereby contributes to improved human capital outcomes for these households.

Finally, capacity-building (US\$4.1 million) at the national and local levels will be an important project component. The NSPS will be implemented in selected project districts, with a view to enabling a gradual scaling-up and targeting at the national level. This component will therefore implicitly strengthen the Government's decentralization programme. Several distinct sets of capacity-building activities will be undertaken, including activities to support the institutional, regulatory and policy frameworks and the implementation of LIPW and LEAP.

Within a framework of fiscal sustainability, sufficient resources should be used for such PEPs aimed at reducing inequality. With proper attention given to wage-setting, proper working conditions and appropriate capacity-building, people stand a better chance to graduate from these programmes. These issues are further developed in the Policy Paper and International Course on Innovations in Public Employment Programmes developed by the ILO¹¹⁸.

¹¹⁸ ILO (2010b)

Policy recommendations for PEPs in Africa

Lessons learnt from other programmes:

1. **Learning from doing.** Large-scale PEPs, such as EPWP, have benefited from experience gained over many years from previous and similar schemes in their respective countries. African countries that have embarked on PEPs in response to the financial crisis should not be discouraged or give up if the results are not immediately as expected.
2. **Effective targeting.** PEPs face targeting challenges to reach the intended beneficiaries. Different targeting mechanisms exist such as geographical, categorical and self-targeting.
3. **Capacity development.** Ensuring satisfactory and balanced performance on the multiple objectives, including employment generation and asset-creation, is challenging, especially since very often such programmes are implemented in contexts where institutions and technical capacities are weak. Setting up and operating long-term PEPs with or without an employment guarantee is complex, requiring a combination of adequate resources, appropriate management structures, effective planning and administrative processes and adequate technical inputs.
4. **Support to institutions.** The institutional setup and capacity is of crucial importance for efficient counter-cyclical measures such as PEPs that will shrink and expand as economic conditions change. A shift from a short-term perspective in the case of emergency public works programmes towards a medium- to long-term perspective has to be considered as one moves towards public employment guarantee schemes.
5. **Social dialogue.** Programmes must be designed to avoid threatening established employment norms. If the PEP is to work under special provisions, these should be designed and negotiated through a dialogue process to ensure that they create decent employment and abide by basic labour legislation such as acceptable wage and health and safety requirements. Indeed, recent large-scale programmes have shown that the dialogue process around employment norms for these programmes can positively contribute to raising awareness and establishment of new decent work practices.

Facilitating transition to formality: The challenge of informal employment in Africa

Breaking out of informality is one of the main development challenges for Africa as informal employment is a key feature of African countries' labour markets (see chapter 1 and 3 above). Despite the fact that there is a tremendous lack of available and reliable statistical data on the informal economy in Africa, the available data confirm that informal economy workers face worse working conditions and higher poverty risk than those in the formal economy¹¹⁹. While some activities in the informal economy offer reasonable livelihoods and incomes, most people engaged in informal activities face insecure incomes and a wide range of decent work deficits. The informal economy is the main and often only source of livelihood for many groups of workers who accumulate multiple layers of disadvantage based on gender, ethnic origin, migrant status, skills, access to capital, and other factors. High exposure to risk combined with low social protection coverage places most informal economy workers in a very vulnerable situation and working poor are found disproportionately in the informal economy. Ample empirical research has shown that workers in informal employment, including own-account workers, unpaid contributing family workers, and those operating very small enterprises, typically have lower earnings and face higher risks of poverty than workers in formal employment¹²⁰. Not only is this damaging to the well-being of these workers and their families but it also constitutes, as a range of evidence shows, a severe constraint preventing households from increasing productivity and finding a route out of poverty.

At the root of the problem of the informal economy is the inability of African economies to create sufficient numbers of formal jobs. Therefore, a major policy challenge is what African countries can do to increase the creation of formal jobs, a matter dealt with in Chapters 4 and 5..

Informal employment in Africa: A complex and heterogeneous reality

Informal employment comprises: i) own-account workers and employers employed in their own informal sector enterprises, ii) contributing family workers, irrespective of whether they work in formal or informal sector enterprises and iii) employees holding informal jobs, whether employed by formal sector enterprises, informal sector enterprises, or as paid domestic workers by households¹²¹. In all developing regions, self-employment constitutes a greater share of informal employment (outside of agriculture) than wage employment: specifically, self-employment represents 70 per cent of informal employment in sub-Saharan Africa, 62 per cent in North Africa, 60 per cent in Latin America, and 59 per cent in Asia. Self-employment represents nearly one-

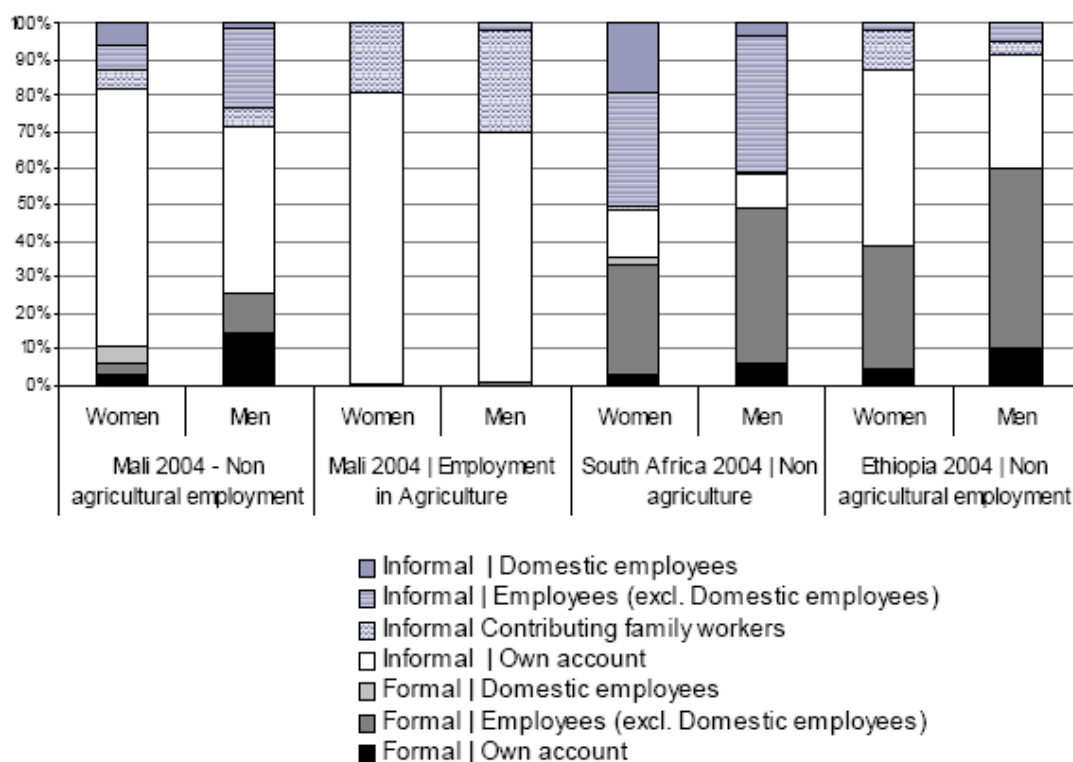
¹¹⁹ ILO, 2009b.

¹²⁰ Bhalla and Lapeyre, (2004)

¹²¹ Hussmanns, (2004)

third of total non-agricultural employment worldwide and constitutes as much as 53 per cent of non-agricultural employment in sub-Saharan Africa, 44 per cent in Latin America, 32 per cent in Asia and 31 per cent in North Africa¹²². The share of own-account and contributing family workers in total employment was 81 per cent in LDCs in 2008 compared with 59 per cent in developing countries¹²³. However, this aggregate data should not overshadow disparities of employment by status among countries, as illustrated by Figure 3.5.

Figure 3.5: Distribution of employment by status and informal/type of employment in selected African countries (percentage of total non-agricultural employment/total employment)



Source: ILO/STAT estimates, data on distribution of male and female employment by status in employment and informality

In addition to the status in employment, the diversity of informal employment among countries can also be captured through a set of characteristics related to activity (type and size of enterprise, location of activity), social protection (contribution to social security), employment protection (type and duration of contract, annual leave protection) that can be considered to define a “scale of informality”.¹²⁴ Figures 3.6, 3.7

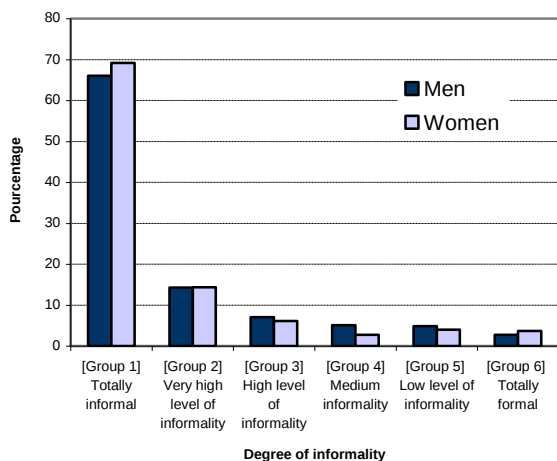
¹²² ILO, (2009b)

¹²³ UNCTAD, (2010: 36)

¹²⁴ See for detailed information regarding the methodology on levels or scale of informality, the following publications: ILO (2008a); ILO (2008b), ILO (2008c); ILO (2004, revised 2005)

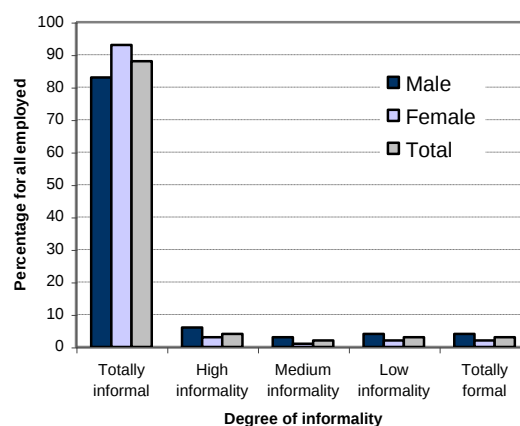
and 3.8 provide a distribution of total employment by “level of informality” in three countries.¹²⁵

Figure 3.6: Mozambique: Distribution of employment along the scale of informality, by sex (percentage of persons in employment)



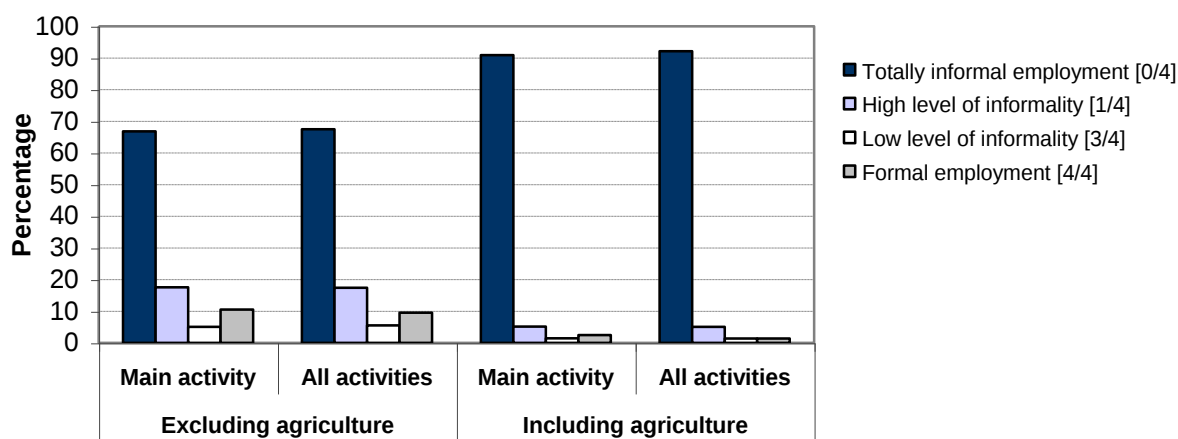
Source: Mozambique, ILO People Security Survey 2006

Figure 3.7: Zambia: Distribution of employment along the scale of informality, by sex (percentage of persons in employment)



Source: Zambia, Labour Force Survey 2005

Figure 3.8: United Republic of Tanzania: Distribution of employment along the scale of informality excluding and including agriculture for both main and secondary activities (percentage of total employment)



Source: Tanzania, Integrated Labour Force Survey 2005

¹²⁵ The number of “informality levels” (which can differ from one country to another) depends on the number of criteria used to define the scale according to data availability. Whatever the number of categories, the selected set of criteria reflects the three main dimensions indicated above: type of activity, social protection and employment protection.

The first step toward designing effective interventions in African countries to improve conditions in informal forms of employment is to recognize the heterogeneity of informal activities. For example, consider the case in which informal workers are able to capture the majority of the value-added they produce. These activities could include the self-employed producing directly for the domestic market or community-based enterprises in which the value-added is not appropriated. Under such conditions, interventions that increase labour productivity in the informal employment will raise living standards, since workers will be able to capture the gains of the productivity improvements. Targeted policies to improve productivity could include access to credit and capital, educational programs for skill enhancement, and infrastructure development (e.g., electrification). However, for wage workers in the informal economy a focus on productivity improvements as a strategy to raise living standards could be far less successful than extending social protection or enforcing core labour rights or minimum wages.¹²⁶

Effective policy frameworks should give space to a *substantive definition of the economy*, coming from Polanyi intellectual legacy¹²⁷. While conventional formal economy approaches consider the market as the main matrix for economic actions¹²⁸, substantive approaches aim to study, without any paradigmatic *a priori*, the plurality of coexisting economic logics within the informal economy and how they interact; in other words, informal economy actors are not just driven by cost and efficiency considerations but also by other considerations such as risk minimization, livelihood securization, social ties preservation and their practices are the result of complex and temporary compromises between those different and sometimes competing considerations. Improving working and living conditions of informal economy workers implies to better understand the access to resources by informal economy units; taking into consideration market resources (stemming from the sales of goods and services), redistributive resources (issuing from eventual public policies, programs of international organizations or international/national NGOs), resources emanating from reciprocity relations (embedded in local networks of solidarity) and resources stemming from the domestic group (such as family, household networks)¹²⁹.

Informal economy activities can be *economic-oriented*, linked to an activity of producing goods and services. They can also be *social-oriented*, as employment and revenue creation, those connected with working rules, meanings and conditions, with gender issues,... as well as so many other possible social innovations and contributions done by the projects. In some cases, they can also be *environmental-oriented*: generation of environmental benefits with activities of producing ecological goods and/or services – as sorting and recycling or recuperating and revaluing waste,... –, internalizing of the environmental externalities in the production process – other production activities done

¹²⁶ Heintz and Pollin, (2008: 61)

¹²⁷ Polanyi, (1944)

¹²⁸ Nyssens, (2000)

¹²⁹ Laville and Nyssens, (2001)

in an ecologically sustainable way, as the use of ecological inputs, the minimization of the environmental costs of production...¹³⁰. Finally, there can also be issues linked to empowerment and citizenship construction processes, even in the informal units as their relationships to the public sphere are very diverse and multiform¹³¹. Such political dimension – linked to norms, values, trust and networks – and, more generally, the relation to a the public sphere¹³² remains today to be much better understood to facilitate transition to formality.

Towards a pragmatic approach for facilitating transition to formality and decent work

Development policy frameworks in African countries must tackle the issue of informal employment as a significant portion of workers is trapped in lower paid and more precarious forms of employment. Economic growth must be associated with such a movement into better employment opportunities or an improvement in the conditions of employment in informal activities. The promotion of a pro-poor and inclusive growth path requires consideration of how these forms of employment are integrated into a broader development strategy¹³³. This issue is central to realizing decent work, as a global goal and for all workers; to achieving the Millennium Development Goals; and to promoting a fair globalization. It is against this background that the informal economy debate and possible strategies towards formalization are gaining new momentum at all levels and in Africa.

Curbing the spread of informality in Africa means first, and foremost, making employment a central concern of economic and social policies, promoting employment-friendly macroeconomic frameworks (Chapter 2) and supporting productive sectors of the economy with high employment multipliers (Chapters 4 and 5). Considering the labour market situation in most African countries, exit from informality should be treated as a long-term perspective, associated with other transformations of the real economy, whose complexity goes far beyond the formal-informal dichotomy. The policy challenge is to move from job creation in the informal economy to significantly upgrading the scope and pace of creating decent work opportunities across the economy. In African countries, macroeconomic and sectoral strategies are equally important as for the informal self-employed, the domestic market is the primary source of demand for goods and services. Therefore, barriers to market access and/or insufficient local demand will limit the ability of these individuals to realize income from their productive efforts. Relaxing other constraints – e.g. improving access to productive assets – may have limited impact when limited market access and insufficient demand are significant obstacles. The policy framework should support improvements in the quality of employment. Possibilities for raising the quality of employment opportunities are often constrained by low productivity and/or the inability of workers to capture the

¹³⁰ Anastasiadis and Mays, (2008)

¹³¹ Lautier, (2004)

¹³² Lemaître, (2009)

¹³³ Heintz, (2009)

benefits of productivity improvements. Finally, workers must enjoy sufficient economic mobility to take advantage of new and better opportunities when they become available. Barriers to mobility – including labour market segmentation – limit the redistributive impact of an employment-centred development strategy.

Extreme poverty and mass working poverty in many African countries, and especially Sub-Saharan countries, minimize the relevance of the *two-tier* policy approach of the informal economy where the upper tier is reserved to those who prefer informality over a job in the formal labour market and a lower tier composed of those who are there because of no other alternatives¹³⁴. This view which suggests that high informality results from a massive opting out of formal institutions by firms and individuals comes from middle income developing countries such as Argentina, Brazil and especially Mexico¹³⁵ but it seems largely irrelevant in the case of African countries where those having *the option of* voluntarily opting out of formal employment is a very limited group of people. For policy formulation, this is a very important feature to consider.

To facilitate transition to formality and decent work there is no universal policy framework to implement but a set of multidimensional policies which can be combined in an integrated policy framework and adapted to each specific country labour market context. Policies should target simultaneously 3 objectives:

1. Promoting formal employment:

- Pro-employment macroeconomic policies (see chapter 2)
- Pro-employment sectoral policies with a special focus on sustainable MSMEs development with a particular focus on women entrepreneurs (see chapter 4)

2. Reducing informal employment:

- Reducing the cost of the transition to formality: Creating an enabling policy and regulatory environment that reduces, both at the national and local levels, the barriers to formalization while protecting workers' rights. Measures for encouraging the formalization of informal enterprises need to address: i) The factors hindering their growth (productivity, skills, access to resources and markets) and ii) The costs of formalization which discourage their participation in formal societal institutions.
- Increasing the benefits of being formal: Promoting a greater awareness of the benefits and protection that come with formalization by providing Business Development services for MSMEs, foster the productive development of MSMEs by facilitating their access to the market, productive resources, credit programs, as well as training and promotional programs to up-grade informal economy

¹³⁴ Fields (2005)

¹³⁵ Maloney,(2004); Perry et al, (2007), OECD, (2009)

units but also fostering linkages between enterprises of different sizes in value chains and clusters to improve market access,

- Increasing the cost of being informal: The strategy based on reducing the cost of the transition to formality and increasing the benefits of being formal should go hand in hand with increasing the cost of being informal. Core labour rights and standards are non-negotiable minima, with non-compliance being subject to non-discretionary punishment. But there is space for a pragmatic approach as regulations are more likely to be effective when there are different options available to enforce laws. It requires both: i) Innovations in workplace inspection and ii) advice, dispute settlement and promotion of collective organization and action as well as training programs that target informal enterprises which need to be sensitized to the need of improving employment and working conditions.

3. Increasing decent work in the informal economy

- Developing a minimum social protection floor for all
- Implementing a minimum wage and health and safety incentives
- Organizing workers from the informal economy and encouraging informal enterprises to join together in production conglomerates or cooperatives.
- Supporting the development of Social Economy Enterprises and Organizations.

States should search for innovative forms of regulation based more on “carrot and stick” approaches rather than “command and control” to avoid unnecessary rigidity. Indeed, some of the more effective innovative regulatory approaches have succeeded precisely because they have been inclusive and participatory in their design and implementation. Three different regulatory techniques may prove particularly fruitful: i) Education, information and social dialogue, ii) Provision of financial subsidies and other incentives and iii) Innovative procedural regulation. The State should use such a wide range of regulatory and enforcement techniques to achieve its policy goals. Appropriate regulatory systems can, and should include *hybrid strategies*, using both governmental and non-governmental actors; and ii) be *multi-faceted*, using a number of different strategies simultaneously; and may be *indirect*.

In addition, one of the promising paths in Africa to facilitate transition to formality and decent work is the development of the social economy¹³⁶. From an institutional perspective¹³⁷, the social economy covers cooperatives, mutual benefit societies, associations (including collective associative forms of entrepreneurship), social enterprises and foundations. However, this definition cannot be deemed sufficient for

¹³⁶ ILO, (2009d):

¹³⁷ This categorization in defining the SSE between a legal and institutional approach and a normative approach was initially developed in Defourny, Develtere & Fonteneau (2000)

understanding and appreciating the diversity of Social Economy Enterprises and Organizations (SEEOs) as it does not specify the inclusive features of SEEOs¹³⁸. A number of characteristics, values and principles are inclusive to the social economy and characteristic to most SEEOs. SEEOs are essentially ruled by the stakeholder principle – in contrast to the shareholder principle. SEEOs put people and their surrounding community, rather than financial profit maximization, at the centre of their activities. SEEOs do not primarily pursue the goal to maximize financial profits, but aim to create both economic and social benefit. Another characteristic of SEEOs is that they do business, i.e. they have a commercial activity. All institutional components of the social economy (i.e. cooperatives, mutual benefit societies, associations and community-based organizations, social enterprises and foundations) share inclusive – and sometimes common, features¹³⁹.

In Africa, there are only a few examples of public policies or public administrations explicitly dedicated to the promotion of SEEOs as a whole; whereas many policies aim to specifically promote cooperatives, common initiative groups and economic groups or associations (e.g. Côte d'Ivoire, Chad, Guinea and Madagascar), or cooperatives and economic interest groups (e.g. Cameroon). The only exception is found in Mali, where the Department of Economic Solidarity was put in place in 2006. However, some countries like Senegal (National Poverty Strategy), Nigeria (National Economic Empowerment Development Strategy) and South Africa (Shared Growth Initiative) adopted strategies and programs fostering SEEOs. This is particularly the case in South Africa with the contributions of SEEOs in economic development strategies. More recently, the government of the Republic of South Africa endorsed a new growth path policy that places employment at the centre of the government economy policy. In cooperation with social partners, this new economic growth path sets a target of creating five million jobs in the coming ten years; i.e. reducing unemployment from 25 to 15 percent. For reaching this target, five 'job drivers' were identified as 'areas that have the potential for creating employment on a large scale and securing strong and sustainable growth in the next decade'. Supporting the social economy and its enterprises and organizations was amongst them: 'leveraging social capital in the social economy and the public services' for more employment-intensive growth. The potential employment target by supporting the social economy is estimated at 260,000 new employment opportunities. 'A development policy package for growth, decent work and equity' will be implemented for supporting these job drivers in facing ranges of challenges in the economy. The microeconomic package involves ten programmes, including rural development policy; in which SEEOs can also contribute for improving

¹³⁸ The inclusive features of SEEOs should be considered as the most salient limits between SEEOs and non-SEEOs. These limits are drawing the boundaries of SEEOs.

¹³⁹ The social economy covers a varied array of organizations, then we could hardly define an exhaustive list of social economy organizations; consequently as long as organizations are fulfilling the essence of these features, they can be considered as belonging to the social economy.

livelihoods in rural communities, as well as helping rural households to increase their production¹⁴⁰.

In North Africa, countries such as Algeria, Tunisia and Morocco are increasingly supporting the development of SEEOs. During the previous regime, the Presidential Program for Tomorrow's Tunisia was launched in 2004 and aims to prioritize and encourage activities and organisations promoting the approach of solidarity. The Tunisian Solidarity Bank is a microfinance institution, established by the former Tunisian President Ben Ali in 1997 to finance private micro-projects in Tunisia. In Morocco, the department of the social economy within the Ministry of Economic Affairs established a strategic policy framework that takes into account the transversal, multi-sectoral nature of SEEOs with their regional and local specificities¹⁴¹.

SEEOs are both economic and social actors; as such they play a major role in creating and securing decent employment and income. SEEOs can further create and/or sustain jobs and livelihoods in socio-economic context where other types of enterprise and organizations may not. Based on their operating principles (i.e. participation, solidarity, voluntary involvement and autonomy, and collective dimension) and on their resources, SEEOs can generate the following economic and social benefits:

- Economies of scale: by pooling members' resources, cooperatives, mutual benefit societies and collective associative forms of entrepreneurship among other SEEOs can increase their production and lead to decrease the average total cost in the long term. According to modalities of benefits redistribution, economies of scale can result in increasing workers' productivity; and, according to modalities of benefits redistribution, economies of scale can also result in increasing and/or securing members' incomes through the SEEO. Without economies of scale, and therefore without economic viability, the size of productive investments (e.g. irrigated perimeter, agricultural equipment) is not compatible with the capacities (capital, workforce, production scope) of small producers taken individually. Pooling their resources into the same enterprise or organization (e.g. a SEEO) is sometimes the only means for small producers to access to the financing of these investments. Pooling their resources also allows these producers to increase for example the size of the credit, to put in place mechanisms of *caution solidaire* (to be jointly liable for a credit) or to develop self-reliant and self-managed forms of savings and credit.
- Market power: pooling economic actors within a cooperative, a mutual benefit society or within an association enables these latter to have an influence on market prices. As an illustration of this mechanism, pooling businesses' demand and supply compensates disadvantages of small size of enterprises and economic organizations *vis-à-vis* larger businesses. By enabling an increasing market power to their members/users/beneficiaries, SEEOs would be able to guarantee lower selling/cost price to these as well as they would be able to smooth price fluctuation (e.g. SEEOs

¹⁴⁰ 'The new growth path: the framework' on South Africa Government Online (www.gov.za) – 10/12/2010.

¹⁴¹ ILO, 2010c

involved in fair trade). Vertical and horizontal integration of SEEOs can also increase their market power.

- Bargaining power: vertical (e.g. in supply chains) and horizontal integration (e.g. in sectoral federations) of SEEOs, and cooperation with social partners, can provide a voice to members at an upper level in order to protect their interests. Market power and economies of scale provided by SEEOs to their members/users/beneficiaries reinforce their bargaining power, and conversely.
- Transaction cost advantages: increase efficiency and savings on transaction costs can contribute to SEEOs' credit worthiness and introduce new investment opportunities.
- Diffusion of information: SEEOs can facilitate the diffusion of information among members, users and beneficiaries; as well as they can increase and enhance knowledge transfers, including innovations, as a result of human resource development and of cost transaction reductions (by lowering costs of search and of information on potential contractual partners, reducing negotiation and decision costs, and economizing on contract monitoring and executing costs).
- Education and training: in implementing this 5th cooperative principle as defined in the *Statement on the Co-operative identity* of the ICA, cooperatives can provide education and training to their members so they can contribute to the development of their cooperative, as well as they can inform the general public (in particular young people and opinion leaders) about the nature and benefits of a cooperation.

In a long term prospect, the social economy can provide complementary paths to development that bring together in a coherent manner the concerns of economic sustainability, social justice, ecological balance, political stability, conflict resolution and gender equality. And as SEEOs can be found in both the formal and informal economy, SEEOs could link – or bridge – the informal to the formal economy.

Chapter 4: Promoting productive transformation in Africa: Sectoral strategies for job-rich growth

Introduction

The employment challenge for African countries is rooted in their inability to diversify their economy and promote productive employment for a fast-growing labour force. While industrial policies and sectoral targeted interventions were held under low esteem by the mainstream economics profession in the last 20 years, they are today seen as legitimate and necessary to accelerate growth and influence its pattern to be more employment intensive and lead to better labour market outcomes. Several African countries have recently put in place industrial policy plans to accelerate and better balance their growth paths. Even the World Bank, traditionally reluctant to sectoral interventions beyond infrastructure sectors, argues in a recent study on Nigeria that “Over the short term, employment generation can be fast tracked if binding constraints to growth in the most promising value chains are addressed in a selective manner. This is the central argument of this study”.¹⁴²

This is also one of the central arguments of this report: pro-employment growth policies require targeted sectoral interventions within a clear productive transformation strategy. This approach poses a number of fundamental questions:

1. *What should be the priority sectors for potential job creation?*
2. *What are the main binding constraints to the development of targeted sectors and value chains?*
3. *What key policies, measures and reforms could increase labour intensity of growth?*

These questions are not easy to answer. A number of methodologies can be helpful, and a number of principles should be observed so that sectoral policies do not lead to serious distortions and end up in failure. The new trend in thinking is leading to growing requests from countries for assistance, including from the ILO, in the field of pro-employment sectoral policies. Decision makers and the people in Africa are increasingly asking for: i) information on the different abilities of various industries and sectors to generate good jobs and ii) analytical tools to compare the different alternatives. It illustrates a new awareness and assertiveness that it is time to re-conceive development policies as policies that adjust to people's needs and aspirations for decent work and a better life for themselves and their children. In that context, a concise and comprehensive description of priority sectors' relationship with the rest of the economy is necessary to guide policymakers. However the nature of these relationships is not generally well understood.

¹⁴² Treichel, V. (2010), p 41.

Sectors that are important for growth may not be the most important for employment retention and creation, which is of critical importance given the employment challenge facing African countries. The whole dynamics of economic growth and job creation are crucially dependant on the structure of the economy (i.e. economic activities being developed). Thus, future investment in priority sectors should not be assumed *ipso facto* to produce benefits to the economy and employment as there is no automatic trickledown effect but many competing paths with very different impact on the pattern of growth and job creation. This is why tools are needed that yield the effects created by an increase or decrease in economic activity of various sub-sectors.

Sectoral targeting is a key dimension of employment targeting and the new generation of development strategies in Africa need to take labour-intensity into account as one of the key factors in determining which sectors to prioritize. One way of thinking about increasing the aggregate level of labour-intensity in the economy is either to increase the share of relatively labour-intensive sectors, or to increase the degree of labour intensity within sectors (or both). The empirical findings of sectoral analysis – in particular the ranking of sectors according to their degree of labour-intensity – can provide an information base for prioritizing sectors according to their labour-intensity. At the end, national development strategies should include a strong component of sectoral targeting, with employment being one of the considerations taken into account in that targeting.

Productive structural transformations are crucial for sustainable development in Africa. While self-employment plays in the short-term a key role for securing livelihood of a vast number of workers, any long-term strategy to promote better living and working conditions for people should focus on the development of wage-employment. And experience in many developing countries has shown the potential of sectoral strategies to remove binding constraints in sectors that have substantial employment potential. Restructuring the pattern of growth toward inclusive and job-rich growth will require priority sectors wide policies (for sectors with the highest employment generation potential) but also more targeted priority value chains policies to get results over the short-term. Such a new approach to sectoral policy should be result-oriented and performance driven with employment and decent work as core variables to monitor and report on. It goes hand in hand with the strengthening of the labour market information system to track employment creation and assess the employment impact of sectoral policies implemented.

The challenge

Africa faces the challenge of triggering and sustaining a dynamic process of development and productive transformation. Development is defined as a process of economic and social transformation, characterized by the adoption of more sophisticated technologies and diversification into non-traditional and higher value-added goods and services, the development of domestic capabilities and the transformation of employment patterns.

Increasing capabilities, productive transformation and productive employment, are interrelated processes that, in a virtuous circle, create sustainable growth and high economic performance¹⁴³.

Structural adjustments programs, trade liberalization and the so called “curse of natural resources” (Surge in exports of primary commodities and FDI concentration related to it) have led many African countries to abandon their industrialization agenda and to a premature stop of their industrialization process or even worse de-industrialization pushed by a sharp reduction of manufacturing¹⁴⁴. Data from UNCTAD/UNIDO show that one of the important features of manufacturing in Africa today is that, relative to other developing economies, the sector plays a very limited role in African economies¹⁴⁵. African countries have not taken full advantage of the opportunities offered by the transformation of manufacturing within the global economy. While Africa’s share of global manufacturing exports rose slightly from 1 per cent in 2000 to 1.3 per cent in 2008, in low- and middle-income countries in East Asia and the Pacific it rose from 9.5 per cent in 2000 to 16 per cent in 2008. Table 4.1 shows that manufacturing contribution to GDP in Western Africa dropped from 13.3 to 5.0 between 1970 and 2008, and it dropped respectively from 10.3 to 6.4 in Central Africa and from 13.6 to 10.7 in Northern Africa while the contribution of the mining to GDP was booming in all those regions.

But the failure of commodity export-led economic growth to translate into significant poverty reduction is particularly evident in many African countries where growth has been propelled by investment in the capital-intensive mining and oil industries. Lack of diversification is reflected in weaker development of manufacturing and high value added services sub-sectors, and perpetuation of low-productivity agriculture and food deficits. Investment rates have picked up, but from a low base and with poorly diversified productive capacities, perpetuating reliance on capital inflows and ODA.

¹⁴³ Rodrik, (2007); Cimoli, Dosi and Stiglitz, (2009); Chang, (2009); Salazar-Xirinachs and Nübler, (2010)

¹⁴⁴ Palma, (2007)

¹⁴⁵ UNCTAD, (2011)

Table 4.1: Contribution of Industry to GDP, 1970-2008

Table 1. Contribution of industry to GDP, 1970–2008							
	% share of GDP	1970	1980	1990	2000	2005	2008
World	Industry	36.9	38.1	33.3	29.1	28.8	30.1
	Manufacturing	26.7	24.4	21.7	19.2	17.8	18.1
	Mining & utilities	3.9	7.1	5.2	4.5	5.5	6.2
Developing economies	Industry	27.3	41.1	36.8	36.3	38.9	40.2
	Manufacturing	17.6	20.2	22.4	22.6	23.3	23.7
	Mining & utilities	5.7	14.7	8.9	8.3	10.1	10.9
African developing economies	Industry	13.1	35.6	35.2	35.5	38.8	40.7
	Manufacturing	6.3	11.9	15.3	12.8	11.6	10.5
	Mining & utilities	4.8	19.3	15.2	18.4	23.0	25.8
Eastern Africa	Industry	3.1	7.8	20.6	18.6	20.6	20.3
	Manufacturing	1.7	4.9	13.4	10.4	10.3	9.7
	Mining & utilities	0.8	1.5	3.3	3.1	3.6	3.7
Middle Africa	Industry	34.2	38.4	34.1	50.4	57.9	59.8
	Manufacturing	10.3	11.8	11.2	8.2	7.3	6.4
	Mining & utilities	19.1	21.2	18.9	39.3	47.9	50.5
Northern Africa	Industry	34.2	50.0	37.4	37.8	45.0	46.0
	Manufacturing	13.6	9.7	13.4	12.8	11.3	10.7
	Mining & utilities	15.7	33.0	17.2	19.5	28.2	29.8
Southern Africa	Industry	38.2	48.2	40.6	32.7	31.7	34.5
	Manufacturing	22.0	20.9	22.9	18.4	17.9	18.2
	Mining & utilities	12.0	24.0	14.3	11.7	11.2	13.1
Western Africa	Industry	26.7	43.3	34.5	39.8	36.7	37.4
	Manufacturing	13.3	16.8	13.1	7.8	6.0	5.0
	Mining & utilities	7.7	21.3	18.8	29.3	27.7	29.6

Source: UNCTAD/UNIDO.

In Africa, in parallel to the dismal development of agriculture (see next chapter) there has been, with a few exceptions, a similarly lacklustre development of the manufacturing sector. For Sub-Saharan Africa as a whole, manufacturing accounted for no more than 10.7 per cent of GDP in 2007, a share that had remained constant since 2000.¹⁴⁶ In only two countries in Sub-Saharan Africa did manufacturing make up more than a fifth of GDP in 2008,¹⁴⁷ in an additional five countries it accounted for between 15 and 20 per cent of GDP,¹⁴⁸ while in 17 countries it made up less than 10 per cent of GDP. The share of manufacturing in GDP increased in ten countries between 1995 and 2008,¹⁴⁹ but fell in 22 out of 36 countries.

¹⁴⁶ Unweighted average. The weighted average was higher (15%), due to the strong weight of South Africa (Economic Report on Africa 2009, p. 75).

¹⁴⁷ Swaziland (44%) and Mauritius (20%).

¹⁴⁸ Cameroon, Cote d'Ivoire, Lesotho, Madagascar and South Africa. Data refer to a selection of 33 countries for which data were available.

¹⁴⁹ Angola, Cote d'Ivoire, Guinea Bissau, Kenya, Liberia, Madagascar, Mozambique, Namibia, Swaziland, Zambia. Data refer to a selection of 63 countries for which data were available.

In some instances, poor governance and enforcement of the rule of law, sometimes regressing into violent conflict, provide a ready explanation for an absence of productive transformation and economic development. However, even when these factors are controlled for, the picture of an undeveloped and stagnant manufacturing sector remains. Table 4.2 provides information on the growth of value added in manufacturing and of its share in total GDP for Sub-Saharan African countries which fulfilled the twin criteria of not having suffered any violent conflict in the past ten years and having had a average CPIA score of 3.4 or more in the past four years.¹⁵⁰

In only one (Lesotho) out of the seventeen countries that met these two criteria did manufacturing account for more than 15 per cent of GDP in 2009, while in nine of them this contribution was less than 10 per cent. Indeed, most of them would seem to have suffered a de-industrialisation over the past decades. Eleven out of the seventeen countries registered a fall in the share of manufacturing in total GDP between 1990 and 2009.¹⁵¹ It would appear that adherence to the prevailing view of what constitutes an enabling business environment and sound macro-economic has produced precious little result in terms of economic diversification and development of manufacturing in the poorest countries in Sub-Saharan Africa.

¹⁵⁰ Only IDA qualifying countries were included, as these are the only ones for which CPIA scores are calculated.

¹⁵¹ Burkina Faso, Cap Verde, Ethiopia, Ghana, Kenya, Malawi, Mali, Nigeria, Rwanda, Senegal and Zambia.

Table 4.2 Economic growth and share of manufacturing in GDP in countries in SSA fulfilling the criteria of no violent conflict in the past ten years and having had an average CPIA score of 3.4 or above in the past four years.

	Manufacturing share of total value added (GDP), %				Avg. annual GDP growth (%)		
	1980	1990	2000	2009	1980-90	1990-00	2000-09
Benin	6.2	7.4	8.6	7.8	2.4	4.8	3.9
Burkina Faso	13.5	13.5	11.6	13.3	4.0	5.5	5.6
Cap Verde	4.9	7.9	5.4	3.3	2.3	6.1	6.5
Ethiopia		4.9	5.0	4.5	1.6	3.8	8.2
Ghana	7.8	10.1	10.1	8.0	3.2	4.3	5.6
Kenya	15.4	13.9	11.5	10.4	4.2	2.2	4.5
Lesotho	4.8	8.8	12.9	20.1	10.1	3.8	3.9
Madagascar	17.9	13.7	13.9	14.3	1.1	2.0	3.8
Malawi	9.9	11.9	9.3	11.3	3.1	3.7	4.2
Mali	7.1	8.6	10.9	6.2	2.5	4.1	5.2
Mozambique	12.9	9	11.8	13.6	--0.1	6.1	8.0
Nigeria	8.9	5.5	3.7	2.5	1.9	2.5	6.6
Rwanda	8.9	9.7	6.9	6.7	0.6	-0.2	6.7
Senegal	13.6	16.5	15.7	13.2	3.2	3.0	4.5
Uganda	5.5	4.6	7.3	7.1	..	7.1	7.5
Tanzania	11.6	8	8.2	9.5	2.9	2.9	6.8
Zambia	7.6	11	11.1	10	0.8	0.5	5.3

Sources: <http://unstats.un.org/unsd/snaama>; World Development Report (1993 :240-241); WDI (2010).

In most of Sub-Saharan Africa the manufacturing sector has a pronounced dual structure, characterised by a small number of large-scale enterprises, mostly foreign owned, and a large number of small firms, many of which are informal.¹⁵² The productivity of the large foreign owned firms is typically at least threefold higher than in the small locally owned firms.¹⁵³ This is indicative of a manufacturing sector that is poorly internally integrated. On the one hand there are enclaves with a few large firms, whose main linkages are likely to be with other firms and production units abroad, but with few linkages to other, smaller domestic firms. On the other hand there is a large number small manufacturing firms, with few if any links to larger and more

¹⁵² Uy (2010)

¹⁵³ *Ibid.*

sophisticated firms. Thus, the potentially symbiotic relationship between large and small firms, where the larger provide the smaller ones with technology and knowhow, market access and at times capital through sub-contracting or other forms of more or less formalised relations, while smaller firms provide the larger ones with greater flexibility of production and lower production costs of specific components through the possibility of out-sourcing and sub-contracting of parts of the production, is largely lacking.

The lack of any substantial development of the manufacturing sector in all but a few countries in SSA and the failure to develop any significant degree of internal integration of the manufacturing sector is a source of concern as the manufacturing sector arguably needs to play a significant role in any strategy for sustainable and job-rich growth in Sub-Saharan Africa. The important role of manufacturing stems from a number of factors and considerations.

- A dynamic manufacturing sector is essential for creating value added chains and strong multiplier effects in the domestic economy. It is also essential for a much needed diversification of the economies and a gradual shift towards more processed goods with a higher value added.
- A diversified manufacturing base can create strong linkages and multiplier effects within the sector, at the same time as it creates a more conducive environment for further manufacturing growth. High transaction costs resulting from poorly developed markets and a lack of positive externalities and agglomeration effects is a handicap for firms in most countries in the region. This problem can only be effectively overcome through dynamic and broad-based growth, where manufacturing and producer services play a main role.
- Sustaining economic development necessitates a parallel advancement of domestic development capabilities, in the form of increasingly sophisticated forms of organisation of production, abilities to adopt and apply innovations and new technologies, managerial and technical skills etc. A dynamic manufacturing sector is crucial for developing and maintaining such capabilities.¹⁵⁴
- The growth enhancing impact of FDI would be greatly improved if FDI could be embedded in an environment where it can link up with domestic firms.
- A large and increasing role of tradables in GDP is necessary to ensure the sustainability of economic development growth,¹⁵⁵ while the present small share of tradables in most of the countries in the region points to problems with poor competitiveness.

¹⁵⁴ For a discussion, see Nubler (2011).

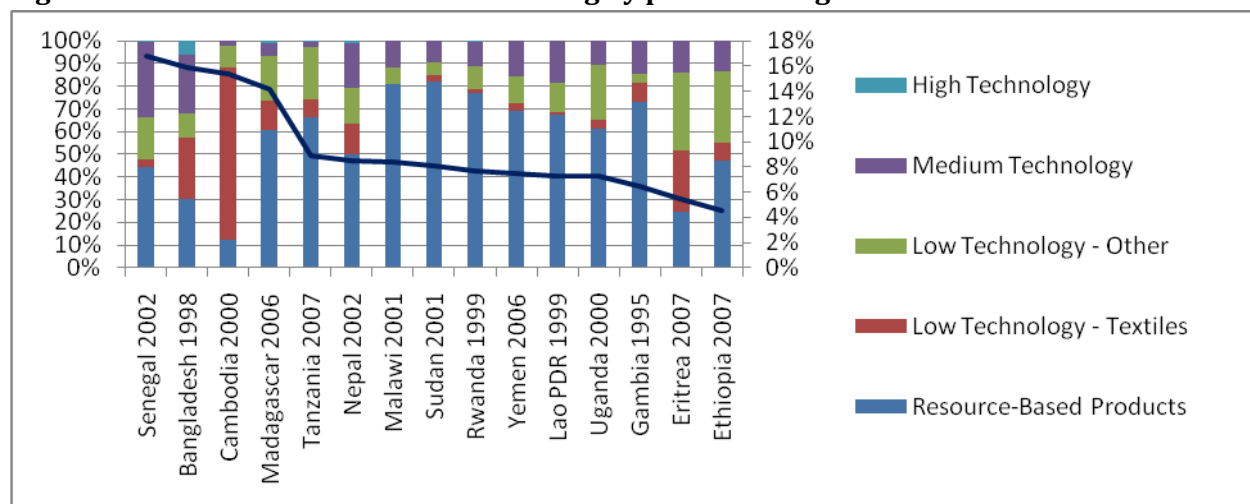
¹⁵⁵ E.g. a large share of tradables in GDP to ensure that the external account does not become a constraint on growth and to move away from dependence on ODA and/or revenues from oil and mineral resources to fund imports.

- A more dynamic development of agriculture and a development of manufacturing need to go hand in hand. It is difficult to envisage a successful pursuit of one without the other.

In addition, “what you produce matters” for the nature of knowledge, technologies and of capabilities that can be acquired in industries. Figure 4.1 provides a snapshot of learning opportunities in selected countries. As expected, low shares in manufacturing are associated with high shares of production in traditional goods and a relatively high concentration of manufacturing on resource-based products, such as food products, beverages, tobacco, wood and wood products. These shares are particularly high in countries with a total share of manufacturing value added below 9 per cent (depicted by the black line). More than half of the countries analysed have 60 to 80 per cent of their production in resource-based products, which are associated with low technologies, low productivity and very low opportunities for the labour force and domestic enterprises to acquire more advanced capabilities.

In contrast, countries with the highest shares in manufacturing also have the lowest shares in resource-based products, at least 40 per cent of their manufacturing is in low and medium technology, with few high-technology products. Furthermore, these countries tend to have the highest degree of product diversification. This indicates that more experience in manufacturing comes with higher diversification and with higher shares in low and medium technology products.

Figure 4.1: Diversification in manufacturing by product categories



Source: United Nations Industrial Development Organization (2010), Indstat4 Database; Author's calculations.

Countries with low shares in the textile, garment and leather industries seem to face particular challenges. In many catching-up countries, these industries have traditionally constituted one of the first low-technology sectors entered, and by enlarging markets through export promotion, and diversifying into a wide range of different products, they could create substantial domestic capabilities. These capabilities were transferred to the production of other low-technology products, and they help to also shift into medium

technologies¹⁵⁶. The limited data available confirm this argument and show that those five countries (Bangladesh, Cambodia, Madagascar, Nepal and Eritrea) that have achieved shares of the textile and garment industry of above 10 per cent could also obtain higher shares in other low-technology products.

But sectoral policies to promote productive transformation and domestic capabilities are complex, they touch a wide set of policy areas and instruments, and each African country needs to design policies according to its own history, interests and aspiration, taking into account limited fiscal space, government and institutional capabilities.

Trade protection to nurture infant industries and learn

Trade protection has been applied by all successful catching-up countries in order to nurture infant industries, provide learning opportunities and create incentives to invest. Successful western and Asian catching-up countries have extensively used import substitution and protection of manufacturing sectors to bring about productive transformation and at the same time accumulate domestic capabilities for high industrial performance¹⁵⁷. Trade protection can be justified on economic grounds, under strict conditions, as it provides learning opportunities, helps build capabilities and helps establish new comparative advantages. The capability development argument suggests that African countries should use the policy space provided under the multilateral trading system to develop new industries, diversify and learn. Countries need to catch up in capabilities, and trade protection has been traditionally applied in countries with limited government and institutional capabilities and fiscal space.

Bilateral free trade agreements (EPAs) drastically reduce this policy space by often requiring zero-level tariffs. Countries therefore may become locked into low technologies, and into existing comparative advantages in low value-added production. Evidence from developing countries on the impact of trade liberalization on growth, trade and inequality shows that those countries that reduced tariffs rapidly and to very low levels between the 1980s and 1990s lost most in terms of world trade share and growth. By contrast, countries that reduced tariffs to moderate levels, thus maintaining protection, achieved the highest levels of growth in GDP per capita and export. Gradual liberalization to moderate levels of protection has been shown to provide the space for industrialization, time to accumulate domestic capabilities in technological dynamic sectors, and to become competitive in international markets. These countries, for example, could benefit most from the increasing global demand for manufacturing goods and IT-related products such as semiconductors¹⁵⁸.

South-South cooperation for appropriate technologies

Learning how to adopt and use imported technologies is a complex and incremental process. It challenges technology policies to support the accumulation of technological

¹⁵⁶ Lall, (2000)

¹⁵⁷ Cimoli, Dosi and Stiglitz, (2009)

¹⁵⁸ Nübler, (2003)

capabilities of workers, enterprises and society at large. Cooperation between developing countries provides a major channel for Africa to transfer appropriate technologies and cheaper capital goods. Technologies imported from other developing countries tend to be more adjusted to the specific needs and the economic, educational and technological conditions of African countries. Furthermore, Africa can benefit from South-South cooperation by importing cheaper capital goods. For example, China is increasingly exporting cheap capital goods to low-income countries.

Investment policies and learning networks

Investment policies to attract domestic and FDI are important to support diversification into higher value-added products. FDI flows between developing countries have risen substantially during the past decade, and flows between East and South-East Asia are particularly pronounced. Asian FDI is also flowing to low-income African countries, supporting infrastructure projects in sub-Saharan Africa; for example, in Angola and the Democratic Republic of the Congo¹⁵⁹.

Expanding domestic and foreign markets for increasing returns and learning space

Markets in many African countries are small, and therefore they are unable to benefit from the increasing returns and learning opportunities that manufacturing creates. Export promotion of manufactured goods facilitates access to international markets, and competitive pressures enforce adoption of advanced technologies and learning. South-South cooperation and regional integration provide the opportunities for some African countries to export low-technology goods to other developing countries because goods are less differentiated, and they require less sophisticated technologies and capabilities¹⁶⁰. In particular, China and India may become major importers of labour-intensive manufacturing goods as income and demand of the emerging middle class increases, and wages are rising giving a competitive advantage to many African countries¹⁶¹.

While it is often argued that catching up in Asian countries was export-driven, evidence also shows that government procurement was used to increase local demand for locally produced goods. For example, the Korean computer industry was heavily supported by the decision of the Korean Government to computerize the public administration and government sector as well as the tax administration system. Although the industry did not succeed in becoming competitive, firms and the labour force accumulated critical capabilities, which they could use for the development of high-technology goods, for example, the flat panel display in the 1990s.

The challenge for Africa is, firstly, to promote a transformation agenda for triggering economic diversification and, secondly, to fuel the transformation process by enlarging

¹⁵⁹ UNCTAD, (2009)

¹⁶⁰ OECD, (2010)

¹⁶¹ Salazar-Xirinachs, (2011)

development opportunities and by facilitating the accumulation of competences. Diversification and employment are instrumental in providing learning opportunities in new technologies and activities. Hence, “what you produce matters” because the nature of diversification and productive transformation shapes the nature of the capabilities accumulated in the labour force, in firms and in societies at large. And the nature of capabilities accumulated in the economy, in turn, defines the option space for further diversification into new products.

As a result of the global financial crisis, interest in industrial policy, productive transformation and catch-up growth have made a remarkable comeback both in academic and policy circles. It is now a good time to revisit the sectoral policy debate, and to promote a more sophisticated understanding of the institutional, informational and political economy balances necessary for productive transformation policies to be successful. The study of linkages between the manufacturing and the rest of the domestic economy reveals that manufacturing is particularly important as a source of demand (especially for the services sector but also agriculture in the case of agro industries) through its strong backward linkages which suggest that promoting the manufacturing sector could positively affect both future growth and employment. The priority is to evaluate the different economic structures of African economies and design industrial and productive transformation policies with a view to promoting a dynamic and high-performing job-rich catching-up process. To do so, there is a crucial need to frame sectoral policies within a dynamic and wider concept of productive transformation, which is linking structural changes in production and employment with the accumulation of domestic capabilities.

National Poverty Reduction Strategies and sectoral policies

National Poverty Reduction Strategies (NPRS) always outline a strategy to promote growth while countering pervasive unemployment, underemployment and poverty. However, the macroeconomic policy guiding principles are given by the IMF structural adjustment and macroeconomic guidelines (see article 4 or IMF's Poverty Reduction Growth Facility), which delineates fairly tight macroeconomic goals, conditions, and benchmarks that are to be followed by monetary policy, fiscal policy, exchange rate management, and financial regulation.

This orthodox macroeconomic policy framework embedded in NPRSs is *de facto* a major binding constraint to development policies in general and employment policies in particular. Thus, a key question one should ask is this: is the IMF macroeconomic guiding principles the best one to use to achieve Government commitments to promote employment and achieve MDGs goals? More specifically, are the programs and targets embedded in the IMF supported programs consistent with achieving national goals with respect to economic growth, poverty reduction and job creation? And what is the best

macroeconomic framework to use to increase the likelihood that NPRSS' objectives will be reached?

Along these lines, an effective development strategy calls for expanding sectors that generate a lot of value added and employment, and have large multiplier effects and linkages to the domestic economy¹⁶². To that aim a better understanding of the national economic structure is needed (what are the most important sectors in terms of employment and GDP contribution? What are the sectors with high income and employment multipliers? What is the level of economic integration of the national economy (forward and backward linkages)?

Priority sector targeting

The purpose of mapping out the various channels of sectoral contributions to overall growth and job creation is to provide a basis for analyzing the differential contributions of different sectors of a domestic economy and formulate an appropriate macroeconomic and sectoral policy to support priority sectors. Indeed, some sectors have traditionally been regarded in the development literature as having special "employment-pulling" and/or "growth-enhancing" properties. It is crucial to determine the channels through which growth in a sector of the economy can raise or support aggregate employment creation and economic growth in the rest of an economy.

One can identify some major channels of sectoral contribution to overall growth and job creation (and some associated binding constraints):

- Backward linkages to the rest of the domestic economy: It creates additional demand for the output of upstream sectors. The impact will be determined by its degree of upstream vertical integration with the rest of the economy.
- Forward linkages to the rest of the domestic economy: i) It creates additional demand for the output of downstream sectors (transportation, transformation industries, etc) and ii) it lowers the cost of its output and output price which goes into intermediate inputs for downstream sectors. The impact will be determined by its degree of downstream vertical integration with the rest of the economy.
- Compositional effects: Growth in a sector with higher (marginal) productivity than the economy wide average would raise aggregate productivity.
- Trade: When a sector is a net generator of foreign exchange (depending of the level of dependence on imported intermediate inputs) it can facilitate a reallocation of resources across the economy in a manner that support higher growth.

¹⁶² The concept of the multiplier is based on the recognition that the various sectors that make the economy are interdependent. The main input for constructing the multipliers is the matrix of interdependence coefficients (also known as the Leontief inverse matrix), which shows how much of each industry's output is required, in terms of direct and indirect requirements, to produce one unit of a given industry's output.

- **Employment:** Wages are a component of domestic demand. A higher wage bill in a sector can have growth-inducing effects by increasing domestic demand and thereby raising the level of resource utilization. Higher employment can also contribute to increase the fiscal space (through taxes on wages, income and consumption) as well as reducing the burden of social security and health on the state. The employment multiplier and composition of the wage bill of a specific sector are two key elements for explaining the direct and indirect impact of a sector growth on growth and employment. Indeed, employment of a greater number of low paid jobs or employment intensive sectors are likely to have a higher positive effect of domestic demand
- **Saving:** Surplus in a sector (if retained domestically) can contribute to aggregate savings which can feed into investment elsewhere in the economy, providing the basis for accumulation and growth.
- **Fiscal:** Sector's tax payments, net of subsidies to the sector can contribute to additional growth through increased fiscal space and appropriate public investment.

Based on this approach, an identification of what the primary constraints on growth and job creation are at any particular conjuncture can allow for the prioritization of sectors that are especially relevant to inducing or supporting a job-rich growth. Empirical results clearly indicate the high degree of heterogeneity in the degree of labour-intensity across sectors. This underlines that looking through a sectoral lens is essential when considering the issue of growth labour-intensity.

Sectoral labour intensity of Growth: Some country experiences

In South Africa, the sector with the highest employment multipliers (other producers) has a multiplier over twenty times as strong as the sector with the lowest multiplier (coke and refined petroleum products) ¹⁶³. According to a composite measure of labour-intensity, the five most labour-intensive sectors in are (in the following order): other producers; clothing; catering and accommodation services; furniture; and textiles. The five least labour-intensive, starting from the lowest, are: coke and refined petroleum products; electricity, gas and steam; coal mining; water supply; and basic chemicals.

In the late 1990, South African industrial policy had targeted the mining industries as priority industries according to their capacity to generate wealth and employment on a large scale"¹⁶⁴. But, trends have showed that there were few linkages between mining and the rest of the economy. There were 15, 19 and 15 sectors of the South African economy (as compared to the 35 considered) that were insignificant suppliers of intermediate inputs to coal, gold and other mining respectively¹⁶⁵. Comparison of

¹⁶³ See Tregenna, (2009)

¹⁶⁴ Republic of South Africa, (1998)

¹⁶⁵ See Stilwell and al., (2000)

multipliers indicates that income generated in nearly all other activities in the South African economy had more important impacts upon GDP than income generated in mining activities. For the period 1971-1993, the gold mining GDP multiplier never ranked above 28 and the other mining multiplier never ranked above 24.

Mining sector employment multipliers were generally higher ranked than their GDP multipliers which suggest that mining activities generated more jobs but lower incomes than many other activities. But there has also been a general trend of decreasing employment linked to increased output and the actual number of new jobs created by increased mining sector output diminished over the period as a consequence of technological change and an increase of the capital-labour ratio in the mining industry. For example, in 1971 an increase of R1 m in output from the coal mining sector output generated 69.5 new jobs but this figure decreased to 24.8 in 1993; same trend in the gold mining sector which ranked 6th in 1971, with 53.8 new jobs per R1m increase and 9th in 1993 with 33.7 new jobs per R1m.

All those sectoral results suggest that South African mining activities are able to increase income and employment only if exports increase (but high vulnerability to external shocks) or/and if policies are established to increase linkages between mining and the rest of the South African economy (but need an integrated policy framework for a better vertical integration of the mining sector into the local/national economy))

In the case of Madagascar, the Madagascar Action Plan (MAP) had outlined a strategy to counter pervasive unemployment, underemployment, and poverty in Madagascar, including a broader role for the financial sector. It set priorities, strategies, goals, and benchmarks for the period 2007-2012, and, in principle, provided the medium-term economic framework for national economic policy. It is important to note here that full employment was a key commitment of the MAP and that it involved a strategy to stimulate job-generating sectors and provided educational training to raise productivity. Thus a key question which must be addressed is this: to what extent is the macroeconomic framework embedded in the Poverty Reduction and Growth Facility and associated mandates consistent with achieving the goals of the MAP? More generally, what was the best macroeconomic framework to use to increase the likelihood that the MAP targets will be reached? ¹⁶⁶

The main macroeconomic challenge for Madagascar is how to mobilize resources and allocate them to activities and sectors that will raise productivity, create decent employment and living standards, while helping Madagascar to make a transition to higher value-added economic activities and shared prosperity. To be sure, there is no simple set of solutions to Madagascar's macroeconomic dilemmas; but an overly zealous commitment to macroeconomic austerity, liberalization, and privatization is not going to be sufficient to reach these goals. The key to raising standards of living and reducing poverty in Madagascar is to foster: 1) structural transformation through the

¹⁶⁶ See G. Epstein., J. Heintz, L. Ndikumana and G. Chang, Employment, (2010)

mobilization and appropriate allocation of resources 2) increased productivity through skills development and appropriate investments and 3) a supportive macroeconomic environment that will provide high demand to create job opportunities, a well functioning financial system to mobilize and allocate credit, and macroeconomic stability. Along these lines, the MAP calls for expanding sectors that generate a lot of value added and employment, and have large multiplier effects and linkages to the domestic economy.

An ILO survey has pointed out some of the industries with high value-added multipliers such as forestry, finance, communications, trade, fishing, and agriculture; Industries with high wage employment multipliers including garments, business services, communications, education, health, and recreation services; and in contrast, industries with low value-added or low employment multipliers include metal and stone working, chemicals, paper products, and, somewhat surprisingly, building and construction¹⁶⁷. One of the reasons for the variations in the size of the multipliers, particularly the output multipliers, is that different industrial sectors have different linkages to the domestic economy. Some sectors will have a large number of “upstream” linkages to other activities – meaning that they utilize a large amount of domestically produced inputs in their production processes. Others have “downstream” linkages – their outputs are used by other domestic firms to produce final goods and services. Industries may have weak multipliers when they import the inputs used in production. Sectors with strong upstream linkages include livestock, finance, business services, and communications. Sectors with strong downstream linkages include extraction industries, livestock, construction materials, and insurance. The employment and value-added multipliers are also influenced by the density of domestic linkages, although other sector-specific factors (e.g. the labour intensity of production, technology, and the level of productivity) will influence the size of these effects.

The study argues that the current contributions of the Malagasy financial system to generating investment, employment, and incomes in the economy is woefully inadequate and suggests policy and structural transformations that can be initiated to greatly improve the macroeconomic context for labour market outcomes. The Input-Output analysis quantitatively assesses the impact on employment and incomes of policies to improve the mobilization of financial resources by the financial sector, including the central bank, for investment in key sectors of the Malagasy economy. Mobilizing financial resources and allocating them to productive units in priority sectors could be a crucial component of the development strategy for Madagascar. Using the input-output model, it is possible to identify a number of key sectors where more investment could generate greater employment and incomes. These include agriculture, fishing, trade, and recreation services, among others. The study also identifies the

¹⁶⁷ G. Epstein., J. Heintz, L. Ndikumana and G. Chang, *Employment*, (2010)

impacts on employment and wages of improving domestic upstream linkages, for example in sectors such as tourism and the extractive industries.

In the case of Gabon, the Poverty Reduction and Growth Strategy Paper (PRGSP), adopted in December 2005, had identified priority sectors and development policies over a period of 3 years from 2006 to 2008¹⁶⁸. The PRGSP ending, the Ministry of labour, employment and social welfare considered important for the design of the second generation PRGSP to assess priority sectors impact on income and employment and identify key sectors to support for a job-rich growth.

The main results of the input-output analysis for Gabon, may be summarized as follows:

- The economic structure of Gabon is not diversified enough. Primary sector contributes to 58.5% of GDP (2004) with the Oil subsector generating 87% of this contribution. Moreover, it is highly vulnerable to external shock and it increasingly faces the depletion problem as growth is dependant of non renewable resources exports.
- The overall production multiplier for Gabon is 1.37 which is low and reflects the lack of upstream and downstream vertical integration of the “growth-pulling” sector (oil). In other words, the oil sector is very weakly integrated to the rest of the economy. Ranked according to their direct and indirect effects on the production, the key sectors of the economy are: Timber and wood products industries, transport, construction, water and electricity supply, hotels, bars and restaurants.
- The total income multiplier is 1.3. The lowest multiplier is for agriculture with 1.04. This sector is therefore a bad generator of incomes in other sectors because of its weak forward and backward linkages which is reflected by its 1.17 production multiplier.
- In terms of employment multipliers, top sectors are: Post and telecommunications, Production of crude oil and natural gas, Educational services and health, Oil refinery, Timber and wood products industries, construction and public works. However, it is necessary to take also into account other criteria, in particular the weight of the sector in total employment (agriculture is a key sector in terms of share in the employment structure but with a low employment multiplier), the other multipliers, productivity and the quality of jobs.
- The timber and wood product sector is one of the sector which generates more income, production and employment multipliers: respectively 2,2 / 1.87 / 1.81

¹⁶⁸ Bensaïd, Ibourk and Khellaf, (2011)

In a context of oil depletion, it is crucial to formulate a priority sectors strategy to promote economic diversification and the development of productive capacities. To respond to these challenges, sectoral policy is at the core of the new National Employment Strategy of Gabon. The input-output analysis suggests that the improvement of employment opportunities in terms of both quality and quantity should be structured around the expansion of transformation industries linked to the exploitation of natural resources (in particular wood) and the development of the agriculture potential. It is essentially to increase the value added of forest products' exports and to develop non agriculture employment in rural areas through the development of food transformation small and medium enterprises. The development of these two sectors should be supported by the development of economic infrastructures and an appropriate integrated policy framework. The main outcome of this new vision is the "emerging Gabon" development plan which is based on three pillars including developing "a green Gabon" based on priority sectors such as timber, sustainable forest management and eco-tourism.

The role of public investment in infrastructure to achieve economic and social development in Africa

A study conducted two years ago in 24 African countries shows that the poor state of infrastructure in sub-Saharan Africa – its electricity, water, roads, and information and communications technology (ICT) – cuts national economic growth by 2 percentage points every year and reduces business productivity¹⁶⁹. Inadequate physical infrastructure are one of the main binding constraints to more growth and job creation in sectors that hold substantial employment potential; in particular:

Power: Inadequate access to energy is the single largest impediment to economic growth. Chronic power shortages affect 30 African countries; the entire installed generation capacity of 48 sub-Saharan African countries is 68 gigawatts, no more than Spain's, and 25 per cent of that capacity is unavailable because of aging plants and poor maintenance.

Transport: Ineffective linkages between different transport modes (air, road and rail), declining air connectivity, poorly equipped ports, ageing rail networks and inadequate access to all-season roads are key problems facing Africa's transport system. Only 40 per cent of rural Africans live within two kilometres of an all-season road, compared to some 65 per cent in other developing regions. Improving road accessibility in rural areas is critical to raising agricultural productivity across Africa.

¹⁶⁹ Africa Infrastructure Country Diagnostic (AICD), a project designed to expand the world's knowledge of physical infrastructure in Africa. AICD is being implemented by the World Bank on behalf of a steering committee that represents the African Union, the New Partnership for Africa's Development (NEPAD), Africa's Regional Economic Communities, the African Development Bank and major infrastructure donors.

ICT: The number of African mobile phone users increased from 10 million in 2000 to more than 180 million in 2007. During 1992-2005, private sector investment in ICT infrastructure topped US\$20 billion, but high prices of services remain a problem. In 2007, the average price of prepaid mobile services cost US\$12 a month in Africa, six times the US\$2 cost in Bangladesh, India and Pakistan.

Although financing for infrastructure has rapidly increased over the past three years to address those gaps necessary to make progress toward developing priority sectors and achieving the MDGs, more needs to be done, in particular in African LDCs where the backlog is huge (see table 4.3).

Table 4.3: Africa's infrastructure deficit

Normalized units	Sub-Saharan African LDCs	Other LDCs
Paved road density (note 1)	31	134
Total road density (note 1)	137	211
Mainline density (note 2)	10	78
Mobile density (note 2)	55	76
Internet density (note 2)	2	3
Generation capacity (note 3)	37	326
Electricity coverage (note 4)	16	41
Improved water (note 4)	60	72
Improved sanitation (note 4)	34	51

Source: Yepes et al. (2008), in Foster, V.; Briceño-Garmendia (2010).

Notes: 1: road density is in kilometres per kilometre squared; 2: telephone density is in lines per thousand population; 3: generation capacity is in megawatts per million population; 4: electricity, water and sanitation coverage are in percentage of population.

In addition to the backlog in infrastructure, the appropriateness of the infrastructure investments in meeting the diverse needs of both their private sector and population poses two major challenges. First, the balance between costly infrastructure meeting the needs of the few but facilitating high growth potential sectors and more low-cost infrastructure serving a larger part of the population poses a policy dilemma. Second, and lesser known, the way in which infrastructure is built and maintained can entail large differences in its multiplier effects for the economy. Infrastructure can play a significant role in increasing the job content of growth, which is much needed for African countries.

Strategic use of public investment in infrastructure – An integrated approach

Increased investment in infrastructure allows promotion of direct, indirect and induced employment, using a local resource-based approach¹⁷⁰ in both rural and urban areas. Indeed, cross-sectoral and cross-ministerial integration can enhance impact considerably.

Further, a local resource-based approach can produce three to five times more direct employment than conventional methods for small- and medium-scale infrastructure. It can also have a multiplier effect of about two times the direct jobs created and increase the purchase of local goods and services by a factor of three.

Local resource-based approaches also require development of local capacity in governmental institutions, especially in the areas of finance and management.

To ensure that the employment effect of infrastructure investments are optimized, demand-side policies must be operationalized through design and contracting, and supply-side interventions made through training for entrepreneurs in appropriate technology options, and managerial and operational requirements. Such an integrated approach has to be implemented at three levels.

Macro level: The governments and social partners need to be assisted in the development of Employment Impact Assessments (EIAs) of public investment programmes (PIPs). This requires a serious coordination effort between key ministries to ensure coherence, including the ministries of finance, planning, labour, sectoral and local government. EIA tools play an important role in facilitating dialogue and decision-making within governments and between governments, representatives of employers and workers and civil society. Legal barriers must be removed in procurement systems and procedures to allow for local contractors' and local resource use in delivering infrastructure programmes. These programmes often represent an important contribution to productive and social development, and the creation of sustainable Green Jobs in support of development and adaptation processes.

Meso level: There is a need for institutional development and capacity-building of the government at both the centralized and decentralized levels. Private sector and civil society are key features to guarantee the successful implementation of employment-intensive public investment programmes. Networking local training institutions, technical colleges, universities, as well as development agencies and regional institutions into communities of practice facilitates access to appropriate knowledge and technology transfers. Organization-building with workers and entrepreneurs is a crucial

¹⁷⁰ Local resource-based approach means that an optimal mix of locally available inputs in terms of labour, materials, equipment and tools is searched for including the increased use of local actors for design and implementation such as local SMEs (consultancy firms and small-scale contractors) and community-based organizations (CBOs).

element of vibrant public-private partnerships enhancing local ownership that generates diversified opportunities for job creation.

Project level: Local partners (governments, communities) need to be assisted to implement projects with an optimum number of productive quality jobs. Local-level planning and contracting methodologies (e.g. integrated rural accessibility planning (IRAP),¹⁷¹ private sector and community contracting) facilitates organization and participation, and helps to ensure targeting of infrastructure investments towards better impact and improved governance, transparency and accountability. Technology options will have to be introduced and analysed to increase employment intensity and productivity. Rigorous monitoring and evaluation systems are equally vital to determine injections into the local economy, employment created and identifying beneficiaries.

Policy recommendations for public investment programmes in African countries

African countries can enhance their investment in infrastructure and ensure that these investments are designed and implemented to boost employment, aggregate demand and to create a floor for economic growth. A strong commitment in this direction was recently made by the Ministers of Local Government, Rural Development and Environment, Roads and Transport, Public Works and Labour in their meeting in Accra, Ghana on 5-7 of September, 2011 in the context of the 14th Regional Seminar for Labour-Based Practitioners and Policy Makers. In their Statement the Ministers resolved, among other points, to “Formulate and pursue the implementation of national policies that are employment centered, target particular groups such as youth, women and people with disabilities as well as sectors with employment creation potential and benefit the disadvantaged across the economy.” And they also resolved to “Mainstream employment creation in all national, sectoral and local investment strategies and programmes”.

To achieve these objectives, infrastructure investment programmes can benefit from the following policy recommendations:

1. More ambitious new infrastructure projects should be launched, not only to avoid the deterioration of the countries’ public capital stock (maintenance and rehabilitation projects) but to build it up for higher growth and employment. Investments in protection and restoration of the productive natural resource base are very timely to counter threats posed by climate change, to take advantage of the new market opportunities (financing and products) and for higher growth.

¹⁷¹ IRAP is a tool developed by the ILO to facilitate rural accessibility interventions as an integral part of rural development focusing on mobility and location of services to meet multiple access needs of rural communities. It particularly enables gender-balanced participatory and transparent problem analysis and solution processes.

2. When feasible, decentralized public investment should be favoured. First, decentralized decision-making processes usually commit the local population more to the works and their maintenance. Second, the works undertaken are usually on a smaller scale and involve less expensive tenders, which means there is less need for heavy machinery and greater job creation for the amount invested. Third, decentralized tenders are more likely to be executed by local firms using resources available in the area, including workers, materials and services that boost the local economy.
3. African countries, individually and as a group, stand a better chance in leveraging domestic funding for their programmes and negotiating more favourable outcomes of bi- and multilateral agreements if commonly accepted measurements are available. Countries should improve monitoring of public investment programmes, through the possible development of globally accepted standard indicators, in order to assess their real impact on the economy – in terms of job creation, skills acquired and enterprises developed and supported, including the gender perspective of these results – and impact on the environment.
4. While targets for direct job creation of public investments have become more common in many countries, it is also of crucial importance to assess the overall labour outcome of these investments. African countries should apply new available employment impact assessment (EIA) methodologies that measure direct, indirect and induced employment and effects of technology choice, in the short and long term.
5. As many infrastructure projects in Africa are co-financed by international financing institutions (IFIs), these institutions should make all efforts to allow through their regulations for a productive and efficient use of local resources and an increased labour content in development cooperation. Readjusting their design, procurement and contracting modalities could have a major effect on employment, enterprise development and on domestic demand.

Capabilities and skills for productive transformation

African countries face very low transformation dynamics, limited diversification and a concentration in mainly resource-based and low-technology goods. This provides extremely low learning opportunities in many countries and contributes to a lock-in effect into traditional and simple techno-economic paradigms. Low technologies tend to have slow growing markets, limited learning potential, a smaller scope for technological upgrading and less space for diversification. Therefore, diversification into new manufacturing sectors is key because these tend to be the most dynamic sectors, as they provide substantial scope for diversification and can provide highly learning-intensive activities. Technology-intensive products also offer better prospects for trade and

growth because they tend to be highly income elastic¹⁷². From this perspective, the mismatch between skills demand and supply is one of the main binding constraints. Both the education and vocational training systems need to better respond to the expectations of the private sector, especially in priority sectors. Skills development public policies must aim at developing youth employability by providing the skills required to support structural change and employment in the labour market.

Therefore, the “new” approach to sectoral policies is not so much about picking winners, but about policies to facilitate the process of productive transformation and accumulation of domestic capabilities. The challenge is to design policies and institutions that provide incentives to search for profitable activities, to invest in new technological and commercial knowledge, and to shift into higher productivity and learning-intensive sectors that can create opportunities to accumulate capabilities. African countries can learn from the experience of peers and successful catching-up countries. However, African countries differ in their economic, social, political, natural and cultural conditions. Each country has developed distinct productive, educational and knowledge structures, formal institutions such as the regulatory framework, and informal institutions such as social norms, attitudes, values and traditions. These structures and institutions imply different option spaces and competences to imitate and adopt technologies, and to shift into new products and sectors. Each country therefore needs to analyse the particular constraints and opportunities it faces and design appropriate policies. Therefore, sectoral policies should take an exploratory and experimental approach, combining interventions with feedback mechanisms in order to rapidly identify mistakes and consequently to keep the costs of such mistakes low, and to improve governmental capabilities. Among the key components of this new approach to sectoral policies, one can stress:

Combining incentives and compulsion with support (“carrots, sticks and nurture”)

Policy-makers in African countries need to develop a “learning strategy” that views industries as an important learning place. Successful interventions to promote the desired learning processes require the design of policies and institutions which provide “carrots, sticks and nurture”. This implies creating incentives to establish new products and industries, invest in the discovery of new economic activities, in skills, and in new technologies. Institutions need to develop the capacity of the public education system, enterprises and the vocational training system to provide learning opportunities for individuals and enterprises. But “sticks” and disciplinary measures are also important as they create a compulsion to learn while limiting rent-seeking. These include the application and monitoring of strict standards, automatic sunset clauses and time-limited incentives. Competition policy is a means to discourage rent-seeking behaviour¹⁷³. Finally, policies need to also provide “nurture” and direct support in coping with the increasing complexity of learning as more advanced technologies are

¹⁷² Lall, (2000)

¹⁷³ Salazar-Xirinachs and Nübler, (2010)

adopted. This relates to support measures for enterprises to close technological gaps or supporting enterprises in meeting standards and to qualify for ISO certification¹⁷⁴.

Criteria for selecting sectors for sectoral policy targeting

Experience from different catching-up countries and economic frameworks suggest different principles for the choice of sectors, and they all may be applied. We may distinguish between those following comparative advantages and the market, and those taking the perspective of capability accumulation and learning for development¹⁷⁵.

Follow the market and comparative advantages: Identify tradable goods and services that the country already produces, and already has comparative advantages or in which the country has the potential to develop comparative advantages. But also implement policies to support specific value chains to develop backward and forward linkages, diversify the economic structure and increase domestic value added. Governments support these sectors and value chains by identifying bottlenecks and constraints, and providing support in overcoming these constraints. This approach has been proposed recently by the World Bank¹⁷⁶.

Deliberate “jump” into high value-added sectors: Identify non-traditional, high-productivity sectors that have the potential to create steep learning curves¹⁷⁷. These sectors produce in new techno-economic paradigms and jumping into new paradigms represents a major challenge because the capabilities and competences required in the new activities are distant from those acquired in past activities. Some African countries have undertaken the effort to jump into such activities; for example, Rwanda, which is establishing an IT hub, or the Maldives providing high class tourism service. “Green” technologies may provide the potential to leap into higher technology markets.

Enter dense product clusters: Support the development of product clusters that require similar capabilities and therefore facilitate rapid diversification. Textile, garment and electronics clusters have high density and potential for diversification.

Meeting social and environmental development goals: Promote the development of activities and services that accommodate the developmental goals of African countries. For example, many African countries are hit hardest by climate change and these countries need to develop local research and development (R&D) capabilities and productive capacities to address urgent development goals. Important areas are new irrigation, crop diversification, soil conservation and organic fertilizers.

¹⁷⁴ Nübler, forthcoming (2011)

¹⁷⁵ Nübler, forthcoming (2011)

¹⁷⁶ Lin and Monga, (2010)

¹⁷⁷ Reinert, (2008)

Training policies: Upgrading informal apprenticeship systems

The informalization of the labour market in African countries combined with rising labour force, means that the informal economy will remain in the short and medium terms the central vehicle for employment generation and the main entry point to employment for young workers. From this perspective any skills development policy should consider not only formal training programs but also non-formal vocational training systems and apprenticeship schemes within the informal economy. Currently, formal training systems have proved inadequate to reach out to and meet the needs of informal economy workers. The formal system, in particular public training institutions, in many African countries lacks the flexibility and accessibility needed to cater to the diversified needs of informal economy workers.¹⁷⁸ A major shortcoming of earlier training strategies in African countries was their exclusive concentration on the needs of the formal economy to the detriment of the informal and traditional training systems. Statistical surveys show that in most countries formal vocational training has reached between 0.1 (Ethiopia) and 5 per cent (Morocco) of informal economy workers.¹⁷⁹ In addition, the proportion of technical and vocational education and training (TVET) enrolments in general secondary education is low, often below 10 per cent.¹⁸⁰ African countries still need to acknowledge the informal economy as an important source of skills development in its own right. In particular, the role of informal apprenticeship systems in training the majority of young people in the crafts and trade sector needs to be recognized. Formal training systems tend to be costly, providing training to only a small share of the labour force and, therefore, embody limited social capabilities to support the productive transformation process. As a consequence, young apprentices largely outnumber youth trained in the formal TVET system.

More recently, skills development in the informal economy has increasingly been considered a strategic element in increasing the employability of workers and productivity of enterprises, alleviating poverty and using new skills as leverage to help workers move into decent formal work. Some countries, notably Ghana, Benin and Mali, have designed policies that emphasize training for workers in the informal economy. And many African countries have developed a some informal apprenticeship training that represents the main road to skills development. In Benin, in 2005, about 200,000 young apprentices were trained, which represents ten times the number of students in vocational and technical education. In Senegal, some 300,000 young people are trained as apprentices as compared to some 10,000 graduates from the formal vocational training centers¹⁸¹.

A study in the United Republic of Tanzania shows that informal apprenticeship is regulated by “smart” institutions. Substantial apprenticeship training is provided in

¹⁷⁸ ILO (1999a); ILO (1999b); Bennell, P. (1999)

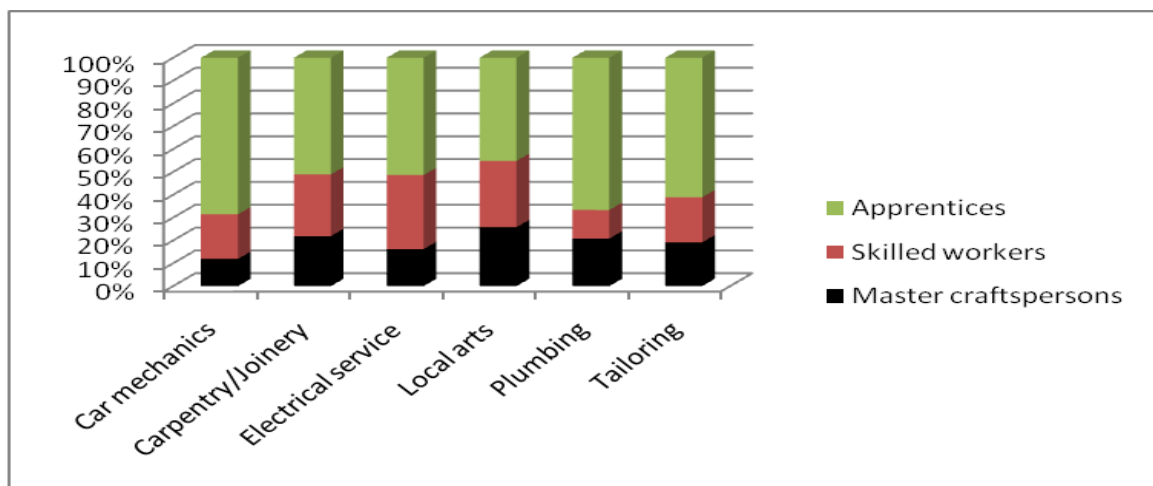
¹⁷⁹ Walther, R. and Filipiak, E. (2007)

¹⁸⁰ Atchoarena, D. and Delluc, M. (2002)

¹⁸¹ Walther, R. and Filipiak, E. (2007)

micro- and small enterprises, apprenticeship is widespread and well established in the various craft sectors¹⁸². Data also show that informal apprenticeship has the potential for upgrading and being transformed into an effective training system in African countries. Figure 4.2 shows that workshops train a significant number of apprentices. Most apprentices have at least achieved primary education, and about 10 per cent have finished lower secondary education. Master craftspeople tend to be the positive selection among former apprentices, as they have achieved higher educational levels, more than 20 per cent with secondary education. About one-third of the master crafts persons have also been trained in the formal training system.

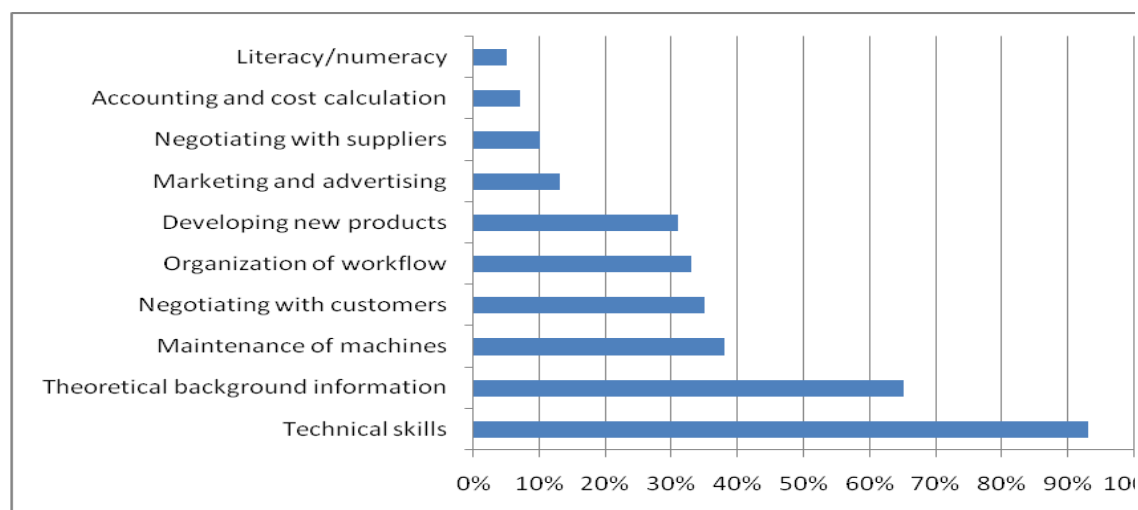
Figure 4.2: Composition of staff working in enterprises (selected sectors)



Source: Nübler, Hofmann and Greiner (2009)

Furthermore, apprenticeship in the United Republic of Tanzania provides a broad range of different skills. Figure 4.3 reveals that they are trained in technical skills, but they also acquire management and entrepreneurial competences. Data also shows that employability of graduate apprentices is high. About 80 per cent of graduates had set up their own businesses in the trained crafts, 7 per cent became skilled workers, and the remaining 13 per cent went either to formal training or found a job in other informal or formal enterprises.

¹⁸² Nübler, Hofmann and Greiner, (2009)

Figure 4.3 Type of skills provided in apprenticeships

Source: Nübler, Hofmann and Greiner (2009)

The challenge for governments is to develop the potential of informal apprenticeships, and to strengthen the institutional capabilities. This relates to the capacity to provide training in more advanced technologies and theoretical knowledge, to improve the quality of training and effectiveness, to establish links with the formal training system, and to formally recognize and certify training while strengthening incentives to participate in apprenticeship training.

Another key related issue is the portability of informal workers' skills. Indeed, portability of skills enhances the employability of workers and facilitates their access to more productive jobs in the formal economy.¹⁸³ It requires that the skills of workers are recognized in the labour market. But skills gained through experience, training on the job, or apprenticeship in the informal economy, are usually not recognized in formal labour markets. Countries need to build institutions and develop mechanisms that assess the skills and competencies workers have acquired, validate them through certificates and ensure their recognition. Furthermore, recognition of skills and certificates requires that the mechanisms and institutions to assess and certify skills are transparent, consistent and credible. Benin, Ghana, South Africa and the United Republic of Tanzania provide interesting examples of recognition of prior learning. Assessment and certification of skills and prior learning also help informal workers have their skills and competencies recognized by the formal training system, which facilitates access to continuous training, skills upgrading and lifelong learning.

Finally, providing skills and vocational training in the informal economy requires a coordinated and integrated skills development strategy, taking into account reforms in

¹⁸³ ILO (2007)

the formal and informal training system and incorporating the best skills development schemes and practices into a comprehensive reform of existing training systems.

Conclusion

One of the consequences of the poor impact of the recent high growth revival on people's living condition in Africa has been to reopen one of the pioneering debates in development economics regarding the pattern of growth and industrialization. Communities and decision makers increasingly wish to know the number of jobs that will be created as a result of sectoral policies, public investments, various incentives and tax regulation reforms. What will be the economic impact of a proposed industrial policy? What will be the total regional or national impact on income and employment resulting from the development of a priority (sub) sector? What type of industry, if established or supported, will create the most economic activity and employment? What are the related needs in terms of skills, access to capital, power supply, transportation infrastructures, etc.? What are the binding constraints to sectoral growth? The difficulties of generating and implementing new and innovative job-rich sectoral policies to increase the labour intensity of growth are a major issue for sustainable growth and employment generation strategies in Africa today. For African countries, the deficit of productive employment and the failure to diversify their economies are clear threats to long-term growth prospects, not just in terms of its speed but also in terms of its sustainability as it will affect social cohesion and peace.

Input-Output analysis make possible to develop an empirical strategy for identifying those sectors that can contribute the most value-added, employment generation, and multiplier effects for the economy. It suggests also a broad framework that can be used to help generate and target investments to those sectors. Policymakers can build on this information to design their industrial policy, define the type of FDI to seek and policies that can be undertaken, including loan guarantees, direct lending, and asset-backed reserve requirements that can make financial assets more directly available to small producers and businesses in key sectors, including agriculture, and that can counter some of the negative consequences of real exchange rate appreciation. Given severe data limitations, such estimates should, of course, be treated with caution, but they do give an indication of the orders of magnitude that can be achieved with different degrees of financial effort. Sectoral analysis can be used for determining how to prioritize sectors according to their degree of labour-intensity. Comparison of the alternatives can help key stakeholders to build consensus about priority sectors and decide where to invest time and resources to get the greatest benefit in terms of income and employment generation. Nowadays, virtually all developed countries as well as many developing countries use Input-Output techniques for national income accounting, economic planning and estimating labour-intensity for maximizing labour absorption.

Nevertheless important issues must be considered when analyzing employment multipliers such as:

- Some of the intermediate inputs to production are imported. Some of the backward linkages are thus not to the rest of the domestic economy but instead to production outside the country. Ignoring this issue would mean an overstatement of employment multipliers, especially for sectors which source a significant proportion of their inputs abroad.
- What is important is not just the creation of any jobs, but the creation of *decent* jobs. A certain sector might be highly labour-intensive but employment in the sector could be predominantly of poor quality (for instance in terms of low wages, poor job security, poor benefits, weak enforcement of labour legislation).
- In countries with a large share of informal employment, calculating measures of labour-intensity specifically in terms of formal sector employment can at best provide some initial hint concerning decent work in relation to labour-intensity across sectors.

Macroeconomic techniques such as input-output analysis should also be complemented by analysis of value chains in specific geographical locations, as policy should build on existing clusters and value chains and as targeted interventions along employment-intensive value chains with significant growth potential will go a long way toward accelerating growth and employment creation.

Moreover, labour-intensity cannot be the only criterion for prioritizing sectors. From a broader perspective, other criteria would also need to be taken into account. While employment absorption is obviously important, it would be short-sighted to only prioritize sectors according to their degree of labour-intensity. It is necessary to take into account other criteria, including the weight of the industry in total employment, technological change, the evolution of the global market at medium and long term, etc. Productivity is of importance for growth, particularly for the sustainability of growth over time in a context of globalization, and thus this issue of the relationship between labour-intensity and productivity also needs to be borne in mind when drawing out policy implications. Moreover, the nature of the support to priority sectors is also important as public investments for rural roads to support agriculture development will have a higher labour intensity if they are promoting labour intensive technological choices to build and maintain those roads. And last but not least, another fundamental criterion to be considered for targeting priority sectors is the quality of the new jobs associated with priority growth sectors. Once priority sectors are identified, integrated sectoral policies should focus on removing the main binding constraints and provide a sustainable environment to their development.

Among key components to consider:

- The lack of skills is one of the core binding constraints, limiting the growth of enterprises, the expansion of productive sectors and productivity growth. The

education and training systems must match the need of priority sectors both in terms of quantity and quality of skilled workers.

- In order to trigger a productive transformation process in the medium to longer term policy frameworks should aim at *increasing the level of education and reduce the share of the population without schooling transform the educational structure in the labour force in a balanced manner in order to enlarge the option space for sustained diversification into low- and medium-technology manufacturing; provide equal access for women to basic education and develop their talents in order to fully use the potential of the labour force for rapid catching up; design sectoral learning strategies by combining incentives and compulsion with support measures; target learning-intensive sectors in addition to sectors with comparative advantages* and develop the potential of the informal apprenticeship system; and strengthen the institutional capabilities to provide training for advanced technologies, and improved quality and effectiveness of training in order to promote productive transformation in the crafts sector and informal economy.
- The role of the financial system is central to meet the needs of the private sector in terms of access to capital for productive investment. A pro-employment sectoral strategy to be successful must promote small and medium enterprises in priority sectors as they are the main engine of job creation. It calls for a reform of the financial system to improve its limited and expensive access to credit.
- An appropriate macroeconomic and trade policy framework can provide appropriate incentives and supports to develop or strengthen priority sectors. It plays a crucial role in the allocation of scarce resources and the diversification of productive capacities. Public investment (transport, communication and power supply infrastructures, education, health, etc.), as well as fiscal incentives, a facilitated access to credit and a relevant exchange rate policy can boost the development of priority sectors and increase their competitiveness on global markets. The industrial policy should act in a number of complementary lines of action, including: use the available policy space provided by multilateral trade rules to provide temporary and reasonably low trade protection in order to nurture infant industries while simultaneously using policy tools to promote exports; create learning opportunities; build domestic capabilities and new comparative advantages; liberalize trade gradually and in a sequenced manner as capabilities are accumulated; promote diversification into new technologies and higher value-added manufacturing; take advantage of South-South cooperation by transferring appropriate technologies, importing cheaper capital goods and exporting low-technology goods; attract domestic and foreign investment in non-traditional tradables and support learning networks between domestic and foreign firms, such as value chains, joint ventures, clusters, industrial parks or business incubators; and use government procurement to enlarge markets for

locally produced goods in order to benefit from increasing returns, more productive employment and learning space.

Chapter 5: Agricultural development and productive transformation in Africa

Introduction

During the prolonged economic stagnation that characterised Sub-Saharan Africa from the early 1970s until the late 1990s¹⁸⁴, population growth rates remained very high and have only recently begun to subside (Figure 5.1). The population of the region more than doubled from 380 million in 1980 to 819 million in 2008 and it is only in the past decade that fertility rates have begun to fall. By 2008 the average woman in Sub-Saharan Africa was expected to give birth to at least five children, as against less than three among her peers in South Africa (Figure 5.2).

Figure 5.1: Population growth

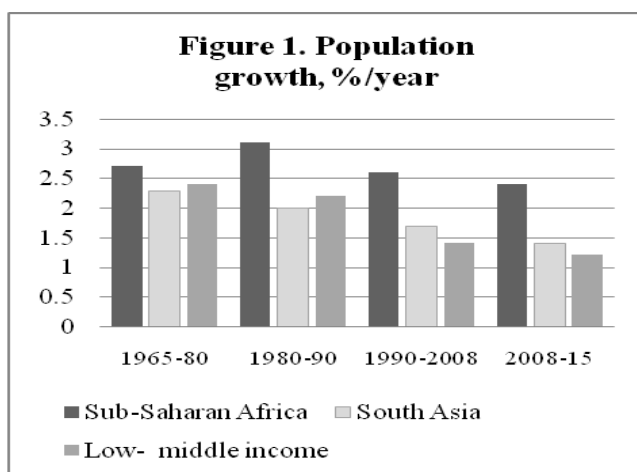
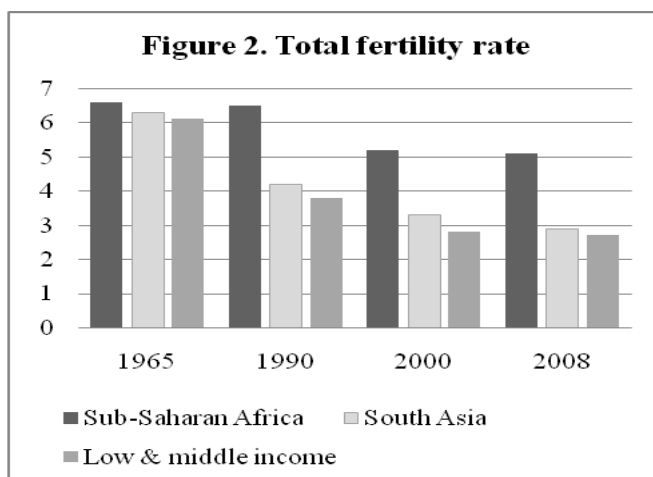


Figure 5.2 : Total fertility rate



Source: UNSTATS, 2011

¹⁸⁴ During the period 1973-2000 some 18 countries in the region registered a fall in their per capita GDP, and all but 12 registered an average annual growth of less than 2 per cent (ECA 2011:78).

The combination of economic stagnation and relentless population growth inevitably resulted in fragmentation of land, declining productivity and per capita food production in agriculture and a pauperisation of much of the rural population. The case of Rwanda provides an illustrative example of this development. By the turn of the millennium per capita production of cereals in Rwanda was a mere half of what it had been twenty years earlier. This dismal development was the combined effect of population increase and a secular trend of slowly falling yields which was only partly compensated for by an increase of the cultivated area. In a profoundly agrarian society, where agriculture provides the main source of sustenance and employment for the vast majority, the growth of per capita food production captures changes in productive employment, welfare as well as overall economic development better than most other indicators. The story of Rwanda was until recently one of long-term secular developmental regression.

The case of Rwanda is far from unique, but reflects quite well the development of agriculture in most of Sub-Saharan Africa. In sharp contrast to the picture in other parts of the world, not least Asia, agricultural development in Sub-Saharan Africa remained stagnant for almost half a century. Between 1960 and 2000 yields for main food crops increased hardly at all while they fell substantially in per capita terms. Thus, while average yields in Sub-Saharan Africa were only marginally lower than even those in East Asia in 1960, by 2000 they were a mere quarter of those in East Asia and 40 per cent of those obtained in South Asia.¹⁸⁵

By the turn of the millennium Sub-Saharan Africa appeared to be losing the race between food production and population growth. A more detailed analysis reveals that in 17 out of 32 countries in SSA per capita food production actually fell between 1990 and 2005,¹⁸⁶ while in an additional seven countries it increased by less than one per cent per year.¹⁸⁷ As a result of the disappointing growth of per capita food production undernourishment has remained endemic in much of Sub-Saharan Africa. By 2003-05 some 24 out of 43 countries in the region reported that more than a fourth of their population suffered from undernourishment.¹⁸⁸ There is a strong link between food production and food consumption at both the household and the national levels, as approximately 90 per cent of the calorie intake is produced within the region.¹⁸⁹

A long history of neglect and stagnation of agriculture ...

Agriculture provides the main source of employment and income for close to two thirds of the labour force in Sub-Saharan Africa.¹⁹⁰ An even larger share of the working poor is

¹⁸⁵ World Development Report (2008: 15); WDI (2010).

¹⁸⁶ Burundi, DRC, Republic of Congo, Eritrea Kenya, Madagascar, Mali, Namibia, Rwanda, Senegal, Sierra Leone, South Africa, Tanzania, Togo, Uganda, Zambia, and Zimbabwe (World Development Report 2008: pp 320-327). Data are not available for all countries.

¹⁸⁷ Cameroon, Chad, Cote d'Ivoire, Guinea, Mozambique, Niger and Nigeria.

¹⁸⁸ Data from FAO quoted in Gollin (2009). The situation was in reality worse as undernourishment was clearly underreported in some countries.

¹⁸⁹ Gollin (2009).

¹⁹⁰ Including fishing, hunting and forestry.

found in this sector. Increasing productivity and returns to labour in agriculture is the key to increasing productive employment and decent work and progress towards the MDG target 1b, at least in the short and medium term. There is a lack of comprehensive region-wide data on returns to labour in agriculture. However, the growth of production and of yields of cereals cast against the growth of the rural population provides a reasonable proxy for the development of labour productivity and incomes in agriculture. Between 1990 and 2004 the growth of yields of cereals was slower than the rural population growth in 25 out of 41 countries in Sub-Saharan Africa, for which data are available.¹⁹¹ For the region as a whole the average yearly increase in yields was a mere 1.2 per cent, well short of the average population growth of 1.9 per cent. As a result of this dismal development, output per worker in agriculture in 2006-07 is estimated to have been a mere 318 USD, representing an increase of a mere 13 USD since 1990-02.¹⁹² There can be no doubt that the slow progress towards the halving of income poverty in Sub-Saharan Africa is closely linked to the slow progress in reducing the deficit of productive employment and decent work, which in its turn can primarily be explained by the slow growth and in many instances even decline of labour productivity and returns to labour in agriculture.

Although a variety of factors contributed to the dismal development of agriculture, most of them appear, at least in retrospect, fairly straightforward and have also been subject to extensive discussion and debate.

- During the pre-structural adjustment era there was considerable state intervention in agriculture. In many countries state purchasing agencies provided farmers with secure outlets for main food crops, if not always at very attractive prices. The state typically played a key role in providing extension services, although agricultural research was poorly developed and underfunded. Many countries also subsidised transport and/or fertilisers to encourage production for the market. Macro-economic policies, however, often contained an urban bias, not least in the form of overvalued fixed exchange rates that were upheld through strict control and rationing of foreign exchange.¹⁹³
- During the period of structural adjustment programmes which swept through Sub-Saharan Africa in the 1980s and 1990s the publicly funded, and at times publicly run, infrastructure for rural and agricultural development was largely dismantled to give way for market-based solutions. Not only subsidy schemes, but also government funded extension services and interventions to facilitate market access, were discontinued. In retrospect, it is clear that in most instances the market failed to step in where the state stepped out. The result was a reversal of earlier trends towards increased intensification of agriculture and production

¹⁹¹ Benin, Burundi, Cap Verde, Central African Republic, Chad, Comoros, Republic of Congo, DRC, Eritrea, The Gambia, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Namibia, Niger, Rwanda, Senegal, Sierra Leone, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe (WDI 2010).

¹⁹² Both figures at 2000 prices. WDI (2010: Table 3.3). See also Appendix, Table 4.

¹⁹³ For a critique of policies during this era from a rural perspective, see for instance Lipton (1977).

for the market and a retreat into low productivity subsistence farming, often combined with a diversification of household income strategies under duress as agriculture no longer sufficed as source of sustenance and income.

- This period was also characterised by a stagnation or decline in investments in rural physical infrastructure. In most countries heavy debt servicing burdens and a diminished fiscal revenue base¹⁹⁴ reduced the fiscal space considerably, but there was also a shift in focus away from the productive sectors in general and agriculture in particular towards social sector expenditure. With the benefit of hindsight, the World Bank recently concluded that public spending on agriculture in Sub-Saharan Africa is insufficient for sustained growth and that ‘the goose has often been killed before it could lay its golden egg’.¹⁹⁵ Throughout the 1980s and 1990s public sector capital expenditure and investments in not least rural physical infrastructure remained far below levels needed to create conditions for effective rural-urban economic integration and a dynamic, market-based development of agriculture.
- Donor support to agricultural development also waned as the focus shifted to the social sectors and investments in human resources and, subsequently, to governance issues. The share of total ODA that was channelled to agricultural development fell sharply in the 1980s and 1990s, from 16 per cent in 1980 to less than 4 per cent in 2005, while in absolute nominal terms it declined by 50 per cent over the same period.¹⁹⁶
- External factors added to the hostile environment for agricultural development. Trade liberalisation exposed domestic agriculture fully to international competition. More often than not trade liberalisation was undertaken rapidly with little regard for the dislocational impact that this had on domestic production and understanding of the inevitably gradual nature of structural change. The result was in many instances a Schumpeterian destruction without any accompanying creation. Furthermore, the world market for food products is far from a level playing field. Massive subsidies to the agricultural sector in developed countries provide the agricultural producers in these countries with an unfair competitive advantage that agricultural producers in Sub-Saharan Africa could not match, nor defend themselves against.
- World market prices for most food crops remained stagnant at low levels for several decades, resulting in a gradual deterioration of the terms of trade for agriculture.
- The ability of domestic agricultural producers to compete with foreign imports has in many countries been further undermined by upward pressure on the

¹⁹⁴ Not least through the reduction of import duties, which had been a major source of income in many countries.

¹⁹⁵ World Development Report 2008, p. 40.

¹⁹⁶ World Development Report 2008, p. 41. Figures refer to all ODA, not just to Sub-Saharan Africa.

exchange rate. In many countries revenues from export of minerals and natural resources and/or inflow of ODA have resulted in an upward pressure on the exchange rate. It would appear that such appreciations have in many instances also been supported and/or induced by macroeconomic policies. According to IMF, all but a few countries in Sub-Saharan Africa registered real appreciation of their exchange rate in the years 2004-2010.¹⁹⁷

- High costs of transport and poorly functioning markets result in large discrepancies between farm gate prices and urban retail prices of food products and makes diversification into high value but perishable products, such as fruit and vegetables difficult.

The dismal development of agriculture and the weak manufacturing base (see chapter 4) are strongly interlinked. Intensification and increased market-orientation of agriculture which are *sine qua non* for a dynamic and sustainable development of this sector, depend crucially on secure access to inputs and to markets for the output. The manufacturing sector can create these much-needed upstream and downstream linkages to agriculture thus facilitating the development of agriculture as well as enhancing the impact of this development on growth and employment in the economy as a whole. A dynamic development of agriculture, on the other hand, provides an indispensable source of broad-based domestic demand that tend to be crucial to sustain growth and economic diversification not least in the early phases of economic development. A more efficient agricultural sector and stronger rural-urban economic links would also serve the purpose of reducing food prices and the cost of living in urban areas. Urban food prices are high in most countries in Sub-Saharan Africa, not least when compared to food prices in Asia. As food consumption accounts for more than half of total household expenditures among the urban poor, lower food prices would reduce urban poverty at the same time as it would serve to improve competitiveness in the non-agricultural sectors.

In a recent study McMillan and Dani Rodrik arrive at the conclusion that in many Latin American and Sub-Saharan African countries, broad patterns of structural change have served to reduce rather than increase economic growth since 1990.¹⁹⁸ This serious and seemingly paradoxical finding should perhaps not come as a surprise. It is arguably primarily the results of the twin failures of agriculture and of manufacturing. Stagnating agricultural production combined with population pressure on land results in declining productivity and returns to labour in agriculture and in accelerating land fragmentation and, more often than not depletion of soil nutrients and environmental degradation. This vicious circle pushes people out of agriculture in search of alternative sources of employment and income. Push factors rather than pull factors fuel urbanization, while informal sector services provide a source of employment of last resort. This phenomenon is not new. The apparent paradox between unabated rural-urban

¹⁹⁷ IMF (2008: 11-12) (2010: 9).

¹⁹⁸ McMillan and Rodrik (2011).

migration despite high and rising unemployment in Kenya was explored and convincingly explained by Harris and Todaro already in the early 1970s, resulting in the Harris and Todaro theorem.¹⁹⁹ A stagnating agriculture resulted in large numbers of young people leaving for Nairobi in the hope that at some point in the future they might access a good job in the formal economy. In the absence of a dynamic development of the formal urban economy, these hopes proved more often than not to be unfounded. Thus, rural poverty becomes urban poverty, and a quasi-diversification of the economy appears as a result of desperate survival strategies rather than exploitation of economic opportunities and comparative advantages. The result, in the form of unrelenting growth of urban ghettos, such as Kibera in Nairobi, and expanding informal economies and increasing divides between the formal and informal urban economy can be witnessed in many African cities.

A bleak past need not imply a bleak future

However, a bleak past need not forebode a bleak future. Conditions for sustained high rates of economic growth seem better today than they have been for decades. Indeed, the high rates of growth in the period leading up to the financial and global crisis, averaging 6.2 per cent for the region as a whole between 2003 and 2008, is evidence of a clear break with the past prolonged period of stagnation. Forecasts for overall growth in the years to come also give cause for optimism.²⁰⁰ The past growth and present growth optimism reflect significant improvements in a number of key areas that underpin economic development.

- Past investments in human resources are beginning to yield results. Net enrolment in primary education has increased from 53 per cent in 1990 to 73 per cent in 2008. It is estimated that by the latter date 79 per cent of the male and 71 per cent of the female youth (aged 15-24) were literate.²⁰¹ However, a number of countries were trailing behind,²⁰² and gender differences in literacy and educational attainment remained high in many countries. While enrolment rates in secondary education are still lagging far behind those in primary education, many countries have achieved significant improvements in access to secondary education in the past decade.²⁰³ As a result, the generation of young Africans now entering the labour market is much better equipped to take up productive employment than previous generations have been.

¹⁹⁹ Harris and Todaro (1970).

²⁰⁰ IMF forecasts a return to more than five per cent annual growth from 2011 (IMF, 2010:66).

²⁰¹ WDI (2010: 114-116).

²⁰² Much lower literacy rates among youth were registered in Burkina Faso (47 and 33 per cent for men and women, respectively), Mali (47 and 31 per cent), Chad (54 and 47 per cent), Niger (52 and 23 per cent), Senegal (58 and 45 per cent). (WDI:2010: 114-11).

²⁰³ Ethiopia, The Gambia, Ghana, Kenya, Madagascar, Guinea, Namibia, Uganda and Zambia are among the countries that registered an increase in secondary education net enrolment by more than 10 percentage units between 1999 and 2008 (WDI [2009: 86], [2010: 106]).

- The total fertility rate has fallen quite sharply in the past two decades in the region as a whole, from 6.3 in 1990 to 5.1 in 2008.²⁰⁴ As birth rates fall in the wake of falling fertility, the dependency ratio is expected to improve in the coming years, while the population in the economically active age groups will continue to increase at a very rapid pace for at least a decade. Provided that the large number of new entrants into the labour force can be productively employed, this opens a window of opportunity, as falling intra-household dependency ratios will increase per capita income and the economic space for saving and investments at the same time as pressure for public expenditure on education will eventually begin to decline. As the experiences from East and Southeast Asia have shown, the economic gains from this demographic 'window of opportunities' can potentially be very large indeed.²⁰⁵
- The rule of law and the quality of governance has improved across the region, with a few exceptions. The number of violent conflicts in the region has declined to a handful and transition of power based on democratic elections has become the rule rather than the exception.
- The vast majority of the countries in the region by now have a well-established record of macro-economic stability. The levels of external debt, though rising, are also much below what they were a decade ago.
- Access to anti-retroviral therapy (ART) among those suffering from AIDS is rapidly increasing at the same time as the numbers of newly infected with HIV is levelling off and falling in most countries in the region.

A number of factors auger well for agricultural growth

A number of factors auger well for a rapid improvement in agricultural production. First and foremost of these is no doubt the low levels of production at present. Yields of food crops are universally far below those achieved elsewhere. By 2006-08 average yields of cereals in Sub-Saharan Africa stood at only 1,200 kg/ha, as against 2,700 kg/ha in South Asia.²⁰⁶ In only three countries in the region did average yields of food crops exceed 2,000 kg/ha in 2006-2008²⁰⁷, as against for instance over 5,000 kg/ha in China and 4,300 kg/ha in Indonesia. In most countries yields hovered around 1,000 kg/ha. In sharp contrast to growth patterns elsewhere, notably in East and South Asia, agricultural growth in Sub-Saharan Africa has so far been largely extensive and achieved through an

²⁰⁴ While most countries have seen a fall in fertility, there are large differences in the current level of fertility, which ranges from over 6 in Chad, Mali and Uganda, to less than 4 in Botswana, Gabon, Mauritius, Namibia, South Africa, Swaziland and Zimbabwe.

²⁰⁵ A rough calculation suggests that if fertility were to fall as sharply in Uganda as they did in Southeast Asia in the 1970s and 1980s the improvement in the dependency ratio alone could result in an increase in per capita growth in Uganda of 1.5 to 3 per cent (Klasen (2005). For a more detailed discussion on the importance of fertility decline for sustained pro-poor growth in Uganda, see Lundström and Ronnås (2006).

²⁰⁶ WDI (2010: 162-164).

²⁰⁷ Madagascar, Mauritius and South Africa (WDI [2010:162-164]).

expansion of the cultivated area rather than through more intensive cultivation and higher yields.²⁰⁸ Such a development is clearly not sustainable. While climatic and other natural conditions do matter, they do not explain the comparatively much lower yields in Sub-Saharan Africa. Agricultural research and experimental farms have time and again and in country after country showed that actual yields are far below the potential.²⁰⁹ The very low use of cash inputs in agriculture testifies to the low intensity of cultivation. By 2002 a mere 3 per cent of the arable land in Sub-Saharan Africa was under irrigation and improved seeds were used on a quarter of the land,²¹⁰ and by 2005-07 fertilizer application had reached a mere 11 kg of nutrients per hectare, compared to 123 kg/ha in South Asia and 271 kg/ha in East Asia.²¹¹

The very low level of cash inputs in agriculture suggests that even fairly modest investments in an intensification of production may yield high returns and that there is a large scope for increasing production through policies aimed at creating a more enabling environment for farmers. Indeed, in an increasing number of countries in the region a renewed policy focus on agriculture and policy interventions aimed at creating a more enabling environment and better incentives to farmers to move towards a more intensive and market-oriented mode of operation are yielding very encouraging results indeed.

In Rwanda an ambitious programme of modernisation and intensification of agriculture and for reversing environmental degradation is yielding quite spectacular initial results. The programme includes a series of actions to intensify and develop sustainable production systems in agriculture, to improve the technical and organisational capacity among farmers and to promote market access, commodity chains and agro-business.²¹² The response among the largely small-holder population has been instantaneous. A rapid increase in the use of cash inputs, such as fertilisers and improved seeds, has resulted in a series of bumper harvests and to a growth of value added in agriculture by 6.5 per cent in 2008 and 7.6 per cent in 2009. In Malawi, which has a long and unfortunate history of recurrent crop failures and food shortages, a highly controversial programme of fertiliser subsidies has resulted in a significant boost in the production of maize, the main staple, to the point where the country has become a net exporter.²¹³ Agricultural growth has boosted incomes from employment in agriculture in Malawi and has led to an estimated decline in the poverty incidence from 52 to 40 per cent in the

²⁰⁸ More than 70% of the increase in cereal production in Sub-Saharan Africa has resulted from expansion of the cultivated area, whereas increases in yields have accounted for more than 80 % of the increase in agricultural production in Asia and elsewhere (Kydd et.al. [2004]. See also World Development Report [2008: 55].

²⁰⁹ E.g. In Rwanda average yields of main crops in 2000-2005 were estimated to be a mere 25-35 % of the potential (Ronnas, Backéus and Scheja [2010: 42]). Similar discrepancies have been estimated for Malawi and Uganda.

²¹⁰ WDI (2008: 52)

²¹¹ WDI (2011: 158-160). In most countries, fertilizer use per hectare arable land did not reach 10 kg.

²¹² EDPRS (2007).

²¹³ Durevall and Mussa (2010). Average yields of cereals more than doubled in Malawi between 1990-02 and 2006-08, from 874 to 1837 kg/ha. (WDI [2010:163]).

past five years.²¹⁴ In Ethiopia a strengthened policy focus on agriculture and rural development accompanied with a significant increase of public expenditure in these areas has resulted in sustained high rates of agricultural growth, reaching 8-9 per cent in the past few years.²¹⁵ Other countries in the region where pro-agriculture policies have resulted in significant per capita increase in agricultural production in recent years include Benin, Burkina Faso, Madagascar, Mali, Mozambique and Tanzania. While conditions can vary greatly from country to country and it is unlikely that there can be one salient formula, the experiences of the increasing number of agricultural success stories in the region deserve to be studied, not only as a source of inspiration but also with a view to distil generic conclusions and lessons.

The need to shift the focus from triggering to sustaining growth through a productive transformation

As agricultural growth is taking off in an increasing number of countries in the region, the policy focus will need to shift from triggering agricultural development to sustaining it and to use it as a vehicle for economic diversification and more broad-based growth and to ensure that the economies are put on a path of sustainable, inclusive and job-rich growth. This is likely to involve a whole range of challenges. There can be no blueprint for the road ahead as each country will need to chart its own course. However, some salient issues that will need to be taken into consideration can nevertheless be identified.

Policies will need to recognise that in most countries the agricultural population has for quite some time has been caught in a poverty trap, where increasing population pressure on land combined with stagnant, low levels of production, have resulted in stagnant or falling farm incomes. The less fortunate are pushed downwards in a vicious circle until they reach a point where work on the farm no longer suffice to make ends meet and they have to resort to distress migration into the lowest end of the non-farm sectors. Others, somewhat more fortunate, manage to muddle through, but with little or no improvements in incomes and standards of living. Only a minority have managed to escape from poverty by acquiring more land and/or by finding means to intensify farming. This vicious circle needs to be broken. To this end economic growth will need to be based on two pillars: intensification of agriculture with a focus on small-holder farmers, and a broad-based and rapid development of the non-farm sectors, with a particular focus on manufacturing. Continued high rates of labour force growth and the still limited capacity of the non-farm sectors to generate productive employment, even if high rates of growth are achieved, imply that the agricultural sector will continue to absorb more labour in the short and medium term, at the same time as incomes and employment conditions for the vast number of working poor in this sector need to be improved. Comprehensive and forceful policies are needed to break the vicious circle in

²¹⁴ Durevall and Mussa (2010)

²¹⁵ For details on the policies and the strategy, see PASDEP (2006)

agriculture. Lack of secure market access and predictable and sufficiently attractive prices, the risks of crop failure inherent in weather-dependent rain-fed agriculture and the inability to assume calculated risks due to lack of economic margins are all binding constraints that need to be addressed to make it possible for farm households to make the cash investments necessary to intensify production and increase the returns from farming.

Sustaining inclusive, job-rich growth requires a comprehensive approach

Parallel to an intensification of agriculture, an increase in productive non-farm employment, in the form of wage employment or successful non-farm entrepreneurship must be a core component in development strategies. The non-farm sectors of the economy will gradually need to assume an ever larger role as main source of productive employment. To this end a successful economic diversification is needed. The fact that most poor people live in rural areas and derive their living from agriculture does not necessarily imply that policies aimed at agricultural intensification will be particularly pro-poor. Access to land will largely determine the benefits to individual households from such a intensification. In many countries in the region land distribution is today highly unequal, with large holdings coexisting with large numbers of landless or near-landless agricultural households. Not least for the young growing up in these impoverished rural households, access to productive non-farm employment opportunities is likely to offer the only viable road out of poverty.

Such a two-pronged growth strategy can provide the basis for sustainable and rapid job-rich growth. At the same time as successful agricultural intensification depends on development of upstream and downstream linkages and the development of supporting non-agricultural economic activities, an improvement of agricultural production and incomes resulting from intensification would, through increased local demand, release growth constraints on the non-agricultural sectors, resulting in enhanced non-farm employment and income opportunities, which in its turn would create more attractive exit opportunities for labour from agriculture, leading to higher incomes for those remaining on the farm. A virtuous circle, based on pull rather than push factors, shifting labour out of agriculture could result, as evidence from elsewhere clearly show. In order to be sustainable and sufficiently forceful, such a development needs to be supplemented by a broad-based – branch-wise as well as geographically – industrialisation, aimed at creating a strong and competitive manufacturing base.

There is evidence that some countries in the region have indeed embarked on such a development. In Ethiopia, one of the most populous countries in Sub-Saharan Africa, value added in manufacturing has been increasing by 10 per cent per year since 2005, in tandem with an equally rapid growth in agriculture. Almost equally high or higher rates of manufacturing growth have been registered in Malawi, Mauritania and Tanzania. In all of these cases growth in manufacturing has taken place alongside agricultural

growth. Two other high performers were Rwanda and Uganda.²¹⁶ Indeed, a closer look at the branch structure of manufacturing in some of the recent fast-growing countries shows that food and beverages account for up to three fourths of the manufacturing value added, suggesting that development of agriculture and of manufacturing feed on, and into, each other. However, there are exceptions to this rule, In Ethiopia, which has a long history of import substitution, the manufacturing sector is much more diverse.

The very rapid developments in the field of information technology and communications (ITC) have removed a large number of technical barriers to trade in services, a process which seems set to continue. Global trade in services is increasing rapidly and a global market for many, though not all, types of services is in the making. Many countries in the region would *prima facie* appear to have a potential comparative advantage in the production of tradable services. Unlike manufactured goods and commodities, impersonal services are not affected by high transport costs resulting from remoteness from main markets and poor transport infrastructure. They also tend to require less capital investment, be less subject to economies of scale and to be skill rather than capital intensive.

Indeed, there are a few emerging success stories in the area of tradable services. Some countries in the region have a well-established tradition of tourism, notably The Gambia, Mauritius and Seychelles. In others, such as Cap Verde, the development of the tourism sector is more recent. Rwanda, Tanzania and Uganda are examples of countries where 'niche' tourism is gaining momentum. In Rwanda IT-based services are strategically being developed as a future cornerstone of the economy. However, with minor exceptions, the countries in the region have yet to tap into and exploit the rapidly developing potential resulting from IT-based outsourcing of back-office services.

Domestically, the development of a wide range of services – trade, repair shops, financial service etc. – are part and parcel of a productive transformation based on agricultural intensification and economic diversification. They need to grow hand in hand with an increased market-orientation and intensification of agriculture and development of manufacturing, feeding on as well as into the development of these sectors.

The road forward towards successful productive transformation and sustained inclusive job-rich growth

The opportunities for sustained and inclusive job-rich growth in most countries in Sub-Saharan Africa derive not least from their still early stage of development: demographically as well as economically. While high rates of population growth still impose a severe constraint on economic development in most of the countries in the region, the same countries have still to draw the benefits of the demographic 'bonus' that can follow from a fall in fertility resulting in a period of two decades or so of very

²¹⁶ In addition a number of resource-rich countries registered rapid growth of manufacturing, notably Angola, Equatorial Guinea and Sudan.

favourable dependency ratio. Similarly, the agrarian nature of most of the economies implies that the growth impetus that can result from large productivity gains through a shift of much of the labour force from agriculture to the non-agricultural sectors, based on pull rather than push factors, have yet to be reaped. However, these twin transformations are unlikely to be either spontaneous or automatic.

The past half century of development under different development regimes have taught us that sustainable economic development that is both inclusive and job-rich needs to be accompanied, indeed driven, by a continued productive transformation. Well functioning and efficient markets are indispensable for efficient resource allocation and a necessary, but not sufficient, condition for a level playing field for all economic actors. However, efficient markets are not by themselves enough to ensure economic development and productive transformation, nor are openness to the outside world and integration in the global economy. Indeed, evidence from most developing countries suggests that neither do efficient markets develop by themselves.²¹⁷ When ILO constituents are asked to identify main constraints on the development of productive employment, poorly functioning markets are regularly bought up as a main obstacle. Achieving a well-integrated domestic economy, with strong inter-sectoral as well as inter-regional and rural-urban linkages, is indispensable for enabling productive transformation and putting the LDCs on a path of sustainable job-rich growth. This will require an active developmental role of the state: it requires policies and interventions that actively foster the development of efficient markets, but also steps in with compensating measures where markets do not function well. It requires adequate provision of public goods and forceful policies to ensure development with equity. It requires a common vision of the future, developed through social dialogue, and a state that is equipped with the capacity, the mandate and the tools to implement well-designed strategies, including industrial strategies, to this end. As spelt out at recent high level conference of ministers of economy and finance in Malawi, generating productive employment and decent work for all ‘...reinforces the call for a “Developmental State” that goes beyond “the Capable State” by setting a long-term development vision that provides an anchor for economic transformation and poverty reduction through strategic public investment and other development policy measures.’²¹⁸ The 2011 Economic Report on Africa by the Economic Commission for Africa echoes the same fundamental change in development philosophy. It concludes that ‘The case for promoting developmental states in Africa rests on the inability of previous development approaches to help Africa diversify and transform its economies, generate steady and sustained high growth rates or deliver adequate levels of social development’.²¹⁹

²¹⁷ This is also a main conclusion of the 2001 Economic Report on Africa, which has ‘governing development’ as its core theme. See ECA (2011).

²¹⁸ AU/ECA Conference (2010)

²¹⁹ ECA (2011: 8).

Indeed, the increasing number of emerging success stories in Sub-Saharan Africa, who are beginning to break out of the vicious circle of agricultural stagnation and near-absence of manufacturing, are hallmarks of such successful policies. Radical changes in overall development philosophies and strategies – away from the dogma prescribing liberalisation, privatisation and macroeconomic stability as more or less successful prerequisites for economic development to assigning a much more active developmental role to the state are in these countries yielding impressive and rapid returns.

A rapid broad-based and inclusive human resources development will be essential for any successful development strategy. As the goal of universal primary education is increasingly achieved, the focus needs to shift to secondary and tertiary education and to vocational and skills training. In view of the long time lags before investments in education bear fruit, the attention now needs to be on equipping the young with the education, cognitive abilities and skills needed to meet the demands of the economy and labour market in ten to twenty years time. An increasingly sophisticated economy, technological development and a long term move towards the higher end of the value added chains will require a highly educated and skilled labour force. Investments are needed today to meet these needs of tomorrow. For the young, in particular, achieving adequate and relevant education and training to be able to get a foothold and play an active role in the expanding non-agricultural sectors of the economy or in the development of a modern agriculture will be crucial for their prospects to escape poverty through productive employment. Access to education and training determine to a large extent the future employment prospects of the young. Indeed, universal access on equal terms to education and training is arguably the single most important factor for a long term reduction of inequality of employment opportunities and of incomes. To this end particular attention needs to be paid to ensuring access to high quality education and training for the rural poor, for whom, for want of access to land, access to productive non-farm employment often offer the only viable escape from poverty.

Women account for most of the work in agriculture in most countries in the region and are making increasing headway into the non-agricultural segments of the labour market. Despite increasing educational achievements they tend to end up at the lower end of the labour markets. Continued efforts are needed to ensure that boys and girls and young women and men have equal access to education and skills development. Beyond this, much remains to be done to ensure equal access to labour market opportunities and to engage in entrepreneurship. More often than not, land ownership remains a male prerogative. Women typically also face greater obstacles than men in accessing credit. Occupational, geographic and social mobility will become increasingly crucial for workers, not least the working poor, to be able to benefit from the employment and economic opportunities created by structural change, rather than, as so often in the past, become the victims of such change. Particular attention needs to be paid to removing barriers to mobility - whether formal or informal, institutional or cultural and social – that discriminate against women.

Gender equality in access to high quality education and vocational training and on the labour market is an important goal in its own right. It is also crucial for achieving other fundamental economic and social development goals. A successful demographic transition depends on a decline of fertility. The means for reducing fertility are fairly well established and may be summarised as: improved education, productive employment and decent work opportunities, sexual and reproductive rights and empowerment more generally for women. Demographic and health surveys show a uniform and convincing picture of sharply falling fertility with higher levels of education for women.²²⁰ Productive employment opportunities for women beyond subsistence agriculture are another important contributor to reduced fertility. A number of surveys also show that improved sexual and reproductive rights would have a positive impact on fertility, as the actual number of children typically exceeds the number desired by women and as men tend to be in favour of having more children than women.

Putting agriculture on a sustainable path of development will require addressing the twin challenges of environmental degradation and climate change. In many countries a relentless increase of the population pressure on land and a failure to fundamentally change the mode of production and to introduce soil-enriching practices have resulted in an extension of cultivation to marginal land, deforestation, erosion, a shortening of fallow periods and a depletion of soil nutrients. In many areas the process of environmental degradation has proceeded so far that it not only needs to be halted, but forcefully reversed. An intensification and increased market-orientation of agriculture is necessary, but will not in itself, be sufficient to reverse environmental degradation. Agricultural development strategies will need to include soil conservation measures, promotion of agro-forestry and technologies for sustainable land-use.²²¹

Climate change is a reality and an increasing number of studies show that much of Sub-Saharan Africa will be severely affected.²²² We know that global warming will increase the incidence and severity of droughts, floods and other extreme weather conditions in most parts of the region, although the impact is expected to vary greatly from country to country. Generally speaking northern and southern Africa is expected to become much hotter and drier, while in Eastern Africa and in parts of central Africa rainfall is likely to increase. Many regions will suffer from a greater frequency and intensity of both droughts floods.²²³ The Stern Review estimates that a 3-4 degree increase in temperature will result in a decline of average yields in Africa by 15-35 per cent.²²⁴ Throughout the region, adaptation to changing natural conditions imposed by climate

²²⁰ A case in point is Uganda, where fertility falls from 7.8 for women with no education, to 7.3 for those with some primary education to 3.9 for those with at least some secondary education (Klasen, 2005).

²²¹ For a discussion on the need for 'a green economic transformation' in Africa, see ECA (2011: 63-70).

²²² For recent research and discussion on this topic see *inter alia* Collier, Conway and Venables (2008), Calzadilla et.al. (2009) and Lyakurwa (2009). An authoritative and comprehensive review of the 'economics' of climate change is provided by Stern (2007).

²²³ Collier, Conway and Venables (2008).

²²⁴ Stern (2007: 83).

change needs to be built into strategies for agricultural for development as well as into overall national development strategies.

Chapter 6: Exports, economic diversification and employment: some African case studies

Introduction

It is customary, as noted in chapter 1, to bemoan the fact that structural transformation in SSA has stalled and that one can detect a process of ‘de-industrialization’. Influential studies paint a somewhat pessimistic picture of SSA’s growth prospects by noting that ‘sustainable growth cases’ have almost always been characterised by manufacturing exports playing a leading role in the industrialization process.²²⁵ The lack of an export-led transformation manufacturing in SSA is sometimes related to the high cost of doing business in the region.²²⁶ The policy message seems to be that a reduction in the cost of doing business specifically related to the tradables goods sector might be the key to unlocking the export potential of SSA in the manufacturing sector.

On the other hand, how realistic is it to expect that in a reasonable period of time typically mid-sized, land-locked and resource-poor African nations will become another Vietnam whose growth and impressive record of poverty reduction is propelled by FDI and manufacturing exports directed towards developed countries?²²⁷ Alternative export-led economic diversification strategies should be given serious consideration as part of a pan-African growth and development agenda at least for the medium-term. Such an agenda has various strands two of which are discussed here. First, what will be the expected form of economic diversification and what will be the employment consequences of deepening regional integration? Second, what role can non-traditional agricultural exports play in economic diversification and employment promotion?

It appears that the answers to the two questions are related. Deepening regional integration is expected, according to the findings reported in this chapter, to enhance economic diversification in agricultural activities in some SSA countries and also to increase the demand for unskilled labour. There is, however, an important variation to this finding. It appears that exporters that serve mainly regional markets display characteristics – higher productivity and better wages and working conditions – that are similar to exporters serving global markets. This implies that the expansion of regional exporters that a process of regional integration will bring about is likely to engender higher benefits to the African work-force. On the other hand, trading costs within the region may be similarly high as trading costs with global markets. Thus, the productivity threshold a company has to reach in order to find it profitable to start exporting is similarly high within ECOWAS than with the rest of the world. Lowering trading costs in the regional market could allow more firms to start exporting even if they are currently

²²⁵ Johnson *et al* (2007). See also chapter 1. As Radelet (1999:1) observes: ‘...success in manufactured exports has been nearly synonymous with rapid economic development’.

²²⁶ Johnson *et al* (2007)

²²⁷ The notable exceptions in Africa are Mauritius and Tunisia. See Radelet (1999).

less productive and thus contribute to more employment generation from regional trade.

The issue of non-traditional agricultural exports as an alternative pathway to economic diversification and job creation is highly pertinent to many African economies, notably those who rely heavily on smallholder farming and primary commodities. This will be documented using the cases of Ethiopia and Rwanda. The governments of these countries have also made the promotion of non-traditional, high value-added (HVA) agricultural exports a priority in their national development strategies. On the other hand, concerns have been raised about the environmental sustainability of some of these export activities and, more importantly, about the wages and working conditions of the many thousands who are involved in such activities. The policy challenge is how to create a 'win-win' situation such that the wages and working conditions of workers in the HVA agricultural sector improve, environmental concerns are dealt with, export performance and prospects of the sector are maintained.

The rest of the chapter is structured as follows. The discussion commences with a brief account of African trade flows before and after the global and financial crisis of 2007-2009 and points out the heavy dependence of SSA economies on primary commodities. It appears that the crisis did not have major or lasting effects on export performance largely because of the quick recovery of the global trade shock that took place in 2008-2009. This sets the context for introducing a case study on regional integration in Africa using ECOWAS as an example. The ECOWAS case study is complemented by a brief analysis of the characteristics of regional and global exporters. The experiences of two land-locked SSA countries – Ethiopia and Rwanda – are then highlighted. Case studies of two successful exports – cut flower industry and specialty coffee - of these two countries are assessed. The key factors behind export success are identified, while reflecting on some of the employment and environmental consequences of the success stories. A concluding section summarizes key findings and highlights policy implications.

Trade and Africa: pre- and post-crisis perspectives

The decade preceding the global crisis has been one of strong trade growth with world exports increasing at an average rate of 5.5 per cent between 2000 and 2007. This was temporarily reversed in 2009, when world trade dropped by an unprecedented 12 per cent.

African countries' share in world exports remained relatively stable over that period, with Africa's share in world exports corresponding to 2.3 per cent in 2000 and to 2.5 per cent in 2007. That share increased quite significantly in 2008 to 3.5 per cent, to a large extent because the price hikes in commodity markets, in particular oil.

Intra-regional trade, that is, trade within Africa also increased during that period. Trade within Africa represented 7.6 per cent of total African exports in 2000 and went up to 9.6 per cent of African exports in 2008.

Table 6.1 reflects the evolution of Sub-Saharan African exports by destination in the period 1995-2008. The most striking change over that period has been the strong increase in importance of the BRICS as a destination for SSA exports. Trade within Sub-Saharan Africa also increased during most of the period but dropped in 2008. It is interesting to note that OECD countries significantly lost importance as a destination for exports for Sub-Saharan African, when South Africa is excluded from the sample.

Table 6.1 Sub-Saharan Africa's exports by region of destination

SSA excluding South Africa

Partner	1995	2000	2005	2006	2007	2008
World	100	100	100	100	100	100
BRIC	4	8	16	15	18	21
SSA	21	23	25	29	26	23
HiOECD	58	53	47	40	40	43
RoW	17	16	12	17	16	13

SSA including South Africa

Partner	1995	2000	2005	2006	2007	2008
World	100	100	100	100	100	100
BRIC	3	5	10	10	13	14
SSA	16	18	19	20	19	19
HiOECD	51	54	59	56	54	54
RoW	30	23	12	14	14	13

Source: Comtrade

Trade and Employment during the crisis

The trade shock experienced during the crisis was both acute and global in that it affected all regions in the world as illustrated in Table 6.2. World merchandise trade still experienced growth of around 15 per cent in 2008 and then dropped by 30 per cent in the first three quarters of 2009. All world regions experienced export drops of above 20 percent, but the drop was particularly sharp in CIS countries and in Africa & the Middle East, regions that are important exporters of fuel and metals and that had benefited from the price hikes in 2007 and 2008. In Africa and the Middle East, exports dropped by 50 per cent.

Other sectors of high relevance for developing countries like office and telecom equipment and textiles and clothing, have also been affected by the crisis, but less so than durable goods sectors like automobiles.

Table 6.2 World Merchandise Exports and Imports by Region, 2008-9

(Percentage change over preceding year, based on dollar values)

	Exports		Imports	
	2008	2009 (Jan-Sep)	2008	2009 (Jan-Sep)
World	15.1	-30	15.2	-30
Western Europe	11.3	-30	12	-32
Asia	14.4	-24	20.4	-27
North America	10.6	-27	7.6	-30
South/Central America	20.5	-25	30.1	-32
CIS	35.3	-45	32	-41
Africa & Middle East	31.2	-50	25.9	-21

Source: (Finger, 2010), based on data from WTO, CPB and author's calculations

The employment impact of the trade shock during the crisis has differed significantly across regions and across countries. Even within the same country, the labour market impact has often differed across sectors. This has for instance been the case in Egypt, where both the textile industry and the tourism industry suffered from the crisis. In reaction, textile producers laid off significant numbers of workers, while tourism companies rather adjusted wages (Klau, 2010).

Regional trade as a future driver of employment growth in Africa?²²⁸

The recently published fourth report on Assessing Regional Integration in Africa, a joint undertaking by the African Union, UNECA, and the ADB, takes up the topic of “Enhancing Intra-African Trade” (UNECA et al. 2010). It emphasizes the importance of regional trade for development and poverty reduction in Africa. Starting from the observation that only 10-12 percent of total African trade takes place within the region, the report analyses the causes of the low rate of intra-regional trade. Among the key constraints to regional trade it finds the low level of complementarity between African exports and imports, resulting from the fact the African exports are dominated by commodities, high transport costs resulting from insufficient infrastructure as well as man made barriers, and ongoing tariff and non-tariff protection even against regional products.

The above mentioned reports thus suggest that regional integration within Africa can contribute to enhanced economic diversification and stronger growth. But evidence on the link between RTAs, employment, and export diversification is relatively scarce. (Puga, et al., 1998) analyse the impact of different trade policy scenarios on the location decision of firms between fully agrarian “southern” and industrialized “northern” countries. Their findings highlight two aspects that are particularly interesting : First, they support the importance of internal market size, as larger market size contributes to a higher degree of industrialization. And second, the possibility of an uneven distribution of industrialization among the southern partners of an RTA -a pattern that clearly applies to the ECOWAS region. The same author extends this argument in (Venables, 2003), arguing that southern countries might be better off in free-trade

²²⁸ This section draws on on Uexkull, E. (2011)

agreements with a northern country as south-south RTA can lead to divergence between preferential trading partners as well as specialization according to regional rather than global comparative advantage. Sanguinetti, et al. (2010) test this argument empirically for the case of MERCOSUR. They find evidence that regional integration reshaped manufacturing production structures according to regional comparative advantage in labor and skilled labor and also weakened the impact of national market size on industry agglomeration. This is particularly interesting as some southern countries may consider a move from exports for which they have a global comparative advantage to products with regional comparative advantage desirable as a step towards industrialization.

In 2004, the Overseas Development Institute completed a series of reports analyzing the poverty impact of Regional Trade Integration. They find evidence in a case-study on Tanzania (Kweka, et al., 2004) that regional integration within SADC and EAC has led to an increase in trade and that regional trade has a higher anti-poverty impact as it involves the poor more directly. For Bolivia, (Nina, et al., 2004) find that the export profile shifted from global markets towards ANDEAN and MERCOSUR partners and from minerals to vegetable fats, foods and beverages. Surprisingly, they find that overall trade as a share of GDP did not increase, which they attribute to supply side constraints. The concluding paper, (Overseas Development Institute, 2005) points out that the effects through trade will probably be limited initially for poor countries with similar production structures, but that there may well be dynamic effects in the longer run which are not yet well understood. Evidence of a positive impact of regional integration on FDI inflows from outside the region is presented, but the paper cautions that these may be very unevenly distributed among countries. The main beneficial effects from regional integration on poverty are expected to result from the provision of regional public goods, for example through cooperation on infrastructure projects and customs facilitation. Employment is highlighted as a key link between exports and poverty reduction.

The above paragraph points to another dimension of regional trade for employment and export diversification that is highly relevant in the context of this section: Regional exports may differ substantially from exports to global markets in terms of the products that are being traded, and this can lead to a different impact on poverty and employment depending on the degree to which the poor can benefit from employment opportunities in different export sectors. In this regard, export growth in sectors that extensively use unskilled labour can be expected to have a higher anti-poverty impact.

Composition and employment intensity of regional trade: the case of ECOWAS

Background

In 2008, ECOWAS members formally committed themselves to becoming a customs union and adopting a common external tariff (CET). However, implementation of the CET and regional free trade has remained slow and cumbersome. Very restrictive rules of origin have limited the benefits of regional free trade to relatively few companies that have managed to get their exports accredited as regional products, so that in practice MFN tariffs are still frequently applied to products from the region. Unfortunately, reliable data on the degree of preference application within ECOWAS and the progress in implementing the CET is difficult to obtain.

ECOWAS is still in the process of negotiating an Economic Partnership Agreement (EPA) with the EU that would eventually lead to substantial liberalization of market access for EU exports to the region. So far, only Ghana and Cote d'Ivoire have signed individual interim EPAs with the EU in order not to lose tariff free market access to the EU with the expiration of non-reciprocal tariff preferences for ACP countries in 2008. With the exception of Nigeria, which lost its duty-free market access to the EU, all other ECOWAS members continue to enjoy duty-free access to the EU market under the Everything but Arms initiative due to their Least Developed Country (LDC) status.²²⁹

As shown in Table 6.3, the share of regional trade in overall exports from ECOWAS countries is relatively low (9.5%). However, this is mainly driven by the dominance of Nigeria's oil exports to the global market in aggregate data and thus masks substantial differences by country. Nigeria accounts for roughly 80% of total ECOWAS exports, and only a small fraction of them goes to ECOWAS countries (6.1%). However, once Nigeria is excluded, the share of total exports that goes to ECOWAS countries increases to 22.9%, and for some individual countries it is substantially higher (Burkina Faso 76.5%, Togo 59.7%, Senegal 46.0%).

²²⁹ Cape Verde graduated from LDC status in 2008 but was granted a 3 year extension of EBA treatment.

Table 6.3 Destinations of Exports for ECOWAS countries

	Total Exports (mln. US\$)	Share in total exports				
		ECOWAS	Other SSA	BRIC	OECD HIC	RoW
Benin	270	25.7%	4.8%	39.2%	10.4%	19.9%
Burkina Faso	362	76.5%	0.2%	0.1%	21.4%	1.8%
Cote d'Ivoire	7,940	24.6%	4.4%	3.9%	57.4%	9.7%
Ghana	3,338	10.1%	29.6%	3.8%	43.0%	13.5%
Guinea	937	3.1%	0.3%	6.3%	74.6%	15.7%
Gambia, The	12	23.4%	3.0%	5.1%	65.0%	3.5%
Mali	1,390	10.5%	59.8%	4.6%	15.0%	10.0%
Niger	434	23.6%	1.3%	2.2%	67.4%	5.5%
Nigeria	64,999	6.1%	3.9%	15.5%	70.3%	4.2%
Senegal	1,390	46.0%	8.0%	12.2%	29.4%	4.3%
Togo	343	59.7%	2.1%	10.4%	11.9%	15.9%
ECOWAS	81,415	9.5%	5.9%	13.4%	65.7%	5.5%
ECOWAS excl. Nigeria	16,416	22.9%	14.1%	5.4%	47.2%	10.4%

Source: Data from COMTRADE, average between all years with data availability between 2004 and 2008

Sectoral composition of regional trade

For many African countries the composition of exports to ECOWAS partners is quite different to that of exports to the major emerging markets (BRIC = Brazil, Russia, China, India), high-income OECD countries, and the rest of the world. The only exception here is Nigeria, whose exports to all regions are strongly dominated by oil.

One conclusion from these patterns is that the literature is correct in pointing towards the difference between regional and global comparative advantage. However, there are substantial differences among countries in terms of the patterns of their regional vs. global comparative advantage. Table 6.4, for example, illustrates that Benin mainly exports “crude materials” to BRICs and the OECD, while its exports within ECOWAS are concentrated in “beverages and tobacco” and “manufactured goods”. Also for Ghana, Senegal and Togo the share of manufactured goods and machinery is substantially higher among regional exports than among exports to global markets, indicating that higher concentration on regional exports could indeed contribute to industrialization. Burkina Faso exports mainly crude materials to the region but also to OECD countries. Within ECOWAS, however, it also exports food and live animals, a sector that has less weight in its exports with other regions. For Cote d’Ivoire, regional exports are dominated by mineral fuels while global exports comprise mainly food and live animals.

Table 6.4 Revealed comparative advantage by trading partner

		Region				
Exporter	product	Ecowas	SSA	BRICs	high income OECD	rest of the world
Benin						
	Food and live animals	0.02	0.01	0.06	0.02	0.01
	Beverages and tobacco	0.09	0.00	0.00	0.00	0.00
	Crude materials, inedible, except fuels	0.02	0.01	0.34	0.07	0.19
	Animal and vegetable oils and fats	0.04	0.00	0.00	0.00	0.00
	Manufact goods classified by material	0.07	0.02	0.00	0.00	0.00
	Total exports	0.25	0.05	0.40	0.10	0.20
Cote d'Ivoire						
	Food and live animals	0.02	0.00	0.03	0.28	0.06
	Crude materials, inedible, except fuels	0.00	0.00	0.01	0.06	0.02
	Mineral fuels and lubricants	0.15	0.03	0.00	0.13	0.01
	Manufact goods classified by material	0.02	0.00	0.00	0.02	0.00
	Machinery and transport equipment	0.00	0.00	0.00	0.05	0.00
	Total exports	0.25	0.04	0.04	0.58	0.08
Burkina Faso						
	Food and live animals	0.07	0.00	0.00	0.01	0.00
	Beverages and tobacco	0.03	0.00	0.00	0.00	0.00
	Crude materials, inedible, except fuels	0.63	0.00	0.00	0.19	0.02
	Animal and vegetable oils and fats	0.01	0.00	0.00	0.00	0.00
	Chemicals	0.01	0.00	0.00	0.00	0.00
	Manufact goods classified by material	0.02	0.00	0.00	0.00	0.00
	Other manufactured articles	0.00	0.00	0.00	0.01	0.00
	Total exports	0.78	0.00	0.00	0.20	0.02

Source: Data from COMTRADE, average between all years with data availability between 2004 and 2008

In line with the predictions of the theoretical literature reviewed above, one would expect from these patterns of revealed comparative advantage that increased regional integration would contribute to industrialization in some ECOWAS countries, but not in all. However, industrialization is not necessarily synonymous with employment creation and exports diversification. For example, some countries have successfully diversified their export by moving into new types of agriculture or food processing. And with respect to employment, there is no a-priori reason to assume that the employment intensity of a unit of industrial output should be higher than in other sectors. We therefore proceed to analyze more formally the different export portfolios to the region vs. the rest of the world along those lines.

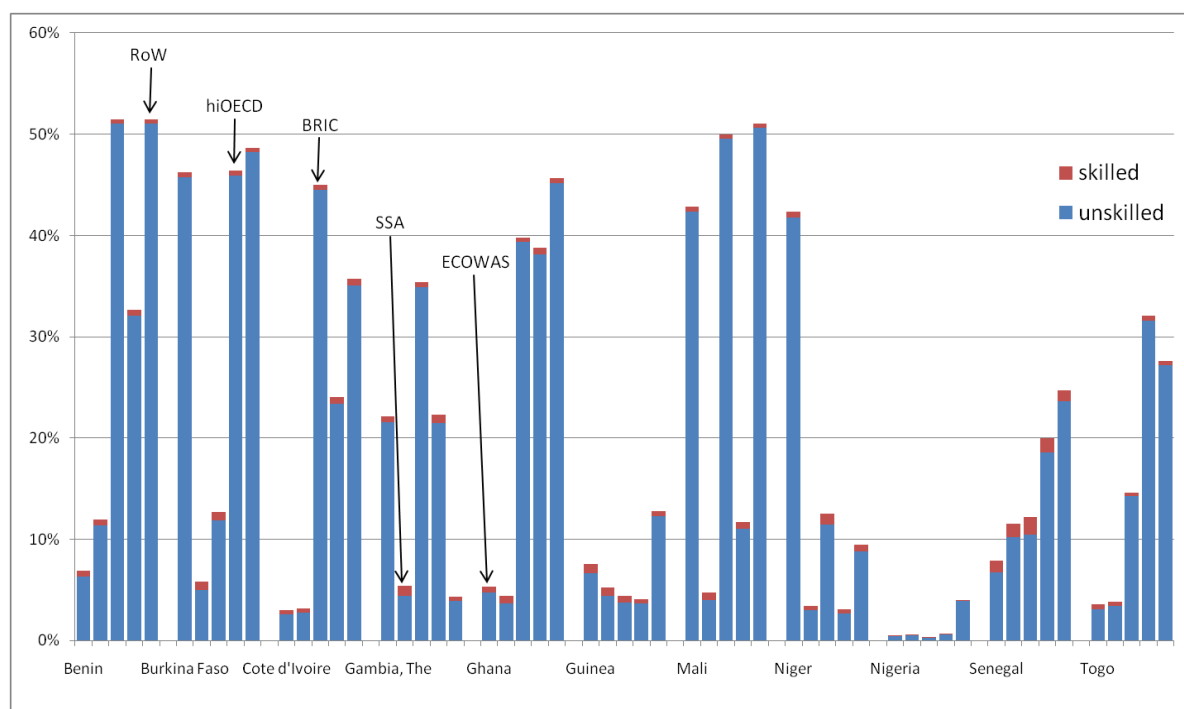
Employment Intensity

Figure 6.1 shows the share of skilled and unskilled labour costs in exports to each destination. This is an imperfect measure as it can be influenced by wage differences and the regional data on production technology may not be accurate for each country, but at least it provides some indication of the employment intensity of exports to different destinations.

Exports to ECOWAS appear to have a low employment intensity for most countries, with wages (both skilled and unskilled) per output below 10% for seven out of eleven countries. For these seven countries, the labour content is substantially lower for exports to ECOWAS than for exports to most other regions. The exceptions are The

Gambia with a wage share of 22% and Burkina Faso, Mali and Niger with wage shares between 42% and 47% for exports to ECOWAS. These four countries all have a relatively high share of food and live animals and / or crude materials in their exports to the region. Indeed, most of the results are driven by the very high labour shares in agriculture, whether for food or industrial raw materials such as plant based fibres and oil seeds. On the other hand, manufacturing products tend to have much lower labour content. These results suggest a potential conflict between the goals of industrialization and the quantity of employment created. These potential trade-offs deserve further research as they are crucial for the formulation of regional trade and industrial policies that promote employment and export diversification.

Figure 6.1: Share of skilled and unskilled labour cost in exports by destination region



Source: Authors' calculation, based on trade data from COMTRADE (average between all years with data availability between 2004 and 2008) labour share in total output from GTAP databases for Senegal, Nigeria, and Rest of West Africa.

Overall, ECOWAS countries have a very low share of skilled labour in the production of their exports. On one hand, this suggests that export industries provide job opportunities for unskilled workers, which should be considered good news from a poverty alleviation perspective. At the same time, it points to a potential deficit in skills that could in itself constitute a bottleneck for further export growth. Given that skilled and unskilled jobs are often complimentary rather than a substitute for one another, overcoming skills deficits can support the creation of jobs for both skilled and unskilled workers. The ILO has recently developed the Skills for Trade and Economic Development (STED) methodology specifically to identify skills shortages for export development and to make recommendations to overcome them. This type of analysis could be very useful in the ECOWAS region.

Level of Export Diversification

As explained above, some of the benefits typically associated with a more diversified export portfolio, such as a lower vulnerability to price fluctuations in the world market, can also accrue to countries that simply manage to increase the number of products they export, even if they are of a relatively low value-added nature. Therefore, this section takes a closer look at the degree to which exports to the region contribute to the diversification of the export portfolio for ECOWAS countries.

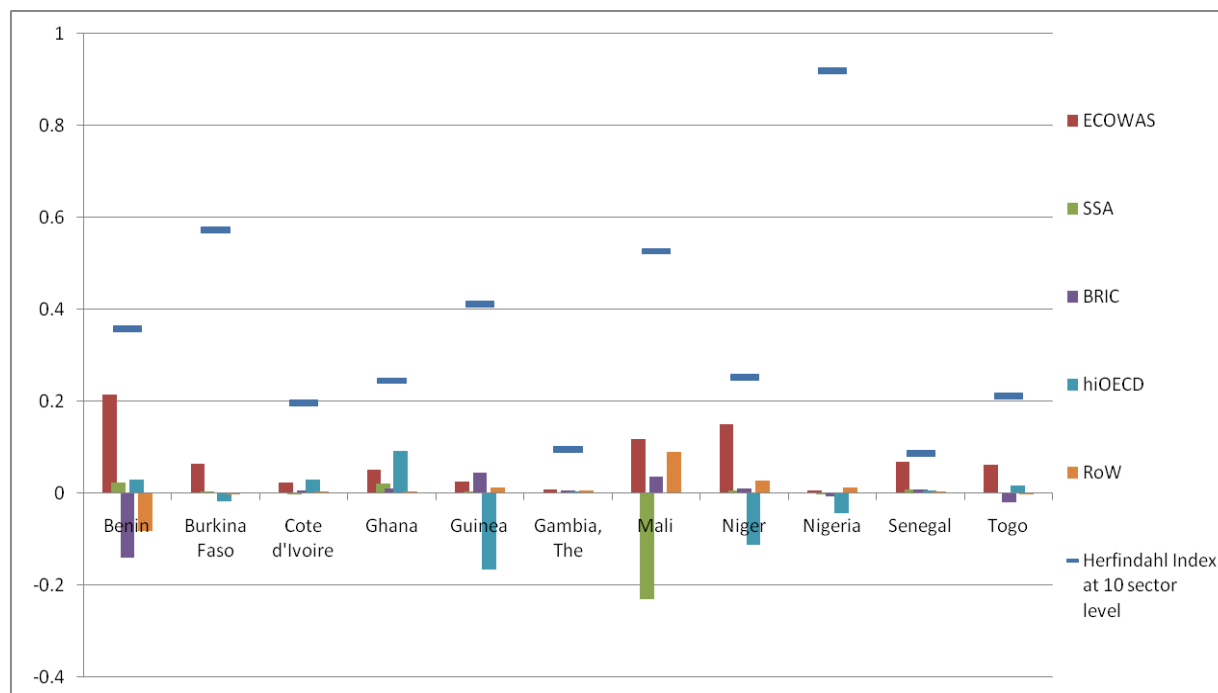
A standard way to formally analyze the degree of export diversification is to calculate the so-called Herfindahl index. This index is defined as the sum of the squares of the share of each product exported in total exports. Thus, this number would be equal to one for a country that exports only one product, and will approach zero if exports are split very evenly among a very high number of products. Figure 6.2 presents the Herfindahl indices for ECOWAS countries as well as a measure of the contribution of each destination region to export diversification. The bars represent the hypothetical change in the Herfindahl index if exports to the respective region are dropped, meaning that a higher bar means that a region is important for the diversification of the overall export portfolio. The magnitude of this indicator will be determined by two factors: First, the level of diversification of exports to that region, and second, the complementarity of exports to a particular region with exports to the rest of the world. This measure can be negative if exports to a certain region are very concentrated in a few sectors.

Figure 6.2 shows substantial variation in the degree of export diversification. Nigeria's exports are the most concentrated, which is not surprising for a country that depends strongly on oil exports. Burkina Faso, Guinea, and Mali also show very high levels of export concentration, while The Gambia and Senegal, by this measure, are the most diversified countries in the region. The comparison of regional contributions to export diversification shows unambiguously that regional exports increase the level of diversification, and quite strongly so in a number of cases. For six out of eleven countries, the contribution to export diversification of the ECOWAS region is higher than for any other export destination. The largest contributions are for Benin, Mali, and Niger. Interestingly, the latter two are among the countries identified in a previous section where there was no indication that regional exports are more intensive in industrialized goods. On the contrary, they export mainly food and live animal to the ECOWAS region. This finding is consistent with another study which shows, using a 'product space' approach, that in the case of five African countries, full regional integration will primarily give a boost to economic diversification in agriculture.²³⁰ This adds an important dimension to the export portfolios of selected SSA countries and reduces at

²³⁰ Hidalgo (2011). 'The product space' is defined as a network connecting products that tend to be exported by the same sets of countries. Since countries are more likely to develop products that are close by in the product space to the ones that they already produce, the product space can be used to help anticipate a country's industrial opportunities' (Hidalgo, 2011:iii). The five countries are: Kenya, Mozambique, Rwanda, Tanzania, Zambia.

least to some extent their vulnerability to shocks to their other export articles. More in general, it can be concluded that whether they contribute to industrialization or not, regional exports play an important role for economic diversification in most ECOWAS countries.

Figure 6.2 Herfindahl Index of Export Concentration, and contribution of different regions to export diversification



Source: Authors' calculation, based on data from COMTRADE, average between all years with data availability between 2004 and 2008

Are regional ECOWAS exporters different to global exporters? Evidence at the firm level

Recent developments in the international trade literature following a seminal study²³¹ have looked beyond the determination of trading patterns by industry specific comparative advantage and instead focused on differences at the firm level between exporters and non-exporters. The idea is that only very productive firms will find it profitable to overcome the upfront-costs associated with exporting. Thus, exporters are typically larger and more productive than non-exporters. Empirical studies confirm this and in addition find that exporters pay higher wages than non-exporters²³².

Recent model extensions suggest that firm level characteristics may differ depending on the export markets they serve. For example, in a framework developed by (Helpman, et al., 2008), export markets differ in terms of trade costs. The higher the trade costs to access a foreign market, the higher is the threshold for firm productivity above which

²³¹ Melitz, (2003)

²³² Bernard, et al., (1999)

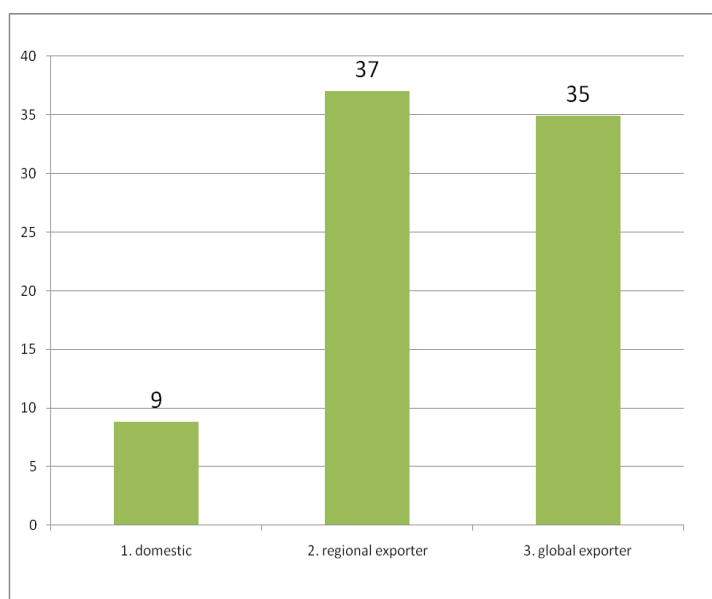
market entry is still profitable. Thus, regional exporters may differ from global exporters in terms of size, productivity, and employment characteristics. If regional trading costs are lower (eg. due to proximity, common language, preferential markets access), one might expect that some less competitive firms may find it profitable to export regionally, but not globally. This could imply for regional exporters to on average exhibit smaller size, lower productivity, and lower wages than global exporters.

This hypothesis is tested and rejected for the ECOWAS region on a combined sample of firm level data for seven member countries²³³ comprising a total of 2,815 manufacturing and services firms, of which 177 export at least some part of their output. These are further subdivided into firms that export only to the region (75) and firms that export to other markets as well (102). Figure 6.3 and Figure 6.4 show summary statistics for employment, labour productivity (Value added per worker), and average wages for these firms. The results confirm that exporters tend to be larger and more productive, and pay higher wages than non-exporters, but there does not appear to be a difference among regional and global exporters in this sense.

The interpretation of these findings is double-edged. On one hand, it is certainly good news that regionally exporting firms – much like global exporters – can contribute significantly to average productivity growth and create better paid jobs. On the other hand, in the framework of the above described trade models, these findings suggests that trading costs within the region may be similarly high as trading costs with global markets. Thus, the productivity threshold a company has to reach in order to find it profitable to start exporting is similarly high within ECOWAS than with the rest of the world. This view was confirmed by a number of export firm managers in Senegal and Benin interviewed for the purpose of this research in February 2011, who often argued that shipping a container by road across the borders within the region could be more cumbersome than shipping it to Europe due to bad infrastructure, inefficient and costly customs and other regulatory procedures (some of which in are in violation of ECOWAS commitments), and various types of harassment along the route. Lowering trading costs in the regional market could allow more firms to start exporting even if they are currently less productive and thus contribute to more employment generation from regional trade.

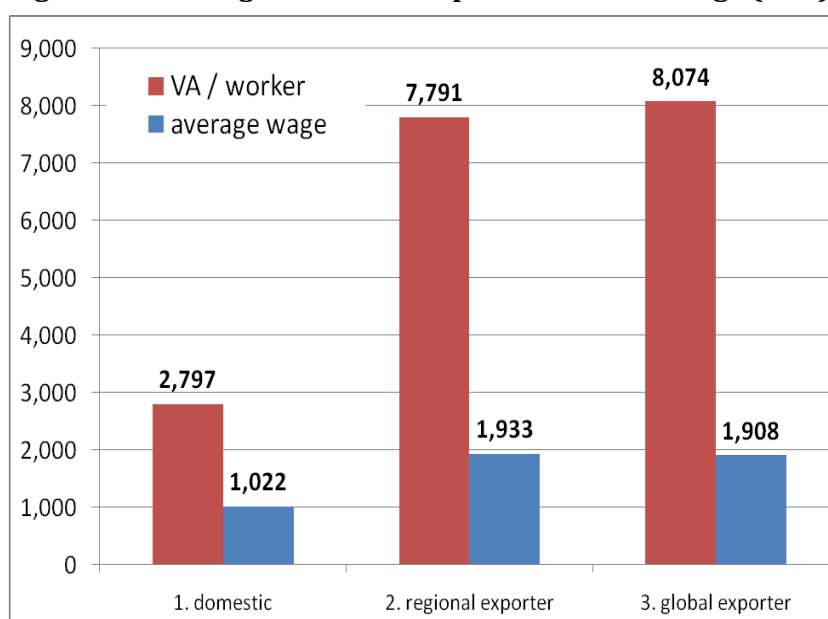
²³³ Benin, Burkina Faso, Cote d'Ivoire, Ghana, Mali, Niger, and Senegal.

Figure 6.3: Average Employment by firm type



Source: Author's calculation based on World Bank Enterprise Survey Data.

Figure 6.4: Average Value Added per worker and Wage (USD)



Source: Author's calculation based on World Bank Enterprise Survey Data.

Beyond exports of manufactures: alternative pathways to economic diversification and job creation in Africa

There is a view that growing and exporting high value added (HVA) agricultural commodities is a lucrative and pro-poor growth strategy for developing countries.²³⁴ There are several reasons behind this thesis. To start with, the demand for HVA agricultural commodities is rising rapidly (in relation to the demand for other agricultural commodities). The former represent a dominant and growing proportion of world trade. For example, the share of HVA agricultural commodities in world trade went up from 60.8 per cent of world trade in 1980/81 to 87.3 per cent in 2000/01 with a corresponding decline in the trade share of traditional tropical products. In 2000/01, the share of such products was a minuscule 12.7% of world trade.²³⁵ It is also noteworthy that HVA agricultural products garner higher prices (especially in the developed markets) than traditional commodities. Despite this, it is possible, even within traditional commodities, such as coffee, to engage in diversification and upgrading as the subsequent discussion of Rwanda's success in diversifying into specialty coffee testifies.

Floriculture, and especially cut flowers, is a sub-set of HVA agriculture. Cut flowers is a lucrative trade prospect for many African countries given their agro-climatic conditions, abundant availability of land around urban centres, ready supply of unskilled and low cost labour as well counter-cyclical seasonality to the European markets. The African pioneers in international trade in cut flowers include Kenya which successfully organised institutions and facilities to promote their produce in this field and subsequently entered European and other markets. The discussion that follows documents the extraordinary rise of Ethiopia as an export success story in the global business in cut flowers. In highlighting this rise, the discussion also draws attention to the employment and social dimensions of the cut flower trade.

The extraordinary emergence of Ethiopian cut flower exports²³⁶

Floriculture, and especially cut flowers, is a sub-set of HVA agriculture. Cut flowers is a lucrative trade prospect for many African countries given their agro-climatic conditions, abundant availability of land around urban centres, ready supply of unskilled and low cost labour as well counter-cyclical seasonality to the European markets. The African pioneers in international trade in cut flowers include Kenya which successfully organised institutions and facilities to promote their produce in this field and

²³⁴ The 'traditional' agricultural commodities include: sugar, cotton, jute, tobacco, coffee, cocoa, tea, bananas, cereals, roots and tubers, oilseeds. The HVA agricultural commodities include: dairy products, meat products, vegetables, fruit, fish, nuts, spices and essential oil, herbs, floriculture. See Davis (2006:5)

²³⁵ Davis (2006 :6)

²³⁶ This section draws on: Mano and Suzuki (2011), Mano et al (2010), Gebreeyesus and Iizuka (2010), Easterly and Reshef (2010), Global Development Solutions (2011), Rissgard (2009), Melese and Helmsey (2011), World Bank (2004)

subsequently entered European and other markets. The discussion that follows documents the extraordinary rise of Ethiopia as an export success story in the global business in cut flowers. In highlighting this rise, the discussion also draws attention to the employment and social dimensions of the cut flower trade.

In 2009, the global trade in cut flowers was worth USD 7.3 billion. This trade grew by 30.3 per cent between 2005 and 2009, despite the global recession of 2009. The Netherlands is the leading centre of the global cut flower trade. It is the leading exporter (roughly 50 percent of world trade) and a significant importer (approximately 13 percent of world trade in cut flowers). Other major importers are: Germany, United Kingdom, France, Italy, Russia and Japan.

Ethiopian export of cut flower is not new, with its roots going back to 1980, but export activity languished for a long period and declined sharply between 1992 and 1999. The value (in USD) of cut flower exports in 1999 was a mere 21 per cent of the levels attained in 1992. One could detect a slow turnaround at the turn of the new millennium, but between 2004 and 2008, the rise was truly extraordinary with cut flower exports increasing by 52 times – see Table 6.5. By 2009, Ethiopian cut flowers accounted for 2 percent of the world exports and 13 per cent of African exports. In 2009, it also ranked as the second largest exporter to the EU among all African countries and the fifth largest non-EU exporter to the EU. The growth of exports of cut flowers appears to have been sustained despite the global recession of 2009. In the first ten months of 2010, Ethiopia exported USD 250 million of cut flowers.

Table 6.5: Cut flower Exports: Ethiopia vs. Top African Exporters (USD: in millions), 2002-2008

Year	Ethiopia	Kenya	Zimbabwe	South Africa	Uganda
2000	0	91	25	17	10
2002	0	100	60	14	11
2004	2	232	17	22	2
2006	25	275	765	22	0
2008	104	446	186	28	0

Source: Adapted from Mano *et al* (2010:33)

How did such a dramatic transformation take place? Many forces, factors and actors were involved, but pro-active government policy played a significant role. To start with

initial comparative advantage helped: favourable growing conditions, availability of cultivable land around the capital city, proximity to EU markets, ready supply of low-cost, unskilled labour. These initial endowments were always there, but one needs to understand why there was such a take-off in cut flower exports in the mid-2000s and not earlier.

Luck and timing played a role. Kenya, Africa's largest and most established exporter, was beginning to lose its primacy at the turn of the 21st century as a result of environmental concerns pertaining to the cultivation of cut flowers, concerns about labour issues, rising labour costs and its loss of trade privileges in EU markets. Political violence in the late 2000s also added to an uncertain business climate. Some established businesses decided to relocate offshore.

Ethiopian cut flower exports emerged in such a context. There were so-called 'first movers' who established the export business in its current form. Initially, in its industry and sectoral policy design that was unveiled in 1998, the Ethiopian government did not include cut flowers exports as worthy of promotion, but by 2003, a revamped industry policy framework clearly identified it as a major new export activity. The driving principles of this policy frame work were (a) creating a conducive business environment and (b) providing direct support to selected sectors that were deemed to be competitive in international markets. A plethora of sector-specific support to the cut flower industry emerged after 2003: (a) access to land under very cost-effective leasing arrangements (b) access to cheap, long-term credit (c) exemption of import duties and taxes on export earnings (c) infrastructure and airport transport coordination. All of these were geared towards alleviating binding constraints on the growth of the private sector in a nascent industry that is land-intensive as well as capital-intensive requiring up-front investment in greenhouse facilities, irrigation systems and refrigeration facilities to store and transport a highly perishable product. Furthermore, the profitability and viability of the industry as a major supplier to EU markets depended heavily on efficient and cost-effective cargo facilities.

As a means of highlighting the pro-active role of government policy with respect to cut flower exports in Ethiopia, it is instructive to contrast its experience with Uganda. It too had a flourishing cut flower trade that took off in 1997 but it collapsed after 2003 (see Table 2). This was because the increase in oil prices around that time led to an unanticipated cost increase in refrigeration and cold chain facilities that are crucial in exporting a highly perishable product. The Ugandan government, according to one study, has 'deregulated industry over the last 15 years, so it is not involved in subsidizing any industry....'²³⁷ The price of such a *laissez-faire* approach appears to have been paid by the demise of a promising industry leading to thousands of job losses.

²³⁷ Easterly and Reshef (2010 : 48)

It would be naïve to suggest that in Ethiopia only the government played a leadership role. Private actors and donors played made significant contributions as well. Cut flower producers successfully lobbied the government for sector-specific support while donors provided assistance in capacity building through training programs for farm managers and supervisors and showcased the quality of Ethiopian cut flowers. The cut flower business has gained from agglomeration economies that have been engendered by industrial clusters. Private FDI and global value chains provided some degree of technology transfer.

The cut flower industry, while requiring high start-up costs entails labour intensive processes at planting, harvesting and post-harvesting stages that require relatively simple skills. Hence, in principle the expansion of cut flower exports should enhance the demand for unskilled labour. Unfortunately, the employment consequences of the cut flower trade in Ethiopia has been insufficiently analyzed. The available studies suggest direct employment creation that ranges between 35,000 and 50,000 workers in 81 farms. Hardly any evidence is provided on indirect job creation through the expansion of ancillary services, although one study claims that the industry as a whole has created 250,000 direct and indirect jobs.²³⁸ Taking these and estimated labour coefficients per hectare at the farm-level into account yields a back-of-the envelope estimate that a doubling of cut flower exports over the next five years (plausible given recent growth) would yield about 500,000 direct and indirect jobs.

There are nagging concerns that cut flower exports respond to the tight just-in-time deadlines of buyer-driven value chains that often result in feminization and flexibilization of production processes. The business is characterized by regular peaks and troughs in demand which entails a tight control over labour utilization rates. The sketchy data from Ethiopia corresponds rather well to this syndrome. The bulk of the jobs (60 to 70 percent) are part-time and seasonal and there is a preponderance of female workers (around 70 per cent). There is the risk of injury (particularly in the harvesting of roses) and exposure to hazardous substances entailed in the application of pesticides. On the other hand, one of the few studies that have analyzed the characteristics of workers at the farm-level using a purpose-built survey provides some encouraging developments. The average worker has between seven to eight years of mean schooling, receive on-the-job training, and earn wages that are 1.5 times higher than agricultural wages.

There are also significant environmental concerns. The cut flower trade requires the use of farms that are intensive in water usage and pesticides. Kenya became the object of considerable international attention as a result of pollution of Lake Naivasha around which many of the farms are established. Hence, the Ethiopian cut flower industry is also subject to these environmental risks.

²³⁸ Taylor (2010)

How does one create a ‘win-win’ situation in which the benefits of job creation through the expansion of cut flower exports are combined with efforts that make the industry ecologically friendly and measures that promote decent working conditions? One encouraging sign is that the buyer-driven supply chains in the cut flower trade have developed codes of conduct that seek to uphold environmental and labour standards. Global value chains have learnt over the years that there can be considerable damage to brand reputation if a combination of media campaigns, civic activism of labour NGOs and discerning customers in rich countries lead to exposure of ‘sweatshop conditions’ in export-oriented industries in developing countries from which they source their products. Admittedly, these codes of conduct are by no means adequate to guard against abuse of labour standards in the absence of a well-functioning collective bargaining system. Hence, the Ethiopian government will have to find means of reinforcing self-governing codes of conduct by the cut flower business owners through improvements in the labour inspection system and by encouraging proper representation of the interests and rights of workers.

Upgrading the production and exports of primary commodities: the case of the specialty coffee sector in Rwanda²³⁹

As a land-locked, low income resource-poor SSA economy, the majority (around 80 percent) of Rwandans rely on agriculture for their livelihoods. Within agriculture, coffee is a major export item. For nearly a century, ‘Rwanda was an exporter of largely ordinary coffee’. In the early 2000s, ‘it...emerged on to the world stage as a producer of high quality specialty coffee’, marketed in the UK by a major retailer (Sainsbury’s) and supported in the United States by Starbuck’s.²⁴⁰ In terms of value, specialty coffee exports increased 128 times between 2002 and 2009 and 101.5 times in volume over the same period – see Table 6.6.

²³⁹ This section draws on: Boudreaux (2010), USAID (2009), USAID/Chernomics (2006), World Bank (2011)

²⁴⁰ USAID (2009 :vi)

Table 6.6: Increase in the number of washing stations and growth in the specialty coffee sector, Rwanda: 2002-2009

Year	No. of washing stations	Export of specialty coffee (metric tons)	Export of specialty coffee (value: USD:1000s)
2002	1	30	90.00
2003	10	300	720.00
2004	25	800	1850.00
2005	45	1200	3168.00
2006	76	3000	8000.00
2007	112	2300	7800.00
2008	120	2455	8060.00
2009	-	3045	11600.00

Source: Boudreaux (2010:16). 2008 figure from USAID (2009:vii). There is some discrepancy in the figures between the two sources for 2008, while the 2009 figure that is reported in Bourdeaux appears inconsistent with 2010 figures reported in World Bank (2011). Hence, 2009 figure is not reported here.

In 2002, the Rwandan government issued a National Coffee Sector Strategy within the framework of its long-term development plan that envisioned a goal to capture a large share of the specialty coffee market. This strategy was preceded by donor-supported technical assistance that studied the feasibility of adding value to Rwandan coffee through the production of higher grade, washed and fermented specialty coffee.

The export of specialty coffee fetches a premium price in international markets. This requires moving into the fully washed coffee (FWC) segment at the core of which lies the installation and operation of washing stations. The government set ambitious production targets. By 2012, it was envisaged that more than 80 per cent of coffee produced would be from the FWC segment. Today, the attained targets stand at a little

over 20 per cent. Although well below target, this is a significant achievement. In 2002, there was only 1 washing station. By 2009, it rose to 112 and by 2010, it rose to 188.²⁴¹

What explains the sharp rise in washing stations after 2001? It turns out that donor-supported policy intervention alleviated a binding constraint in the production of specialty coffee, namely, access to finance. Prior to 2001, there was no need to invest in washing stations. Banks provided seasonal financing to traders and middlemen who procured the coffee directly from smallholders or cooperatives, 'dry milled' the coffee using traditional methods and exported it. As a result of large losses in 2001 incurred by banks, even this seasonal financing was targeted towards large traders and exporters. When it became evident that the installation and operation of washing stations was a prerequisite for the transition to the specialty coffee sector, the investment needs of the sector shot up, given that it required substantial start-up costs and working capital. Conventional seasonal financing could not meet such investment needs. The implementation of a loan guarantee scheme through the Development Credit Authority (DCA) and the provision of donor-supported credit lines appeared to break the barrier to the financing of washing stations. As one evaluation puts it:

'The guarantee was largely, if not entirely responsible for the substantial increase in the bank's lending to finance coffee washing station construction and the subsequent operation of the stations...There is no evidence that banks are providing non-guaranteed loans to support investment in coffee washing stations or to provide working capital to operate stations. Banks still seem unwilling to lend to this segment of the coffee sector outside of the protection of a guarantee or a credit line.'²⁴²

What have been the employment and social consequences of Rwanda's transition to the specialty coffee sector? Here, the evidence is even less patchy than in the case of Ethiopia's cut flower exports. A 2006 evaluation suggests that 2000 direct jobs have been created in washing stations. There is no indication of indirect job creation and no references to wages and working conditions. Using labour coefficients per washing station, a back-of-the envelope estimates suggest that nearly 5000 jobs would have been directly created by 2010. These estimates appear like the proverbial drop in the ocean given Rwanda's immense need for creating durable and productive employment for its work-force.

The focus on direct job creation underestimates the more indirect impact of the transition to the specialty coffee sector on the lives of approximately 500,000 coffee growers. Because owners of coffee stations (both cooperatives and the private sector) receive a premium price in international markets compared with the export of low-grade coffee, they are able to offer a better price to farmers. The procurement price appears to have gone up 2.3 times between 2004 and 2008. One study finds that farmers

²⁴¹ World Bank (2011:9). The World Bank also points out that that utilization rate of washing stations is only 43 per cent.

²⁴² USAID (2009:31). USAID has a major involvement in the specialty coffee sector in Rwanda.

who sell coffee cherries to washing stations experienced a 17 per cent increase in expenditure (on a per adult equivalent basis) than their counterparts who still sell ordinary coffee to exporters.

Conclusion and policy implications

The discourse on industrial development and structural change in Africa usually highlight the high dependence on primary commodities and insufficiently diversified production structure of many, if not most, economies in the region. A corollary message is that unless such economies are able to engage in exports of manufactures, the twin goals of economic diversification and sustainable growth will remain unfulfilled aspirations. The lack of an export-led transformation manufacturing in SSA is sometimes related to the high cost of doing business in the region. The policy message seems to be that a reduction in the cost of doing business specifically related to the tradables goods sector might be the key to unlocking the export potential of SSA in the manufacturing sector.

There are those who question whether an East-Asian style industrialization strategy can be readily replicated in African conditions within a reasonable time-frame, especially for relatively small, low income, land-locked countries. Given that the bulk of the population derives their livelihood in agriculture, and given some natural location-specific advantages, promoting non-traditional and HVA agricultural exports might be a feasible diversification strategy for the medium-term. The key agenda of regional integration in Africa suggests, based on the case study presented here and a complementary exercise using a 'product space approach', that regional integration does indeed promote diversification within agriculture in a number of SSA countries. Hence, regional integration and export diversification complement each other.

Regional integration in SSA, once again based on the case study presented here, seem to create a trade-off between skilled and unskilled labour in the sense that deeper integration increases the demand for unskilled, rather than skilled labour. On the other hand, regional exporters at the firm-level seem to display characteristics in terms of wages, working conditions that skill profile of workers that are similar to global exporters. In any case, the appropriate policy response is not to impede the process of regional integration but to use the education and training system to alleviate potential deficits in skills. As an ILO study has shown, education and skills policies prepare the ground for new export products.²⁴³ Furthermore, lowering trading costs in the regional market could allow more firms to start exporting even if they are currently less productive and thus contribute to more employment generation from regional trade.

The chapter proceeded to provide a couple of sector-specific case studies from two SSA economies – Ethiopia and Rwanda – that are representative of land-locked low income countries that are heavily dependent on agriculture and export of a few primary

²⁴³ Jansen *et al* (2011)

commodities. The chapter documented some export success stories in the area of HVA agricultural commodities: cut flowers in the case of Ethiopia and specialty coffee in the case of Rwanda. In both cases, sector-specific support by the government played a role, while the lack of such support in another SSA country (Uganda) partly explains the collapse of cut flower exports after 2003.

The employment and social dimensions of these export success stories need to be probed further. Direct job creation is relatively modest in the specialty coffee sector, but the indirect benefits accruing to 500,000 Rwandan coffee producers might be significant. Incidentally, this is also the projected magnitude of job creation if Ethiopian cut flower exports double in the next few years, a feasible scenario given the extraordinary rapid growth of this nascent industry. What matters is the need to devise a 'win-win' strategy by the government that will preserve the employment creating potential of the nascent exports while upholding labour and environmental standards.

The discussion of the export success stories in two SSA economies paves the way for a concluding commentary on the role of industry policy in export promotion, economic diversification and employment creation in Africa. As an ILO study notes, industrial policy has traditionally involved controversial debates about the capacity of governments to 'pick winners'. It is best for the government to provide public goods like education and infrastructure and allow private entrepreneurs to engage in a process of 'self-discovery' as they seek new and profitable opportunities in exporting activities.²⁴⁴ In the two cases covered here, the governments did not 'pick winners' but they certainly backed them with sector-specific support that appeared to remove binding constraints on export growth. It appears that industry policy or sectoral strategies for export promotion works best when both general policies pertaining to efficient supply of public goods and services are combined with incentive-compatible sector-specific support. Systematic collation of more export success stories in SSA might yield more insights on the perennial debate on the costs and benefits of industrial policy.

²⁴⁴ Jansen et al (2011 :17)

Chapter 7: Challenges Facing Conflict-Affected Countries

Introduction

Countries in Fragile Situations (CFSs) and Conflict Affected Countries (CACs)

This section briefly discusses the current situation of fragile and conflict-affected countries in Africa, highlighting their relatively poor performance in terms of income growth, employment expansion, and poverty reduction.

The following African countries are listed by the World Bank²⁴⁵ as being in fragile situations in 2011: Angola, Burundi, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Cote d'Ivoire, Eritrea, Guinea, Guinea-Bissau, Liberia, Sao Tome and Principe, Sierra Leone, Somalia, Sudan, Togo, Western Sahara and Zimbabwe. It is very significant that out of these 19 countries, no less than 16 countries (Angola, Burundi, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Cote d'Ivoire, Eritrea, Guinea, Guinea-Bissau, Liberia, Sao Tome and Principe, Sierra Leone, Somalia, Sudan and Togo) are also Least Developed Countries (LDCs)²⁴⁶ and the new African country, South Sudan, has to be counted as well in both lists.

The terms Countries in Fragile Situations (CFS) and Conflict Affected Countries (CAC) are two of many general descriptions. Other terms include countries in conflict or conflict-prone countries. The term LDC is rigorously defined based on Gross National Income per capita, human asset weakness and economic vulnerability²⁴⁷. The principal basis for the CFS categorization is the World Bank's Country Political and Institutional Assessment (CPIA) rating. The listing of CFSs in 2011 is the most recent and is based upon multiple criteria. Consensus on any such list or categorization is difficult to achieve as country situations may be volatile and perceptions and assessments may vary between individuals, agencies and governments.

What about the characteristics of CFSs in Africa? Looking at the period 2000-2008, while GDP in Africa grew on average by about 4.9 per cent annually, the rates for CFSs were generally lower: important exceptions were Angola (13.1%), Chad (9.1%), Sierra Leone (10.9%) and Sudan (7.5%). [See Table 7.1]

²⁴⁵ See [http://siteresources.worldbank.org/EXTLICUS/Resources/511777-1269623894864/FS_List_FY11_\(August_8_2010\).pdf](http://siteresources.worldbank.org/EXTLICUS/Resources/511777-1269623894864/FS_List_FY11_(August_8_2010).pdf)

²⁴⁶ UN-OHRLLS (2009)

²⁴⁷ For details, see Appendix of ILO (2011b)

Table 7.1 Countries in Fragile Situations in Africa

Country	GDP growth rate 2000-2008 % p a	Poverty Rate \$1.25 ppd 2000 or later	Agricultural Growth 2000-2008 % p a	Manufacturing Growth 2000-2008 % p a	Per Capita Food Production Growth Rate 1990-2005 % p a	Unemployment Rate (most recent year) %	LD C
Angola	13.1	54.3	16.4	24.8	2.1		Y
Burundi	3.0	81.3	-2.0	0.0	-2.0		Y
Central African Republic	0.7	62.4	1.4	2.1	1.6		Y
Chad	9.1	61.9	3.1	..	0.8		Y
Comoros	2.1	46.1	1.9	1.8	..		Y
D R Congo	4.9	59.2	1.2	5.0	-4.5		Y
R Congo	3.9				0.7		N
Cote d'Ivoire	0.6		1.3	-2.2	0.4	4.1	Y
Eritrea	1.9		9.7	-7.2	-2.6		Y
Guinea	3.5	70.1	4.3	3.7	0.8	3.1	Y
Guinea-Bissau	-0.8	48.8	4.5	4.6	..		Y
Liberia	0.0	83.7			..	5.6	Y
Sao Tome and Principe							Y
Sierra Leone	10.9	53.4		..	-2.5	3.4	Y
Somalia							Y
Sudan	7.5		2.6	3.6			Y
Togo	2.2	38.7	2.9	7.4	-0.4		Y
Western Sahara							N A
Zimbabwe	-3.9		-8.5	-11.9		4.2	N
Sub Saharan Africa	5.1		3.4	3.2			
AFRICAN LDCs							
AFRICA	4.9		3.6				

Sources: (i) ILO, "Prospects for Labour Market Recovery: policies for employment and development," Technical Paper for the 2nd African Decent Work Symposium, Yaoundé, 6-8 October 2010, Tables A1, A7 and A9. (ii) ILO, *Growth, Employment and Decent Work in the Least Developed Countries*, Geneva, 2011, Tables A5 and A9.

In most CFSs agricultural growth rates were relatively low or negative, with the important exceptions of Angola, Eritrea, Guinea and Guinea Bissau. In virtually all the CFSs, food production per capita either grew slowly or underwent decline. In the

manufacturing sector, again, growth rates were low, excepting for a few countries like Angola, Democratic Republic of Congo and Togo.

Unemployment data are relatively scarce and of dubious value. However, some poverty indicators exist. Using the proportion below \$1.25 per person per day on average with the exceptions of Comoros (46.1%), Guinea-Bissau (48.8%) and Togo (38.7%), for the remaining eight countries for which estimates are available, the majority of the population were below the poverty line.

It can then be concluded that the countries categorised as CFSs are in most cases least developed countries (LDCs) as well. They are generally marked by low growth rates of GDP, slow growth of agriculture and food production, slow growth of manufacturing and high levels of poverty. It cannot be over-emphasized that this is a generalization and that other parts of Africa may have experienced similar patterns.. Nevertheless, in the case of CFSs there is a broad association between fragility and poor economic performance. The subsequent discussion focuses on conflict-affected countries (CACs) which are either in armed conflict or emerging from armed conflict and/or are in danger of returning to armed conflict considering that almost half of the post conflict countries relapse into armed conflict within five years or less²⁴⁸.

Decent Work and Employment for Peace, Stability and Development

Universality of Decent Work Goals

Normally, governments work with civil society to determine national needs and priorities. This of course assumes the prior existence of a government with legitimacy and capacity and a reasonably effective and functioning civil society. The process would typically involve both up streaming and down streaming type of inputs²⁴⁹ aiming to build appropriate institutions and develop and implement policies and programmes which expand productive employment alongside social protection, rights at work and social dialogue.

In the case of conflict-affected countries major hurdles are the fragility of the State and the government in power; the limits on its reach and autonomy of action, and its lack of access to the minimum resources and consensus needed to function. All this make it difficult to undertake measures for institutional development and programmes and projects. Decent work objectives cannot be significantly advanced until there is progress on reintegration of conflict-affected groups (with specific attention ex combatants, women and children associated with armed forces and groups and people with disability), recovery in economic activity, greater security as well as political and

²⁴⁸ Goovaerts, Gasser & Inbal (2006)

²⁴⁹ For details, ILO (2010c)

economic stability, a restoration of institutional capacities and the ability all sections of the population to participate in decision-making²⁵⁰

Decent work for all is a goal to which all countries and all individuals and groups aspire, irrespective of where they work and what challenges they face. The concept clearly has universal applicability: it relates to creating jobs; guaranteeing rights at work; extending social protection; and, promoting social dialogue. The ILO's Decent Work Country Programmes (DCWPs), which are the main vehicle for delivering ILO support to countries, seek to promote decent work as a key element in national development strategies which are nationally owned and which reflect national needs and priorities, determined through transparent participative processes of the major social actors.

The approach of the ILO, along with its UN partners, to the problems of conflict –affected countries does not involve abandonment or postponement of the decent work objectives: on the contrary, it means focusing proactively on the creation of minimum conditions in which they can be consistently pursued.

The UN Policy on Post-Conflict Employment Creation, Income Generation and Reintegration

The UN Working Group on post-conflict employment creation, income generation and reintegration²⁵¹ was formally established after UN Secretary-General Decision No. 2006/50 of 28 November 2006. Jointly chaired by ILO and UNDP, the objectives of the Working Group were twofold: develop a UN policy paper that provides the conceptual basis for post-conflict employment creation and income generation (PCEIR) and its linkages to reintegration as well as an operational guidance note (OGN) that provides practical guidance for managing and implementing employment creation, income generation and reintegration programmes.

A great strength of the Policy is that it builds upon past and current agencies work in assisting conflict-affected countries through the promotion of socio-economic recovery, reintegration of conflict-affected groups and promotion of productive employment and decent work. The policy sets five guiding principles (be coherent and comprehensive, do

²⁵⁰ See as reference ILO Recommendation 71 Employment (Transition from War to Peace) Recommendation, 1944

²⁵¹ Working Group members were as follows: Asian Development Bank (ADB), Department of Economic and Social Affairs (DESA), Department of Political Affairs (DPA), Department of Peacekeeping Operations (DPKO), Economic and Social Commission for Western Asia (ESCWA), Food and Agriculture Organization (FAO), International Labour Organization (ILO), International Monetary Fund (IMF), Office of the High Commissioner for Human Rights (OHCHR), Office of the Special Advisor on Africa (OSAA), Peacebuilding Support Office (PBSO), Special Representative of the Secretary-General for Children and Armed Conflict (SRSG CAAC), United Nations Capital Development Fund (UNCDF), United Nations Development Programme (UNDP), United Nations Children's Fund (UNICEF), United Nations Development Fund for Women (UNIFEM), United Nations High Commissioner for Refugees (UNHCR), United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and the World Bank.

no harm, be conflict sensitive, aim for sustainability, promote gender equality) and it visualizes three concurrent or simultaneous tracks which, by their interaction, lead to income stabilization and emergency employment creation; recovery and reintegration; and sustainable employment creation along with decent work. The tracks provide a common platform whereby the different agencies and organizations can work together for a common objective.

Track 1:

Stabilization: Stabilizing Income Generation and Promoting Emergency Employment. This short-term response is aimed at consolidating peace, security and stability by meeting immediate needs and quickly restoring key public health and education facilities, sanitation services and security. The main instruments are (i) the creation of temporary jobs and improved skills on an emergency basis to help people increase their income by working in post-conflict public and community works which restore damaged basic services and small businesses and (ii) targeted livelihood programmes which remove constraints like availability and access to tools, materials and supplies, which prevent individuals and households from resuming self-employment as well as grants to enable enterprises to restart and exploit existing skills, assets and market opportunities.

Track 2:

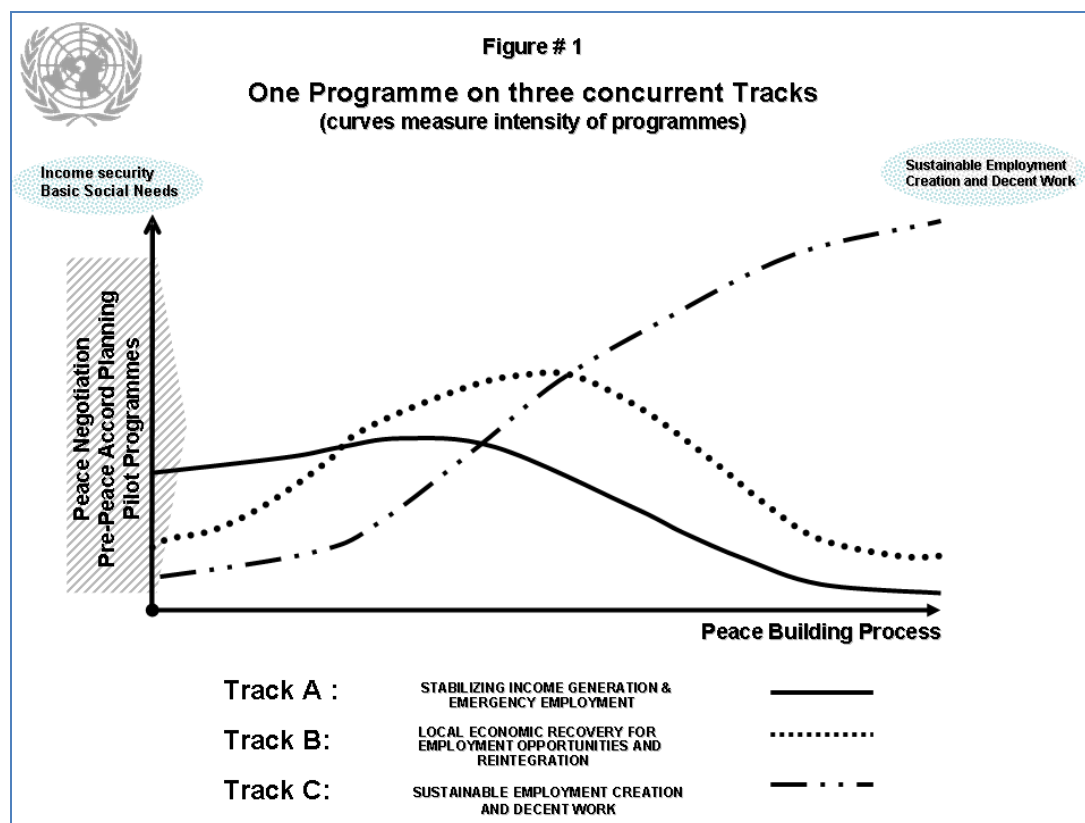
Local Reintegration: Local Recovery of Employment and Reintegration. This track focuses on building local capacity for social dialogue, service delivery and employment creation. This leads into community-driven recovery which involves local planning, accountability and social audit in rebuilding social and economic capital, including participatory investments in local socioeconomic infrastructure, labour-based approaches and community contracting. This in turn is expanded into local economic recovery where growing productive employment is accompanied by the growth of income and growth in small-scale demand-driven livelihood activities. The last takes off on the resource surge attributable to post-conflict transfers.

Track 3:

Transition: Sustainable Employment Creation and Decent Work. This track requires the development of an enabling environment for employment and conditions conducive to greater investment and rising productivity. Requisites include physical security, macroeconomic stability, access to credit and existence of basic infrastructure, functioning labour markets with fair labour laws, and measures to increase the willingness to invest on the part of domestic and external investors. To promote private sector recovery and growth a range of measures will be needed, ranging from policy advice and training, fiscal policy and financial incentives to market development. By the end of the process, the full decent work approach will be under way²⁵².

²⁵² For details, United Nations (2009)

Figure 7.1: One Programme on three concurrent tracks



A task force has been set up to guide the roll-out process which are to be initiated in six countries, including four in Africa: Sierra Leone and Burundi (2010), Guinea-Bissau (2011) and Cote d'Ivoire (2011-12)(more details in the section on country cases).

Employment for Peace programmes and Decent Work

In fragile and post conflict situations Employment for Peace (EfP) programmes are entry points aiming to prepare the ground for future development work in employment and labour related issues. EfP are based on the UN policy three track approach and aim both to immediate job creation and enabling environment to sustainable decent work. In the EfP programme decent work is envisioned from the start and progressively becomes the centre of the development effort. It is essential that the decent work approach permeates all measures and the path chosen at all stages leads towards decent work.

A recent example of ILO approach to conflict-affected countries is the Draft Regional Strategy for the Horn of Africa 2011-2015, Employment for Peace, Stability and Development. The strategy aims to tackle the root causes of crisis in the region in a holistic manner for paving the way for stability as main condition for sustainable development and decent work²⁵³(more details in the section on country cases).

²⁵³ African Union Commission (2011)

DCWPs and Employment for Peace Programmes (i.e. UN and ILO programmes in post-conflict situations), have some similarities and links as well as a few differences, as follows:

Area wide versus nation-wide: In EfP programmes the focus is sub regional with specific attention on fragile and conflict-affected areas, while in DWCPs the approach is nationwide.

EfPs lead into DWCPs: EfPs start as soon as there is a peace agreement and lead from early recovery efforts to the point where recovery and reintegration of conflict-affected groups is well under way. DWCPs may start when reintegration is sufficiently well advanced; security and political and social stability have greatly improved; institutional capacities and tripartism have been restored and participation in decision-making has become a reality.

Moving from conflict-partners to development partners: As the country begins to move towards a more normal situation, the partners at the country level will be conflict-specific partners like local leaders, ex-combatant groups and representatives of refugees and internally displaced persons. At a later stage, when DCWPs can be taken up it is expected that there will be a functioning government in place and appropriate institutional structures through which civil society can operate, decisions based on consensus can be taken, and longer term policies and programmes can developed. Development partners would progressively replace conflict-specific partners. A common factor for both EfPs and DCWPs is the active role of the social partners, although during EfPs they may in some instances be absent and in others be weak.

Change in target groups: The principal target groups or beneficiaries of EfPs are conflict-affected communities, ex-combatants, internally displaced persons (IDPs) and refugees. The strategy of EfPs is to assist the most vulnerable and those who could endanger peace and focus on sectors and branches of activity essential to recovery and reconstruction. By contrast, DCWPs would focus more on generalized groups like workers, unemployed, youth, women, children and the disabled and on strengthening national and local labour market institutions.

Context Specificity, Sensitivity and Path Dependence

The programme approach of the in conflict-affected countries is has to be both context-specific and context sensitive. In the aftermath of a conflict, conflict-specificity and conflict-sensitivity are important and EfPs are designed and implemented taking into consideration structural, proximate and triggers factors that led to conflict²⁵⁴.

²⁵⁴ See also "How to" Guide No. 9 on Conflict Analysis for Project Design, developed by PARDEV https://www.ilo.org/intranet/english/bureau/pardev/tcguides/templates/download/conflict_analysis.pdf

When the context begins to change, when there is progress towards stability, and when the other requirements for orderly policy development and implementation are in place, this is the time to make an orderly transit to the DCWP approach.

However, care must be taken to avoid the risk that the conflict-relevant response developed under EFPs may create undesirable forms of path-dependence. To give a very simple example: in emergency employment programmes wages may be deliberately set very low and working conditions may be allowed to remain on the ground that

Conflict Sensitivity

Conflict-sensitive approach involves gaining a sound understanding of the two-way interaction between activities and context and acting to minimise negative impacts and maximise positive impacts of intervention on conflict, within an organisation's given priorities/objectives (mandate).

<http://www.conflictsensitivity.org/content/introduction>

[-0](#)

undertaken in the immediate post-conflict setting, must be so designed that it builds in the promotion over time of decent work objectives. It would be extremely difficult to introduce these concerns later on, unless they are embedded in the EfP approach. As explained , the three track approach under EfPs builds in decent work concerns from the start so that over time they are at the heart of the country programme.

resources are limited and with the same expenditure more people can be benefited in the short run. Unfortunately, should this be done, it becomes difficult later on to raise wages to the level of the mandated minimum wage and to bring working conditions to acceptable levels.

The initial package of measures,

Path Dependence

In common interpretations, path dependence means that current and future states, actions, or decisions depend on the path of previous states, actions, or decisions.

<http://dev.wcfia.harvard.edu/sites/default/files/Page20>

Constraints on Economic and Social Policy

Promoting employment growth is difficult in peacetime, and probably twice as complicated in post-conflict situations. Sustaining the reintegration of ex-combatants (including children formerly associated with armed forces and groups), refugees and internally displaced persons (IDPs) will involve continuous efforts from national and international stakeholders to avoid undermining or reversing early achievements from the stabilization phase. A thorough understanding of the underlying economy and market is needed, as an immediate requirement is to restore markets and access to markets for goods, services and labour affected by the conflict. Creating youth employment that taps into the positive energy and skills of youth is a particularly difficult challenge, as youth often find themselves trapped in a vicious cycle of violence, poverty, illiteracy and social exclusion. There should be a balance between priority security concerns and equity considerations, especially when targeting specific individuals or groups, such as ex-combatants. It is essential to recognize the needs of

specific target groups but such a focus can fuel resentment in communities, if not framed within an overall strategy that respects community-based needs and equity. Urban and rural areas present different challenges (and opportunities) with regard to employment and reintegration. The characteristics of basic labour markets, the levels of organization and training of labour, and the potential for employment programmes to generate desired results, all differ significantly between rural and urban areas. Root causes of conflict, such as inequitable access to land and natural resources need to be addressed²⁵⁵.

Conflict-affected countries face severe constraints on economic and social policy-making. Several of these constraints are not unique to such countries, but may also operate in other countries in Africa. There are, however, certain constraints which arise specifically from the conflict-ridden past, or the very instability of the present and the immediate post-conflict environment. Over time, provided the right approach is followed, these constraints weaken and finally disappear.

Governance

The situation, in terms of the authority, legitimacy and effectiveness of the government, varies depending upon the country in question. This diversity may become clearer if one looks at the two extremes among conflict-affected countries. At one extreme there are countries affected by conflict, like Burundi or Sierra Leone, where the government and civil society continue to function reasonably well and the government is in a position to formulate and implement long term policies and measures; at the other extreme are conflict-affected countries, like Somalia or southern Sudan before 2005 Comprehensive Peace Agreement, where government control does not extend to all parts of the country and civil society institutions are either absent or in disarray. In the latter case, the scope for immediately undertaking policy development and better enforcement of laws would be limited and may have to await the achievement of recovery, reintegration and social, political and economic stability.

Political fragility

Political instability and conflict are a distinguishing characteristic of African LDCs²⁵⁶ therefore this situation adds further constraints to policy making and implementation.

The process of reintegration of ex-combatants, refugees and internally displaced persons has to be sustained, market mechanisms have to be revived and enabled to function better, youth has to be channelled into education, training and employment, and the vicious cycle of violence, poverty, illiteracy and social exclusion has to be arrested. A balance has to be struck between equity concerns and security: the claims of

²⁵⁵ For details, UN- PCEIR, Policy briefing paper, 2009

²⁵⁶ For details, UNOHRRLLS, UNDP, UNECA, Africa regional preparatory meeting on the review of the implementation of the Brussels programme of action, Addis Ababa 2010.

those in the greatest need have to be balanced to some extent against the demands of those who have the potential to threaten the path to peace, stability and development.

The State in post-conflict environments is struggling to assert its authority, establish its legitimacy and prove its effectiveness. It has to make compromises and counter potentially disruptive forces, without sacrificing its adherence to long term goals. The constraints under which it functions could affect its ability to develop and implement *all* policy, whether macroeconomic policy or labour market policy or any other policy.

Macroeconomic policy environment

As noted, in many conflict-affected countries, the State is in the process of asserting its authority, legitimacy and effectiveness over the entire national territory and in international political and economic relations. In such situations, the borders may not yet be well defined or adequately controlled and hence the State's control over monetary policy and international trade and payments may be tenuous. The institutions of central banking and an organized money and capital market may not exist or may have been partially or totally destroyed. Tax collection and public expenditure management systems may have broken down making it impossible to embark upon any kind of sensible fiscal and monetary policy. The heritage of conflict is uncontrolled public expenditure in the past, often funded by monetary expansion, increased national international debt²⁵⁷ and fiscal deficits.

One indicator of the severe constraints on macroeconomic management and fiscal policy is the World Bank's Resource Allocation Index for 2010. It measures performance on a scale of 1 to 6 and most of the fragile or conflict-affected countries are ranked at 3.5 or lower for both macroeconomic management and fiscal policy. Important instances among conflict-affected countries of low ranks of 3 or less for macroeconomic management are Guinea-Bissau (3.00), Chad (2.5), and Eritrea (2.0). In terms of fiscal policy, low ranks are assigned to Republic of Congo and Sudan (3.0), Guinea-Bissau (2.5) and Chad and Eritrea (2.0).

Limited fiscal space

In some countries, fiscal space is further constrained by limits set by prior and current commitments on the size and composition of public expenditure and by the dangers of renewed conflict if taxes are increased or expenditures are reduced for certain groups. In Liberia, for example, according to an ILO study, the recent economic crisis exacerbated a difficult situation:

Liberia runs a cash-based budget in which total expenditures must not exceed the sum of current revenues and any accumulated cash reserves. Therefore, there is no scope for

²⁵⁷ Mention must be made of the efforts of the IMF and other international agencies to reduce the debt burdens of highly indebted poor African countries. See <http://www.imf.org/external/np/exr/facts/hipc.htm>.

a traditional expansionary fiscal policy, in which taxes are cut or spending increased and the resulting deficit is financed through government borrowing.²⁵⁸

According to the results of a study of fiscal space in African countries²⁵⁹, among countries which have been listed by the World Bank as being in “fragile situations,” Burundi, Liberia and the Democratic Republic of Congo have no fiscal space; Congo, Cote D’Ivoire, Sao Tome and Principe, Eritrea, Sierra Leone, Guinea, Guinea-Bissau, Togo, Sudan and Zimbabwe have low fiscal space. It is not without significance that this list includes nine countries which were on the UNDP list of conflict –affected countries in 2008, namely Burundi, Cote d’Ivoire, Democratic Republic of Congo, Republic of Congo, Eritrea, Guinea-Bissau, Liberia, Sierra Leone and Sudan.²⁶⁰

Trade-offs between inflation, growth and employment expansion

It is widely held that inflation rates should be kept low to ensure financial stability and hence growth. However, one consequence is higher interest rates which reduce private sector investments and access to microfinance credit. As Chapter 2 argued monetary policy should go beyond inflation targeting and consider growth and employment creation. While there is a realization that strong measures are needed to control food prices and arrest the expansion of poverty, this may be better addressed through food security programmes rather than monetary policy measures. Reasonably stable but competitive exchange rates are needed to promote growth.

The very process of re-establishing control over macroeconomic policy, and the need to assure external donors and other lenders that macroeconomic stability, in terms of low inflation and stable exchange rates, will be attained, can result in the adoption of policies that keep inflation very low but thereby sacrifice future growth of employment. This is a serious issue facing many developing countries which opt for low rates of inflation at the cost of employment expansion. The problem is particularly difficult for conflict-affected countries where both high inflation and the lack of employment growth carry risks: either could impact adversely on an already fragile peace and imperil stability, recovery and reintegration.

Labour market measures and policies

In the immediate post-conflict situation it is important to make a start with at least some labour market measures. There are daunting problems to be faced. What is often observed is that labour market data are scarce or out of date in relation to the current situation. Information flows within the labour market may not be taking place or may be inadequate. Institutions for bringing employers and potential employees together, employment services as well as traditional contact networks, may no longer be functioning. Training institutions may have closed down or been destroyed, or the training they can offer may no longer be relevant. In the post-conflict labour market,

²⁵⁸ ILO (2009e), p.74.

²⁵⁹ Martin, M.and Kyrili, K. (2009). p.12.

²⁶⁰ UNDP (2008),Table1.2.

norms or laws relating to wage determination may no longer be followed. Since both during and after conflict, much of employment may be of an informal nature, both wages and conditions of work may be highly unsatisfactory.

The work of the ILO and other agencies establishes that an incremental and conflict-sensitive approach works and this need not and should not involve the sacrifice of the principles of decent work. Compromises may have to be made to counter potentially disruptive forces, but this can be done without sacrificing adherence to long term goals. This is in fact embodied very clearly in the three concurrent phases of the EfP approach. Progressively, in each intervention in the labour market, greater precision, improved response and closer adherence to the principles of decent work can be built in. Also the target groups and territorial coverage should be expanded gradually to cover all vulnerable groups and the whole country.

Some Country Cases

A few country case studies highlight the broad congruence between the promotion of decent work and the promotion of peace and stability in the process of fostering recovery and growth in conflict-affected countries. The ILO has been active directly or indirectly in most conflict-affected African countries. It has worked through the network of country offices, using the special mandate and skills available with ILO/CRISIS and drawing upon expertise and other resources available with other units at headquarters and the field. In the last ten years the ILO has contributed to support post conflict countries Africa in three different modalities by (i) providing technical support for enhancing constituents capacities to set policies and implementing them, (ii) co-implementing, in partnership with other agencies and the constituents projects and programmes aiming to create employment, (iii) improving social dialogue, social protection etc. in conflict affected countries.

At the same time, ILO has developed over time close relationships with other UN agencies and offices, in line with the UN Policy, referred to earlier, which provided a strong and unified approach to jointly addressing the root causes of labour and employment problems in conflict-affected countries. It must be said that the three track approach discussed earlier is not entirely new. It is the culmination of a process, in which the ILO and UNDP were very active, especially within the Interagency Steering Committee on early recovery (IASC EA), of persuading countries and humanitarian agencies that the dichotomy between humanitarian action and measures for recovery and development is overdrawn and that both need to start almost at the same time, though the dynamics and content of humanitarian and development-focused programmes would obviously be different.

Horn of Africa Employment for peace, stability and development

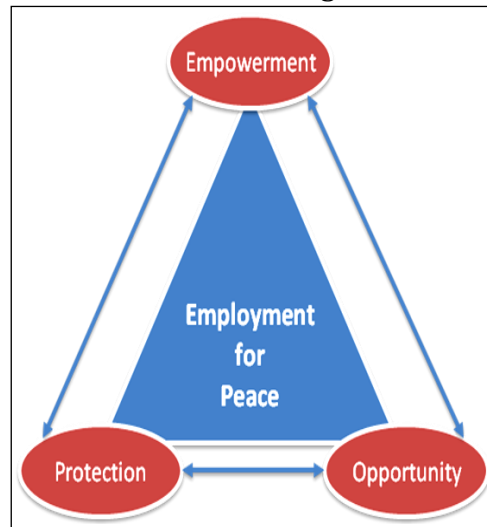
The Horn of Africa covers Djibouti, Ethiopia, Eritrea, Kenya, Somalia, Sudan, and Uganda. It is characterized by a number of common features: protracted conflicts; existence of

rebel groups; recurrent climatic shocks²⁶¹; large rural populations with long-standing conflicts over natural resources; significant proportions of youth in the populations; economic migration, rural-urban and general exodus of asylum-seekers, refugees and internally displaced persons within and beyond the region; recurrent humanitarian crises, and latent potential for social unrest in the more stable countries of the region.

There can be little doubt that a regional strategy for the Horn of Africa²⁶² is the best option for maximizing synergies, given that the problems of fragility and vulnerability are common to many of the countries and run across national borders and should therefore be talked in a holistic manner. Keeping this in mind, the Draft Regional Strategy for the Horn of Africa, 2011-2015 has been developed by the ILO in close collaboration with the African Union and the Inter-governmental Authority on Development.

The regional approach and strategy is based on the “virtuous triangle” of creating jobs opportunities, extending social protection to the most vulnerable and empowering people and communities.

The essential elements are already present in the UN Policy. The Horn of Africa programme, as it unfolds, will build upon these elements, customizing them for the specifics of the region as a whole and the different countries, and placing them within a regional strategy. Social justice, peace and development in the Horn of Africa will be promoted by the creation of immediate employment opportunities and development of social cohesion and by simultaneously contributing to building peace, stability and sustainable development by addressing the underlying causes of conflict, associated with employment and livelihood deprivation.



Burundi

Burundi is a good example of a post-conflict country. Since its independence in 1962, it has witnessed four conflicts resulting in the loss of over 300,000 lives, internal displacement of 400,000 persons and creating some 800,000 refugees who fled to other countries. It is one of the poorest, most densely populated countries in the world with population growing rapidly at about 1.8 per cent annually. The economy depends on the highly volatile agricultural sector, which accounts for about half of GDP and approximately 90 percent of employment. Coffee is the main export, accounting for more than 60 percent of export revenues. Since 2000, the Government of Burundi has implemented measures to stabilize the economy and revive economic activity. These

²⁶¹ A recent study indicates that climate change, if not resolved soon, could increase the likelihood of civil conflict in Africa by 54 per cent in the coming two decades (UC Berkeley press release, 23 November 2009)

²⁶² African Union Commission (2011)

have included, according to the World Bank: “prudent monetary policy implemented by a more independent central bank in the context of a liberalized foreign exchange regime, prudent fiscal policy with poverty-focused expenditure priorities, and steps to strengthen and improve the transparency of public financial management.”²⁶³

Burundi faces tremendous challenges in diversifying the economy and income sources, reducing the vulnerability of the agricultural sector to shocks, and to improve governance. Rapid urban growth and weak infrastructure in terms of power, transport and communications have been identified as major challenges, along with the need to revitalize employment growth, income generation and diversification of employment. The labour force is young on average and training facilities are very inadequate.

The problem of reintegrating ex-combatants and other displaced persons is a central issue for social, economic and strategic reasons. Some progress has been made in reintegrating ex-combatants, some 29,528 persons had been demobilized and reintegrated, but many more remain to be reintegrated and the prevalence of small arms in the country makes this a potential threat to stability. Most of the internally displaced persons continue to be in camps and many refugees are yet to return.

From a rapid analysis of the broad area of employment promotion and reintegration, implemented within the framework of the UN PCEIR policy roll in Burundi²⁶⁴, it emerged that interventions are mainly linked to the National Strategy for Reintegration and are carried out by a number of different national and international organizations. Programmes are currently mainly under Track B, with an emphasis on local economic recovery, the reintegration of ex-combatants and the socio-economic development of vulnerable groups. Some Track A programmes continue to be needed to kick-start economic recovery and restore livelihoods and these were particularly important in engaging groups who might disrupt peace during the election period in 2010. Mainly carried out by NGOs, they often target ex-combatants and youth and offer cash for work, microcredit and access to financial services. In terms of Track C, note may be made of the drafting of a DWCP revolving around decent and sustainable job creation in the context of peace building and reconstruction; strengthening social protection through social dialogue; and strengthening the tripartite constituents. Important current projects and initiatives under Track C include projects for fisheries, land tenure, land management and development, development of the financial and private sector, and strengthening trade and competitiveness, social dialogue and institutional reform.

Burundi's post-conflict development has been following the three track approach of the EFP. It is influenced by the magnitude of the tasks of reintegration and productive

²⁶³ See <http://go.worldbank.org/X3R55Z5AU0>

²⁶⁴ Burundi, Employment, Income Generation and Reintegration R N Policy for Post-Conflict Employment Creation, Income Generation and Reintegration Country Level Roll-Out,

employment creation in a context where the causes of conflict have not been fully eliminated and where pacification and resettlement has to go alongside measures for agricultural growth, industrial expansion, trade, spatial redistribution and institutional development.

Competitiveness is low and conditions for doing business are reported to be poor. The private sector has not yet recovered adequately from past conflicts. Burundi has a central bank and supports exchange rate liberalization. With World Bank support, financial reforms have been undertaken.

Burundi lacks an employment policy and comprehensive regulatory frameworks for social insurance. It needs a fresh labour force survey, a national vocational training and entrepreneurship training policy and generally a better coordination of all activities relating to labour and employment. These, along with the proposed Decent Work Country Programme and related programmes with the East African Community, would help to give a renewed emphasis to decent work considerations in Burundi's post-conflict recovery.

Sierra Leone

After 11 years of civil war which lasted until 2002, Sierra Leone has made progress in terms of economic growth and other indicators of development; and GDP grew in 2010 at 4.9%²⁶⁵. It has a population of about 5.8 million growing rapidly at 2.1 per cent annually. About 60 to 70 per cent of the population live below the poverty line while unemployment among youth is reported to be very high, about 70%. The failure to generate enough jobs and the persistence of poverty threaten stability.

The example of Sierra Leone is important because the focus in applying the UN Policy has been on attacking one root cause of the conflict which continues to threaten progress and peace: youth marginalization and high levels of youth unemployment and poverty. In a country where a third of the population are aged 15 to 34, this is also directly relevant to the goal of providing decent work to all. In that sense the peace-building agenda and the decent work agenda for Sierra Leone tend to converge, given the salience of the youth problem²⁶⁶.

Even though the war ended in 2002, short-term interventions under Track A remain necessary in order to provide temporary opportunities for large numbers of unemployed youth. Also some Track A interventions like waste collection and management and road repair and maintenance need to be transmuted into more sustainable Track B activities. Activities under Track B at district and community levels cover agriculture, food processing, other SME activity, training and apprenticeships, group formation for economic activities, microcredit, micro-franchises, , labour intensive

²⁶⁵ Most of the data in this section are from <http://data.worldbank.org/country/sierra-leone>.

²⁶⁶ The discussion draws upon E Date-Bah and R R Reghmi, "Sierra Leone Employment, Income Generation and Reintegration Report," Freetown 15 July 2010. This report assesses conditions for the roll-out of the UN Policy on Post-Conflict Employment Creation, Income Generation and Reintegration in Sierra Leone.

road works, youth resettlement from rural to urban areas, and different forms of capacity-building. Replication and up-scaling of successful activities is the next step. Under Track C, the effort is to create an enabling policy and legal environment and generate the data needed for sound policy formulation and planning. A National Youth Commission has already been set up with one responsibility being to “assist in the creation of employment opportunities for the youth and develop medium and long term strategies to tackle youth unemployment.” The scale and variety of youth poverty and unemployment, including its gender aspects would need to be looked at more closely. This is probably the time to initiate national employment policy formulation, strengthening of social dialogue, reform of labour law, and national training policies. The conduct of labour market surveys and the setting up of employment monitoring systems should also come under this Track.

The example of Sierra Leone is important for several reasons. It explains the way in which the ILO and its UN partners are working through the three track approach to address the problems of building peace and development in Sierra Leone. It is also significant as it highlights the importance of diagnostic exercises to identify the root causes of conflict and programmatic exercises to direct policies and programmes towards eliminating identified root causes. Again, the emphasis on track C activities like national employment policy formulation, strengthening of social dialogue, reform of labour law and national training policies, reflect an implicit strategy of focusing on the youth problem to not only to eliminate the root cause of conflict but also to build in a smooth transition to the decent work agenda.

Guinea-Bissau

Guinea-Bissau is one of the poorest countries in the world, ranking 164 out of 169 countries on the United Nations Human Development Index 2010. It has a population of about 1.6 million, with an economy based primarily on farming and fishing activities, which represent about 46 percent of GDP. Agriculture generates 80 percent of employment and 90 percent of exports (primarily through cashew nuts, the main export). The country has poor infrastructure and weak social indicators, and more than two-thirds of the population lives under the poverty line. Rates of economic growth have improved but remain below the 5 per cent per annum target.

Guinea-Bissau has experienced significant conflict both prior to and following independence. A fierce, 13-year guerrilla struggle led to late independence in 1974 from Portugal, with few structures for effective governance in place. The internal conflict of 1998 to 1999 and a series of military coups have undermined the development of the country's economic and social infrastructure, and intensified poverty.

The UN (including the ILO and other UN partners) has developed a programme for job creation and income generation in Guinea-Bissau that is going to be funded by the UN Peace building fund. Given the fragility of peace, widespread unemployment of youth and lack of adequate employment opportunities for women and pervasive poverty, the

programme is designed to provide employment opportunities on a priority basis, though wage and self-employment, to gradually build up local capacity and dialogue and progressively make employment growth sustainable and in keeping with the concept of decent work.

Under Track A, there will be labour-intensive construction programmes aimed at specific groups including young persons with some skill acquisition and start-up support for micro-enterprises in order to consolidate peace, security and stability.

Under Track B, microcredit and business services will be developed. Capacity of local authorities will be strengthened. Frameworks will be created for dialogue between local authorities, community groups, professional organizations and youth.

Under Track C, support mechanisms are to be consolidated to develop national institutional capacity and a national strategy for job creation. These will include, among others, policy development, the creation of a national fund for vocational training, measures to provide decent work to young people in their communities, strengthen social and local dialogue and support an observatory of employment.

The approach in Guinea-Bissau is somewhat similar to that in Sierra Leone. It aims to address the dangers of recurrence of conflict by attacking youth unemployment and poverty through providing productive employment to young men and women and progressively building institutional support and ensuring the sustainability of employment. This modality may be soon replicated by an UN-African Development Bank partnership (which includes initially Guinea Bissau and Tunisia as roll out countries).

Liberia

The years of conflict in Liberia were marked by declining GDP (-5.2% per annum between 1980 and 2003) and subsequently growth rates recovered to reach a peak of 9.5% in 2007. Thereafter, there was some reduction in the pace of growth due to the global crisis. Per capita GDP declined from about \$800 (at 1992 prices) in the early 1970s to below \$100 in the 1990s and only recovered slightly to a little over \$100 in recent years. Nearly two-thirds of employed Liberians have primary education or less. In 2007 agriculture accounted for about 48% of the working force and manufacturing for a mere 0.3%.²⁶⁷

Poor governance and nearly a decade and a half of conflict left Liberia's economy, institutions, and human capacity completely devastated. Following the 2003 Accra Comprehensive Peace Accord and the election of a democratic government in 2006 the country began moving from the immediate post-conflict recovery towards the process of long-term development. The government's main focus has been on sustaining economic growth, rebuilding infrastructure, improving the delivery of basic services and consolidating economic governance reforms.

²⁶⁷ The figures for Liberia are taken from ILO, (2009e)

The decent work challenge in Liberia is particularly serious because not only has there to be reintegration of ex-combatants and conflict-affected groups, there is also the predominance of informality in the labour market. According to an ILO study, about 84 per cent of Liberians were employed in the informal economy and did not secure adequate income, regular work, acceptable social security, access to assets and training²⁶⁸. There is also a large pool of uneducated, unskilled labour, including a significant proportion of the young.

In the period from 2003, the economy recovered and stabilized with real GDP growing in average at more than 6 per cent per year between 2003 and 2008 with inflation and interest rates being reduced²⁶⁹. However, huge trade deficits, increased debt accumulation, exchange rate depreciation adversely affected prospects for job growth. There were weaknesses in the governance of the labour market, limited social protection. The Liberia Poverty Reduction Strategy highlighted the severe lack of employment opportunities and called for policies that would favour employment growth and incomes. The Ministry of Labour desired to develop a national employment policy with ILO assistance.

The focus in Liberia in recent years was to develop agriculture, where most people work, and simultaneously promote new dynamic high value sectors and activities. Economic growth had to be made job rich. This requires support to private small enterprises and increasing of productivity through investment in human capital. Also working conditions needed improvement, and a reform of labour law, strengthened social dialogue and strengthened capacity of the Ministry of Labour were needed. Social protection was also a priority need. Young people needed targeted programmes and gender equality in employment had to be promoted.

While all the above aspects of employment and decent work promotion are well justified and needed in Liberia, as indeed in any other country, the Global Economic Crisis 2008-09 threatened the efforts at reconstruction, peace-building, poverty reduction and, in general progress towards decent work²⁷⁰. The crisis had a negative effect on government revenue; it reduced exports and commodity prices; it adversely affected the climate for foreign investment and negotiation of concessions; and it reduced the inflow of remittances. Smallholder agriculture and the informal sector were hit particularly severely and this in turn impacted on the lives of many poorly educated, often, young, persons.

Among the priority recommendations of a rapid impact assessment undertaken by the ILO were several to deal with the lack of fiscal space. But there were others pointing to the need to revamp emergency employment programmes, develop a national employment policy, and conduct a labour force survey.

²⁶⁸ Twerefou D. K and Kwar M. (2008)

²⁶⁹ African Economic Outlook, 2011.

²⁷⁰ See ILO (2009e), p74

Box 7.1 Road rehabilitation creates jobs in Liberia

In the wake of Liberia's protracted and devastating civil war, national infrastructure lay debilitated, numerous community groups remained vulnerable, and employment structures were either incapacitated or dissolved. In response, in mid-June 2006, the government of Liberia and partners (UNIMIL, ILO, World Bank, UNDP and WFP) created the Liberian Emergency Employment programme (LEEP). The LEEP framework has led to the creation of more than 21,000 short term jobs for skilled and unskilled labourers, representing more than 50,000 working days. This critical contribution of employment to peace building efforts in Liberia cannot be overemphasised, as it serves economic, social, political and cultural functions.

Preliminary findings from an impact assessment revealed that most of the labourers used wages earned to rebuild their homes and start new livelihood and income generating activities, especially in Lofa County.

The earlier approach was embodied in the Liberian Poverty Reduction Strategy (LPRS) which was to guide development over the period 2008-2011, i.e. from fairly soon after the restoration of democracy in 2006. It aimed to rebuild basic infrastructure; restore production of natural resource-based products; and promote diversification of the economy over the long run. An important element of the response was the Liberia Emergency Employment Programme LEEP [See Box]

However, it might be argued that the LPRS focused excessively on policy and institutions and inadequately on local recovery and peace-building. According to one assessment, the first year of LPRS implementation focused particularly on policy development which accounted for over half of the deliverables across the four pillars. Despite notable achievements, the results overall were below expectations, with one fifth of deliverables completed in full and on time and the remainder subject to delays.²⁷¹

As mentioned earlier, the scope for policy was constrained by the lack of fiscal space; and it is important to note that institution-building and the development of the legal framework has to proceed alongside economic recovery.

Following the crisis, some elements of the three-track approach fell into place. This is not to assert that they were entirely absent earlier, but they were not always spelled out or emphasised enough. In response to the crisis, the ILO rapid assessment recommended strengthening both Track A programmes like emergency employment and Track C measures like data collection and policy development.

The three-track approach is sufficiently flexible to take account of the differences between countries and to allow for changes in the elements going into each track and their time-phasing. In its absence, there is the danger that policy development may take precedence over pacification and recovery. The crisis has helped to bring attention back

²⁷¹ Liberia: "Joint Staff Advisory Note on the First Annual Progress Report on the Implementation of the Liberia Poverty Reduction Strategy (LPRS)," <http://www.imf.org/external/pubs/ft/scr/2010/cr10193.pdf>, page 2.

in Liberia to labour market issues and the immediate problems of poverty, lack of education and skills. It cannot be overstated that policy development cannot go ahead of recovery and reintegration and their time-phasing has to be determined in a conflict-sensitive manner.

The Post Conflict Context: Promoting Growth, Employment and Decent Work

Several countries in Africa come under one or more of the following labels: countries in fragile situations, conflict-affected countries and least developed countries. They are marked by low growth rates of GDP, slow growth of agriculture and food production, slow growth of manufacturing and high levels of poverty. Some important conclusions of this chapter which may form part of the guidelines on programming for conflict-affected countries are given below.

1. There is no post conflict recovery without socio-economic recovery. The Decent Work Agenda is central for consolidating peace and preventing conflict in African countries. It is therefore essential that the decent work approach permeates all measures and the paths chosen at all stages leads towards the goal of decent work.
2. To advance the decent work agenda in conflict-affected countries, the programming of activities has to be conflict-sensitive: it must be aware of the fragility of peace, and determined to cement it through a careful selection and phasing of activities
3. The UN policy for post conflict employment creation, income generation and reintegration (PCEIR)'s three track approach is a conflict-sensitive strategy indicating the modalities for achieving the goal of sustainable decent work in post conflict scenarios.
4. Decent work has to be envisioned from the start (aftermath of peace agreement) and progressively becomes the centre of the development effort. But EfP programmes should pay attention to the dangers of path-dependence. The early steps taken can, in some circumstances, lead a country away from, rather than, towards, the goal of decent work. It is essential that the decent work approach permeates all measures and the path chosen at all stages leads towards decent work.
5. In several instances, Track A measures have either to be continued for longer than anticipated or restarted at a later date. The experience of several developing economies suggests that public employment programmes should be an instrument in the armoury of countries as national and local fluctuations in economic activity frequently occur, quite irrespective of conflict-related factors. Hence preparedness to start or expand public employment programmes should remain on the agenda of conflict-affected and other countries.

6. The EfP programmes need to give more attention to macroeconomic policy issues. There is abundant evidence that failure to adopt appropriate monetary, fiscal and exchange rate policies can severely constrain employment growth and poverty reduction, and thereby endanger recovery from conflict. For job-rich and poverty reducing growth to happen a favourable macroeconomic environment is needed.
7. While policy development is important, and all of it cannot be postponed until durable peace, economic recovery and reintegration have been achieved, the pace at which it is pursued has to be regulated keeping in mind that its success requires empowered social actors, a functioning civil society and active social dialogue.
8. Policy development in conflict-affected countries can be either divisive or integrative, depending on how it is conducted and by whom. It is important to be able to judge when conditions are right for major policy developments and what, for each period of time, is the optimal pace.
9. A comprehensive employment policy, with components on training, migration and gender, would help to strengthen national commitment to decent work. For this Track C measure, the challenge is to determine when it should start, at what pace it should proceed, and how it should be used to build solidarity rather than divisiveness.
10. In each case the root causes of conflict need to be identified and the planned activities should seek to eliminate such causes.
11. It is not possible to conduct thorough diagnostic exercises while there is ongoing conflict. Once there is reasonable peace, diagnostic analyses need to be done not only to identify the root causes of conflict, but also to identify the major roadblocks to employment expansion and poverty reduction. It is important to stress that these may not always be conflict-related.

The experience of different countries, starting from very different initial conditions but directing efforts to achieving the common goal of decent work, throws up several lessons. In the case of conflict-affected countries, the need to follow the three track conflict-sensitive strategy cannot be overstated. At the same time, while granting the extra problems of conflict-affected countries and the need for conflict-sensitive programmes, it remains true that *all* countries face road blocks on the path of expanding productive employment, that many of these are similar, and that there is great scope for mutual learning.

Chapter 8: Social Protection in Africa: Investing in people

Introduction²⁷²

It is now widely recognized that a new vision for Africa needs to include effective social protection policies a key investment in human development and a contribution to growth, productive employment and Decent Work. The “Yaoundé Tripartite Declaration on the Implementation of the Social Protection Floor”, which was adopted in October 2010 by tripartite delegations of 47 African ILO member States, called upon governments and social partners to undertake decisive steps to improve the level of social security for all in Africa through the adoption of a two-dimensional strategy for the extension of effective social security coverage”²⁷³ This commitment confirms and extends earlier regional commitments in the framework of the African Union, including the Ouagadougou Declaration and Plan of Action on Employment Promotion and Poverty Alleviation, adopted in September 2004, and the Social Policy Framework for Africa, adopted in Windhoek, Namibia, in October 2008.²⁷⁴ At the global level, the Resolution and Conclusions concerning the recurrent discussion on social protection (social security) which were adopted at the 100th Session of the International Labour Conference in June 2011, further underline this point on an international scale.²⁷⁵ Social protection policies are also one of the key components of policies to accelerate progress towards achieving the Millennium Development Goals (MDGs), as the UN General Assembly recently emphasized during the MDG Summit that “Social Protection systems that address and reduce inequality and social exclusion are essential for protecting the gains towards the achievement of the Millennium Development Goals.”²⁷⁶

Many African countries at different levels of development have acknowledged the need to embark on more inclusive development paths which are based on a broad-based expansion of productive capacities and the well-being of the population. Such efforts to create a more enabling environment for sustainable and inclusive economic growth require the investment in the human capital of the population throughout the life cycle through access to health, education and other social services, as well as at least a minimum level of income security that empowers people to engage in productive employment and income-generating investments. The joint UN initiative for a Social Protection Floor, lead by the ILO and WHO, emphasizes the importance of such investments in productive capacities which would help to achieve substantial progress in poverty reduction, and the need to step up international efforts to make the human right to social security a reality for people in Africa. Such investments will help African countries to develop the full productive potential of the population, contribute to the

²⁷² Parts of this chapter draw on work prepared for the ILO, ILO (2011b), ILO (2010d) and ILO (2011c).

²⁷³ ILO(2010e)

²⁷⁴ ILO (2010d)

²⁷⁵ ILO (2011d)

²⁷⁶ United Nations (2010), Para. 23 (f) and (h)

formalisation of employment, support economic and social change, foster sustainable and equitable growth, reduce vulnerability and boost economic and social development.

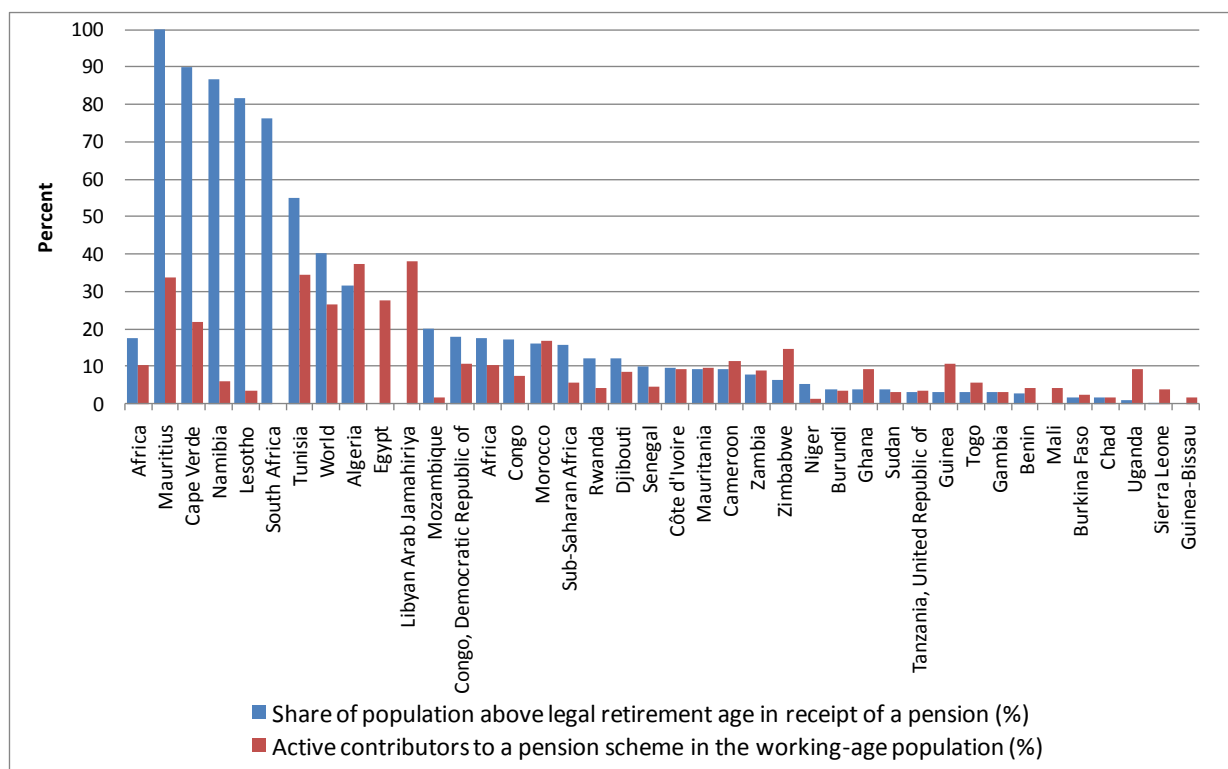
Status quo and challenges²⁷⁷

The limited access to social protection mechanisms is one of the main policy challenges in achieving sustainable growth, productive employment and Decent Work in Africa. While comprehensive statistical information is scarce, the ILO estimates that only a minority of the economically active population in Africa has access to comprehensive social protection, including a minimum level of income security and effective access to health care. The ILO's World Social Security Report 2010/11 ²⁷⁸ shows that in the majority of African countries, less than one in ten elderly women and men receive an old age pension which would provide them with income security in old age. Likewise, less than one in ten economically active women and men contribute to a pension scheme and can thus expect to be economically secure in the event of employment injury, disability or old age (see Figure 8.1). Regional variation is large: While the majority of African countries display large coverage gaps, some countries have succeeded in ensuring at least a minimum level of income security in old age for the majority of older women and men. This includes countries with large contributory pension insurance schemes, such as Tunisia and South Africa, which have succeeded in extending coverage of contributory schemes to those at the margins of formal employment. This also includes countries who have invested in universal or means-tested non-contributory social pension programmes, such as Cape Verde, Lesotho, Mauritius and Namibia, in order to guarantee a minimum level of income security to their elderly populations.

²⁷⁷ See for more detail ILO (2010d)

²⁷⁸ ILO (2010f)

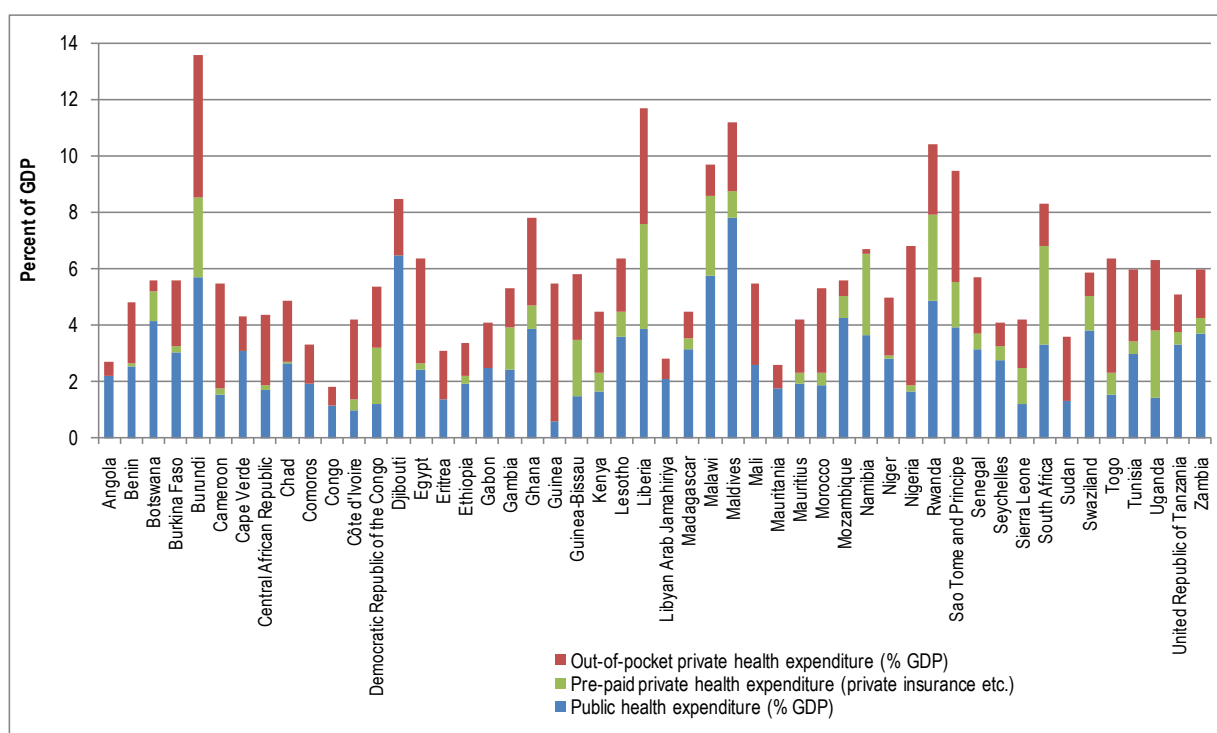
Figure 8.1: Effective social security coverage African countries: Access to pensions (contributory or non-contributory), latest available year



Source: Based on ILO, 2010: World Social Security Report 2010/11: Providing coverage in the time of crisis and beyond (Geneva: International Labour Office), Annex Table 21.

Likewise, a large proportion of the African population face financial barriers in accessing health care services. On average, only 63 percent of total health cost is pre-paid through public or private collective health financing mechanisms in African Countries²⁷⁹ This leaves 37 percent of the total cost of health care in African countries to be paid out of pocket, which results in a high poverty risk for people at a vulnerable moment of their lives, and their families. This indicator does however not reflect the fact that many of the poorest groups of the population do not access health services in the first place as they cannot afford to spend on health care at all. Overall, levels of health spending vary strongly (see Figure 8.2). High levels of spending are however not necessarily associated with a good health infrastructure, a well trained workforce of health workers, and the accessibility of health services for people in remote areas and very poor people. International evidence shows that the efficient use of the available resources can make a difference in ensuring quality health services even at a relatively small cost.

²⁷⁹ Calculated based on WHO National Health Accounts data; see also ILO, (2010f), Annex Table 27.

Figure 8.2: Total health expenditure and sources of financing in Africa, 2008

Source: Own calculations based on WHO National Health Accounts.

The lack of social security coverage is closely associated with the prevalence of informal employment in most African countries. Workers at the margins of the formal economy, or those in the informal economy usually are not or insufficiently covered – in law or in practice – by social security arrangements.²⁸⁰ In most African countries, social insurance covers only salaried workers in the formal economy, often excluding workers in small enterprises, in private households (domestic workers) or agriculture, or workers on temporary contracts. In a significant number of countries, including Cape Verde (see Box 8.1 below), South Africa²⁸¹ or Tunisia, there have been commendable efforts to extend the coverage of formal schemes to additional categories of workers through the extension of coverage of contributory social security schemes to workers at the margins of formal employment. These efforts have been successful where the design, financing and administration of schemes have responded to the specific needs of the covered groups of workers. Innovative measures are needed to accommodate the specific characteristics of their work, such as irregularity or seasonality of employment, low and/or fluctuating incomes or their employment status (own-account-workers and self-employed).

Non-contributory programmes play an important role in complementing contributory social security programmes within comprehensive national social protection strategies. Such programmes include universal or categorical programmes covering large groups of

²⁸⁰ ILO (2007b) and ILO (2002)

²⁸¹ This includes for example the inclusion of domestic workers in the coverage of the South African Unemployment Insurance Fund, see ILO (2011c)

the population, or programmes targeted at poor and vulnerable groups of the population. Examples for the first category include social pension programmes, child allowances or national health services. The second category encompasses social assistance programmes, conditional cash transfer programmes, or employment guarantee schemes, which are important elements in protecting the most vulnerable groups of the population and guaranteeing at least a basic level of social protection all.

Investing in social protection for economic and social development

While the economic and social realities in African countries are very diverse, so are the policy strategies chosen to address the lack of social protection for large groups of the population. In recent years, many African countries have embarked on national programmes to extend social protection coverage as a key component of their development strategies. Several African countries, including Burundi, Ghana, Kenya, Mali, Mozambique, Rwanda, Senegal, Tanzania and Zambia, have recently adopted national policies which support the extension of social security, or are preparing national social security extension strategies. In addition, a number of African countries have followed strategies of gradual extension of social security coverage and have invested strongly in social protection. This includes countries that have recently graduated from their least developed country status, such as Botswana (1994), Cape Verde (2007) and Maldives (2011).

Some examples that will be discussed below demonstrate that well-designed social protection policies are a key component for achieving sustainable and equitable growth, and social cohesion.²⁸² For example, Cape Verde has successfully moved towards providing universal access to social security through the parallel extension of contributory and non-contributory programmes, and access to health care and other social services (see Box 8.1).

²⁸² ILO (2010g)

Box 8.1: Extension of social security coverage in Cape Verde

Cape Verde has followed a double-pronged strategy for the extension of social security coverage, by combining progressive extension of contributory social insurance (vertical approach) with the provision of basic non-contributory benefits (horizontal approach). During the last ten years, social insurance coverage has doubled from 14 to 29 percent of the economically active population. Benefits of social insurance include old-age, disability and survivor pensions, health care coverage, maternity, sickness, paternity benefits and family allowance, among others. The main social insurance institution (INPS) is currently engaged in improving efficiency, governance and compliance, and extending coverage to previously excluded groups such as domestic workers and the self-employed.

Tax-financed social security programmes also expanded sharply in recent years. The non-contributory pension, launched in 1994, now reaches 90 per cent of the target population and was strengthened with the creation of the National Centre for Social Pensions (CNPS). The level of the pension has been regularly increased, reaching today the amount of 4,500 escudos (about 60 USD), one of the highest in the African context. Essential health services cover nearly 100 percent of the population through the joint efforts of the ministries of Health and Social Security. From the beginning of independence, Cape Verde has used employment intensive public works (FAIMOs) as a means of guaranteeing an income for the working poor. Between 15,000 and 20,000 people, one third of them women, have access to FAIMOs each year, representing a significant proportion of the active population (around 15 per cent in 1990). Public works have recently been reformed but remain an important component to provide income security to both unemployed and working poor. An income security programme for children is provided mainly through the school feeding programme. Children with disabilities have recently been included in the non-contributory pension scheme.

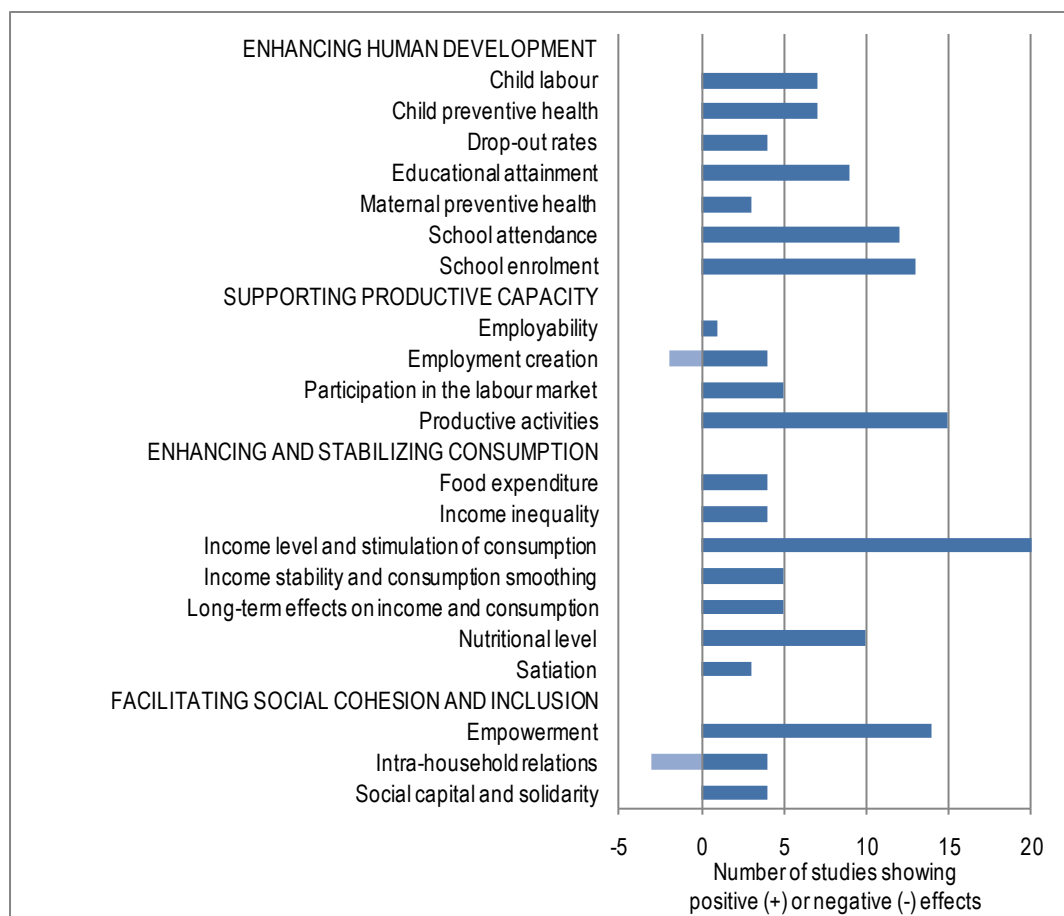
The combined and well coordinated efforts to extend social security coverage through both contributory and non-contributory programmes have resulted in an impressive increase in the coverage rate. It is believed that this strategy of investing in human development has also contributed to the improvement of human development indicators which are now among the highest in Sub-Saharan Africa. Life expectancy at birth is 72 years, the infant mortality rate has halved within the last 20 years, the literacy rate is 80 percent and the enrolment rate in primary education has recently reached 100 percent. The poverty rate has decreased from 36.7 per cent in 2001 to 26.6 per cent in 2007. Cape Verde is one of the few countries in Africa that foresee reaching all the targets for the Millennium Development Goals. The country gained the status of middle income country in 2008.

Source: ILO, 2011: Social security for social justice and a fair globalization: Recurrent discussion on social protection (social security) under the ILO Declaration on Social Justice for a Fair Globalization (Geneva: International Labour Office), Box 4.1.

The increased interest in non-contributory social transfer programmes in African countries also spurred a stronger attention to the impact of such programmes. Micro-simulation studies have shown a strong impact of – even modest – transfers on the

reduction of poverty in low-income countries, such as Senegal and Tanzania.²⁸³ An ILO metastudy²⁸⁴, which assessed the results of about 80 individual studies on cash transfer programmes in 30 African and non-African countries during the last 10 years, has demonstrated that the measured impacts of cash transfer schemes in 30 countries have clearly and positively contributed to enhancing human development, supporting the full utilization of productive capacities, , improving access to labour markets, enhancing and stabilizing consumption and facilitating social cohesion and inclusion (see Figure 8.3).

Figure 8.3 Summary of impact assessments of existing social transfer schemes in 30 countries



Note: The figure shows the number of studies which have demonstrated a clear positive or negative effect (only categories covered by three or more studies). Studies showing no or unclear effects are not reflected in this graph.

Source: Based on ILO: Effects of non-contributory social transfers in developing countries: A Compendium, Geneva, 2010; I. Orton, Reasons to be cheerful: How ILO analysis of social transfers worldwide augurs well for a basic income, paper presented at: The 13th International BIEN Congress June/July 2010;

²⁸³ Gassmann, F. and Behrendt, C. (2006)

²⁸⁴ ILO (2010h)

Extending social security and building a social protection floor

A two-dimensional strategy for the extension of coverage

Balanced economic and social development requires a strong commitment to the extension of social security in line with the realities of each country. The International Labour Conference, at its 100th Session, called for effective national strategies to extend social security which should aim at achieving universal coverage of the population with at least minimum levels of protection (horizontal dimension) and progressively ensuring higher levels of protection guided by up-to-date ILO social security standards (vertical dimension). This two-dimensional strategy for the extension of social security consists of the following elements:²⁸⁵

- The *horizontal dimension* should aim at the rapid implementation of *national social protection floors*, containing basic social security guarantees that ensure that over the life cycle all in need can afford and have access to essential health care and have income security at least at a nationally defined minimum level. Social protection floor policies should aim at facilitating effective access to essential goods and services, promote productive economic activity and be implemented in close coordination with other policies enhancing employability, reducing informality and precariousness, creating decent jobs and promoting entrepreneurship.
- The *vertical dimension* of the social security coverage extension strategy in each member State should seek to provide higher levels of income security and access to health care – taking into account and progressing towards in the first instance the coverage and benefit provisions of the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) – to as many people as possible and as soon as possible; based, as a prerequisite, on policies aiming at encouraging participation of those in the informal economy and its gradual formalization. As economies develop and become more resilient, people's income security and their access to health care should be strengthened.

This ILO two-dimensional strategy for the extension of social security is in line with an earlier commitment made by tripartite constituents of 47 African ILO member States in October 2010 (see Box 8.2).

²⁸⁵ ILO (2011d)

Box 8.2 “Yaoundé Tripartite Declaration on the Implementation of the Social Protection Floor”

The Second African Decent Work Symposium in Yaoundé in October 2010, entitled “Building a Social Protection Floor through the Global Jobs Pact”, was attended by delegates from 47 African ILO member States, including 26 Employer and 26 Worker representatives. The Symposium adopted the “Yaoundé Tripartite Declaration on the Implementation of the Social Protection Floor” on 8 October 2010. The delegations called upon governments and social partners in Africa “to undertake decisive steps to improve the level of social security for all in Africa through the adoption of a two-dimensional strategy for the extension of effective social security coverage” as follows:

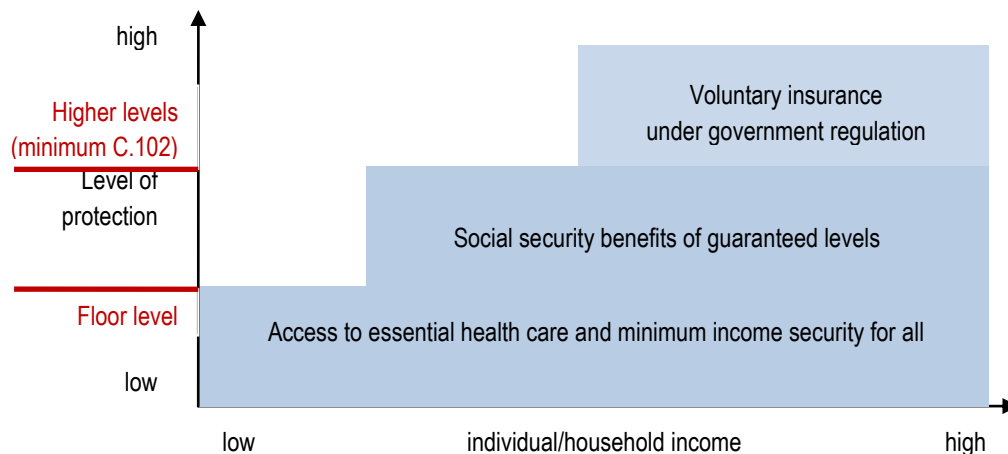
- “The horizontal dimension should consist of the rapid implementation of national social protection floors, i.e. a minimum package of transfers, rights and entitlements that provides access to essential medical care and provides sufficient income to all in need of such protection”.
- “The vertical dimension should seek to provide higher levels of social security – at least in line with the coverage and benefit requirements of the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) – to as many people in our societies as possible and as soon as possible; based, as a prerequisite, on policies to gradually formalize the informal economies of Africa”.

The delegates also called for “reinforce[d] efforts for speedy actions towards the widest possible ratification of Convention No. 102”, and requested the ILO “to explore ... the option to introduce a new mechanism that guides countries in national implementation of the Social Protection Floor”. The ILO was invited to play a leading role in developing a strategic plan of action for joint follow-up with African Union, employers’ and workers’ organizations, and others.

Source: ILO: *Yaoundé Tripartite Declaration on the Implementation of the Social Protection Floor*, adopted at the Second African Decent Work Symposium, Yaoundé, 8 October 2010.

Figure 8.4 shows the two dimensions of the ILO strategy for the extension of social security coverage in a schematic way.

Figure 8.4 The social security staircase



While, in principle, the extension of social security along the horizontal and vertical dimensions should be pursued in parallel, the circumstances in most of Africa's countries would require a gradual approach starting with the countries' main priority areas, and progressively extending coverage along the two dimensions based on a national social security extension strategy.

In line with the Resolution and Conclusions adopted in June 2011, the International Labour Conference will discuss during its 101th Session in June 2012 the possible adoption of a Recommendation on social protection floors.²⁸⁶ Such a Recommendation would complement the existing standards and would provide flexible but meaningful guidance to member States in building social protection floors within comprehensive social security systems tailored to national circumstances and levels of development.²⁸⁷

The horizontal dimension: Building national social protection floors

The Conclusions adopted by the International Labour Conference emphasize that every member State should design and implement national social protection floor guarantees according to national circumstances and priorities defined with the participation of social partners. While expected outcomes of these guarantees are of a universal nature, member States find different ways of implementing social protection floor policies. These policies should provide four basic social security guarantees, i.e. nationally-defined minimum levels of income security during childhood, working age and old age, as well as affordable access to essential health care. These guarantees set the minimum levels of protection that all members of a society should be entitled to in case of need. Focusing on outcomes achieved, these guarantees do not prescribe specific forms of benefits, financing mechanisms or the organization of benefit delivery. They can be realized through different institutional settings, combining, as appropriate, universal benefit schemes, social insurance, public employment programmes and employment

²⁸⁶ See the preparatory report on law and practice, which includes also a questionnaire to member States: (ILO 2011e)

²⁸⁷ ILO (2011d)

support schemes, and social assistance schemes that provide benefits only to people with low income. To be effective, these policies require an appropriate mix of preventive measures, benefits and social services.²⁸⁸

Building national social protection floors is particularly relevant in the African context. The pursuit of sustainable growth and public employment in Africa requires more efforts in extending social security to more groups of the population, and to make the human right to social security a reality for the population. Examples from African countries show that it is possible to gradually move towards ensuring universal access to health care and a basic level of income security in line with national priorities. National initiatives have been initiated in several countries, including Benin, Burkina Faso, Mozambique, Rwanda and Togo.

The Social Protection Floor concept is explicitly conceived as a set of guarantees that can be adapted to national conditions and priorities, and that can be achieved gradually. As such, this concept is well suited for the realities of African countries, where fiscal space tends to be tight and institutional capacities scarce. In such contexts, the Social Protection Floor concept helps to identify and focus on the most important priorities while gradually further expanding fiscal space and institutional capacities, and gradually progressing towards more complete levels of protection. It is important to underline that the Social Protection Floor concept is a rights-based concept that emphasizes the importance of institution- and state-building including legal frameworks and effective and equitable tax policies.²⁸⁹ While donor support might be necessary to support the establishment of effective social protection programmes in some countries, appropriate consideration needs to be given to the question of sustainable national financing of such programmes in the longer run.

The rationale for introducing a basic set of social security guarantees is grounded in rights, but the level and scope of benefits in any given country will have to reflect the prevailing capacity to finance the benefits. ILO estimates have shown that, in principle, a basic social protection package is within the reach even of low income countries, as demonstrated by ILO cost estimates²⁹⁰ and various country experiences. Some resource-rich countries have been successful in channeling some of the proceeds of their commodity exports into investments in social protection with a view to achieving sustainable, broad-based economic growth and social development. Some countries not endowed with natural resources, and therefore more limited fiscal space, have prioritized – albeit modest – social protection programmes with a view to investing in their people – their main asset. A national forward-looking social security strategy and diagnosis of priority needs can help sequence the progressive implementation of various social programmes and policy instruments that address individual guarantees. The examples in many middle and low income countries show that some elements of the

²⁸⁸ ILO (2011d)

²⁸⁹ Townsend, P. (2009)

²⁹⁰ ILO (2008d)

floor are affordable everywhere, others may have to undertake steps to extend the fiscal space through improving the tax collection or through policy and governance decisions.

The vertical dimension: Reaching higher levels of social security

While the horizontal extension of social security is essential, and will certainly constitute the main priority for most African countries, it is also important to stress that social protection cannot stop at the ground floor. As economies grow and become more resilient, so should people's income security and their effective access to health care. The experience of the global crisis in many parts of the world has illustrated the importance of social security schemes as automatic stabilizers that play a key role in stabilizing aggregate demand, protecting the human development gains achieved and supporting structural change. The ILO supports countries at all stages of development of their social security systems to build a long-term vision in line with the aspirations articulated in the Social Security (Minimum Standards) Convention, 1952 (No. 102) and higher level social security standards.

The Conclusions adopted by the International Labour Conference confirm that the up-to-date ILO social security standards, and in particular Convention No. 102, provide a unique set of internationally accepted minimum standards for national social security systems. They emphasize that especially Convention No. 102 continues to serve as a benchmark and reference in the gradual development of comprehensive social security coverage at the national level.

While few African countries have ratified Convention No. 102 or the higher level social security standards²⁹¹, these standards continue to serve as important policy guidelines for national governments and social partners. In recent years, several non-African states, which are currently implementing successful and innovative social security extension policies, have ratified Convention No. 102 and others, including African countries, have indicated their intention to do so.

Moving forward with the extension of social security

Despite the various challenges regarding the extension of social security faced by African countries, various country examples demonstrate that social protection is an indispensable – and feasible – element of a broad-based social and economic development strategy. Complementing earlier reports²⁹², the following sections will briefly present some country examples for various elements of a social security extension strategy for Africa.

Extending social health protection

Effective access to health care is one of the main social protection priorities for the population in African countries. Such access is not only critical for enhancing the

²⁹¹ Convention No.102 has been ratified by five African countries: the Democratic Republic of the Congo, the Libyan Arab Jamahiriya, Mauritania, Niger and Senegal.

²⁹² E.g. ILO (2010d)

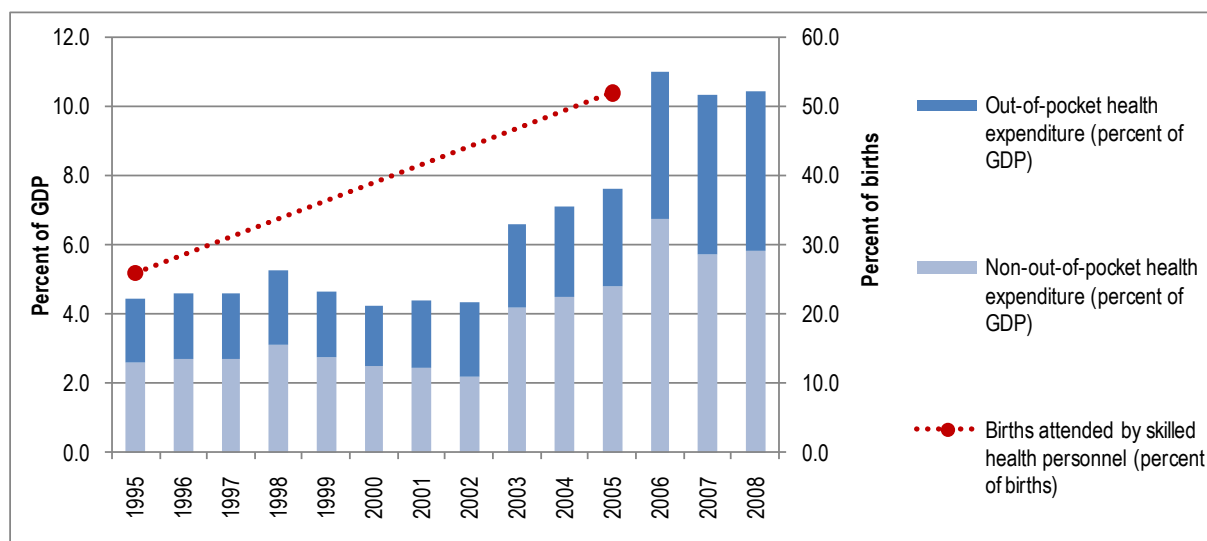
immediate well-being of the population, but also with respect to enhancing the productive capacities of the population in the short and long term. The extension of social health protection, defined as guaranteeing effective access to affordable quality health care and financial protection in case of sickness, to previously uncovered groups of the population is therefore high on the agenda for many African countries.²⁹³ Various policy initiatives in Africa show that effective social health protection policies are not only a matter of financial resources, but also depend on well-designed legal frameworks, institutional structures, quality controls and coordination mechanisms. The example of Rwanda (see Box 8.3) demonstrates that a combination of various health insurance mechanisms and well-designed public subsidies, as elements of a national effort to promote universal mandatory health insurance coverage, can help to quickly extend social health protection to the population and achieve better and more equitable health outcomes.

²⁹³ ILO (2008e)

Box 8.3: Extending health insurance coverage in Rwanda

During recent years, Rwanda has made extraordinary efforts to rebuild its health care infrastructure and refocus its health care policy towards a rapid extension of health care coverage with a strong emphasis on decentralization of health care management. In an effort to improve the financial access to health care and the mobilisation of domestic resources necessary to ensure the necessary level of funding, community health insurance organisations were designed to supplement other health insurance mechanisms. The coverage of community-based health insurance schemes has gradually increased from 7% in 2003 to 86% in December 2009.

The financing of the community-based health insurance programmes is based on individual and family contributions of around US\$2 per person and year. Where these contribution rates exceed the family's capacity to pay, various mechanisms are in place to subsidize contributions through transfers between insurance funds and payments from charities, NGOs, development partners and the Government of Rwanda. A new policy adopted in April 2010 aims at introducing a contribution system based on each household's capacity to pay in order to strengthen the equity and financial sustainability of the system.

Health expenditure and health system indicators in Rwanda

Source: Based on WHO National Health Accounts and World Health Statistics 2010.

The health care reform has increased the resources invested in the health care system, yet it has not yet led to a marked reduction in the proportion of out-of-pocket health expenditure, which is often considered as a major contributing factor of financial insecurity (see Figure above). However, what becomes evident is that some health indicators already have markedly improved. This is true for indicators reflecting the utilization of services (see Figure), as well as on health outcomes such as a drop in

infant mortality from 112 to 72 children per 1000 live births between 2000 and 2008. Further efforts to facilitate access to quality health services are likely to further improve the achieved results.

Sources: Rwanda - Ministry of Health, 2010: *Rwanda Community-based Health Insurance Policy* (Kigali: Ministry of Health of the Republic of Rwanda); Logie, D. E.; Rowson, M., and Ndagije, F., 2008: "Innovations in Rwanda's health system: looking to the future," *The Lancet*, pp. 256-261.

Another African country that has made strides towards enhancing access to health services for their populations is Ghana. With more than 90 per cent of its workforce in the informal economy, Ghana has successfully addressed challenges such as insufficient funding, low service quality and exclusion, by introducing multiple social health protection schemes that are integrated in a coherent national health insurance for different groups of the population (see Box 8.4). The experience here indicates that an important key to success lies in ensuring access to all citizens, while simultaneously targeting the poor and the most vulnerable – thereby avoiding adverse selection and the fragmentation of risk pools.

Box 8.4 Extending social health protection in Ghana

For a long time, access to health care in Ghana was provided only on a “cash-for-service” basis, leading to growing inequalities and deteriorating health outcomes. This recently led to the implementation of the National Health Insurance Scheme (NHIS), with its stated mission to address these challenges and “to ensure equitable universal access for all residents of Ghana to an acceptable quality of essential health services without out-of-pocket payment being required at the point of service use”. In this pluralistic system, three major types of health insurance cover different groups of the population: (1) district mutual (or community-based) health insurance schemes, which operate across a district with membership open to all residents of the district; (2) private commercial health insurance schemes, which are private for-profit schemes unrestricted to a particular region or district of Ghana, membership being thus open to all Ghanaian residents in that area; (3) private mutual (community-based) health insurance schemes, which serve specific groups of people – for example, members of a club, a church, or any other organization – who come together to form their own mutual health insurance schemes; usually membership is open only to members of the organization concerned. The NHIS premiums are generally based on participants’ ability to pay, yet most schemes apply a single flat rate. The poorest category of the population, together with those aged 70 years or more, pregnant women, children under the age of 18, and former Social Security and National Insurance Trust (SSNIT) contributors on retirement, are exempted from paying any premiums or contributions.

In a major national solidarity effort the scheme is being financed by an increase of VAT by 2.5 percentage points and a reallocation of 2.5 percentage points of the contribution of members of the national pension scheme to the National Health Insurance Fund. People in the informal economy only pay a relatively small contribution that does not cover their cost.

Data from Ghana NHIS headquarters in Accra indicate that, in 2008, 12.5 million Ghanaians – or 61 per cent of the total national population of 20.4 million – had registered with the NHIS. Of the total enrolled, 6.3 million (or slightly more than 50 per cent) were children under 18 years of age, 867,000 (or 6.9 per cent) were over 70 years of age, and 303,000 (or 2.4 per cent) were classified as “indigent”, all of whom were in principle exempted from contribution payments.

Source: ILO, 2011: Social security for social justice and a fair globalization: Recurrent discussion on social protection (social security) under the ILO Declaration on Social Justice for a Fair Globalization (Geneva: International Labour Office), Box 3.2; ILO, 2010: Extending social security to all. A guide through challenges and options (Geneva: International Labour Office).

Social pensions, income security in old age and their role for development

The important role of social pensions for development is increasingly recognized worldwide, including in Africa. The low life expectancy rates at birth in many African countries mask the fact that, once having reached the age of 60 years, men can expect to live for another 15.5 years, and women for another 17.4 years; yet they tend to face a

decline of their earnings capacities and income security.²⁹⁴ As a result, old age constitutes one of the major poverty risks for those without sufficient pension incomes from other sources. By providing a modest regular income, social pensions help to secure at least a basic living standard for older persons and their families, with positive effects on the health, physical development and school attendance of children living in households with pensioners.²⁹⁵ Social pensions are likely to play an even more important role in the future, given that the share of older people in the total African population is projected to double from 5.8 percent in 2011 to 11.6 percent in 2050.²⁹⁶

A number of African countries have already implemented social pension programmes for their elderly population (see Table 8.1).

²⁹⁴ Estimates refer to the period 2010-2015, based on UN Population Prospects (2008 revision) data, medium variant.

²⁹⁵ See ILO (2010h)

²⁹⁶ Population aged 60 and older, calculated from UN Population Prospects (2008 revision) database, medium fertility variant.

Table 8.1: Social pension programmes in selected African countries

	Programme	Monthly level	benefit	Eligibility	Cost
Botswana	Universal old age pension, introduced 1996	P 220 (US\$31)		Citizens aged 65 and older	0.4% of GDP
Cape Verde	Social pension, introduced 1994	4500 Escudos (50 US\$)	equivalent to 20% of average income	Older men and women aged 60 and older with income below threshold	
Lesotho	Old Age Pension, introduced 2004	300 Maloti (40 US\$),	equivalent to 64% of average income	All older men and women aged 70 and over	1.4% of GDP
Maldives	Social pension, introduced 2009	2000 Rufiyaa (US\$ 156),	equivalent to 45% of average income Social pension reduced at a rate of 50% if other pensions received	All residents aged 65 and over 85'100 eligible older persons (4.4% of total population)	
Namibia	Basic state pension, reformed through National Pensions Act, 1992	N\$450 (US\$59),	equivalent to 14% of average income	All residents aged 60 and over	
South Africa	Old Age Grant, as stipulated in Social Assistance Act, 2004	R1030 (US\$144),	equivalent to 28% of average income	Permanent residents aged 60 and over, with income less than R31,296	

Sources: Official information from the respective governments, HelpAge Pensions Watch database, ISSA Social Security Observatory.

Such social pension programmes can start with strict eligibility criteria and modest levels of benefits, but nevertheless play an important role for securing a regular income for some of the most vulnerable groups of the population.

Providing income security for children and their families

Children and families naturally stand in the focus of policies aiming at promoting investment in human capital, and equitable and sustainable growth, productive employment and Decent Work. It is now well accepted that early investments in nutrition, health and education of children contribute to enhancing the productive capacity of the population in the long run. There is also strong evidence on positive benefits of well-designed social protection programmes with respect to the prevention of child labour. Various examples from Africa, Latin America and other parts of the

world demonstrate the role of cash benefits in reducing poverty and achieving positive development results. It also demonstrates how countries can use the proceeds of their natural resources to finance investments in social protection.

A number of African countries have engaged in large-scale cash transfer programmes focusing on vulnerable children and their families as part of a wider social protection strategy. This also includes children living in families affected by HIV/AIDS, orphans and other vulnerable children. For example, Zambia is currently extending existing family and child cash transfer programmes to cover additional districts. Other than benefits directed directly to children, programmes that ensure income security for families affected by unemployment and underemployment also have beneficial effects on children and their families. Such programmes include various forms of social assistance programmes or employment guarantee schemes and other public employment programmes, as found in various African countries including Ethiopia, Ghana, Rwanda and South Africa (see Chapter 3).

Moving forward with the extension of social security: Policy recommendations

The following policy recommendations are made with respect to the extension of social security in Africa:

- Given the value of social protection as a key investment in human development and a contribution to growth, productive employment and Decent Work, African countries should step up their efforts to extend social security to larger groups of the population. The extension of social security, including the establishment of national social protection floor policies, should be pursued in line with national priorities and capacities, and, where necessary, with appropriate technical and financial support from development partners.
- All countries already have some mechanisms to provide social protection in place. National social protection floors should be built based on a careful analysis of existing structures and mechanisms to exploit synergies, increase efficiency and smooth implementation. Existing systems should be reoriented or extended as necessary to ensure optimal impact on poverty prevention, poverty reduction and redistribution.
- National strategies for the extension of social security should be developed and monitored through a broad social dialogue, involving social partners and other stakeholders, in order to ensure wide support and successful implementation. These social security extension strategies should aim at achieving a coordinated approach to combine contributory and non-contributory programmes to realize the human right to social security, including at least a minimum level of income security and effective access to health care for all.

- The establishment of national social protection floors in African countries should be based on a detailed assessment of existing fiscal space, and ways of ensuring sufficient fiscal space in the future. Where fiscal space is tight, it may be considered to pursue a gradual progressive implementation of social security programmes, to explore ways of enhancing effective and equitable tax collection policies and procedures, and, where necessary, request transitional financial assistance from development partners.
- Resource-rich countries in Africa should explore better ways to channel some of the proceeds of their commodity exports into investments in social protection with a view to sharing their natural wealth more broadly among their population, investing in human capital and gradually moving to more diversified economic activity and productive employment.
- Sufficient attention needs to be given to strengthening institutional capacities, including the training of staff for the design, management and administration of national social security systems, and ensuring good governance of social security programmes.

Chapter 9: International Labour Standards: the way for economic and socially sustainable development

Overview

The global economic crisis, the events this year in North Africa and the Middle East and, more generally, the ongoing need to face the growing challenges of globalization, have demonstrated the continuing relevance of international labour standards. Amid widespread uncertainty in the world of work, ranging from financial turmoil and economic downturn to social unrest, growing unemployment, informality and insufficient social protection, the Social Justice Declaration²⁹⁷ and the Global Jobs Pact²⁹⁸, unanimously adopted by the International Labour Conference in 2008 and 2009 respectively, have confirmed that international labour standards (ILS) and fundamental principles and rights at work continue to be the goals and benchmarks of social justice and fairness at work. As shown in a recent ILO publication on the global financial crisis of 2007-2009, today's challenges call for a sustainable, post-crisis paradigm which relies on a renewed commitment to upholding international labour standards and empowering labour market institutions such as employment protection and trade unions which have played an important role in smoothing the adjustment process²⁹⁹.

The most recent events in North Africa and the Middle East appear to be just as much about jobs as they are about rights, economic justice and political representation. They are staunch reminders of the importance for people that their rights are to be respected and upheld. Urgent measures need to be taken to address these concerns including the rights of women, migrant workers, domestic workers, workers in export processing zones and the vast number of workers in the informal economy.

²⁹⁷ The Social Justice Declaration calls on all ILO member States to implement the Decent Work Agenda at the national level and in so doing to review their situation as regards ratification and implementation of ILO instruments with a view to increasing coverage of each of the strategic objectives, with special emphasis on the instruments classified as core labour standards (Conventions Nos. 29, 87, 98, 100, 105, 111, 138 and 182) as well as those regarded as most significant from the viewpoint of governance, covering tripartism, employment policy and labour inspection (Conventions Nos. 81, 122, 129 and 144).

²⁹⁸ The Global Jobs Pact recommends that strengthening respect for international labour standards “create a basis for and support rights at work and contribute to building a culture of social dialogue particularly useful in times of crisis. In order to prevent a downward spiral in labour conditions and build the recovery, it is especially important to recognize that (1) Respect for fundamental principles and rights at work is critical for human dignity. It is also critical for recovery and development. Consequently, it is necessary to increase: (i) vigilance to achieve the elimination and prevention of an increase in forms of forced labour, child labour and discrimination at work; and (ii) respect for freedom of association, the right to organize and the effective recognition of the right to collective bargaining as enabling mechanisms to productive social dialogue in times of increased social tension, in both the formal and informal economies. (2) A number of international labour Conventions and Recommendations, in addition to the fundamental Conventions, are relevant. These include ILO instruments concerning employment policy, wages, social security, the employment relationship, the termination of employment, labour administration and inspection, migrant workers, labour conditions on public contracts, occupational safety and health, working hours and social dialogue mechanisms. (3) The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy is an important and useful tool for all enterprises, including those in supply chains, for responding to the crisis in a socially responsible manner.”

²⁹⁹ See, From Islam, I. and Verick, S. (2011), p.264.

Labour standards in the context of change in the region

There is a need to examine the profile of the African Region to determine how international labour standards could be further integrated into national policies particularly in the current context of change in the region. This requires a consideration of the Conventions that have been ratified, the cases of progress noted by the ILO supervisory bodies for countries of the region as well as the instances where countries were called upon to avail themselves of the technical assistance of the Office. It is also an opportunity to examine which other ILO up to date Conventions should be ratified with a view to filling the gap in legal protection, thereby responding to the concerns and expectations of the citizens of the region.

To date, all 53 African countries have ratified the Forced Labour Convention, 1930 (No. 29), the Abolition of Forced Labour Convention, 1957 (No. 105) and the Discrimination (Employment and Occupation) Convention, 1958 (No. 111); 52 have ratified the Right to Organise and Collective Bargaining Convention, 1949 (No. 98)³⁰⁰; 51 have ratified the Equal Remuneration Convention, 1951 (No. 100)³⁰¹; 51 have ratified the Worst Forms of Child Labour Convention, 1999 (No. 182)³⁰²; 51 have ratified the Minimum Age Convention, 1973 (No. 138)³⁰³; and 48 have ratified the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)³⁰⁴. Twelve ratifications are needed for all countries from the African Region to have ratified all the eight ILO fundamental Conventions. This should be an objective to be pursued in line with the ratification campaign launched by the Director-General to achieve universal ratification of the fundamental Conventions by 2015, the target date for meeting the MDGs.

Concerning the governance Conventions, 42 African countries have ratified the Labour Inspection Convention, 1947 (No. 81), and eight the Labour Inspection (Agriculture) Convention, 1969 (No. 129), 37 have ratified the Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144) while 19 have ratified the Employment Policy Convention, 1964 (No. 122). In the other areas concerning wages, social security, occupational safety and health, migrant workers, human resource development, maritime, fishing, indigenous peoples, the ratification picture is sparse.

Turning to the North African region in particular, the recent economic crisis³⁰⁵ and the deficiencies in the broad area of employment (including skills, enterprise development,

³⁰⁰ Somalia is the only country that has not yet ratified Convention No.98.

³⁰¹ Liberia and Sudan have not yet ratified Convention No.100.

³⁰² Eritrea and Somalia have not yet ratified Convention No. 182.

³⁰³ Liberia and Somalia have not yet ratified Convention No. 138.

³⁰⁴ Guinea Bissau, Kenya, Morocco, Somalia and Sudan have not yet ratified Convention No. 87.

³⁰⁵ The Arab region was less affected by the financial & economic crisis than other parts of the world, managing to maintain positive GDP growth rates in 2009, with the exception of Kuwait, the UAE and Mauritania. Reductions in inflation and strong internal consumption helped to mitigate the negative effects of the crisis. With the help of stimulus packages and as a result of the relatively small impact of the crisis, economies recovered quickly in 2010. GDP growth in North Africa rebounded to exceed 5 per cent. The increase in GDP was the

etc.) have constituted two principal causes for the protest and/or change in political regimes in North Africa (notably Tunisia and Egypt). Serious gaps in application of the fundamental principles and rights at work (particularly, the fundamental right to freedom of association and the right to collective bargaining) appear also to be among the root causes of the changes taking place.

The generally low level of application of standards in the North African region has encouraged the spread of low-wage and low-skill jobs, while the high turnover of industries has prevented the development of more stable high-skilled employment. The ILO supervisory bodies and the Global Jobs Pact have pointed out that mechanisms which serve to avoid low wage spirals, like for instance collective bargaining and minimum wage setting, can serve to support global demand and reduce social tensions.

Efforts to achieve full, freely chosen and productive employment and address the widespread problems of youth unemployment, low rates of women's participation in the labour force and low productivity levels, can be successful only if they are accompanied by fundamental guarantees of fairness, social cohesion and social justice, through freedom of association, equality, adequate levels of wages, functioning social security systems, etc. Integrating international labour standards in public sector reforms represents another major challenge.

Focusing on effective implementation of core labour standards and governance instruments in North Africa and the Middle East, is part and parcel of measures aimed at improving labour market efficiency, leading to economic and job recovery, reducing gender inequality and providing adequate support to the most vulnerable groups of workers. The improvement of working conditions through the application of international labour standards can foster employment (through increased productivity and demand), empower people and contribute to their security thereby contributing to the democratization process as well as economic development. Most importantly, international labour standards can provide member States with a baseline and a defense against pressures that may be encountered to adopt economic approaches which in the long run could undermine advances made in social and labour conditions.

Looking ahead, the current political and social changes could very well act as a catalyst for furthering social progress and for the fuller integration of ILS in national policies as these are being reviewed. New policies should rely on selected standards that are well-suited to the specific characteristics and socio-economic structure of individual countries, and should be geared to the resolution of key issues noted by the ILO supervisory bodies in relation to freedom of association, discrimination, governance of the labour market institutions through social dialogue, effective minimum wage policies, social security mechanisms including sustainable unemployment insurance schemes, and policies for the protection of migrant workers in receiving countries, especially after

result of stronger oil exports, an increase in tourism revenues for Egypt, Morocco and Tunisia, as well as a recovery of domestic consumption and exports. See Tzannatos, Z., Haq T. and Schmidt, D. (2011).

a crisis situation. In view of the fact that almost all of the North African countries have ratified the fundamental Conventions and the governance Conventions as indicated above, ILO technical assistance should be mobilized to assist these countries to effectively implement them in law and in practice in line with the comments of the ILO supervisory bodies.

Freedom of Association and collective bargaining

Freedom of association and the right to bargain collectively are fundamental rights rooted in the ILO Constitution and the Declaration of Philadelphia and reaffirmed on numerous occasions in landmark documents, including the Declaration on Fundamental Principles and Rights at Work, 1998, and most recently, the Social Justice Declaration. In addition to being fundamental rights in themselves, freedom of association and the right to collective bargaining are also preconditions and safeguards for the defence of all other workers' rights and constitute major tools for labour market governance. Therefore their integration in national policies and programmes deserves special attention and vigilance.

Since the adoption of the 1998 Declaration there has been progress towards universal ratification of Conventions Nos. 87 and 98. However, in spite of almost universal ratification levels in the African region, some vulnerable groups of workers are still facing particular difficulties in exercising these fundamental rights, including workers in agriculture and in Export Processing Zones, migrant and domestic workers and workers in the informal economy who constitute the vast majority of workers in African countries. In some countries public service employees are denied by law freedom of assembly and the right to organize. According to the supervisory bodies, recent years have also witnessed freedom of association in some countries being restricted in the name of national security. Efforts to exert political control over trade unions have resulted in excessive restrictions over their establishment and activities. It is self-evident that where the right to organize is denied, the full realization of the right to collective bargaining is by definition impossible and this contributes to narrowing down the coverage of social dialogue.

Over the last three years, the ILO has been actively involved in efforts to improve the implementation of the fundamental Conventions on freedom of association and collective bargaining in Zimbabwe, pursuant to a complaint filed under article 26 of the ILO Constitution alleging non-compliance by Zimbabwe Conventions Nos. 87 and 98 and the consequent establishment of a Commission of Inquiry by the ILO Governing Body at its November 2008 Session. The Commission completed its work in December of 2009. At its March 2010 Session, the Governing Body noted the report and approved the Commission's suggestion that the ILO pursue its assistance to the Government and social partners in relation to the implementation of the Commission's recommendations. In its reply to the Commission's report, the Government of Zimbabwe indicated that the recommendations contained therein would be implemented in the context of its ongoing

legislative and institutional reform programme and welcomed the guidance and support of the ILO. Subsequently, an assistance package was jointly developed by the ILO and the Government and social partners and launched in Harare on 27 August 2010. Pursuant to its modalities (plan of action), several activities are scheduled to take place in 2011 with the ILO technical and financial support.

In many countries, the informal economy, which encompasses all workers and enterprises in economic activities that are not covered, or inadequately covered, in law or in practice, by normal arrangements, presents a major challenge to the exercise of the rights to freedom of association and collective bargaining. National legal frameworks for the exercise of these rights, the conventional structures of many workers' and employers' organizations, and formal mechanisms of collective bargaining, may not be readily applicable to, or may exclude, workers and enterprises that are either operating outside the formal reach of the law, or the law for some reason is not enforced to protect them. In sub-Saharan Africa, workers in the informal economy make up over 90 per cent of the labour force. The majority of these workers are women and young people, and they are among the poorest in society. The informality they face often consists not only of a lack of legal protection but also a lack of collective voice. In general, there is low union coverage and rarely any effective recognition of the right to collective bargaining. The gap in application of labour standards in the informal economy is a reality, leading in many cases to lower wages, lower productivity, longer working hours, hazardous conditions and the abuse of workers.

In recent years, the supervisory bodies, and in particular the Committee of Experts on the Application of Conventions and Recommendations (CEACR) and the Committee on Freedom of Association (CFA), have highlighted the universal mandate of the ILO and recognized that labour standards must extend beyond the formal economy to cover all forms of employment in all types of activity. They have therefore acknowledged that Conventions Nos. 87 and 98 apply to all "workers" and "employers" without distinction whatsoever including in the informal economy. Despite the practical difficulties involved in extending the fundamental rights to organize and to bargain collectively to the informal economy, Trade unions and employers' organisations are being actively involved in working with and assisting informal economy networks, thus enhancing the legitimacy and standing of local associations and providing a stronger voice for all involved. Trade unions are not limited to organizing and membership services but also advocate for better social protection for workers in the informal economy and for their legal recognition as workers. The extension of membership and service by trade unions may not only serve to ensure extension of protection and representation but can also be a significant step towards formalization of the activities concerned. Employers' organisations also undertake a role as advocates for small enterprises and operators in the informal economy, through several forms of intervention like lobbying, information sharing, increased access to finance, insurance, technology and entrepreneurship development, and strengthened linkages between informal operators and formal businesses.

Above all, however, it is within the prerogatives of governments to create social, legal and political frameworks that cover all citizens of a country. Governments are in a position to facilitate the transition of workers and employers into the formal economy. For example, a number of countries have taken steps to recognize the right of domestic workers to organize, which ensured the effective protection of their rights and facilitated their gradual regularization. The problem is complex and requires a long-term commitment, and tailor made responses devised at national level with the full participation of the social partners. This should constitute a priority in the context of the African region due to the extent of the problem and the many positive social and economic benefits to be gained.

On a broader perspective, the ILO should continue to assist member States in developing appropriate legal frameworks in line with international labour standards and principles to govern relations between employers, workers and governments, which would help expand freedom of association to more categories of workers. The ILO is currently developing a global tool to promote freedom of association and collective bargaining rights in the rural and export processing sectors, which will be pilot tested in three African countries (Kenya, Morocco and South Africa). It has in the past carried out successful projects such as the project on strengthening labour relations in East Africa (SLAREA) where the ILO assisted Member States in drafting new labour laws incorporating the fundamental principles and rights at work, allowing for a sound industrial relations environment and extending freedom of association to categories of workers for whom it was previously denied or restricted, and the programme to support the implementation of the 1998 Declaration (PAMODEC) through which legislative amendments were made in a number of sub-Saharan countries where labour legislation previously did not conform with the fundamental Conventions.

Another important issue highlighted in recent years by the supervisory bodies in the context of Africa is the weakening of collective bargaining at all levels. Solutions must also be sought to the legal and practical problems of denial of collective bargaining in the public sector. The report of the Director General for the 11th African Regional Meeting recalled that where collective bargaining is fully developed, it has three important roles: determining working conditions, notably wages, in conjunction with labour legislation, democratizing the decision-making processes and providing an effective mechanism for settling disputes between workers and employers (as well as between them and the government). Collective bargaining thus contributes to the stability and industrial peace that helps attract investment and can address social problems more generally. The ILO supervisory bodies have emphasized that governments should, where necessary, create and strengthen, in line with Convention No.98, the framework and environment in which collective bargaining can develop, for instance, by laying down procedures for the recognition of unions and the obligation for parties to bargain in good faith, creating administrative mechanisms that support bargaining, prohibiting certain practices that hinder bargaining and setting out measures aimed at giving the parties access to the information they need to bargain effectively.

Ending Forced Labour

All countries from the African region have ratified the two ILO Forced Labour Conventions Nos. 29 and 105. Moreover, in the framework of supervision of the application of ratified Conventions, the CEACR has noted that, if the practices of slavery or vestiges of slavery still persist in some countries, Governments have taken action on the legislative level to prohibit and criminalize such practices. However, the CEACR has also observed that the challenge now lies in the effective implementation of these laws. Efforts must be pursued, especially in respect of awareness raising and training of the population, police and judicial authorities, to allow victims access to justice in order to assert their rights.³⁰⁶ Action plans in this area can be of great importance, since they provide for the coordination of the activities carried out by the different institutions involved in the fight against these practices, taking into account the broader issue of the fight against poverty.

Action plans are also a very useful tool in the fight against trafficking in persons.³⁰⁷ There is a growing new trend towards the adoption of legislation that specifically defines what constitutes the trafficking of persons, both for the purposes of exploitation of their work and sexual exploitation, and which provides for dissuasive penalties to punish perpetrators. Despite this positive development, a number of countries have still not included in their legal system the offense of trafficking in persons. Competent authorities are facing difficulties in relation to both prevention and repression of this complex phenomenon, which affect the most vulnerable workers. The focus needs to be placed on awareness raising, initiation of prosecutions against perpetrators, identifying victims who are generally perceived as illegal migrants rather than victims of labour exploitation, and ensuring their protection.

Many countries in Africa have adopted laws regulating military service or civic service, which allow imposing work obligations on a range of persons.³⁰⁸ The compulsory mobilization of the population during a certain period of time to perform work that is not of a purely military character is contrary to the Conventions on forced labour.

Finally, the ILO supervisory bodies (CEACR and Conference Committee on the Application of Standards –CAS) have noted that armed conflicts raging in some countries have been accompanied by abductions of thousands of people and the imposition of extremely severe practices of forced labour which call for urgent preventive and repressive action, as well as measures for the rehabilitation of the victims.³⁰⁹

³⁰⁶ For example, Mauritania and Niger.

³⁰⁷ Please refer to developments in Chapter 2, xiii.

³⁰⁸ For example, Algeria, Benin, Chad, Congo, Egypt, Gambia, Madagascar, Namibia, United Republic of Tanzania and Tunisia.

³⁰⁹ For example, Democratic Republic of the Congo, Liberia, Sudan.

Elimination of Child Labour

Both fundamental child labour Conventions Nos. 138 and 182 contain significant programmatic aspects, meaning that their full implementation requires integration of child labour issues into national policies and programmes. Two important issues in the African context highlighted by the supervisory bodies, particularly the CEACR, are the vulnerability of HIV/AIDS orphans (and other vulnerable children) to the worst forms of child labour, and the forcible recruitment of children for use in armed conflict. While several African states have made significant progress in these two difficult areas, further advancement is needed. Addressing these two topics is essential not only for the eradication of the worst forms of child labour, but also for the achievement of overall development goals.

HIV/AIDS orphans and other vulnerable children

Combating the worst forms of child labour means identifying and reaching out to groups of children who are particularly vulnerable to these worst forms (see *Article 7(2)(d)* of Convention No. 182). One such vulnerable group identified in many countries, including a significant number of African countries, are orphans of HIV/AIDS and other vulnerable children (OVCs). Without family support, these children are forced to engage in economic activity to support themselves. In the case of child-headed households, which are a growing phenomenon on the African continent, these children must also support their siblings. Such children generally have very limited means of generating income, and often resort to risky coping strategies. The CEACR has therefore consistently emphasized that OVCs are at an increased risk for falling into the worst forms of child labour. The growing population of OVCs in many African countries has resulted in a growing number of persons under the age of 18 who are particularly vulnerable to becoming victims of trafficking and commercial sexual exploitation, or being used in illicit activities and hazardous work. To achieve the goal of the eradication of the worst forms of child labour in Africa by 2016, the circumstances and needs of OVCs must be addressed.

In this regard, the CEACR has often reminded countries of the importance of providing appropriate support to this group, to prevent their engagement in these worst forms. Such support can take many forms, such as general national measures addressing the pandemic, specific initiatives targeting OVCs, or the incorporation of OVC issues into national programmes to combat the worst forms of child labour. Broad national policies, such as national HIV/AIDS strategies present in most African countries, contribute to fighting the worst forms of child labour, as reducing the total number of HIV/AIDS-related death reduces the number of vulnerable orphans. The CEACR has therefore duly recognized the tremendous efforts by some African States to address and combat the pandemic, as these efforts in turn contribute to reducing the number of children at-risk for engagement in the worst forms of child labour.

More specific support to this vulnerable group often takes the shape of national action plans on OVCs (such as those noted by the CEACR in Cote d'Ivoire, Ethiopia, Malawi, Mozambique, Namibia, Rwanda, South Africa, Uganda and Zimbabwe), as well as more targeted national care programmes for OVCs (such as those noted by the CEACR in Botswana and Lesotho). These national action plans commonly aim to provide a wide range of support to OVCs, including access to health and educational services, nutritional and food assistance, legal, psychological and financial support, and may involve contributions from a wide-range of UN agencies. However, in a significant number of countries, these measures only reach a fraction of the total OVC population, and the CEACR has urged governments to increase the proportion of households with OVCs which receive the necessary basic external support.

A more specific issue related to OVCs is the importance of their access to education. Access to free basic education is one of the most effective ways to combat the worst forms of child labour, and in many African countries, OVCs are much less likely to be enrolled and attending school. Underlining the centrality of education in ILO child labour Conventions, the CEACR has consistently called upon governments to facilitate access to education and vocational training for OVCs. Moreover, the CEACR has duly noted when the provision of such educational opportunities has led to appropriate types of employment for young persons, thereby preventing these adolescents from engaging in the worst forms of child labour (for example, Zambia).

An important trend to highlight is the mainstreaming of HIV/AIDS related issues (and OVC issues in particular) in national policies and programmes developed to combat child labour in many African states (for example, Namibia, Swaziland and Uganda). This important issue of OVCs has also been incorporated into both country ILO/IPEC projects (for example, Botswana, Mali, Malawi and Uganda) and Decent Work Country Programmes (for example, Zambia). The importance of addressing the needs of OVCs in combating child labour is also reflected in ILO/IPEC projects specifically focused on this vulnerable group, such as the project entitled "Combating and preventing HIV/AIDS – induced child labour in sub-Saharan Africa". This project had, by December 2008, permitted the prevention of 1,486 children at risk of becoming engaged in the worst forms of child labour and withdrawn 1,456 children from such worst forms.

In times of crisis, continued support to OVCs is essential, through broad national programmes and specific initiatives to reduce their vulnerability to the worst forms of child labour. The issue of child labour is keenly intertwined with that of development, and preventing the engagement of OVCs in the worst forms of child labour is essential to achieving results in both domains.

Child Soldiers

As noted in the 2010 Global Report on Child Labour, *Accelerating action against child labour*, "the impact of armed conflict is increasingly recognized by the international community as a major constraint to development, particularly in Africa". One particular

contribution of the ILO supervisory system in this context is the emphasis it has placed on combating the forced recruitment of children for use in armed conflict. Drawing from several important UN sources (including UN Security Council Resolutions, Report of the Secretary-General on Children and Armed Conflict, reports from the Representative of the Secretary-General for Children and Armed Conflict, UNICEF, and the Committee on the Rights of the Child), the ILO supervisory system has addressed the use of children in armed conflict in reference to several African countries, including, most recently: Angola, Burundi, Central African Republic, Chad, Congo, Cote d'Ivoire, Democratic Republic of the Congo, Liberia, Rwanda, Sudan, Tanzania and Uganda.

The prohibition on the forced labour of persons under 18 (in *Article 3(a)* of Convention No. 182) states specifically that this prohibition encompasses the forced recruitment of children for use in armed conflict. As Convention No. 182 requires member States to take immediate and effective measures to prohibit these worst forms, the ILO supervisory system has lent a strong voice to the international call to eliminate this practice, through not only the CEACR, but also the Conference Committee on the Application of Standards (see, for example the Democratic Republic of the Congo in 2009 and Burundi in 2010). Convention No. 182 emphasizes not only the importance of a legislative prohibition of this worst form of child labour, but also the application of the relevant legislative provisions in practice. In this regard, the CEACR has consistently urged governments to ensure that thorough investigations and robust prosecutions of offenders are undertaken and that sufficiently effective and dissuasive penalties are imposed on any person found guilty of recruiting or using a person under 18 years of age for the purpose of armed conflict. The CEACR has also expressed concern that the use of children in this worst form gives rise to other violations of children's rights, such as abduction, murders and sexual violence (for example Chad, Congo, Democratic Republic of the Congo, and Sudan). The context of conflict often results in the engagement of children in other worst forms of child labour, most notably trafficking and commercial sexual exploitation, including through the use of children (particularly girls) as sexual slaves for armed forces (for example, Central African Republic).

In line with the holistic approach taken in Convention No. 182, the CEACR has likewise emphasized the importance of not only removing children from use in armed conflict, but also in providing for the rehabilitation and reintegration of these children. In this regard, the CEACR has urged governments to undertake the necessary effective and time-bound measures to rehabilitate former child soldiers. The cessation of conflict in several African countries has provided the opportunity for successful disarmament, demobilization and reintegration (DDR) initiatives in such countries, and the CEACR has expressed support for these projects, implemented by national actors, NGOs (such as Save the Children's activities in Uganda) and other UN agencies (such as UNICEF and the World Bank). The successful rehabilitation and social reintegration of former children soldiers fulfils not only the obligation under Convention No. 182 (contained in *Article 7(2)(b)*), but significantly contributes to preventing the re-eruption of hostilities.

Closely linked with this is the technical cooperation work of the ILO/IPEC. Former ILO-IPEC projects on this topic include the project entitled “Prevention and reintegration of children involved in armed conflicts: An interregional programme”, which operated in Burundi, the Congo, Democratic Republic of Congo and Rwanda until 2007. The ILO is also an active member of both the Paris Principles Steering Group (PPSG) (composed of UN and non-UN organizations working with children associated with armed forces and groups), and the UN Inter-Agency Working Group on Disarmament, Demobilization and Reintegration (DDR) of ex-combatants. Through the PPSG, ILO/IPEC has helped to develop the PPSG Technical Note on the economic component of reintegration, which provides detailed guidance for field programming on this subject. Through the UN Inter-Agency Working Group on DDR, ILO/IPEC is leading the revision of the Youth Module of the Integrated DDR Standards. ILO/IPEC also collaborates closely with UNICEF on this topic, and UNICEF recently requested ILO/IPEC to pursue and develop its activities aimed at building the capacities of child protection actors. Moreover, the Special-Representative of the Secretary General on Children and Armed Conflict requested ILO/IPEC to support the implementation of action plans (signed with parties to conflict), to help stop the use of children and to provide for the economic reintegration of children released.

Addressing the challenging issue of children engaged in armed conflict is essential for overall development in the African context. The ILO supervisory system has played, and will continue to play, an important role in addressing this challenge, from the perspective of combating the worst forms of child labour.

Non-discrimination in employment and occupation

Since the 11th African Regional Meeting, experience and lessons learned have confirmed the ongoing challenges facing ILO constituents in addressing discrimination in employment and occupation in Africa and in other region, such as for example: persistence and longstanding forms of discrimination and the emergence of new forms, the strength of stereotypes, the lack of a common understanding of key concepts, the frequent absence of coherent national equality policies and the difficulty of measuring discrimination. The global financial and economic crisis has brought with it widening inequality and increased the marginality of vulnerable groups.

The last Global Report on discrimination submitted by the Director-General to the June 2011 ILC indicates that, in spite of the high rate of ratification of the two core Conventions on equality in the region³¹⁰ and of all the activities undertaken by the ILO and its constituents in that field,³¹¹ concerns linger about the general level of their

³¹⁰ As noted above, Convention No. 111 has been ratified by all ILO 53 member States and Convention No. 100 is missing the ratification of Liberia and Somalia.

³¹¹ This assistance includes the better design and enforcement of legislation; support to the creation of strong institutions and effective mechanisms to ensure enforcement; training of judges, lawyers, labour law professors and labour inspectors on discrimination in general and gender equality in particular; development of training tool on equal remuneration for men and women; promotion of a better reconciliation between work and family

implementation; yet discrimination represents a significant barrier to the attainment of decent work for all.

In the coming years, ratification of Convention No. 100 by Liberia and Somalia will continue to be a priority and where ratification has occurred, the emphasis should be on assisting African member States to effectively implement these Conventions. In this regard, action should focus on follow up to the comments of the supervisory bodies, through capacity building for government officials, judges and lawyers and labour inspectors. More generally, the strategy proposed to further effective implementation of ILS related to equality is twofold: (a) strengthening the capacity of ILO tripartite constituents to identify the various dimensions of discrimination, to take specific practical measures to combat discrimination at work (e.g through collective agreements, workplace initiatives etc.) and to participate effectively in the development and application of comprehensive national equality policies; and (b) broadening knowledge and communication about recent trends in discrimination at work as well as good practices and disseminating and using knowledge and training tools to address it. In order to succeed, efforts to eliminate discrimination in employment and occupation should ensure that workers' and employers' organizations are involved but also work together in other areas such as for example: working conditions, labour migration, HIV and AIDS, labour administration and labour law, forced labour, ILS and mainstreaming decent work.

Protecting Migrant Workers

The recent crisis in North Africa has also brought into the spotlight the issue of labour migration. On the basis that the largest migratory flows are probably still those between countries in the same region and that the vast majority of African migrants is in Africa, one can raise the issue of the protection of migrants' rights and their access to the labour market, as well as the capacity of regional institutions to provide an adequate response to their situation. Indeed migrants' rights lack recognition at the national level.³¹² Most initiatives concerning the protection of the rights of migrant workers depend on action of international organizations and on projects financed by foreign partners.

A partnership between African and international institutions, such as the ILO, would be a key element in the promotion of the defense of migrant workers' rights. To this effect, campaigns for promoting the relevant standards on the subject would constitute a significant progress in the sub region and serve as models for national policies.

responsibilities; promotion on equality with respect to race and ethnicity, indigenous people (on 30 August 2010, the ILO registered the first ratification of the Indigenous and Tribal Peoples Convention, 1989, No. 169 by an African member States, i.e. Central African Republic); migrant workers; HIV and AIDS; persons with disabilities; age discrimination, etc.

³¹² For instance, in the absence of genuine national policies on international labour migration, one can notice some "country fellows" policies for jobs. They are characterized by laws and regulations aiming at favouring national over foreign workforce. On many occasions, these policies have been criticized by the supervisory bodies of the ILO, particularly in the framework of the Discrimination (Employment and Occupation) Convention (No. 111), 1958 or the Termination of Employment Convention (No. 158), 1982.

Thus, at the policy level the strategy should be to incorporate the application of ratified Conventions into national development policies. To this end, there is a need to develop awareness raising through advocacy, at the country level, on labour standards as part of a development strategy in general, with a special focus on issues identified by the ILO's supervisory processes as they arise under ratified Conventions. To date nine of the 53 African member States have ratified the Migration for Employment Convention (Revised), 1949, No. 97³¹³ and only seven have ratified the Migrant Workers (Supplementary Provisions) Convention, 1975, No.143³¹⁴. Greater protection for African migrant workers is needed and the ratification of these two Conventions provides an important source of protection for these workers for both sending and receiving countries.

Full and productive employment

The importance of mainstreaming productive employment and decent work has already been highlighted at the 11th African Regional Meeting. In addition to the 19 African countries (out of 53) which, as noted above, have ratified the governance Convention No. 122³¹⁵, 18 African countries have ratified the Employment Service Convention, 1948, No.88³¹⁶, nine have ratified the Human Resources Development Convention, 1975, No. 142³¹⁷, and only three have ratified the Private Employment Services Convention, 1997, No. 181³¹⁸.

The ILO supervisory bodies have noted that some African Governments³¹⁹ have emphasized the importance of extending the coverage of training programmes, including apprenticeship schemes, to the informal economy. Niger has created an apprenticeship scheme targeting women in the informal economy. The Government of Uganda intends to introduce non-formal training programmes throughout the country that are relevant to the skill needs of the rural workers. Other African countries³²⁰ are making important efforts to modernize traditional apprenticeship schemes and to integrate them into a national training system. This takes the form of dual apprenticeship systems, in which craft enterprises cooperate with training centres to provide training and to issue certificates attesting the skills possessed by informal economy workers.

³¹³ Algeria, Burkina Faso, Cameroon, Kenya, Madagascar, Malawi, Mauritius, Nigeria, Zambia have ratified Convention No. 97. The Convention is also applicable to Tanzania (Zanzibar)

³¹⁴ Benin, Burkina Faso, Cameroon, Guinea, Kenya, Togo and Uganda have ratified Convention No. 143.

³¹⁵ Algeria, Burkina Faso, Cameroon, Central African Republic, Comoros, Djibouti, Gabon, Guinea, Libyan Arab Jamahiriya, Madagascar, Mauritania, Morocco, Mozambique, Rwanda, Senegal, Sudan, Tunisia, Uganda, Zambia have ratified Convention No.122.

³¹⁶ Algeria, Angola, Central African Republic, Democratic Republic of the Congo, Djibouti, Egypt, Ethiopia, Ghana, Guinea-Bissau, Kenya, Libyan Arab Jamahiriya, Madagascar, Mauritius, Mozambique, Nigeria, Sao Tome and Principe, Sierra Leone, Tunisia have ratified Convention No.88.

³¹⁷ Algeria, Burkina Faso, Central African Republic, Egypt, Guinea, Kenya, Niger, United Republic of Tanzania, Tunisia have ratified Convention No.142.

³¹⁸ Algeria, Ethiopia, Morocco have ratified Convention No.181.

³¹⁹ Including Angola, Burundi and Angola.

³²⁰ Including Benin, Ghana and Mali.

With regard to the informal economy while most developing countries rely on measures to raise productivity and incomes in the informal economy and to facilitate the growth of micro-entrepreneurship within it, a few countries emphasize the registration of informal economy activities or their abolition. For the ILO supervisory bodies, a progressive mainstreaming of workers into the formal economy is the ultimate goal to be achieved through sustained economic and social development. During much of this long-term process, it is important to include assistance to the informal economy as part of policies to achieve full and productive employment and to reduce poverty. Such action should include efforts to extend access to justice, property rights, labour rights and business rights to informal economy workers and business.

The ILO supervisory bodies have also noted a growing problem of unemployment among educated workers, particularly young university graduates, who are unable to find secure employment commensurate with their skill level. This is now an issue for the advanced market economies as well as developing countries. Not only are their skills underutilized, but this pattern of casual jobs can prove detrimental to their lifetime career progression. The supervisory bodies have encouraged Governments to develop job creation and career guidance policies targeted at this new category of the educated unemployed.

Labour administration and inspection

As indicated in the Director General's report to the 11th African Regional Meeting, there is a need throughout the African region to strengthen the capacity of labour administration and labour inspection systems to enable them to play their role as key actors in the elaboration and implementation of economic and social policies, including in relation to the informal economy, in line with the governance Conventions Nos. 81 and 129, as well as the *Labour Administration Convention, 1978 (No. 150)*. Labour administration (including labour inspectorates, specialized labour courts and employment agencies) sets the framework for improved labour market governance and labour market reform; is an active *intermediary* in the prevention and settlement of labour disputes; an informed *observer* of the trends in society by virtue of its special links with the social partners; and a *provider* of effective solutions to the evolving needs of its users. Labour inspection is the mechanism through which decent work can be effectively guaranteed at the workplace thus preventing unfair competition among employers and a race to the bottom within and among countries. Employers and workers are increasingly calling for better resourced Ministries of Labour and Inspectorates as an effective way to promote fairness and a 'level playing field', and to make Decent Work a reality.

In June 2009, the ILO Director General launched a campaign for the ratification and effective implementation of the governance Conventions, while at its November 2009 session the ILO Governing Body adopted a Plan of Action to promote widespread ratification and effective implementation of the governance Conventions, including

Conventions Nos. 81 and 129 on labour inspection.³²¹ It should be emphasized in this regard that only eight out of 53 countries in the African region have ratified Convention No. 129 on labour inspection in agriculture, despite the relevance of this Convention to the African economic structure.³²² Increased attention should be paid to addressing these ratification gaps.

In its 2006 General Survey on labour inspection, the CEACR noted that in many developing countries, including on the African continent, the influence of labour inspection is confined to formal activities in urban areas, while workers in agriculture and the informal economy, who are in greater need of protection, remain outside its scope. In many cases, the resources allocated to labour inspection are insufficient to enable inspection functions to be discharged properly leading to a vicious cycle of neglect of workers' rights, vulnerability and exploitation which are ultimately costly both in terms of reduced profits to the enterprise and for the economy as a whole. The CEACR urged further consideration of how labour inspection services might develop in this respect³²³.

The ILO Conventions on labour inspection have a role to play in this framework. Convention No. 129 provides in *Article 4* that the system of labour inspection in agriculture shall apply to agricultural undertakings in which work employees or apprentices, *however they may be remunerated and whatever the type, form or duration of their contract*. Furthermore, the terms of *Article 2* of Convention No. 81 do not prevent member States from deciding to extend the scope of application of this Convention to workplaces operating in the informal economy. Beyond the governance Conventions on labour inspection, one should note that Convention No. 150 contains an express reference in *Article 7* to the possibility of extending the system of labour administration to cover the workers *who are not in law employed persons* such as tenants, sharecroppers, self-employed workers occupied in the informal sector, etc. Moreover, the *Employment Relationship Recommendation No. 198 (2006)* calls in *paragraph 15* for involvement of the labour inspection system in measures for ensuring the implementation of laws and regulations concerning the employment relationship. Further consideration needs to be given as to the best methods and processes for ensuring such involvement with a view to securing the effective protection of workers, in collaboration with employers' and workers' organizations.

The CEACR has noted that in certain African countries (e.g., *Rwanda, Uganda*), in the context of policies to attract investment, the labour administration and inspection systems have been decentralized and in actual fact reduced to rudimentary structures devoid of the resources necessary to ensure effective and equal protection of workers throughout the national territory. The end result has been the dismantlement of the

³²¹ Document GB.306/LILS/4

³²² As noted above, 42 countries have ratified Convention No. 81. In addition, 20 countries have ratified Convention No. 150.

³²³ See, the Committee of Experts 2006 General Survey on Labour Inspection, para. 373.

labour inspection systems which are therefore unable to play their role of ensuring that economic development is coupled with social progress. Thus, in Rwanda, even though in law, workers in the informal economy are covered by the provisions of the Labour Code, in practice they may not be effectively protected due to a rudimentary labour inspection system. Where labour inspection systems are weak, their role is often taken over in part by private schemes. The CEACR has emphasized that such schemes should not serve as a pretext to avoid developing well-functioning labour inspection systems which constitute a precondition for the credibility and effectiveness of private schemes. The CEACR has systematically lent its support to efforts by ratifying States to access adequate resources, including through international cooperation, so as to make the budgetary allocations necessary for the reinforcement of their labour inspection systems in line with the requirements of Conventions Nos. 81 and 129.

In some countries, important progress is being made with ILO assistance. In *South Africa* for instance, in the framework of the repositioning of the Department of Labour as a key player to deliver Decent Work at the workplace, with ILO technical assistance, measures are being taken to reinforce the labour inspection system through the recruitment of large numbers of labour inspectors, the improvement of material arrangements and the professionalization of the labour inspectorate, to enable it to perform its important function in terms of securing the enforcement of laws and promoting equity at the workplace. The country has launched the process of ratification of Convention No. 81 and is considering ratification of Convention No. 129 pursuant to an ILO technical assistance mission which carried out an assessment of the country's readiness to do so in line with the above-mentioned Plan of Action and the Director-General's ratification campaign. Such assistance should be extended to other countries from the region who consider ratification and/or improved implementation of the Conventions on labour inspection.

Promoting safer and healthier working conditions

Occupational safety and health (OSH) is not only an ethical imperative but also an economic one. It makes "dollars and sense". As reaffirmed in the context of the Ouagadougou Extraordinary Summit in 2004, improving the occupational safety, health and hygiene conditions for all men and women is a significant part of a strategy to fight against poverty.³²⁴ However, evidence from financial crises shows that crises put working conditions and quality at risk.

The central importance the ILO attributes to promoting decent, safe and healthy working conditions and environment has been reiterated on many occasions including in the Social Justice Declaration. The modern systems approach to OSH, now systematically promoted by the ILO, emphasizes the need to ensure that attention is given to OSH at the highest national policy levels and coherent national action is taken in

³²⁴ Ouagadougou Extraordinary Summit 2004, Plan of Action, Priority Area 2.4.

this respect.³²⁵ National awareness of OSH and the development of a national safety and health culture is critical for supporting enterprise level efforts to enhance working conditions and apply the central OSH standards.³²⁶ These instruments build on and seek to institutionalize the OSH management system applying the simple Plan-Do-Check-Act (PDCA) model which provides for a suitable framework for a dynamic incremental approach to OSH both at the enterprise and national levels.

The CEACR has taken note of indications that there is an increased awareness in Africa of the relevance and importance of OSH and the systems approach to OSH. Over half of the African countries reported to the CEACR that they either have, or are considering ratification of the three key instruments in this area.³²⁷ They include five countries that previously had not ratified any of ILO's OSH Conventions.³²⁸ In an additional ten African countries some obstacles need to be overcome and ILO assistance in this respect may be crucial. The remaining 15 African countries include countries that are bound by one or several of branch- or substance-specific OSH Conventions or OSH Conventions with a more limited scope than the modern instruments. Promotion of the modern approach to OSH will be an essential element in these countries. Ongoing OSH related activities in the region is paving the way for implementation of the systems approach to OSH,³²⁹ *inter alia*, by encouraging countries to make an inventory of their practical and regulatory needs in the form of national OSH profiles. Such profiles, developed in tripartite consultations, serve, *inter alia*, as a firm basis for developing effective national OSH policies. This approach is further enhanced by the structured framework provided by the Plan of Action adopted by the Governing Body in March 2010 to achieve widespread ratification and effective implementation of the OSH instruments (2010-2016).

Conclusion

In formulating the “Roadmap for the implementation of the Global Jobs Pact for Africa”, in December 2009, the tripartite constituents from Africa called for increased vigilance to ensure that fundamental principles and rights at work are not compromised. International labour standards provide the indispensable normative and rights-based foundation for the implementation of the Decent Work Agenda and are central to any

³²⁵ Including through its *Global strategy on Occupational Safety and health* – Conclusions adopted by the International Labour Conference at its 91st Session, 2003, and the *Plan of Action (2010-2016) to achieve widespread ratification and effective implementation of the occupational safety and health instruments (Convention No. 155, its 2002 Protocol and Convention No. 187)*, adopted by the Governing Body of the ILO at its 307th Session (March 2010).

³²⁶ Including the Occupational Safety and Health Convention, 1981 (No. 155), its 2002 Protocol and the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187).

³²⁷ Ratifications of Occupational Safety and Health Convention, 1981 (No. 155) (chronologically): *Ethiopia* (1991), *Nigeria* (1994), *Cape Verde* (2000), *Lesotho* (2001), *South Africa* (2003), *Zimbabwe* (2003), *Algeria* (2006), *Central African Republic* (2006), *Sao Tomé and Príncipe* (2005), *Seychelles* (2005) and *Niger* (2009). Plans to ratify Occupational Safety and Health Convention, 1981 (No. 155): *Congo*; *Ghana*, *Libyan Arab Jamahiriya*, *Sudan*, *Zambia*; Ratification of C. 187: *Niger* (2009); Plans to ratify C. 187: *Burkina Faso*, *Cameroon*, *Cape Verde*, *Egypt*, *Malawi*, *Senegal*, *Seychelles*, *Sierra Leone*, *Sudan*, *Togo* and *Zambia*.

³²⁸ *Eritrea*, *Libya*, *Mozambique*, *Namibia* and the *Sudan*.

³²⁹ For example in *Botswana*, *Ethiopia*, *Kenya*, *Lesotho*, *Mauritius*, *Namibia*, *Nigeria*, *Seychelles* and *Swaziland*.

strategy to foster more balanced economic and social development. They are an important component of a rights-based approach to development and, as such, should be integrated into Decent Work Country Programmes and more generally mainstreamed into national policies and development frameworks implemented by ILO member States (such as UNDAF, MDGs, PRSP).³³⁰ International Labour Standards are both a decent work outcome in their own right and a key means of action of the Organization to deliver on its mandate and hence all other outcomes. As stated in the Social Justice Declaration, they are equally instrumental in realizing the other three strategic objectives (employment promotion, social protection and social dialogue).³³¹ They are an effective guide for the governance of the world of work, and as such are used by ILO constituents as a target for labour law reform even if ratification is not envisaged.

While there is today a positive and conducive global policy environment recognizing the contribution of international labour standards to the economic and social development of countries, this international pledge has yet to be translated into national action. If African governments, employers' organizations and trade unions are committed to respecting international labour standards and leading the way in improving governance in the world of work, points for action and support measures of relevance should be determined to overcome problems in the implementation of Conventions identified by the ILO's supervisory system. A number of recommendations, which are by no means exhaustive, can be made in this respect:

- (a) The ILO should continue to implement a rights-based approach through the transmission of knowledge and capacity on labour standards to the tripartite constituents. This approach should also embrace all relevant actors in the world of work and key stakeholders who play an important role in the effective implementation of labour standards in general: academics, specialized research centres, judges, lawyers, HR managers in the public sectors, local authorities (governors, mayors, municipal officials, etc.) and the general public. Communication in the context of international labour standards should create public awareness, influence policy decisions and generate societal support for placing labour standards in the national agenda and mobilizing resources for policy implementation.
- (b) International labour standards apply in principle to all workers. Consequently, in a continent where the informal economy constitutes an overwhelming proportion of the economic activity, there is a need to ensure that workers and employers in the informal economy also benefit from the protection afforded by these standards,

³³⁰ United Nations Development Assistance Framework, Millennium Development Goals, Poverty Reduction Strategy Paper.

³³¹ "The four strategic objectives are inseparable, interrelated and mutually supportive. The failure to promote any one of them would harm progress towards the others. To optimize their impact, efforts to promote them should be part of an ILO global and integrated strategy for decent work. Gender equality and non-discrimination must be considered to be cross-cutting issues in the abovementioned strategic objectives."

with a particular focus on the rural sector. In this regard, considering the importance of rural workers in Africa, it is urgent to associate them with economic and social development action if their conditions of work and life are to be permanently and effectively improved with special emphasis in the areas of freedom of association, child labour and labour inspection. In this framework, it is imperative for rural workers to be given every encouragement to develop free and viable organizations capable of protecting and furthering the interests of their members and ensuring their effective contribution to economic and social development.

- (c) Although the ILO's objective of universal ratification of the eight fundamental Conventions is within reach in Africa, the promotion of ratification and effective implementation of international labour standards should now be intensified in respect of the fundamental and governance Conventions as well as those Conventions of particular relevance in crisis conditions. As a matter of principle, international labour standards should be better mainstreamed in all ILO outcomes, the aim being to maximize the comparative advantage of the ILO (i.e. its mandate and capacity for standard setting and social dialogue) in its pursuit of the Decent Work Agenda. An intensified promotional work should cover the four governance Conventions and key Conventions geared to employment promotion and creation³³² since employment is a key objective of the African Region³³³.
- (d) In implementing Decent Work Country Programmes jointly with member States, the ILO should be more proactive in offering and up-scaling its assistance to countries to help them to respond in a timely manner to ILO supervisory bodies comments and be in a position to effectively implement ratified international labour Conventions. An important focus on reducing the implementation gap as regards ratified Conventions must be vigorously pursued.
- (e) There is a need to ensure that all activities mainstream gender since gender discrimination continues to be pervasive in the world of work worldwide, including in Africa. In the spirit of the Social Justice Declaration, the linkages between the ILO's four strategic objectives have to be maximized. These strategic objectives are reflected in the Programme and Budget of the Organization under 19 outcomes³³⁴. International labour standards cut across and are embedded in all the four strategic objectives and their

³³² Human Resources Development Convention, 1975 (No. 142), Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983 (No. 159), Private Employment Agencies Convention, 1997 (No. 181), Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189), Promotion of Cooperatives Recommendation, 2002 (No. 193), Human Resources Development Recommendation, 2004 (No. 195), Employment Relationship Recommendation, 2006 (No. 198).

³³³ See the Conclusions of the Ouagadougou 2004 Extraordinary Summit on Employment and Poverty Eradication in Africa.

³³⁴ Under the strategic objective "Standards and fundamental principles and rights at work", the ILO has adopted five outcomes: the right to freedom of association and collective bargaining is widely known and exercised; forced labour is eliminated; child labour is eliminated, with priority given to its worst forms; discrimination in employment and occupation is eliminated; and international labour standards are ratified and implemented.

related outcomes, while at the same time, separate outcomes have been adopted to reflect progress in their ratification and implementation.

To advance decent work within the terms of the ILO's mandate, the Organization should continue to build partnerships within but also outside the UN system, for example in engaging in private sector initiatives which advance ILO goals.

The ILO and its constituents should devote more resources to knowledge development and sharing, notably on the economic costs and benefits of international labour standards. Research and studies should be conducted on the impact of international labour standards on economic growth, productivity and people's well-being in general but also in relation to particular fields. The knowledge generated by basic research, including relevant and updated labour statistics, should be translated into tangible products that drive productivity, and expand the policy options at the disposal of decision makers in pursuit of job-rich economic growth and social justice. It is important to give policy makers the possibility to devise tailor-made approaches that serve to address needs at national level and to rebalance globalization as a whole.

Conclusions and policy guidelines

This report explored multiple issues that are at the core of Africa's current growth, employment and decent work challenges. It reviews trends in growth, employment and decent work in Africa, highlighting challenges and opportunities for structural transformation, job creation, poverty eradication and transition to formality and decent work. The report started with an evaluation of the influential thesis that the African continent is experiencing a growth take-off that started in the mid-1990s. The evaluation highlighted some of the limitations of this "growth optimist" thesis that paved the way for an exploration of a range of policy concerns. The subsequent chapters built on this evaluation. They encompassed labour market institutions, macroeconomic policy, sectoral policies and the role of trade in acting an engine of durable and employment creation. Given that the African continent is home to many conflict-afflicted societies, one chapter devoted attention to the particular circumstances of such societies and the policy challenges that they face.

This final chapter picks up some of the main points in each area of the diagnosis. For each area a series of policy guidelines or directions are suggested to confront the challenges, which are also anchored in the "New Vision for inclusive job rich growth for Africa" adopted by ILO African constituents at the 2nd African Decent Work Symposium in Yaoundé end 2010. Although the resulting portfolio of policy guidelines need to be tailored to specific country needs, circumstances and binding constraints, it is hoped that they provide a reasonably comprehensive and useful checklist against which countries can think about better policy rebalancing.

Growth, employment and sectoral policies

Basic diagnosis

In the past ten years prior to the global financial crisis, African economies have experienced faster and steadier economic growth than in the preceding two decades. Africa's growth performance between 1995 and 2005 reversed the collapses of 1975–85, as well as the stagnation of 1985–95. And the average rate of economic growth for 2007 was 5.3 per cent; this implies that, for the first time in three decades, African economies were, on average, growing at a similar pace to the rest of the world.³³⁵ It would be churlish to deny the many positive features that characterize recent African growth and development but an overly rosy narrative can breed a sense of complacency and reduce the urgency to implement a range of policy initiatives that can transform the recent growth acceleration into a virtuous and self-sustaining process.

³³⁵ World Bank (2008b), pp. 1-2.

Policy guidelines

The analysis suggests six broad policy guidelines to promote a new growth strategy focused on improving the macro, growth, employment and decent work relationship:

- 1) Restructure patterns of growth toward inclusive and job-rich growth by focusing on sectoral and value chain interventions (for sectors with the highest employment generation potential). . Such a new approach to sectoral policy should be result-oriented and performance driven with employment and decent work as core variables to monitor and report on. It goes hand in hand with the strengthening of the labour market information system to track employment creation and assess the employment impact of poverty reduction strategies.
- 2) Raise investment in manufacturing and in agriculture and promote sustainable enterprises. This is a necessary condition to raise productivity, competitiveness, employment and incomes. This requires increasing both private and public investment and innovative public-private partnerships to raise aggregate demand, support productive transformation and generate jobs. Raising private investment has to be based on raising savings and promoting sustainable enterprises. Raising public investment has to be based on raising the revenue base and an accommodating macro policy framework.
- 3) Policies targeting the working poor, informal workers and micro and small entrepreneurs, through innovative public employment schemes, employment-intensive infrastructure investments, entrepreneurship promotion, minimum social protection floor schemes and transition to formality and decent work.
- 4) Foster a better balance between exports and domestic markets, to cushion the domestic economy from exogenous shocks and bring about sustainable growth.
- 5) Aim at a higher rate of domestic savings and investment to reduce dependence on external resources
- 6) Promote policy coherence by mainstreaming employment targeting and employment impact assessment in economic strategies at macro, sectoral and local levels

Macroeconomic policies, job creation and poverty reduction

Basic diagnosis

The macroeconomic framework that prevailed in the pre-crisis era and continues to prevail today in Africa offers a clear prescription: focus on stability and predictability in key nominal targets pertaining to inflation, debts and deficits. This has entailed the development of a nominal targeting approach in which the essential roles of central banks and finance ministries are to attain and sustain prudential targets pertaining to debts, deficits and inflation over the medium to long run. Macro fundamentals have improved in African countries, especially in terms of price volatility and budget balances, but the improved debt space may not have afforded the full measure of the fiscal space needed by African countries. Moreover macro policy has not been job-rich growth-accommodating in the African countries, and certainly not responsible for the pick-up in growth in the last decade.

Policy guidelines

- 7) Have a macroeconomic framework that explicitly takes into account job creation and poverty reduction. Fiscal space is better seen as a four-cornered fiscal diamond that harmonizes additively four elements: domestic resources, official development assistance (ODA), deficit financing and expenditure efficiency. Central to all of the above is the recognition of the need for a new macro-economic policy framework that promotes employment creating growth and social protection. Issues to be considered in such a pro-employment macro-economic framework include:
 - Monetary and financial policies
 - Central banks and financial authorities to aim for ‘reasonable price stability’ with growth rather than a ‘one size fits all’ target of low, single digit inflation
 - Central banks and financial authorities to enhance financial inclusion by (1) enhancing access to finance for the private sector and (2) supporting growth of microfinance institutions
 - The agenda of financial inclusion is necessary to address binding constraints on private sector development in Africa, as revealed in enterprise surveys
 - Fiscal policy and debt sustainability
 - The aim is to identify sustainable resources from both external and domestic sources to meet development goals
 - Need to raise public investment in infrastructure to about 7% of GDP from current rates of 2% to 3%
 - Enhanced domestic resource mobilization is possible through an improvement in the tax-to-GDP ratio and better budgetary execution
 - Exchange rate regimes and capital account management

- Develop institutional arrangements that can engender real exchange rate stability
- A prudent approach to capital account management would be useful in cases where unrestrained short capital flows become a destabilizing force.

Harnessing trade for growth, employment and poverty reduction

Basic diagnosis

The discourse on industrial development and structural change in Africa usually highlights the high dependence on primary commodities and insufficiently diversified production structure of many, if not most, economies in the region. A corollary message is that unless African economies are able to engage in exports of manufactures, the twin goals of economic diversification and sustainable growth will remain unfulfilled aspirations. While labour intensive manufacturing is an option many African countries should consider, serious consideration should also be given to regional integration and alternative export-led economic diversification strategies as part of a pan-African growth and development agenda. Such an agenda has various strands:

Policy guidelines

- 8) Not one trade policy is optimal, trade policy choices depend on the level of development, the size of the market, and sequencing and timing issues are key. To counter weaknesses in trade, smarter sectoral policies are called for, where the State avoids the mistakes of the past, and learn from the export patterns of countries with similar endowments but twice the incomes. A clear enterprise promotion and training strategy has to be at the centre of the trade strategy.
- 9) Social protection and minimum wage policies are needed to cushion trade shocks and volatility, and to protect the more vulnerable.
- 10) Strengthen regional integration and ensure that the global economy better accommodates African countries' trade needs and challenges. This can be achieved by measures such as reducing trade barriers and price volatility in commodity markets. Lowering trading costs in the regional market could allow more firms to start exporting even if they are currently less productive and thus contribute to more employment generation from regional trade
- 11) Industrial policy and sectoral strategies for export promotion work best when both general policies pertaining to efficient supply of public goods and services are combined with well designed sector-specific support.

Agriculture development

Basic diagnosis

Agriculture has been neglected and has stagnated as a consequence. In Africa, food production growth has mostly been slower than population growth. This has been due to a number of factors, including a run up of declining terms of trade for agriculture inhibiting investment, trade liberalization exposing domestic agriculture to international competition that is often subsidized, structural adjustment programmes that dismantled or discouraged needed public infrastructure in rural areas, and natural resource-driven appreciating exchange rates making domestic agriculture less competitive. Weak manufacturing has also inhibited a healthy symbiotic relationship that demands agricultural products and vice versa.

Climate change particularly affects the rural poor because of their dependence on natural capital such as the soil, forests, water, fish and other such ecosystems, and these are the sectors more subject to climate change. In Africa, climate change is expected to lower yields and increase water stress. Rising temperatures will entail curtailing of high value crops such as coffee. Unsustainable agricultural practice further lowers land productivity.

Policy guidelines

- 12) Reduce the yield gap between domestic and median global agricultural production, and invest in rural infrastructure and services. This requires a green revolution in Africa on the lines of Asia in the 1960s, with enhanced irrigation, fertilizer and infrastructure. Some African countries have demonstrated the efficacy of this package. Population pressures in rural areas require in addition the development of rural non-farm enterprises and employment. The role of the developmental state in expanding much-needed public infrastructure to meet the needs of the private sector is crucial for a productive transformation in Africa.
- 13) Invest in a variety of agricultural techniques that maintain land productivity, returns and sustainability. This can be achieved through measures such as the use of sustainably produced and biological nutrient inputs replacing chemical ones, soil and water conservation, and improving post-harvesting and processing technology. The application of these types of measures has demonstrated positive impacts on yields and incomes.
- 14) Promoting non-traditional and High Value Added agricultural exports as a core element of the export diversification strategy for the medium-term.

Labour market institutions and transition to formality and decent work

Basic diagnosis

Informality has multiple causes and drivers in African countries. Very low growth of formal employment, high rate of population growth, high incidence of poverty and very weak social protection drives surplus labour into informality. Urban and rural informality are characterized by low productivity, low returns, high risk and very low social protection coverage. Self-employment and vulnerable employment constitute the major categories of the informally employed, and these have been seen to be weakly affected by the last decade high growth levels. Outflows from weakly growing agriculture largely supplies informality.

Labour market institutions, such as regulations to protect workers and their wages, are largely judged by surveys to do just that, rather than to hinder enterprise development. They exist, however, only in the formal economy, where their enforcement is also variable.

Policy guidelines

- 15) Promote the transition to formality and decent work by integrated interventions that attack the multiple drivers of informality and target three objectives simultaneously:
 - **Promoting formal employment:** i) Pro-employment macroeconomic policies, ii) Pro-employment sectoral policies and iii) Supporting formal sustainable MSMEs development
 - **Reducing informal employment:** i) Reducing the cost of the transition to formality (Creating an enabling regulatory environment that reduces the barriers to formalization while protecting workers' rights), ii) increasing the benefits of being formal (access to microfinance, training, business development services, etc) and iii) increasing the cost of being informal (strengthen labour inspection associated with innovations in workplace inspection and advice, dispute settlement and promotion of collective organization and action in the informal economy)
 - **Promoting decent work in the informal economy:** i) Increasing productivity, ii) Increasing capacities of workers from the informal economy to organize themselves, iii) Providing a minimum social protection floor, iv) supporting the development of Social Economy Enterprises and Organizations.

Public investment and public employment programmes

Basic diagnosis

The infrastructure deficit in power, water, transport and ICT in Africa is high and particularly pronounced for African LDCs. It is one of the main binding constraints to more rapid growth and employment generation. Increasing public investment in infrastructure can demonstrably increase employment. By using local resource-based and labour intensive methods, investment in infrastructure can increase employment by a factor of three to five compared to conventional infrastructure development. Accordingly, policy to increase public investment in infrastructure should have the ambition to raise not only aggregate demand and growth but also employment.

There have been major innovations in the last decade in the design and implementation of effective public employment programmes. To the well-established genre of public works programmes and cash transfers has been added an innovative employment guarantee scheme. Important challenges to be incorporated in such programme development include: the large budget running into 1-2 percentage points GDP; targeting to eliminate leakages; and building in a graduation strategy from such programmes.

Policy guidelines

- 16) Enhance investment in infrastructure and ensure that these investments are designed and implemented with the specific objective of boosting employment.
- 17) Take advantage of the significant innovations in the design and implementation of effective public employment programmes.

Promoting productive transformation through skills and capabilities development

Basic diagnosis

Empirical evidence from successful catching-up countries shows that educational transformation preceded accelerated productive transformation. In other words, capabilities are an important condition for productive transformation. Countries with higher average years of schooling tend to have higher shares of manufacturing in GDP. More years of schooling increase the potential for industrial diversification and transformation. Industrial diversification is a bootstrap learning programme, so what a country produces matters. All successful catching-up countries have also had some type of industrial policy, with a smart mix of incentive carrots, sticks to prevent rent-seeking, and nurturing infant industries. Trade liberalization has been gradual and sequenced to allow the private sector to climb up the capability curve. Often, FDI has made an important contribution in terms of allowing imports of technology and accelerating

learning, but to maximize this process complementary policies are necessary. The use and upgrade of the informal apprenticeship system has also been observed to be an important contribution to enhance capabilities.

Policy guidelines

- 18) Increase the level of education and reduce the share of the population without schooling. Transforming the educational structure of the labour force in a balanced manner is important in order to enlarge the option space for sustained diversification into low- and medium-technology manufacturing. A key element in this process is to provide women with equal access to basic education and develop their talents in order to fully use the potential of the labour force for rapid catching up.
- 19) Promote diversification into new technologies and higher value-added manufacturing for increased productivity. This can be achieved by designing learning strategies that combine incentives and compulsion with support measures, and targeting learning-intensive sectors in addition to sectors with comparative advantages. Multilateral trade rules provide sufficient policy space to provide temporary trade protection in order to nurture infant industries, create learning opportunities and build domestic capabilities and new comparative advantages.
- 20) Take advantage of South-South cooperation to transfer appropriate technologies, importing cheaper capital goods and exporting low-technology goods.
- 21) Attract domestic and foreign investment in non-traditional tradable and support learning networks between domestic and foreign firms, such as value chains, joint ventures, clusters, industrial parks or business incubators.
- 22) Promote exports and use government procurement to enlarge markets for locally produced goods in order to benefit from increasing returns, more productive employment and learning space.
- 23) Develop the potential of the informal apprenticeship system and strengthen the institutional capabilities to provide training for advanced technologies, and improved quality and effectiveness of training in order to promote productive transformation in the crafts sector and informal economy.

Addressing the special problems of conflict-affected countries

Basic diagnosis

A number of African countries have been affected by fragility and armed conflict. They are marked by low growth rates of GDP, slow growth of agriculture and food production, slow growth of manufacturing and high levels of poverty. While the goal of decent work remains most relevant for these countries, the approach has to be conflict-sensitive: it

must minimize the negative impacts and maximize the positive impacts of interventions, viewed from the perspective of reducing the risk of conflict. At the same time it must move the country forward on the path to decent work. This requires adopting the Employment for Peace approach embodied in the UN Policy comprising three simultaneous tracks: stabilizing income generation and creating emergency employment; promoting local economic recovery of employment opportunities and reintegration; and generating sustainable employment creation and decent work.

Policy guidelines

- 24) Put Decent work at the centre of the recovery since the aftermath of peace agreement and throughout peace consolidation process until it becomes the centre of the development effort.
- 25) Follow the UN policy for post conflict employment creation, income generation and reintegration (PCEIR)'s three track approach: income stabilization and emergency employment creation; recovery and reintegration; and sustainable employment creation along with decent work.
- 26) Advocate for a comprehensive employment policy, with components on training, migration and gender equality to help strengthening national commitment to decent work. The challenge is to determine when it should start, at what pace it should proceed, and how it should be used to build solidarity rather than divisiveness. In each case the root causes of conflict need to be identified and the planned activities should seek to eliminate such causes.
- 27) Pay attention to the dangers of path-dependence. The early steps taken can, in some circumstances, lead a country away from, rather than, towards, the goal of decent work.
- 28) Aim, when necessary, to continue short term employment creation modalities (Track A) for longer than anticipated or restarted at a later date. The experience of several developing economies suggests that public employment programmes should be an instrument in the armoury of countries as national and local fluctuations in economic activity frequently occur, quite irrespective of conflict-related factors. Hence preparedness to start or expand public employment programmes should remain on the agenda of conflict-affected countries.
- 29) Give more attention to macroeconomic policy issues. There is abundant evidence that failure to adopt appropriate monetary, fiscal and exchange rate policies can severely constrain employment growth and poverty reduction, and thereby endanger recovery from conflict. For job-rich and poverty reducing growth to happen a favourable macroeconomic environment is needed.

Social protection: Investing in people

Basic diagnosis

The lack of effective access to health-care services affects the lives of millions of the poorest people, especially children, women, the elderly and people living with disabilities, together with those living in post-conflict zones. Access to maternal health services, to pre- and post-natal health services and generally to primary health care in most African countries is very limited. Thus, the scale of need for social health protection coverage is overwhelming. Within countries, inequities at regional and national levels result in significant geographical differences in health status.

The lack of social security coverage is closely associated with the prevalence of informal employment in most African countries. As a result, in the majority of African countries, only a minority of the population in working age, and older men and women, have access to social security benefits in case of need. Informal economy workers usually are not or are insufficiently covered – in law or in practice – by social security arrangements, unless countries have taken decisive steps to provide at least a minimum level of social security to those outside the core of formal employment with a view to reducing poverty, promoting investments in people and fostering economic and social development

In recent years there have been significant shifts in thinking within Africa about the role of social protection, its links to sustainable economic development and its relevance as a comprehensive response to poverty and capability deprivations. Examples from a number of African countries show that social protection programmes are not only necessary for sustained economic growth and social development, but are generally affordable in low-income countries, yet they may need to be implemented progressively, and, in some cases, there might be a transitional need for support by the international community by way of development assistance. And to prove the point, the three graduates from LDCs so far, Botswana, Cape Verde and the Maldives, all had gradually extended social protection.

Policy guidelines

The following policy recommendations are made with respect to the extension of social security in Africa

- 30) Given the value of social protection as a key investment in human development and a contribution to growth, productive employment and Decent Work, African countries should step up their efforts to extend social security to larger groups of the population. The extension of social security, including the establishment of national social protection floor policies, should be pursued in line with national

priorities and capacities, and, where necessary, with appropriate technical and financial support from development partners.

- 31) All countries already have some mechanisms to provide social protection in place. National social protection floors should be built based on a careful analysis of existing structures and mechanisms to exploit synergies, increase efficiency and smooth implementation. Existing systems should be reoriented or extended as necessary to ensure optimal impact on poverty prevention, poverty reduction and redistribution.
- 32) National strategies for the extension of social security should be developed and monitored through a broad social dialogue, involving social partners and other stakeholders, in order to ensure wide support and successful implementation. These social security extension strategies should aim at achieving a coordinated approach to combine contributory and non-contributory programmes to realize the human right to social security, including at least a minimum level of income security and effective access to health care for all.
- 33) The establishment of national social protection floors in African countries should be based on a detailed assessment of existing fiscal space, and ways of ensuring sufficient fiscal space in the future. Where fiscal space is tight, it may be considered to pursue a gradual progressive implementation of social security programmes, to explore ways of enhancing effective and equitable tax collection policies and procedures, and, where necessary, request transitional financial assistance from development partners.
- 34) Resource-rich countries in Africa should explore better ways to channel some of the proceeds of their commodity exports into investments in social protection with a view to sharing their natural wealth more broadly among their population, investing in human capital and gradually moving to more diversified economic activity and productive employment.
- 35) Sufficient attention needs to be given to strengthening institutional capacities, including the training of staff for the design, management and administration of national social security systems, and ensuring good governance of social security programmes.

International labour standards

Basic diagnosis

Fundamental values of freedom, human dignity, social justice, security and non-discrimination are essential for sustainable economic and social development and efficiency. Freedom of association, the right to collective bargaining, the right to equal treatment, the abolition of forced labour and child labour reflect not only fundamental human rights, but also essential conditions for stable and strong democracies and for sustainable social and economic development.

In Africa, only 12 ratifications are needed (out of 424) to reach a full regional ratification of the eight fundamental conventions. However, the major challenge for Africa remains translating commitments into effective protection and guarantees, with real enforcement of the relevant provisions. Many African countries have not yet fully developed the governance structures and institutions necessary for promoting the rule of law, implementing labour law reform and complying with international obligations, including ILO Conventions ratified by these countries. The labour inspection systems are under-resourced, and thus function poorly. Moreover, trade unions and employers' organizations generally lack the capacity and resources necessary to enable them to function effectively and social dialogue institutions are weak.

In many countries of the Region the informal economy presents a major challenge. In sub-Saharan Africa, workers in the informal economy make up over 90 per cent of the labour force. The gap in application of labour standards in the informal economy is a reality, leading in many cases to lower wages, lower productivity, longer working hours, hazardous conditions and the abuse of workers, in particular the most vulnerable such as women, children, migrant workers and indigenous peoples.

Policy guidelines

- 36) Improve the promotion of the ratification and implementation in law and practice of Fundamental and Governance Conventions;
- 37) Pursue time-bound programmes to combat forced labour and child labour providing adequate support to groups of children who are particularly vulnerable to worst forms of child labour (Orphans of HIV/AIDS, children used in armed conflicts).
- 38) Design innovative schemes for the extension of protection to workers in the informal economy, including through more effective labour inspection systems;
- 39) Effectively extend representation rights to all vulnerable categories of workers, including rural workers, domestic workers, women, children, migrant workers and indigenous peoples.

- 40) Make a political commitment to achieve full employment and build or strive to build institutions necessary to ensure the realization of full employment taking into account C. 122;
- 41) Take advantage of ILO technical assistance to help reduce the implementation gap on international labour standards.

Social dialogue and developmental governance

Basic diagnosis

Two common and mutually supporting themes run through this report: first, the need for policy formulation and implementation to be based on broad-based social dialogue. From macro policies, to productive transformation, to social protection and transition to formality, experience shows that broad participation and ownership of policy frameworks is essential for more effective policy design and implementation. Second, political, technical and institutional capabilities matter for positive outcomes, hence the importance of good governance. In many African countries, both skilled staff and financial resources are often in short supply. However, in Africa, the good governance agenda should not be only restricted to transparency and accountability, but should also include good development governance in the sense of building up the developmental capabilities of the State over time.

Policy guideline

- 42) To commit to formulate and implement these policies through broad-based social dialogue and to improve the quality of governance and public services.

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Appendix

Table A1: Typology for capturing diversity of African economies (SSA only)

Oil exporters (7)	Resource-rich non-oil exporters (6)	Non resource-rich/coastal (18)	Non-resource/Landlocked (13)
Angola, Cameroon, Chad, Congo, Rep. of, Equatorial Guinea, Gabon, Nigeria	Botswana, Cote d’Ivoire, Guinea, Namibia, Sierra Leone, Zambia	Benin, Cape Verde, Comoros, Eritrea, Gambia, The, Ghana, Guinea-Bissau, Liberia, Kenya, Madagascar, Mauritius, Mozambique, Sao Tome and Principe, Senegal, Seychelles, South Africa, Tanzania, Togo	Burkina-Faso, Burundi, Central African Republic, Congo, Democratic Republic of, Ethiopia, Lesotho, Malawi, Mali, Niger, Rwanda, Swaziland, Uganda, Zimbabwe

Source: IMF, 2011:76

Table A2: Typology for capturing diversity of African economies (SSA and North Africa)

Oil exporters (9)	Diversified (8)	Transition (5)	Pre-transition (7)	Other (8)
Algeria, Angola, Chad, Congo, Rep., Equatorial Guinea, Gabon, Libya, Nigeria	Egypt, Morocco, Namibia, South Africa, Tunisia,	Cameroon, Coted’Ivoire, Ghana, Kenya, Mozambique, Senegal, Tanzania, Uganda, Zambia	Congo, D.R., Ethiopia, Mali, Sierra Leone	Botswana, Madagascar, Mauritius, Sudan

Source: McKinsey Global Institute (2010 :64). Includes countries only with either total GDP of USD 10 billion or greater (at 2008) or GDP growth rate of 7 per cent p.a. over 2000-08 period. This group accounts for 97 per cent of African GDP.

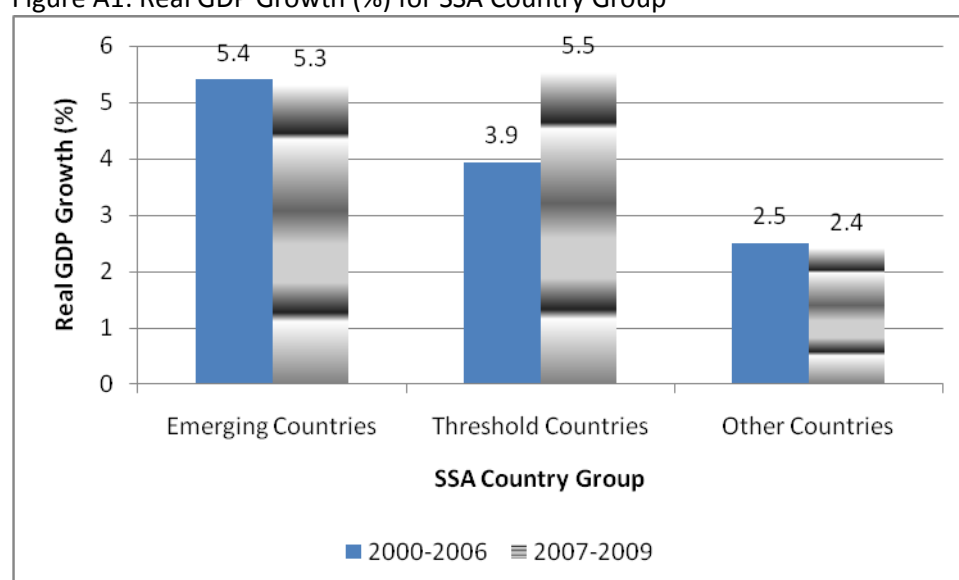
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Table A 2: Radelet Country Lists and their Associated Growth Medians

Emerging Countries	Threshold Countries	Other Countries	Oil Exporters
Botswana	Benin	Burundi	Angola
Burkina Faso	Kenya	Central African Rep.	Cameroon
Cape Verde	Liberia	Comoros	Chad
Ethiopia	Malawi	Congo, Dem. Rep.	Congo, Rep.
Ghana	Senegal	Cote d'Ivoire	Eq. Guinea
Lesotho	Sierra Leone	Djibouti	Gabon
Mali		Eritrea	Mauritania
Mauritius		Gambia, The	Nigeria
Mozambique		Guinea	Sudan
Namibia		Guinea-Bissau	
Rwanda		Niger	
Sao Tome and Principe		Madagascar	
Seychelles		Somalia	
South Africa		Swaziland	
Tanzania		Togo	
Uganda		Zimbabwe	
Zambia			

Source : Radelet (2010)

Figure A1: Real GDP Growth (%) for SSA Country Group



Source: World Bank, World Development Indicators, regional medians calculated by authors, oil exporters excluded

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Table A3: The MDGs and SSA: targets vs. expected attainment

Selected MDG goals and targets	1990	Most recent year (mid-2000s)	Projected 2015 (assuming 'best case' scenario)	Target (2015)
Eradicate extreme poverty and hunger	57.6	50.9	35.9	28.8 per cent
Gender disparity in primary schooling	79 per cent	86 per cent	89.1 per cent	100 per cent
Completion rate in primary education (girls)	47 per cent	57 per cent	67.6	100 per cent
Completion rate in primary education (boys)	57 per cent	67 per cent	77.6	100 per cent
Child mortality rate per thousand live birth	185	141	138	61
Reduction in proportion of population without access to safe water supply	51 per cent	42 per cent	39.1 per cent	26 per cent

Source: Adapted from Global Monitoring Report, 2010, p.102 for poverty and p.105 for others. 'Best case scenario' assumes that pre-crisis growth rate is maintained. Assuming a post-crisis growth scenario has a marginal impact on the outcomes.

Figure A2: Key Macroeconomic Policy Areas

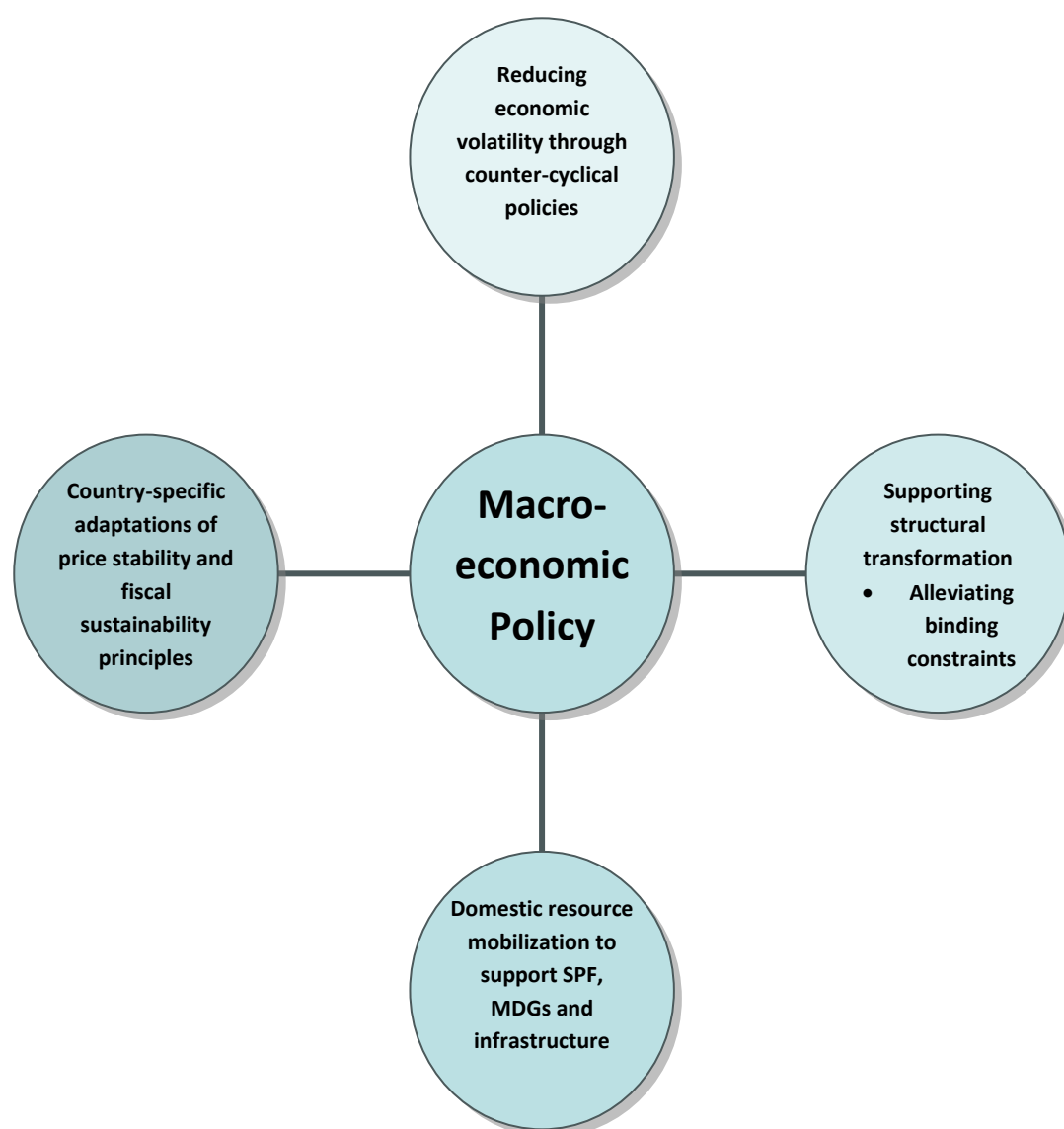


Table A4 Summary of Policy Guidelines

Policy Area	Policy Guidelines
Growth, employment and sectoral policies	1) Restructure patterns of growth toward inclusive and job-rich growth by focusing on sectoral and value chain interventions (for sectors with the highest employment generation potential). 2) Raise investment in manufacturing and in agriculture and promote sustainable enterprises. 3) Policies targeting the working poor, informal workers and micro and small entrepreneurs, through innovative public employment schemes, employment-intensive infrastructure investments, entrepreneurship promotion, minimum social protection floor schemes and transition to formality and decent work. 4) Foster a better balance between exports and domestic markets, to cushion the domestic economy from exogenous shocks and bring about sustainable growth. 5) Aim at a higher rate of domestic savings and investment to reduce dependence on external resources 6) Promote policy coherence by mainstreaming employment targeting and employment impact assessment in economic strategies at macro, sectoral and local levels.
Macroeconomic policies, job creation and poverty reduction	7) Devise a pro-employment and pro-poor macro-economic framework. This includes: ▪ Monetary and financial policies – Central banks and financial authorities to aim for ‘reasonable price stability’ with growth rather than a ‘one size fits all’ target of low, single digit inflation – Central banks and financial authorities to enhance financial inclusion by (1) enhancing access to finance for the private sector and (2) supporting growth of microfinance institutions ▪ Fiscal policy and debt sustainability – Identify sustainable resources from both external and domestic sources to meet development goals – Raise public investment in infrastructure to about 7% of GDP from current rates of 2% to 3% – Improve the tax-to-GDP ratio and budgetary execution ▪ Exchange rate regimes and capital account management – Develop institutional arrangements that can engender real exchange rate stability – A prudent approach to capital account management in cases where unrestrained short capital flows become a destabilizing force.

Harnessing trade for growth, employment and poverty reduction	8) Since there is no single trade policy that is optimal, trade policy choices should depend on the level of development, the size of the market, and sequencing and timing issues. 9) Put in place social protection and minimum wage policies to cushion trade shocks and volatility, and protect the more vulnerable. 10) Strengthen regional integration and ensure that the global economy better accommodates African countries' trade needs and challenges. 11) Design industrial policy and sectoral strategies for export promotion where both general policies pertaining to efficient supply of public goods and services are combined with well designed sector-specific support.
Agriculture development	12) Reduce the yield gap between domestic and median global agricultural production, and invest in rural infrastructure and services. 13) Invest in a variety of agricultural techniques that maintain land productivity, returns and sustainability. 14) Promote non-traditional and High Value Added agricultural exports as a core element of the export diversification strategy for the medium-term.
Labour market institutions and transition to formality and decent work	15) Promote the transition to formality and decent work by integrated interventions that attack the multiple drivers of informality and target three objectives simultaneously: • Promoting formal employment: i) Pro-employment macroeconomic policies, ii) Pro-employment sectoral policies and iii) Supporting formal sustainable MSMEs development • Reducing informal employment: i) Reducing the cost of the transition to formality ii) increasing the benefits of being formal and iii) increasing the cost of being informal • Promoting decent work in the informal economy: i) Increasing productivity, ii) Increasing capacities of workers from the informal economy to organize themselves, iii) Providing a minimum social protection floor, iv) supporting the development of Social Economy Enterprises and Organizations.
Public investment and public employment programmes	16) Enhance investment in infrastructure and ensure that these investments are designed and implemented with the specific objective of boosting employment. 17) Take advantage of the significant innovations in the design and implementation of effective public employment programmes.
Promoting productive transformation through skills and capabilities development	18) Increase the level of education and reduce the share of the population without schooling. 19) Promote diversification into new technologies and higher value-added manufacturing for increased productivity. 20) Take advantage of South-South cooperation to transfer appropriate technologies, importing cheaper capital goods and exporting low-technology goods. 21) Attract domestic and foreign investment in non-traditional tradable and support learning networks between domestic and foreign firms, such as value chains, joint ventures, clusters, industrial parks

	or business incubators. 22) Promote exports and use government procurement to enlarge markets for locally produced goods. 23) Develop the potential of the informal apprenticeship system and strengthen the institutional capabilities to provide training for advanced technologies.
Addressing the special problems of conflict-affected countries	24) Put decent work at the centre of the recovery throughout peace consolidation process until it becomes the centre of the development effort. 25) Follow the UN policy for post conflict employment creation, income generation and reintegration (PCEIR)'s three track approach: income stabilization and emergency employment creation; recovery and reintegration; and sustainable employment creation along with decent work. 26) Advocate for a comprehensive employment policy, with components on training, migration and gender equality to help strengthening national commitment to decent work. 27) Pay attention to the dangers of path-dependence. 28) Aim, when necessary, to continue short term employment creation modalities (Track A) for longer than anticipated or restarted at a later date. 29) Give more attention to macroeconomic policy issues.
Social Protection: Investing in people	30) Step up efforts to extend social security to larger groups of the population. 31) Build national social protection floors based on a careful analysis of existing structures and mechanisms to exploit synergies, increase efficiency and smooth implementation. 32) Use broad social dialogue, involving social partners and other stakeholders, to develop and monitor national strategies for the extension of social security. 33) Base the establishment of national social protection floors on a detailed assessment of existing fiscal space, and ways of ensuring sufficient fiscal space in the future. 34) Resource-rich countries in Africa should explore better ways to channel some of the proceeds of their commodity exports into investments in social protection. 35) Give sufficient attention to strengthening institutional capacities, including the training of staff for the design, management and administration of national social security systems, and ensuring good governance of social security programmes.
International labour standards	36) Improve the promotion of the ratification and implementation in law and practice of Fundamental and Governance Conventions; 37) Pursue time-bound programmes to combat forced labour and child labour. 38) Design innovative schemes for the extension of protection to workers in the informal economy, including through more effective labour inspection systems; 39) Effectively extend representation rights to all vulnerable categories of workers, including rural workers, domestic workers, women, children, migrant workers and indigenous peoples. 40) Make a political commitment to achieve full employment and build

	or strive to build institutions necessary to ensure the realization of full employment taking into account C. 122; 41) Take advantage of ILO technical assistance to help reduce the implementation gap on international labour standards.
Social dialogue and developmental governance	42) Commit to formulating and implementing policies through broad-based social dialogue and to improve the quality of governance and public services.