ILO Address in Ministerial Meeting

Key Development Partners Segment

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Honorable Ministers and Participants

The need for a new Growth Strategy focused on jobs

Let me start by contextualizing my comments in the wider picture of the very important debate in Africa and globally on economic growth and its outcomes.

As is well known, in the last decade before the crisis many developing countries, including least developed countries ***experienced exceptionally high growth rates – many over 7% a year. Yet the record of decent employment creation and poverty reduction has been very disappointing. So something is wrong with the prevailing patterns of growth. What is it? And how can policy better respond to the challenge? Do we need a new growth strategy?***

The simple answer is that gross domestic product (GDP) growth per se, although an important policy objective, is a very limited measure of success. You have to look at the sectoral pattern of growth, at the jobs created by growth, incomes raised, poverty reduced, at the broad based access to opportunity and to social services. Although several African countries present high growth, this is often very concentrated in one or two extractive industries, and linked to very high commodity prices. That raises the average rate of growth. But people do not live on averages.

In many countries productive capacity in manufacturing and agriculture remains limited; exports are concentrated in a narrow range of products, vulnerability to external shocks is high; average productivity is low, reflecting the enormous deficiencies in infrastructure and the large weight of the informal economy.

The connection between growth and jobs is better in developed countries, but even there it is far from automatic. Many episodes of job-less growth have been observed in developed countries. And the weak economic recovery in 2010 and 2011 has not had much traction in developed countries' labour markets. Cyclical unemployment is turning into structural unemployment, and the risk is increasing that the "new normal" over the next few years will be a permanently much deteriorated labour market situation.

For the ILO, the weak link between growth and labour market outcomes has been a central concern for many years. We always saw this as a missing link in poverty reduction strategies.

In the case of Africa, it would be myopic and against the facts, 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 are much needed to transform the recent growth acceleration into a virtuous and self-sustaining process, with better labour market and equity outcomes than has been the case in the past.

At the ILO we are convinced...

- that it is essential to restructure patterns of growth toward more inclusive and job-rich pattern of growth by focusing on sectoral and value chain interventions.
- That it is essential to raise investment in manufacturing and in agriculture as a necessary condition to raise productivity, competitiveness, employment and incomes.
- That policies need to target 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.
- That it is also key to foster a better balance between exports and domestic markets, and make the most of regional integration as new engines of growth.
- That as part of this it is essential to aim at a higher rate of domestic savings and investment to reduce dependence on external resources, and
- That it is also essential to promote greater policy coherence by mainstreaming employment targeting and employment impact assessment in economic strategies at macro, sectoral and local levels.

This is in a nutshell our vision about the challenges of growth, productive transformation, employment and decent work in Africa, a vision that by the way, we are presenting in a substantive report to the ILO African Regional Meeting in Johannesburg next month.

The growth acceleration is good news, but the challenge of making growth more sustainable, balanced, inclusive and effective in creating decent work is wide open.

The case for investing in infrastructure is overwhelming

Within this general context, the case for investment in infrastructure is overwhelming. As Jeffrey Sachs, Special Adviser to the UN Secretary General said in a panel on the Millennium Development Goals in October 2010: "If you look at just about any of the MDGs, you will find that infrastructure is the fundamental need and the binding constraint."

A study by the Africa Infrastructure Country Diagnostic Project[2] 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 productivity by as much as 40 percent.

Inadequate access to energy is the single largest impediment to economic growth. No country in the world has developed its economy without abundant energy supplies. 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 percent of that capacity is unavailable because of aging plants and poor maintenance.

Less than 60 percent of Africa's population has access to drinking water. Over the last 40 years, only 4 million hectares of new irrigation have been developed, compared to 25 and 32 million hectares for China and India respectively.

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. Improving road accessibility in rural areas is critical to raising agricultural productivity across Africa, as well as to allow true regional integration to be an engine of growth.

[2] 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.

The number of African mobile phone users has increased dramatically, and the ICT sector is full of promise for generating jobs, particularly for young people, but high prices of services remain a problem. In 2007 the average price of prepaid mobile services cost US$12.58 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, more needs to be done. Investments in infrastructure in many countries have been very low, often as low as 2-3 % of GDP, far from the 7% now commonly accepted as a milestone in terms of keeping up with needs for economic growth and social services.

And the renewed interest in labour intensive investments in infrastructure and in the innovations in public employment programmes is not just in developing countries. The economic crisis greatly increased interest in these methodologies in developed and emerging economies. Infrastructure spending in 2009 represented on average 64 per cent of the total stimulus packages in emerging market economies, and 22 per cent in developed countries. In a survey the ILO did in 54 countries in 2009, 87 per cent of the countries included additional fiscal spending in infrastructure as part of their responses to the crisis.

Infrastructure investment has large potential for employment creation

Clearly, Africa is set to make billion dollar investments in infrastructure in the next few years. In addition to the many challenges of planning and financing these investments, this poses a major opportunity for job creation, an opportunity that should not be wasted.

The role of infrastructure in producing a job-rich growth must be carefully considered and scrutinised, as you are doing in this Seminar, particularly in a period when every stone must be turned in search of new job opportunities for the high number of youth seeking an entry into the labour market.

The implementation modality of the investments, the way infrastructure is built and maintained, involve great differences in the ability to generate multiplier effects in the economy, and this is not well known to policy makers.

Experience shows that a local resource-based approach can produce three to five times more direct employment than conventional methods for small and medium scale infrastructure. It has often a multiplier effect of about two times the direct jobs created and it increases the purchase of local goods and services by three times. While these benefits vary from locality to locality and with the type and size of project, they vary most with how the programme has been developed.

Lessons and recommendations

In many years of working on the subject the ILO has learned many a lesson. Without getting into the technical aspects, let me conclude by sharing with you four conclusions we have drawn from our experience that I hope can be helpful.

First, an integrated approach is essential. Transport, water, forestry, planning and labour ministries alike – yes ministries across all sectors, must have a wider view and take collective responsibility for how their infrastructure investments can contribute to the broader employment creation needs. And this includes also the private sector.

Only through such an integrated approach will infrastructure investments be effectively used to provide the most appropriate assets and services while at the same time serving as a tool for efficiently creating employment and capability.

Secondly, there is a renewed interest in Public Employment Programmes in many countries. The impetus comes from large scale programmes such as the National Rural Employment Guarantee Scheme (NREGAS) in India, the Productive Safety Net Project (PSNP) in Ethiopia and the Expanded Public Works Programme (EPWP) in South Africa. Many new Public Works Programmes (PWPs) and Employment Guarantee Schemes (EGSs) are now being established, also with financial support provided by development partners, creating a whole range of additional challenges. One of those is the Social Opportunities Project here in Ghana supported by the World Bank that includes labour-intensive public works and conditional cash transfers.

Within a framework of fiscal sustainability, sufficient resources should be used for such Public Employment Programmes aiming at reducing inequality. With proper attention given to wages setting, proper working conditions and appropriate capacity building, people stand a better chance to graduate from these programmes. These issues are core to the Policy Paper and the

International Course on Innovations in Public Employment Programmes developed by the ILO.[4]

Thirdly, countries, individually and as group, stand a better chance in leveraging domestic funding for their programmes and negotiating more favourable outcomes of bilateral and multi-lateral agreements if commonly accepted measurements are available. Countries should improve monitoring of public investment programmes, through the development of global 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 on the environment.

Countries should apply new available **employment impact assessment** (EIA) methodologies that measure direct, indirect and induced employment and effects of technology choice, not only the short-term effects but also the longer term impact on growth and its distributional effects.

ILO stands ready to work closely with you, the African Ministers, in operationalising this in your respective countries and international cooperation.

Fourth, and finally, wherever feasible, decentralized public investment should be favoured. First, decentralized decision-making processes usually make the local population more committed to the works and the proper use and maintenance thereof. 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 economic recovery and development.

Thank you.

[4] Towards the Right to Work – Innovations in Public Employment Programmes. Employment Working Paper 69. ILO. 2010.