Adjustment, employment and labour market institutions in Sub-Saharan Africa in the 1990s: A survey

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Foreword

This paper surveys recent research findings and focuses on the empirical and institutional characteristics of the labour markets of Sub-Saharan Africa (SSA) and how these have changed during adjustment. It starts with an exploration of the timing and sequence of the implementation of the policy reforms and the resulting economic performance. Then the nature of the relationships between structural adjustment programmes and the demand for labour and employment changes are reviewed. The principal empirical aspects of labour markets surveyed here are: employment growth, real wage developments, productivity growth, human capital formation and training.

The pattern of adjustment of the labour markets in SSA has moved through two phases, involving both price and quantity adjustments. The first phase, characterised by significant real wage reductions throughout the various African economies surveyed, has been ongoing since the mid-1980s. This phase was in a context of budget deficits and a comparatively large public sector. The second phase since the early 1990s, has been characterised by a sharp reduction of employment levels in the formal wage sector, in addition to an acceleration of the real wage decreases. The reduction of real wage levels failed to translate into an increased demand for labour: indeed the demand for labour in public and private sectors remains weak even at the reduced wage levels. This survey suggests that this reflected, amongst other things, that the specific skills of Africa’s labour force do not match the requirements of growth-oriented enterprises.

Given the major impact which adjustment programmes are likely to exert on labour markets and employment in the future, it is important that governments, trade unions and employers’ organisations face up to the challenges posed. It is argued that successful design and implementation of policy reforms will require a greater degree of consultation and coordination between the governments and major economic interest groups, including employers’ organisations and trade unions.

This survey paper has been prepared as part of an ILO project on ‘Structural Adjustment and the Role of Labour Market Institutions: A Capacity Building Project’, funded by the Danish International Development Agency. The project’s objectives are to: research and document the impact which structural adjustment programmes are having on the labour markets in selected African countries (Kenya, Uganda, Tanzania, Zambia and Zimbabwe); and analyse how trade unions, employers’ organisations and other labour market institutions in these countries could take a pro-active approach to economic adjustment. Such an approach would seek to safeguard employment which is needed for long-term growth and development of these countries, while identifying new economic opportunities and devising strategies for households and enterprises to take advantage of these.

The project is part of the programme of the Employment Planning and Policies Unit, headed by Rolph van der Hoeven, at the ILO Employment Strategies and Policies Branch. Willem van der Geest is the task manager of the project. Ganeshan Wignaraja is with the Economic Affairs Division of the Commonwealth Secretariat, in London. Peter Richards and M. Muqtada of the above Branch, Ditiro Saleshando of the Bureau for Workers’ Activities and
Akanino Etukudo of the Bureau for Employers’ Activities at the ILO and Professor Robert Cassen of the University of Oxford provided helpful and constructive comments. Martijn Schrijvers ably assisted in preparing the data on employment and real wage developments.

Eddy Lee
Chief
Employment Strategies and Policies Branch
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Adjustment, Employment and Labour Market Institutions in Sub-Saharan Africa in the 1990s: A Survey

1. Introduction

The economic policy agenda for much of Sub-Saharan Africa (SSA) during the 1980s, in the context of structural adjustment programmes (SAPs) of the IMF and the World Bank, has emphasised macroeconomic stabilisation, trade liberalization and a reduction in the public sector. It was expected from the outset that public sector employment, which is a function of public expenditures, would fall during adjustment through reform of the civil service and the parastatal sector.\(^1\) Proponents of adjustment assumed that as public sector employment contracted, the private sector would expand and create new jobs. Although favoured by the new incentive regime, the major 'unknown' in the design of SAPs, however, is the size and nature of employment responses in the private sector of the economy, across agriculture, manufacturing and services.

The bulk of the analysis of SAPs in SSA has focused on the impact of the adjustment on the public provision of social services, health and education. This literature concludes that adjustment may be associated with an increase of poverty as well as reduced resources for human development strategies.\(^2\) In contrast, little research has been done into the employment effects of adjustment. How have SAPs affected labour markets and employment opportunities in SSA? This paper surveys recent research findings and focuses on the empirical and institutional characteristics of the labour markets of SSA and how these have changed during adjustment. It starts with an exploration of the timing and sequence of the implementation of the policy induced reforms and the resulting economic performance. Then the nature of the relationships between SAPs, the demand for labour and employment changes are reviewed in more detail. The principal empirical aspects of African labour markets surveyed here are: employment growth, real wage developments, productivity growth, human capital formation and training. Next, the impact of the changing economic context on labour market institutions is described. Given the major impact which SAPs are likely to exert on labour markets and employment in the future, it is important that governments and labour market institutions face up to the challenges posed. It is argued that successful design and implementation of policy reforms will require a greater degree of consultation and coordination between the governments and major economic interest groups, including employers organizations and trade unions.

The paper focuses on the experience of six African countries: Ghana, Kenya, Tanzania, Uganda, Zambia and Zimbabwe. These countries have been involved in a process of political transition towards multi-party democracy in recent years, though at different speeds and by

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1 This was rarely stated explicitly or analysed in advance in the programme documents; one exception was the ILO sponsored analysis of the employment prospects under Zimbabwe's ESAP discussed below (ILO, 1992).

2 For a recent statement see Adjustment and Poverty by Stewart (1995); for an overview of the research on the impact of adjustment see van der Geest (1994a) and further discussions in van der Hoeven and van der Kraaij (1994).

3 The term structural adjustment programme (SAP) is used in this paper as a generic term to describe the range of policy reforms undertaken as part of a structural adjustment programme.
different routes. Their institutions have been formed by their colonial experiences and comparable, though distinct, processes of post-colonial change. The six countries have adopted significant policy reforms under the aegis of the Bretton Woods institutions since the 1980s. Although the paper is confined to an analysis of changes in the terms and structures of employment in the formal non-agricultural sector, the importance of employment growth in the informal economy is emphasized at various points.

This paper is organised as follows: Section 2 will review the relationships between SAPs, economic performance in general and the demand for labour more specifically. Section 3 will review the empirical evidence on employment and productivity of SSA’s labour markets. Section 4 will establish the linkages between adjustment and the changing structure of employment, whereas section 5 will examine the changing terms of employment. Section 6 will describe how labour market institutions were affected by the implementation of SAPs. The concluding section of the paper emphasizes the importance of pro-active responses to adjustment by labour market institutions including trade unions and employers’ organisations in order to ensure that the benefits of policy reforms are positive, widely distributed and that the social costs are minimized.

2. Adjustment Policy, Economic Performance and Employment Growth

2.1 Policy Reforms and Economic Performance during Adjustment

There is a large and expanding literature on economic performance during adjustment in Africa. However, a consensus on the impact of structural adjustment programmes does not appear to be emerging, even though there is broad agreement regarding the policy objectives of growth and poverty reduction. Protagonists of adjustment programmes point to the better functioning of governments and the reduced deficits of international trade and public finance across a range of countries, (including Ghana and Uganda). At the same time others note that growth has remained sluggish and that social and human development indicators showed little progress in most countries, and deteriorated markedly in quite a few countries (for example Zimbabwe and Zambia). Protagonists argue that a continuation of the old policy regimes would have meant continued inefficiency and even weaker macro-economic growth. However, neither protagonists nor the others have succeeded in fortifying their position by constructing authoritative counter-factual scenarios describing the growth path of the economies of SSA without adjustment or in response to differently designed and implemented SAPs.

Economic performance is determined by non-policy factors to a considerable degree. A comprehensive analysis of the impact of structural adjustment needs to distinguish between (i) policy-determined endogenous impacts; and (ii) those which are exogenous to the policy reforms and, in many cases, the economy in general (such as weather and climatic shocks, world price movements, etc). This paper is primarily concerned with the former, but notes that the policy reforms, especially in SSA, need to take explicit account of the likelihood of major external shocks.

An important distinction is between those policy reforms which are primarily designed to promote competitive markets for goods and services within the economy, from those which are oriented towards institutional changes in the conditions and contexts within which these markets function. SAPs implemented since the early 1980s have included policy reforms which aim to promote competitive markets, both domestically as well as for internationally traded goods and services. Policy reforms with this objective include trade liberalization, exchange rate adjustment and deregulating foreign ownership and direct investment. Policy reforms with a focus on
domestic competition include deregulation of domestic trade through, for example, the abolition of public marketing boards, reform of the financial sector and fiscal reform aimed at improving domestic resource mobilisation. Indeed, these competition-enhancing components of SAPs have been the core of the programmes implemented throughout the 1980s, whereas the institutional-change oriented components have gained momentum in SSA in more recent years. The institutional components of SAPs tend to affect employment and the demand for labour directly and hence a greater focus on the labour market impact of adjustment is now called for. They include:

(i) civil service and parastatal reform, which typically include a reduction of public sector employment opportunities as a part of a wider programme to reduce the fiscal deficits;
(ii) privatization, which transfers ownership and/or managerial control from the public sector to the private sector and often, though not always, includes a reduction of employment;
(iii) induced labour market flexibility involving a change in the institutional set-up of the labour market through legal changes. These may affect the rights of workers, for example, with regard to hiring and firing, job security, appeals before the courts, etc. Frequently the role and position of representative organizations also change as part of a wider restructuring of industrial relations.

It is important to distinguish between the timing of implementation of the policy reforms (i.e. between early or late) the speed of implementation, and the sequence of the adjustment policy reforms. For the purpose of classification, 'early' adjustment is taken to mean reform measures implemented during the 1980s, whereas 'late' adjustment would refer to implementation in the 1990s. A rapid implementation would be one where the policy indicators - such as nominal tariffs or the effective protection rate in the case of trade liberalization - would change significantly in the first three years of the implementation, whereas a slow implementation would see little or no change in these indicators.

The nature, the timing and the intensity of the implementation of the policy reforms undertaken in Ghana and Kenya are reviewed in more detail below (Table 1). The two countries form a contrast in a number of respects. Ghana undertook far-reaching policy reforms at an early stage as part of a comprehensive adjustment programme. Ghana's programme was perceived to be highly credible and gained broad support from the international financial institutions, including the World Bank. Kenya, on the other hand, adopted policy reforms only relatively late and, even then, at a relatively slow pace. Hence, its programme implementation during the 1980s was widely perceived as one of poor compliance with conditionality. Only during the 1990s some rapid reforms were implemented in the areas of trade liberalization, the financial sector and with respect to the exchange rate levels and restrictions. In 1996, the Government announced a further acceleration of civil service reform and privatization (see Ikiara and Nd'ungu, 1996 forthcoming).

The standard macroeconomic indicators used to evaluate an adjustment programme include the macroeconomic growth performance and the level of government deficits relative

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4 Many competition enhancing measures affect the demand for labour indirectly. For example, trade liberalization may affect trade performance and hence the 'derived' demand for labour.
Table 1: Adjustment Policy Reforms in Kenya and Ghana: Timing and Implementation

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<tr>
<th><strong>Kenya</strong></th>
<th><strong>Ghana</strong></th>
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<tr>
<td><strong>Trade liberalisation:</strong> Effective protection for manufacturing reduced from 107 per cent to 44.5 per cent between 1985 and 1992. Domestic industry was protected by quantitative restrictions, bans and tariffs since 1960s. Trade liberalisation started in 1980 and there have been 3 episodes (1980-85, 1986-1990, 1991-93). Reversals in first two episodes and the last episode was most far reaching as ERPs indicate. Gradual trade reformer with scope for further reduction in protection: quantitative restrictions have been eliminated but high tariffs remain. Sources: World Bank (1987), UNDP/World Bank (1993).</td>
<td><strong>Trade liberalisation:</strong> Effective protection for manufacturing reduced from over 100 per cent to 25 per cent between 1972 and 1992. Import substitution afforded high rates of protection for manufacturing since 1961. Sweeping trade liberalisation episode during 1986-92. Quantitative restrictions removed entirely and tariffs were lowered and rationalised. Ghana is Africa’s most rapid trade reformer with the most open trade regime in the region. Tariffs were lowered even further since 1992. Source: Lall, Barba-Navaretti, Teitel and Wignaraja (1994).</td>
</tr>
<tr>
<td><strong>Exchange rate adjustment:</strong> (Real exchange rate depreciated by 40 per cent in 1985-91 and black market premium declined from 110 per cent to 17 per cent in 1991.). Fixed exchange rate system in 1970s and tight exchange control. Flexible exchange rate policy pursued in 1980s and 1990s which kept real exchange rate from appreciating. Black market premium declined significantly. In 1991, the government moved to create legal free market for foreign exchange through tradeable foreign exchange certificates and an export retention scheme. Early reform and rapid progress was sustained. World Bank (1993).</td>
<td><strong>Exchange rate adjustment:</strong> Significant area of reform, done early and well executed. Massive devaluation in 1983-84--official exchange rate fell from Cedis 2.75 to Cedis 8.83 to the US$. Devaluations continued and currency depreciated to Cedis 90 to the US$ in 1986. Since then, the exchange rate has adjusted to changing market conditions. Another major reform is the introduction of a foreign exchange retail auction in 1986 and the subsequent introduction of foreign exchange bureaus. Foreign exchange is freely available. Leechor (1994).</td>
</tr>
<tr>
<td><strong>Foreign Investment Liberalisation:</strong> FDI inflows declined from US$39 million to US$ 9 million between 1986-90 and 1991-94. Foreign ownership is guaranteed against nationalisation under the Kenyan Constitution and all after-tax profits can be repatriated (FT Protection Act). However, unfavourable environment for FDI remains. Problems in the policy framework include the encouragement of Kenyan participation, the need for case-by-case screening of licensing agreements, the persistent delays on remittances of dividends and capital repatriation; discrimination in access to local finance; and restrictions on expatriate employment. Ad hoc decision making, e.g. on tariff protection, license screening, employment, may lead to corruption, delays and discrimination. Government tried to redress the problem by establishing EPZs in 1990s (10 year tax holidays for exporters, exemption from withholding tax on dividends for 10 years for non-resident investors, VAT exemption and one-stop investor servicing) but this had little impact on FDI inflows so far -- by 1995, only 18 enterprises had started operations in the three EPZs with a total exports of US$9 million. Much room for improvement. Wignaraja and Ikiara (forthcoming).</td>
<td><strong>Foreign Investment Liberalisation:</strong> (FDI inflows increased from US$ 4.0 million to 19.2 million between 1983-88 and 1989-94). The post-adjustment FDI regime significant improved the environment for FDI. Among the reforms underway is the liberalisation of entry to all private investors, local and foreign. While the 1985 Investment Code is still in force, its application is more relaxed and a new code is under preparation. The approval process has been considerably speeded up. Rapid and far-reaching reform of FDI policies which were a major success. Source: Lall, Barba-Navaretti, Teitel and Wignaraja (1994).</td>
</tr>
<tr>
<td><strong>Domestic trade deregulation:</strong> Number of controlled products under general order fell from 56 to 6 between 1983 and 1991 and those under specific order fell from 87 to 29). Price controls existed on many production and retail items since the 1950s. Since adjustment, substantial decontrol has taken place. Significant early reform which was sustained, except in the case of the cereal markets. Swamy (1994)</td>
<td><strong>Domestic trade deregulation:</strong> Domestic retail trade quite unrestricted (especially small scale) no major change as this remained largely unchanged.</td>
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</table>
Financial sector reform: (Financial system in 1980s included: 25 commercial banks, 54 near bank financial institutions and 207 hire purchase companies). Since 1960s, Kenya has had quite liberal entry regulations governing foreign banks and there is a significant foreign banking sector. In early 1980s, further relaxation of entry rules, and small local banks and financial institutions flourished. Successful reforms on interest rate liberalisation since 1984. During 1984-90, real interest rates on commercial bank loans were kept positive. In 1990, government went further by abolishing all charges and fees on commercial bank loan rates. Early reform which was sustained. Source: Swamy (1994).


Civil service reform: (over 250,000 civil servants in 1990). In 1980s, civil service employment grew rapidly at 4.8 per cent per year. Overstaffing problem, particularly at lower grades, but not dealt with effectively during adjustment period. From time to time, there were hiring freezes but these were only temporary. Growth in civil service jobs accompanied by a reduction in salaries of 15 per cent over the 1980s. Major problem but no reform in this area. Source: Swamy (1994).

Labour market flexibility induced: Only 1 major distortion: restrictions on permanent retrenchment. Since 1970s, labour market policies towards private sector have been relatively flexible and pragmatic despite extensive unionisation and collective agreements. Not a major problem and no reforms introduced. Swamy (1994).

Overall Characteristics: Limited policy reforms, accelerating in the 1990s but with remaining credibility problems.

Financial sector reform: Several major reforms were undertaken in regard to the financial sector in Ghana since 1988 including commercial interest rate deregulation, abolition of sectoral lending requirements for banks and privatisation of state banks. The new mood of confidence has resulted in the creation of several new financial institutions since 1992 including two private investment banks, two discount houses and a leasing company. Financial reform was introduced quite early and was rapidly executed. World Bank (1992).

Privatisation: Reduction of the number of public enterprises from 329 to 266 between 1987 and 1991. Government began a programme of liquidation and sale of public enterprises in late 1980s. Slow cautious approach to reform but some success -- by 1991, 26 public enterprises were liquidated and 37 were sold. Leechor (1994).

Civil service reform: Core civil service reduced in size from 131,089 to 102,173 between 1987 and 1992. Major problem of overstaffing in public sector prior to adjustment. Since the mid-1980s, government has attempted to reduce the size of the public sector through retrenchment. This reform, introduced early, is considered as quite successful. Leechor (1994).

Labour market flexibility induced: The labour market is quite flexible by African standards (Horton et al., 1994).

Overall Characteristics: Fast and far-reaching policy reforms with high credibility.
to the GDP. With regard to the latter, the fiscal deficit in Kenya fell from 5.8 per cent of GDP to 3.7 per cent between 1987-91 and 1992. In the early 1980s its fiscal imbalances and inflation were high (the fiscal deficit averaged 9 per cent of GDP). Since 1985, fiscal deficit were controlled through a budget rationalisation programme which prioritised investment expenditures. Thus, Kenya could be an example of slow reform which was successful but only after about five years - during the second half of the 1980s the deficit GDP ratio fluctuated between 4.7 to 6.7 per cent of GDP, whereas since 1990 it has fluctuated at around 3 per cent of GDP. In Ghana fiscal deficits fell from 4.5 per cent of GDP to 2.5 per cent between 1980 and 1993. There was a strong emphasis on fiscal policy in its adjustment programme. The key policy reforms were to increase domestic resource mobilisation through a broadening of the tax base and lowering tax rates. The tax bureau was also restructured and professional staff was hired. Ghana narrowed its deficit while maintaining expenditures (Leechor, 1994).

Table 2: Timing and Intensity of Implementation of Policy Reforms in Selected Countries

<table>
<thead>
<tr>
<th></th>
<th>International</th>
<th>Domestic</th>
<th>Institutional-change oriented policy reforms</th>
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<tr>
<td>Ghana</td>
<td>Early</td>
<td>Early</td>
<td>Late</td>
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<tr>
<td></td>
<td>Fast</td>
<td>Slow</td>
<td>Fast</td>
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<tr>
<td>Kenya</td>
<td>Late</td>
<td>Early</td>
<td>Late</td>
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<tr>
<td></td>
<td>Fast</td>
<td>Fast</td>
<td>Slow</td>
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<tr>
<td>Tanzania</td>
<td>Late</td>
<td>Early</td>
<td>Late</td>
</tr>
<tr>
<td></td>
<td>Slow</td>
<td>Fast</td>
<td>Slow</td>
</tr>
<tr>
<td>Uganda</td>
<td>Late</td>
<td>Early</td>
<td>Early</td>
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<tr>
<td></td>
<td>Slow</td>
<td>Fast</td>
<td>Slow</td>
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<td></td>
<td>Late</td>
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<td>Late</td>
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<tr>
<td></td>
<td>Slow</td>
<td>Slow</td>
<td>Fast</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Late</td>
<td>Late</td>
<td>Late</td>
</tr>
<tr>
<td></td>
<td>Slow</td>
<td>Slow</td>
<td>Fast</td>
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Note: Early: Policy reforms introduced during 1980s.
Late: Policy reforms introduced since 1990.
Slow: Very limited changes in first 3 years of implementation.
Fast: Substantial changes within 3 years of implementation.
Table 2 above provides qualitative information regarding the timing and intensity of adjustment for the six countries in this survey. The table suggests that the patterns and sequences of adjustment were quite different across the countries, notwithstanding similarities in the external conditions which the countries faced, their institutional set-up and their economic policies. The two aspects of adjustment policy reform, which were adopted early in the programmes, were domestic trade deregulation and exchange rate adjustment. In these countries a significant part of the domestic marketing environment was in the hands of the small-scale private wholesale and retail sectors and public marketing boards were phased out relatively fast during the 1980s. Examples of this were coffee-marketing in Uganda and food wholesale marketing in Zambia and Zimbabwe. Kenya’s cereal produce board, however, was an exception as it continued to receive government support in the 1990’s. In the area of exchange rate adjustment, a policy of maintaining a competitive real effective exchange rate (coupled with liberalizing access to foreign exchange) was adopted in most countries, though with different speeds.

The institutional-change oriented measures such as privatization, civil service reforms and inducing labour market flexibility through deregulation became more important in the 1990s. Civil service reforms, once adopted, were carried out in a rapid fashion (particularly in Ghana and Uganda). However, privatization of state owned enterprises has not been implemented rapidly in most countries. This may be seen as a response to the widespread concerns about the weakness of the stock exchanges, the high probability of the emergence of private monopolies and the possible negative consequences which the privatization may have for the welfare of consumers (see Adam, 1994). Even the relatively homogeneous group of six countries surveyed here adopted the policy reforms with varying speeds and in different orders. One explanation for this varied pattern of implementation may be that the outcomes of reforms remain highly uncertain. In this situation governments, often pressurised by the international financial institutions, may adopt specific policy reforms without a coherent and strategic overview. This leads to sluggish implementation as well as policy reversals, as observed in the cases of Kenya and Zambia.

This survey notes that improved consultation with domestic stakeholders would help to anticipate the expected social and economic costs and benefits with greater accuracy. Such consultation could generate wider support for the SAPs and, hence, the government’s implementation of adjustment would be more coherent and credible.

Table 3 presents the macroeconomic outcome indicators for the six countries before and during/after adjustment policy reform. What emerges is a picture of successful reduction of public deficits (except Tanzania), but obtained at the cost of slow or sluggish macroeconomic growth (except Uganda). As mentioned above, the counter-factual scenario (would it have been worse without the adjustment policy reform?) has not been established with any certainty. Nevertheless, it is clear that the macroeconomic outcomes which were realised are quite unsatisfactory. Of the six countries reviewed here, only two have for any sustained period of time, realised a GDP growth performance exceeding population growth by more than one percent (these are Ghana up to 1990 and Uganda since 1990). Moreover, the growth performance during the adjustment period 1991-1993 appears to be lower than that realised prior to the implementation of the adjustment policy changes for some of the countries (particularly Kenya and Zimbabwe)
Table 3: Macroeconomic Indicators During Implementation of Adjustment Policy Reforms in selected countries

<table>
<thead>
<tr>
<th></th>
<th>Growth of GDP per capita (%)</th>
<th>Overall Fiscal Deficits (% of GDP)</th>
<th>Trade Deficits (% of GDP)</th>
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<tr>
<td></td>
<td>Before /After</td>
<td>Change</td>
<td>Before /After</td>
</tr>
<tr>
<td>Ghana</td>
<td>-2.4</td>
<td>0.8</td>
<td>+3.2</td>
</tr>
<tr>
<td>Kenya</td>
<td>-0.5</td>
<td>-1.1</td>
<td>-0.6</td>
</tr>
<tr>
<td>Tanzania</td>
<td>-1.7</td>
<td>-0.5</td>
<td>+1.2</td>
</tr>
<tr>
<td>Uganda</td>
<td>-1.5</td>
<td>3.2</td>
<td>+4.7</td>
</tr>
<tr>
<td>Zambia</td>
<td>-3.2</td>
<td>-1.7</td>
<td>+1.5</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>0.3</td>
<td>-2.2</td>
<td>-2.5</td>
</tr>
<tr>
<td>Africa*</td>
<td>-0.7</td>
<td>0.1</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Notes:
'Before' refers to the average for the period 1981 - 1986
'During/after' refers to average for 1991 - 1993, except Tanzania’s fiscal deficit which is the average of 1989-1991
'Trade Deficits' are for goods and non-factor services and GDP is measured at constant market prices.

2.2 Adjustment and Employment: Some Recent Research Findings

We now turn to the question what happened to employment and wages in SSA during adjustment. The literature on SAPs and employment in SSA is limited. This reflects problems of the lack of data on employment and real wage developments as well as an undue focus on macroeconomic outcomes of the SAPs, using the standard indicators of GDP growth and fiscal and trade deficits as a percentage of GDP. In most cases, this literature has disregarded the meso-variables (including employment) which determine the distributional outcomes of adjustment.5

One exception is the OECD Development Centre's study on Adjustment and Equity, which explicitly deals with the employment and distributional impacts of adjustment (synthesized in Bourguignon and Morrison, 1992). The authors of this synthesis of seven country case studies review the context of the disequilibria and crisis in which stabilization and adjustment measures are adopted. They analyse the changes in employment, incomes, living standards and poverty during adjustment. In summary, employment in the rural areas did not deteriorate during adjustment given slower growth of labour supply, whereas unemployment sharply increased in urban areas; this was usually reflected in an increase of informal sector activity. Agricultural incomes also moved favourably, in contrast to non-agricultural wage incomes. The extent to which overall household incomes declined under adjustment depended on the level of non-wage factor incomes (which includes self-employment and the informal sector) and the impact of the

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5 Various working papers of the ILO's Interdepartmental Project on Structural Adjustment which discuss the employment and equity issue, for example in Tanzania and Zimbabwe, are discussed below.
reduced provision of government services. Living standards did not fall across-the-board during adjustment - there were improvements in rural areas of Ghana but also sharp falls in urban areas of Côte d'Ivoire.

Cornia et al. (1992) analyse Africa's recovery prospects in the 1990s. The study contrasts adjustment experiences of Burkina Faso, Niger, Tanzania, Zambia and Zimbabwe, and outlines the alternative approaches for the 1990s and beyond. Three theoretical and practical motives for the need for alternatives are offered: (i) the persistent failure to achieve modification in SSA's production and trade structures; (ii) the fragility of growth; and (ii) the persistent neglect of the human factor in adjustment and development programmes. The study brings together the fragmentary evidence of the decline of employment as well as the fall in real wages during the 1980s (see Cornia, 1992, pp. 20-26). The study identified smallholder agriculture and small scale industry with its manifold forward and backward linkages and positive employment effects as the engine of growth. The justifications for this recommendation are that these farms and firms are characterized by:

(i) a more equitable income distribution of earnings;
(ii) higher microeconomic efficiency in resource and labour use;
(iii) the ability to accelerate food production and food security;
(iv) the ability to reduce food import requirements;
(v) more comprehensive agriculture to non-agriculture linkages;
(vi) a less capital intensive choice of techniques; and
(vii) a higher degree of technological self-reliance.

The study noted the importance of complementary international support measures for Africa's long term recovery which would include, amongst others, bi- and multi-lateral debt write offs.

Horton et al. (1994) focus on labour markets under adjustment and include three country case studies from SSA - Cote d'Ivoire, Ghana and Kenya. The Cote d'Ivoire study utilizes household survey data for the period 1985 to 1989, complemented by some industrial sector statistics (only available for the formal wage sector). The impact of adjustment was a fall of overall formal wage employment as well as a reduction in real wages. Some reallocation of labour towards other sectors did take place as well as a move of labourers into agriculture. Hence, some labour market flexibility was observed. The Ghana case-study is based on a very detailed 1987-88 cross-section household survey. Although the analysis presented signifies a substantial improvement of the understanding of the functioning of the labour market in Ghana, the data do not allow any firm conclusions to be reached regarding the impact of adjustment on employment over time. The authors present details of economic activity and employment by age, gender and education; un- and underemployment in urban and rural areas and a detailed account of earnings from labour. The estimated earning functions show the significant positive returns to education to the individual (especially of secondary education). Significant earnings differences persist between (i) various sectors of employment and (ii) households with a different employment status. Noting evidence of changing wage differentials and changes in the patterns of migration, it is concluded that '... a flexible labour market probably helped achieve the macroeconomic improvements observed in Ghana during the 1980s ...' even though other factors may have been more important (Beaudry and Sowa, p. 402).

Kenya's pattern of employment change during the 1980s appears to differ from that of other countries of SSA: its public sector continued to dominate the formal sector employment, even though a major drop in real wages took place. The expansion of employment was primarily in
the informal sector. As the other case-studies found, the returns to high and specialised skills, from the point of view of the earner, appear to be increasing during adjustment. The returns to ‘... higher education were larger in the 1986 survey than the 1977-78 survey’. (Milne and Neitzert, 1994, p. 449).

2.3 Towards an Analytical Framework

The literature reviewed above illustrates that the impacts of SAPs on the demand for labour and employment can be manifold and of a varied nature. This section attempts to formulate an analytical framework, defining the key relationships through distinguishing various scenarios of growth and technical change. These relationships may be researched through the estimation of changes in the output-employment elasticities before and during SAPs. Such estimates may be at the aggregate level and for disaggregated sectors defined by type of activity for example agricultural, industry and services or defined by the type of ownership, i.e. the public and private sectors.

A preliminary framework of the relationships between the various components of the SAPs and employment is given in Table 4 below. It seeks to show how the economy-wide effects of adjustment on goods and services markets may affect the demand for labour. It is imperative to distinguish at least two possible scenarios with respect to the growth of output and value added:

(i) moderate and rapid growth of GDP (at least one percent above the population growth), which would afford an average real per capita income growth of 1 per cent or above; and
(ii) slow growth, stagnation or declining growth (below the threshold for moderate growth) which would cause a growth of average real per capita income below 1 per cent and possibly negative.

How these scenarios will translate into direct and indirect demand for labour will depend on the nature of technical change which is taking place during adjustment. Technical change may be labour-saving or capital-saving. However, much of the technical change which is sought for SSA’s manufacturing and service sectors will be labour-saving, in particular because of the present low productivity in these sectors. Hence, in order to assess the employment impact of the various components of the SAPs it would be plausible to assume that moderate and rapid growth scenarios are likely to be accompanied by labour-saving technical change. On the other hand, slow and negative growth is likely to be characterised by slow, if any, technical change. Utilizing these assumptions Table 4 formulates some hypotheses about the short to medium term impact of employment under the different growth scenarios.

Table 4 suggests that the overall employment impact of adjustment, in the short to medium run, would be unpredictable for the case of the high growth scenarios (it may be either positive or negative). The outcome would depend on whether the positive employment creation of the competition-enhancing components exceeds the likely negative impact of most of the institutional-change oriented components. The institutional policy reforms, increasingly centre-stage of the adjustment programmes during the 1990's would tend to reduce employment, with

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6 Kenya's database compares favourably with many other countries as it includes estimates of growth of informal employment.
7 For example, the application of improved biotechnology in agriculture tends to enable a greater output (and value added at factor costs) from a fixed land-base and is capital-saving.
8 See the discussion on productivity below.
the possible exceptions of privatization and induced labour market flexibility in a high growth context. The extent of employment creation would depend on the degree of labour-saving technical and institutional changes during adjustment. Whether the competition-enhancing

<table>
<thead>
<tr>
<th>Adjustment Programme Components</th>
<th>Scenario I: High to Moderate Growth (With moderate or rapid technical change)</th>
<th>Scenario II: Moderate to Negative Growth (With slow or no technical change)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Competition-enhancing Components</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. International, including</td>
<td>positive employment effect</td>
<td>zero or negative employment effect</td>
</tr>
<tr>
<td>- Trade Liberalization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Real exchange rate adjustment &amp; currency convertibility</td>
<td></td>
<td></td>
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<tr>
<td>- Foreign ownership and FDI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Domestic, including</td>
<td>positive employment effect</td>
<td>zero or negative employment effect</td>
</tr>
<tr>
<td>- Domestic Trade Deregulation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Financial Sector Reform</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sub Total</strong></td>
<td>positive</td>
<td>zero to negative</td>
</tr>
<tr>
<td><strong>Institutional-change Oriented Components</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Privatization</td>
<td>positive or negative employment effect</td>
<td>zero to strongly negative employment effect</td>
</tr>
<tr>
<td>2. Civil Service Reform</td>
<td>zero or negative employment effect</td>
<td>strongly negative employment effect</td>
</tr>
<tr>
<td>3. Induced Labour Market Flexibility</td>
<td>positive, zero or negative employment effect</td>
<td>negative employment effect</td>
</tr>
<tr>
<td><strong>Sub Total</strong></td>
<td>ambiguous</td>
<td>zero to strongly negative</td>
</tr>
<tr>
<td><strong>OVERALL EMPLOYMENT IMPACT</strong></td>
<td>may be positive or negative</td>
<td>zero to strongly negative</td>
</tr>
</tbody>
</table>
components of the programme would increase (net) employment will depend on the relative magnitudes of growth and labour saving technical change. For an overall increase of employment, the positive effect of the employment creation (primarily in the private sector) would have to outweigh the negative effects of the loss of employment due to institutional changes (primarily in the public sector). The low to negative growth scenarios will tend to reduce employment levels: as output growth falters the employment opportunities will tend to reduce; (net) labour-saving technical change will make this outcome even more likely. Output-employment elasticity estimates may show the extent to which these effects are working; separate estimates of such elasticities before and during/after adjustment would indicate whether the output-employment relationships have changed significantly during adjustment. Moreover, the Table 4 points to the importance of productivity changes and technology during adjustment as a determinant of the employment impact.

Even if the labour intensity within the economy does not change during adjustment, maintaining the same level of overall employment within the economy will require that employment in the non-public sector will have to grow at a rate equal to the rate of loss of public sector employment, but weighted by the relative size of two sectors. Hence, starting from an initial situation with a relatively large share of employment in the public sector, a rapid contraction of this sector would require that the growth of non-public employment should be increasing quite fast, merely to achieve a stationary level of employment. Labour saving technical change will require a further acceleration of the non-public employment growth rate merely maintain the same level of employment opportunities. In the SSA context a stationery level of employment opportunities could hardly be considered a satisfactory outcome. The growing problems of unemployment, underemployment and involuntary development of the informal sector under adjustment, as documented through a range of policy advisory studies will be reviewed below.

3. Key-characteristics of Sub-Saharan Africa's Labour Markets

3.1 The Growing Labour Force and its Employment Profile

The quantitative information about Africa’s labour markets, (in terms of employment, wages, un- and under-employment, the size and development of the informal sector, etc.) is scanty and likely to be subject to considerable margins of error. Its general characteristics may be summarised as follows:

(i) SSA’s population grew at 3.06 per cent per annum during 1990-95, which is projected to decline only slowly to 2.31 per cent per annum over the period 1995 to 2025. Although a major share of population is in the agricultural sector, the rate of rural to urban migration is high and accelerating. Hence a fast growth of the urban labour force is to be expected. For example, in Kenya the urban labour force grew at 6 per cent per annum - twice its population growth rate.

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9 The seminal paper presenting such estimates for British manufacturing industry was by Breckling (1965). Kumar (1979) recounts some of the estimation problems in his applications to Malaysian commerce and agriculture. Kelegama and Wijantra (1992) study labour absorption in Sri Lanka’s industry before and after liberalization.

10 See for example various ILO employment advisory missions country reports as well as the supporting analyses undertaken to define employment and labour market-related ‘country objectives’ for 34 countries of SSA and the reports of the ILO’s Jobs and Skills Programme Meeting the African Employment Challenge for the 1990s (ILO, 1993a).
(ii) The total labour supply in 1995 in SSA is estimated as 228 million persons, of which 38 per cent are female.\textsuperscript{11} It is projected to increase to 258 million by the year 2000.\textsuperscript{12} Over the thirty years period 1995 to 2025 the total labour supply in SSA will increase at a rate above that for the past thirty years 1965 to 1995.\textsuperscript{13} In contrast, in other regions of the world labour supply growth rates are falling.

This expansion of the labour supply reflects primarily the changing age structure of the population. Although a limited decline in the labour force participation rate is forecast,\textsuperscript{14} this does not outweigh the lagged effects of the period of high and increasing population growth in SSA since the early 1980s.\textsuperscript{15} The (net) rate of growth of labour force participation will eventually exceed the growth of the overall population: the labour force will continue to increase at a high rate although population growth is decelerating in SSA; Figure 1 displays this graphically.

**Figure 1: Population and Labour Force 1980-2025**

*(5-year averages; projections from 1990 onwards)*

\textsuperscript{11} Labour supply as estimated according to the ILO definition which includes all persons in employment as well as the unemployed.

\textsuperscript{12} Labour supply is expected to rise to 534 million by the year 2025. By that time SSA will comprise one seventh of the world's labour force; some 14 countries in SSA are projected to have a labour force in excess of 10 million persons each. Nigeria, Ethiopia, Zaire, South Africa, Tanzania and Kenya taken together will have a labour force of over a quarter billion persons i.e. the same as the whole of SSA in 2000.

\textsuperscript{13} Except a few countries including Mauritius, South Africa and Zimbabwe.

\textsuperscript{14} The key assumptions with respect to the labour force participation rates are that there is a decline in child labour (below 15 years of age), a lower participation rate of persons below the age of 19 on account of longer education and lesser participation above the age of 55 in view of improved care for the elderly; these assumptions may be regarded as optimistic.

\textsuperscript{15} The population growth of SSA increased from 2.94 to 3.06 per cent during 1980 to 1995, at a time during which population growth fell in all other regions of the world (United Nations, 1993).
Household surveys have been undertaken to counter the weaknesses of statistics about the employment profile of SSA's labour markets. The statistics are marred by several problems:

(i) *conceptual* deficiencies because of utilizing inappropriate international employment classifications;
(ii) *data* deficiencies regarding incomes and non-wage payments in the modern sector and remuneration from self employment; and
(iii) *analytical* deficiencies including non-representative sampling and incomplete processing of the data.

These deficiencies make it particularly difficult to establish a precise relationship between changes in the labour market in response to adjustment and, for example, its impact on the incidence of poverty or changes in the income distribution.

The employment profile of labour markets in SSA, based on a series of pilot household surveys carried out between 1986 and 1992 in the capitals of five West African countries as well as in Madagascar has been analysed by Lachaud (1994). To address the *conceptual* deficiency Lachaud develops an employment typology which distinguishes the labour status of households on the basis of criteria reflecting protection, entry barriers to some types of employment and the amount of fixed and/or working capital controlled or owned. To avoid prejudging the characteristics of the African urban labour markets in terms of oversimplified dualistic models of the formal-informal sector, the study examines the data through a cluster analysis. This groups households which have the greatest similarity across a number of characteristics together. The results of the six surveys indicate five distinct sub-groups which may be described as follows:

(i) *protected wage employment*, governed by contracts of employment, legal constraints and with effective barriers to entry; it remains the largest group, comprising some 35 per cent of the total earners in the six pilot surveys in the urban areas;
(ii) *non-protected wage employment*, which is continuous and usually based on contracts of employment but which has low barriers to entry and hence is fiercely competitive; it comprises the second largest category, varying between 21 and 35 per cent of the total earners in the surveys for the different countries;
(iii) *marginal self-employment* with low labour productivity and without established production premises or other capital, varying between 14 to 34 per cent of the surveyed earners, constitutes a third distinct category;
(iv) *irregular employment* characterised by severe job insecurity, varying between 4 and 11 per cent of the surveyed earners;
(v) *self-employment* with some, though limited working capital and assets, typically working in small family units, comprising approximately 7 per cent of the surveyed earners.

Hence, between a quarter to half of the households derive their main income from the 'informal' sector in the urban areas. In what follows, these general characteristics of Africa's

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17 The surveys were undertaken by the Institute of Labour Studies of the ILO and covered all together 2705 earners in Abidjan in Côte d'Ivoire, Antananarivo in Madagascar, Yaoundé in Cameroon, Conakry in Guinea, Bamako in Mali and Ouagadougou in Burkina Faso.
labour market - the rapid growth of its labour force, high rural to urban migration and a high degree of informalization of urban employment - will be complemented by a description of some of the micro characteristics of Africa's labour markets, including productivity, training and human resource development.

3.2 Productivity Growth

The importance of sustained productivity growth to an economy's dynamism and competitiveness is widely recognised in the literature on development (Syrquin, 1994). To date, however, the bulk of the literature has been concerned with productivity growth in adjusting economies in Asia and Latin America while Africa has been neglected and analyses of the determinants of productivity growth in Africa have been few. This section surveys the available literature on productivity achievements in Africa, both at the macro and micro-levels, and attempts to highlight some of its main findings. The handful of studies on African LDCs are of two types: (i) studies attempting to estimate total factor productivity (TFP) growth and labour productivity growth at the regional, national or sectoral levels using published data; and (ii) studies employing primary data collected from manufacturing enterprises in LDCs to investigate static productivity differences among enterprises. Each of these will be considered in turn.

Regional/national and sectoral productivity estimates. Following the literature on productivity growth in other LDCs, the African literature has used the growth accounting method to derive estimates of TFP. This method involves estimating the contribution that the inputs capital and labour make to growth within a production function framework. TFP, the residual from such an exercise, captures the efficiency with which these inputs are used.\(^{18}\) The rate of TFP growth is taken as a proxy for technical change. Apart from TFP growth, the literature has also estimated manufacturing labour productivity growth using real manufacturing value added per worker.

Long-run productivity estimates for SSA are few in number. A World Bank study reports on trends in long-run TFP growth in several developing regions, including Africa, for the period 1960-87. It was found that SSA, along with Latin America recorded a zero TFP growth. South Asia comes next, with a growth of 0.6 per cent per annum, and is followed by the Middle East & North Africa (1.4 per cent). As expected East Asia comes top with 1.9 per cent (World Bank, 1991). For the 1995 World Development Report a comparison of the change in GDP per worker over time was made for 36 African countries; this was an indicator of changes in labour productivity at the national level. The adjustment period 1980-1993 was compared with the period 1965 to 1980. It was found that during the period 1980-93 the GDP per worker had grown for 16 countries, whereas it had declined for 20. Moreover, the rate of growth of GDP per worker in the recent period 1980-1993 was below that of the earlier period for nearly all countries.\(^ {19}\) From within our case-study countries Kenya, Tanzania, Uganda and Zimbabwe realised positive, though small, GDP per worker growth, Ghana experienced zero growth and Zambia faced a sharp decline in recent years (World Bank, 1995b).

Various other studies provide national estimates of TFP growth as well as regional averages. Table 5 provides estimates by Syrquin (1994) of economy-wide TFP growth for Kenya

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\(^ {18}\) The concept of total factor productivity growth is deeply rooted in the tradition of growth accounting. Growth accounting seeks to explain economic growth by analysing increases in physical capital and the labour force, adjusted for changes in composition and skills - the human capital factor. The contribution of each factor of production is estimated by multiplying its rate of increase by its share in national income. TFP growth, the proxy for technical progress, is found by subtracting the contributions of labour and capital from total growth. TFP growth is thus the residual from a growth accounting exercise.

\(^ {19}\) The only exceptions were Chad and Ugunda, where rehabilitation and recovery was taking place, and Benin which realised a tiny increase (World Bank, 1995b).
and Tanzania and regional averages for East Asia, South Asia and Latin America for the period 1980-89. It also provides estimates by Cooper (1995) of manufacturing labour productivity growth, defined as real manufacturing value added per employee, for Zambia, Zimbabwe and South Africa in addition to the others, for the period 1980-90. These data confirm that the TFP growth performance of Kenya and Tanzania was disappointing in the 1980s. The TFP growth rates of the two African economies (-0.5 per cent and -1.6 per cent respectively), are comparable to the average for the Latin American economies (-1.1 per cent) in the same period but well below the averages for South Asia (1.1 per cent) and East Asia (3.3 per cent). A similar conclusion can be reached using the manufacturing labour productivity estimates for the five African economies and the regional averages for Latin America, South and East Asia in the period 1980-90. Of the five African economies, Kenya (1.4 per cent) performs best in terms of manufacturing labour productivity growth and is followed by South Africa (1.2 per cent), Zimbabwe (0.7 per cent), Zambia (0.5 per cent) and Tanzania (-4.0 per cent).

Table 5: Total Factor Productivity Growth and Manufacturing Value Added Growth in the 1980s in Selected Countries

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Kenya</td>
<td>- 0.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Tanzania</td>
<td>-1.6</td>
<td>-4.0</td>
</tr>
<tr>
<td>South Africa</td>
<td>n.a.</td>
<td>1.2</td>
</tr>
<tr>
<td>Zambia</td>
<td>n.a.</td>
<td>0.5</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>n.a.</td>
<td>0.7</td>
</tr>
<tr>
<td>Av. for East Asia</td>
<td>3.3</td>
<td>4.5</td>
</tr>
<tr>
<td>Av. for South Asia</td>
<td>1.1</td>
<td>3.7</td>
</tr>
<tr>
<td>Av. for Latin America</td>
<td>-1.1</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Notes:
(a) Total factor productivity growth estimates are from Syrquin (1994).
(b) Real manufacturing value added (MVA) per worker estimates are from Cooper (1995).
(c) 1972-90.

Another recent study by Nehru and Dhareshwar estimates TFP growth for developing and industrial countries for the period 1960 to 1987, using various alternative models (Nehru and Dhareshwar, 1994). It too finds that factor productivity growth in most countries of SSA has been negative. In their model specification human capital formation - measured as growth over time of the total number of years of schooling for the total population - proves to be a highly significant determinant of productivity growth. Taking into account this factor, the TFP growth is negative for virtually all countries in the region of SSA, with the notable exceptions of Kenya, Zimbabwe and Mauritius. However, the estimates by Nehru and Dhareshwar do not permit a reliable comparison of the levels of TFP growth realised before adjustment policy reforms - with performance during adjustment from 1985 to 1995 (Nehru and Dhareshwar, 1994, p.18).

Firm-level productivity studies. In a relatively recent development, several studies have attempted to estimate production functions for a single homogeneous industry in an African

20 The study utilizes a cross-country comparative framework, which imposes fixed parameters for the productivity of the amounts of labour and capital used in production. For the SSA subsample a slope dummy variable is used, reflecting the structurally lower productivity of these factors, lowering the TFP growth estimates by -1.1 per cent.
LDC. According to this procedure, an envelope of isoquants for the industry is constructed from a sample of firms. The industry production function is conceptualised as a frontier of potential attainment for given input combinations. This gives a "best practice" isoquant which can be estimated using statistical techniques or non-linear programming; (see Pack (1993) for a discussion of the method). Amongst other things, this framework is extremely useful in indicating the variation in realised productivity of individual firms compared to the best practice in the country (i.e. technical efficiency). Micro productivity studies of this type have highlighted the extent of static productivity differences between firms in many African developing countries. As an authoritative survey argues:

It has been found that textiles, sawmilling, and other industrial activities in several African countries exhibit considerable intra-sector variation in TFP. Moreover, even the best local firms may fall far short of internationally realised productivity levels and a further fillip to domestic output can be obtained if all firms, both those locally efficient and those falling short of this standard, move toward international best practice” (Pack, 1993, p. 7).

These findings on firm-level productivity differences in Africa are reinforced by research on technological capabilities at the firm-level in Africa. This research summarises inter-firm differences in technological capabilities by ranking the individual firms according to a common scoring system. The ranking attempts to integrate a variety of objective and subjective information into a comparable measure of a firm’s capacity to use technology across a number of areas pertaining to the setting up, operation and transfer of technology. The ranking permits comparisons within a sample survey according to a firm's technological capability development. Studies of enterprises in Ghana, Kenya and Tanzania have been conducted after SAPs had been in place for a number of years. The studies revealed that: (i) the levels of technological capabilities in African enterprises are below those of similar sized enterprises in other LDCs; and (ii) within African industry, there is a considerable variation in the technological capability scores realised by the firms.

In sum, the literature indicates that productivity achievements in SSA are well below the standards of other developing regions both at the national/industry level as well as the firm-level. Within Africa, however, there is great variation in productivity attainments between countries and firms. Some countries, and firms within them, have higher productivity than the rest. This begs the question what accounts for these differences in productivity achievement? We will attempt to answer this question in section 5.2. below.

4. Adjustment and the Changing Structure of Employment

This section will review the evidence on the changing structure of employment during adjustment. It will first examine the impact of adjustment on the formal wage sectors, focusing on employment in the public sector and the large scale manufacturing sector. Then it will present recent evidence of the impact of adjustment on the urban informal sector.

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21See Lall and Wignaraja (forthcoming), Wignaraja and Ikiara (forthcoming) and Deraniyagala and Semboja (forthcoming).
4.1 The Formal Sector: Retrenchment in the Public Sector

Retrenchment of civil service and parastatal workers, recently implemented as part of adjustment programmes, is not a new phenomena in SSA. The World Bank report on *Adjustment in Africa: Reforms, Results and the Road Ahead* addresses the question of public employment in the context of public sector management. It starts from the proposition that civil services are larger than needed, more costly than can be afforded and less '... effective and productive than they should be.' (World Bank, 1994, p. 121). The study presents the impact of civil service reform programmes on employment during 1981 to 1990 in ten selected countries and finds a retrenchment level of approximately 46,600 persons,\(^2\) coupled with enforced/early retirement of 21,200 persons and removal of 42,200 'ghost' employees off the payroll (persons not working or non-existent). Tanzania's 1994-1995 retrenchments under the Civil Service Reform Programme have followed the exercises of 1975 and 1985. Past experience, as reviewed by Mamuya, indicates that the anticipated gains in terms of public sector's net savings tend not to be realised (Mamuya, 1991). Actual retrenchment remained below its target for a variety of reasons:

(i) the implementation of the plans has tended to be slower than scheduled;
(ii) simultaneous with the retrenchment exercise, counteracting institutional changes were made which including the creation of new ministries (in 1975), the re-establishment of local government (in 1985) and transfer of staff from abolished parastatals back to line-ministries which implied that staff levels were above those anticipated (also in 1985);
(iii) employers sought to retain staff (especially in 1975);
(iv) individuals successfully moved away from posts to be abolished to other ministries (in 1975 and 1985) or to local government (in 1985).

During both the 1975 and 1985 exercises in Tanzania the actual retrenchment was less than half of the level recommended.\(^3\) Compensation payments during 1985 totalled Tshs. 244 million, against anticipated annual gross savings of Tshs. 288 million (respectively $22 and $26 million). However, less than half of the intended number was actually retrenched. Hence, it may be inferred that the compensation payments amounted to between one and a half to two years of wage payments 'saved'.

The increased emphasis on institutional-change oriented adjustment measures implies a much greater reduction of public sector employment levels in a context of continued erosion of wage levels. An evaluation of the recent 1994-1995 retrenchment exercise in Tanzania can not be undertaken yet as comprehensive data are unavailable. However, the first indications are that the target of retrenching 50,000 civil servants has indeed been mostly realised. By mid-1995 some 47,000 persons had been removed from the payroll, of which 14,600 were 'ghost-workers'. However, in line with previous experience, the wage bill has increased over the period of retrenchment due to high compensation rates. Uganda's public sector retrenched a total of 145,882 persons between July 1990 and July 1994, some 40,000 of which were from the civil service itself, with the remaining drawn from temporary government staff, the education sector and the police. The army also underwent downsizing with demobilization of 33,000 soldiers completed by the end of 1995 and further reductions planned.

\(^2\) Of these 44,400 were in Ghana and included staff in district assemblies and in the education sector.
\(^3\) About half of the target of 20 per cent of civil service staff was realised in 1975 and 47 per cent of the target in 1985; for details see Mamuya, 1991, p. 22 and p.39.
Cohen emphasizes the importance of public service reform for Kenya (Cohen, 1993). The author notes that the determinants of the fast growth of public sector employment (6.5 per cent per annum during 1967 to 1991) were the changing role of the government, the fast population growth as well as political motives.24 The author notes that notwithstanding this expansion of public sector employment, serious problems of inadequate administrative performance remain. Cohen lists the following signs of declining bureaucratic capacity: (i) weaknesses in the formulation of policies and programmes; (ii) non-retention of highly skilled professional and management staff; (iii) inadequate expenditures for operation and maintenance. Efficiency and morale within Kenya's civil service continued to deteriorate. The author argues that reduction of its size, elimination of duplication, increased allocations for operation and maintenance, pay reform and an effective fight against corruption are essential to counteract the twin problems of declining efficiency and low morale. However, the constraints to achieving success on these fronts are primarily political (Cohen, 1993, pp. 466-76).

As part of an ILO project on manpower planning the likely employment effects of Zimbabwe's Economic Structural Adjustment Program (ESAP) were projected through three scenarios (ILO, 1992). These employment projections were based on what appeared, with the benefit of hindsight, to be rather too optimistic assumptions regarding the output-employment elasticities during adjustment. The study assumed these to be constant on the basis of past time series data. However, the evidence of the Zimbabwe experience would suggest that these elasticities declined during adjustment. In a slow growing economy additional output did not require the same employment expansion as before. Hence the projections overestimated the employment creation during adjustment. Moreover, the growth of manufacturing output and of exports were overestimated.25 One lesson may be that further research into the output-employment relationships, as indicated in section 2.3 above, needs to be undertaken.

The centre piece of the ESAP, as adopted in 1990, was a commitment to reduce the budget deficit through public expenditure reductions involving (i) delaying or cancelling low return public investments; (ii) reducing civil service employment (in the non-education sector) by some 24 per cent; and (iii) elimination of subsidies to loss-making public enterprises and parastatals. Government subsidies and advances to the marketing boards (trading in grain, dairy, cotton and cold storage services), as well as various other parastatals such as the railways and airways were to be phased out by 1995, the final year of the ESAP, or even before. Notwithstanding the implementation of most of these measures the public deficit reached a historic high of 15 per cent of the GDP, at the start of the 1995-96 fiscal year.26

The changes in public sector employment in the case study countries (Ghana, Kenya, Tanzania, Uganda, Zambia and Zimbabwe) are summarized in Table 6 below, combining employment data from national and international sources. It illustrates the increase of public employment during the 1970s and early 1980s, as well as the subsequent decline since 1990 (in absolute relative terms). In the context of the growing labour force the share of total public

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24 Ad-hoc absorptions of staff into service through conversion of their status in to a permanent one included (a) public servants from the dissolved East African Community; (b) census enumerators and 'works paid' development project workers converted in 1979 and 1984 respectively; and (c) project and programme implementation staff at the district level. Furthermore, the government remained willing to act as employer-of-last- resort especially for unemployed school leavers and university graduates; a proliferation of advisory committees with independent staff and establishments took place and there were political motives in the creation of posts for reasons of patronage and ethnic balances.

25 It was assumed that even in a slow growth scenario the reduction of civil service employment by 26,000 i.e. 24 per cent of the 1990 level was to be counteracted by major employment increases in education, manufacturing, tourism and commercial agriculture (respectively 12, 34, 13 and 20 thousands) leading to an overall increase in total formal sector employment by 8 per cent over the period 1990 to 1995. To date little of such employment growth has yet been realised.

Table 6: Public Sector Employment Under Adjustment 1980-1995  
(Employment in 000s)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CGE</td>
<td>254.5</td>
<td>297.6</td>
<td>325.4</td>
<td>317.1</td>
<td>317.1</td>
</tr>
<tr>
<td>TPSE</td>
<td>471.5</td>
<td>574.6</td>
<td>685.4</td>
<td>317.1</td>
<td>688.4</td>
</tr>
<tr>
<td>of which teachers:</td>
<td>164</td>
<td>203</td>
<td>211.7</td>
<td>688.4</td>
<td>688.4</td>
</tr>
<tr>
<td>TPSE/FS %</td>
<td>46.9</td>
<td>48.9</td>
<td>49.5</td>
<td>46.5</td>
<td>45.8</td>
</tr>
<tr>
<td>TPSE/LF %</td>
<td>8.3</td>
<td>8.6</td>
<td>8.9</td>
<td>8.0</td>
<td>7.7</td>
</tr>
<tr>
<td>FS/LF %</td>
<td>17.6</td>
<td>17.6</td>
<td>18.0</td>
<td>17.1</td>
<td>16.9</td>
</tr>
<tr>
<td>Kenya</td>
<td>223.9</td>
<td>261.8</td>
<td>319.5</td>
<td>326.4</td>
<td>279.4</td>
</tr>
<tr>
<td>CGE</td>
<td>223.9</td>
<td>261.8</td>
<td>319.5</td>
<td>326.4</td>
<td>279.4</td>
</tr>
<tr>
<td>TPSE</td>
<td>442.4</td>
<td>480.1</td>
<td>500.3</td>
<td>510</td>
<td>459.4</td>
</tr>
<tr>
<td>of which teachers:</td>
<td>164</td>
<td>203</td>
<td>211.7</td>
<td>688.4</td>
<td>688.4</td>
</tr>
<tr>
<td>TPSE/FS %</td>
<td>73.3</td>
<td>75.8</td>
<td>53.6</td>
<td>50.0</td>
<td>50.5</td>
</tr>
<tr>
<td>TPSE/LF %</td>
<td>5.4</td>
<td>5.5</td>
<td>5.0</td>
<td>4.8</td>
<td>4.1</td>
</tr>
<tr>
<td>FS/LF %</td>
<td>7.4</td>
<td>7.2</td>
<td>9.2</td>
<td>9.6</td>
<td>8.1</td>
</tr>
<tr>
<td>Tanzania</td>
<td>1982</td>
<td>1985</td>
<td>1991</td>
<td>1993</td>
<td>1995</td>
</tr>
<tr>
<td>CGE</td>
<td>191.2</td>
<td>269</td>
<td>214.9</td>
<td>148</td>
<td></td>
</tr>
<tr>
<td>TPSE</td>
<td>271.2</td>
<td>406.1</td>
<td>368.9</td>
<td>302</td>
<td></td>
</tr>
<tr>
<td>of which teachers:</td>
<td>164</td>
<td>203</td>
<td>211.7</td>
<td>688.4</td>
<td>688.4</td>
</tr>
<tr>
<td>TPSE/FS %</td>
<td>73.3</td>
<td>75.8</td>
<td>53.6</td>
<td>50.0</td>
<td>50.5</td>
</tr>
<tr>
<td>TPSE/LF %</td>
<td>5.4</td>
<td>5.5</td>
<td>5.0</td>
<td>4.8</td>
<td>4.1</td>
</tr>
<tr>
<td>FS/LF %</td>
<td>7.4</td>
<td>7.2</td>
<td>9.2</td>
<td>9.6</td>
<td>8.1</td>
</tr>
<tr>
<td>CGE</td>
<td>148.3</td>
<td>110.6</td>
<td>141</td>
<td>131.7</td>
<td></td>
</tr>
<tr>
<td>TPSE</td>
<td>272.3</td>
<td>332.0</td>
<td>298.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which teachers:</td>
<td>164</td>
<td>203</td>
<td>211.7</td>
<td>688.4</td>
<td>688.4</td>
</tr>
<tr>
<td>TPSE/FS %</td>
<td>73.3</td>
<td>75.8</td>
<td>53.6</td>
<td>50.0</td>
<td>50.5</td>
</tr>
<tr>
<td>TPSE/LF %</td>
<td>5.4</td>
<td>5.5</td>
<td>5.0</td>
<td>4.8</td>
<td>4.1</td>
</tr>
<tr>
<td>FS/LF %</td>
<td>7.4</td>
<td>7.2</td>
<td>9.2</td>
<td>9.6</td>
<td>8.1</td>
</tr>
<tr>
<td>CGE</td>
<td>71.7</td>
<td>90.8</td>
<td>94.9</td>
<td>88</td>
<td>86</td>
</tr>
<tr>
<td>TPSE (est.)</td>
<td>125.0</td>
<td>194.9</td>
<td>221.8</td>
<td>213.0</td>
<td>206.0</td>
</tr>
<tr>
<td>TPSE/FS %</td>
<td>12.4</td>
<td>18.5</td>
<td>18.6</td>
<td>17.2</td>
<td>17.9</td>
</tr>
<tr>
<td>TPSE/LF %</td>
<td>4.2</td>
<td>5.7</td>
<td>5.6</td>
<td>5.0</td>
<td>4.5</td>
</tr>
<tr>
<td>FS/LF %</td>
<td>34.1</td>
<td>30.9</td>
<td>30.3</td>
<td>28.9</td>
<td>25.3</td>
</tr>
</tbody>
</table>

Key: CGE = Central Government Employment  
TPSE=Total Public Sector Employment  
FS = Formal Sector Wage Employment  
LF = Labour Force Total  

Sources: ILO-WEP Database; ILO-yearbooks; various national estimates.
sector employment in the 'formal sector' declined. In Tanzania, Kenya and Zambia approximately half of the formal sector employment was in the public sector, whereas for Uganda and Zimbabwe these percentages were in the order of one fifth and one third respectively. (See Table 6.)

4.2 Formal Sector: Growth in Large Scale Manufacturing Industry?

A major debate is taking place between the World Bank and some academic critics regarding the effects of adjustment on Africa's manufacturing industry. The debate centres on the findings of the World Bank's *Adjustment in Africa* report (see above, World Bank, 1994). Focussing on 29 African countries that initiated adjustment programmes in the 1980s, the study claims to have gone beyond previous Bank studies by providing (i) comprehensive information on performance under adjustment; (ii) a detailed analysis of its effects on industry; and (iii) suggestions on ways in which programmes can be improved.  

The industrial response of individual African countries to adjustment seems to have been mixed to date. Interpreting adjustment largely in terms of stabilisation, the study found that '... on the macroeconomic front, six of the adjusting countries had a large improvement in policies, nine a small improvement, and eleven a deterioration. As a whole, they cut their budget deficits ... and reduced inflation to moderate levels' (World Bank, 1994, p. 3).  

The study went on to argue that there are payoffs to improving policies - it reported increases of the (median) export growth rates of 8 per cent and (median) industrial growth of 6 per cent for countries with the most improved macroeconomic policies, compared with a reduction of 0.7 per cent and an increase of 1.7 per cent, respectively, for countries with policy deteriorations (see Table 7). The report argues that there is little systematic evidence to suggest that de-industrialization has

Table 7: Median Industrial and Export Growth in Sub-Saharan Africa Under Adjustment (Average Annual Growth in Per cent)

<table>
<thead>
<tr>
<th>Country Group:</th>
<th>Industrial Growth</th>
<th>Export Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Improvement in Macroeconomic Policies</td>
<td>-1.0</td>
<td>4.4</td>
</tr>
<tr>
<td>Small Improvement</td>
<td>2.1</td>
<td>5.0</td>
</tr>
<tr>
<td>Deterioration</td>
<td>0.5</td>
<td>3.6</td>
</tr>
<tr>
<td>All Countries (29 sample)</td>
<td>1.4</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Sources: World Bank (1994), Tables A.21 and A.22
Notes: Median refers to median difference between the periods.

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27 Previous work by the World Bank on adjustment in SSA industry includes Meier and Steel (1987). See Stein (1992) for a review of this work.

28 According to World Bank (1994), figure 2.3 the six star performers in terms of changes in macroeconomic policies in Africa are the following (listed in a descending order): Ghana, Tanzania, The Gambia, Burkina Faso, Nigeria and Zimbabwe.
occurred in Africa following adjustment: on the contrary, the figures indicate an upturn in industrial and export activity in countries that have successfully adjusted. It concludes that, despite the progress achieved since the 1980s, African countries continue to lag behind macroeconomic and industrial performance in East Asia. Thus, it asserts that there is a need for more and further adjustment in the areas of trade, financial, privatisation and agricultural policies to boost industrial and export growth.

In their review of the study, Mosley and Weeks (1994) argue that it is seriously flawed on statistical grounds. They reproduce the Bank’s comparison between the six ‘star African countries’ and other adjusting countries, add comparable data on “non-adjustment lending countries” and perform statistical tests of the significance of the differences in performance between the various groups of countries. Paradoxically, Mosley and Weeks find that the non-adjusting group of countries perform better than the adjusting countries as a group and, in terms of investment performance, the countries classified by the Bank as having relatively poor macroeconomic management actually do better than the Bank’s selected star performers. More important, the authors argue, that:

all the between-sample comparisons emerge as statistically insignificant; in particular, it is impossible to reject, at the 5 per cent or even the 10 per cent level of probability, the hypothesis that superior growth performance between 1987 and 1991 of those African countries which adopted what the Bank characterises as better macroeconomic policies arose from pure chance” (Mosley and Weeks, 1994, p. 321).

Mosley and Weeks conclude that an effective adjustment strategy needs to incorporate policy measures to remove barriers to the expansion of aggregate supply in Africa. These would include establishing credit institutions which make collateral free loans to small farmers and businessmen, promoting a green revolution in agriculture through fertilizer subsidies, using selective tariff protection to promote manufactured exports and developing new tax bases.

Critical reviews by Stein (1992, 1994) are particularly controversial. He argues that “...adjustment, as it is currently constituted in Africa, is likely to be deindustrializing (Stein, 1994, p. 288, our emphasis). According to Stein, the performance of existing industries is likely to be affected negatively by increased competition from imports of consumer goods, rising interest rates and higher raw material prices for agricultural goods. Stein further argues that the adjustment may not work in Africa because the neoclassical model underlying it misses fundamental ‘structural causes of the industrial malaise in the region’. Among these structural causes, Stein lists the following: a losing battle on external accounts as a result of deteriorating terms of trade and high levels of multilateral debt, the absence of an entrepreneurial class to respond to new incentives with autonomous accumulation and limits on the open accumulation activities of visible minorities (such as the Asian population in East Africa). Stein concludes that alternative approaches to industrial adjustment in Africa should give more weight to structural issues. The weaknesses of his critique are its limited empirical assessment of industrial performance in countries under adjustment and the lack of attention to failures in the market for skills, technology, information and finance which hinder industrial development in SSA.

Lall too questions the underlying assumptions of the study (Lall, 1996). He argues that the analysis on which Adjustment in Africa is based neglects market failures in the process of developing technological capabilities - in particular, the study does not address the fact that in the developing country context few firms have adequate knowledge of the possible industrial
technologies, and they do not have equal access to these technologies. Their capacity to adopt technologies efficiently may entail great effort and cost. Specific supply-side oriented policies are needed and an exclusive reliance on competition to generate the much needed supply responses is unlikely to succeed.

Drawing on micro-level research into technological learning in LDCs, Lall argues that: (i) the process of becoming efficient in African industry is slow, risky, costly and often prolonged; and (ii) enterprises may face a range of market failures in both factor and product markets.29 Amongst others, the process may involve technological externalities that require continuous interactions between firms and institutions focusing on engineering, training and research. In addition, capital markets which finance learning may be imperfect due to moral hazard problems and information asymmetry between lenders and borrowers. Finally, firms may not invest in training because employees leave once they have been trained. All of these market failures tend to hinder the process of becoming efficient in African industry.

Lall concludes that policy reforms are necessary in Africa to remedy the industrial stagnation caused by haphazard interventions during periods of import substitution. But, under conditions of a multitude of market failures in Africa, he argues for a gradual approach to trade liberalisation. This would permit industry to undertake costly relearning while adjusting to competition. Such gradualism would need to be complemented by the provision of adequate supply-side support including the creation of general and specific skills and technological support systems for industry. Example of such support may be adapted from the experience of East Asia, for example from Taiwan.

More fundamentally, critics claim that the theoretical model underlying the adjustment programmes is inappropriate and this may result in misleading policy prescriptions for industrial development in Africa. The World Bank has yet to answer its critics: the debate over the impact of adjustment on Africa's industry is far from an agreement or conclusion. However, what is clear is that little attention has been given by the Bank (or its critics) to the impact of adjustment on labour markets in Africa, especially regarding the question of the creation of new employment opportunities in the private (or newly privatised) enterprises.

4.3 The Informal Sector: Lateral Expansion in Stagnating Markets

Although most observers agree that the informal sector has rapidly increased during adjustment, it is inherently difficult to document its changes with accuracy. A recent study by Mhone (1995) attempts to analyse the impact of structural adjustment on the urban informal sector of Zimbabwe, using a survey sponsored by the ILO. He found that, at Independence in 1980, the urban informal sector absorbed '... about 10 per cent of the labour force', whereas by the early 1990 this had risen to '... about 25 per cent of the labour force' (Mhone, 1995, p.1). This growth has been determined by the relaxation of restrictive regulations after Independence, the increased rural to urban migration and increased labour force participation, resulting in the urban informal sector accounting for 'almost as much employment as the formal sector' (Mhone, 1995, p.2).

The informal sector survey covered 525 enterprises in three main cities of Zimbabwe (Harare, Bulawayo and Gweru), capturing activities in both high and low density suburbs, as well

29 This has been documented in the case study of Ghana by Lall et al. (1994) and in recent studies on Kenya by Wignaraja and Ikiena (forthcoming), on Tanzania by Deraniyagala and Semboja (forthcoming) and on Zimbabwe by Latash and Robinson (forthcoming). The preliminary results of these studies are reviewed below.
as central business districts, industrial areas and peri-urban low income suburbs. The three concepts used to analyse the changes of the role and the status of the urban informal sector focused on efficiency, distinguishing between allocative, technical and distributive efficiencies.

The allocative efficiency concept analyses the use of the factors of production (capital, labour, land, etc.) across economic activities in the economy as a whole. It questions whether reforms of the policy environment increase the value added of the urban informal sector. Hence, allocative efficiency is to a considerable extent determined by the linkages between the formal and the informal sector, in particular, through the markets for material inputs and the demand for outputs and services. Technical efficiency of the informal sector is a microeconomic concept, looking at the physical input-to-output relations within the enterprises themselves. Hence, it is measured in terms of productivity and monetary returns to factor inputs; optimality would be achieved when ‘... any change in the combination and utilization of resources would lower productivity or returns.’ (Mhone, 1995, p.7). Finally, distributive efficiency refers to the implications of the policy reforms on the incomes and wages prevailing within the sector vis-à-vis those in other sectors of the economy (or relative to an absolute norm such as a poverty datum line).

The survey provides insights into the characteristics of:

(i) the enterprises in terms of the type of primary economic activity, the reasons for choosing the particular activity and location, their production characteristics in terms of sourcing and use of inputs, their output and sales levels and the customers which they attract;
(ii) their owners and its workers in terms of age, education and skills;
(iii) the sources of household incomes and their expenditure pattern.

The impact of ESAP on the informal sector enterprises was assessed through asking respondents about the situation prior to the start of the ESAP programme. As memory recall methods tend to have only a limited reliability, the information gathered this way was cross checked with two earlier surveys of the urban informal sector.

Four types of markets were reviewed, starting from the following hypotheses about the specific changes taking place under adjustment:

- inputs: will face an increase in their costs, in response to inflation and devaluation, as well as possibly a decrease in their availability;
- credit: the availability of credit for start-up and working capital will be reduced in a context of reduced household savings as well as high real rates of interest in the formal financial sector;
- outputs: a decrease in demand in the context of declining household incomes, as well as a demand switching effect subject to relative prices moving in favour of the formal sector in response to increased input costs;
- labour: downward pressure on labour returns in a context of an increased pool of persons and skills in a situation of retrenchment from the formal sector.

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30 The survey was conducted in 1993 by lecturers and graduate students of the University of Zimbabwe. In addition to the enterprise questionnaire, supplementary data were collected regarding the household characteristics of owners and workers in the enterprises, the demand patterns which they face from households and industry and, finally, further data from those retrenched from formal employment.
31 To compare the formal and informal sectors of the economy, and track changes over time, requires a benchmark norm, such as the percentage of people below the poverty line.
32 For a summary of the findings of these earlier surveys reported in 1984 and 1991 see Peters-Berries, 1993b.
The relaxation of urban city and governmental rules and the liberalization of foreign exchange and trade were also expected to have an impact on the informal sector. In general, it was anticipated that the input, credit and labour market impacts on employment and income opportunities would be negative, that the effects on the output markets could be positive or negative and that the impact of the institutional changes would be positive, except where the changes reinforce the disadvantages of the urban informal sector vis-à-vis the formal sector. In the aggregate these various effects were expected to affect the urban informal sector negatively, notwithstanding the dynamism of responsive entrepreneurs. They were expected to hunt for market niches on ‘... segmented local markets or export markets’ (Mhone, 1995, p.24).

Trade liberalization attenuated the long standing problem of shortages of imported inputs thus benefiting the informal sector. However, this improved availability also helped the formal sector. The percentage of informal sector enterprises which reported that they faced strong competition from the domestic formal sector increased to more than 50 per cent. Costs increased and demand fell, while the number of competitors in the sector increased, both in activities with low entry barriers (e.g. food product preparation and marketing or repair services) as well as more complex activities with relatively greater barriers to entry (e.g. making wood products and metal products). Government deregulation, though widely demanded by entrepreneurs in the sector, increased the number of enterprises in the sector. In this context the real net incomes of urban informal sector enterprises declined. Notwithstanding the gains which segments of the informal sector could realise through trade liberalization and deregulation, the negative effects of the overall contraction of the economy under ESAP appear to have outweighed the positive gains.\(^{33}\)

The impact on efficiency, distinguishing the three levels indicated above, may be summarised as follows (Mhone, 1995, pp. 88-90):

*allocative efficiency* was further reduced by the ESAP as the programme failed to resuscitate the (urban) formal economy, while exacerbating the informal sector’s ‘... lateral expansion and involutionary growth’. Specific indicators are that ‘... large numbers of secondary school educated youths are increasingly absorbed in easy entry activities with low returns ...’; and that the marginal productivity of new entrants is very low (Mhone, 1995, p. 89).

*technical inefficiency* was somewhat reduced, in particular for more complex activities and in specific locations (esp. Gweru near the border); a ‘marginal tendency’ was noted towards increasing the division of labour; formalizing on-the-job training; and adapting to changing competition by redesigning products, etc. (p.89).

*distributive inefficiency* was not reduced, as the sector failed to upgrade its activities or to seize opportunities downgraded in the formal sector; it is noted that ‘... the declines in economic welfare in the formal sector and the urban informal sector have been directly related and mutually reinforcing ... ’ (p. 90). However, the informal sector continues to play an important ‘... distributional function as an income-generating safety-net ... ’ (p. 90).

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\(^{33}\) As noted above, this is not a sufficient basis for evaluation, unless the impact of a counterfactual scenario of non-implementation (or a differently designed adjustment programme) is clearly spelled out.
However, it is unlikely that the urban informal sector is able to fulfill the role of safety net to any significant extent in view of the quarter million labour market new comers each year. More specifically, the ESAP did not include specific actions to enable an accelerated expansion of the urban informal sector (Peters-Berries, 1993b and Mhone 1995).

A growing body of literature has analysed the development of the informal sector during adjustment, focussing on formal-informal sector linkages, the credit and financial constraints of the sector, the education and skills profiles and requirements of entrepreneurs and workers in the sector, gender aspects and the impact of the changing policy environment. Studies of Tanzania’s informal sector noted its dependency on the formal sector and its importance for urban households as a source of income (Tripp, 1989). ILO sponsored research has examined the sector’s potential for employment and income generation and the relationship between the state and the informal sector economy (ILO, 1991b and ILO 1993e as well as Bagachwa and Lavanga, 1993). A recent employment policy advisory paper for Kenya emphasized the role of the informal sector in the creation of employment. It included proposals to accelerate small scale and Jua Kali (hot sun exposed) enterprise development through harmonization of regulation, credit and finance as well as infrastructural and institutional support (ILO, 1995c).

5. The Changing Terms of Employment in Sub-Saharan Africa

5.1 Real Wage Development under Adjustment

The process of wage determination in Africa has been extensively studied in the literature on economic development. In pioneering work on the subject in the early 1950s, Lewis formulated a closed dualistic economy model to examine the process of modernisation of a labour surplus economy. In the 1960s, this work was given a neo-classical orientation by Fei-Ranis in the form of an open dualistic economy model and Harris and Todaro in the form of a rural-urban migration model based on a lifetime income stream. Subsequent empirical applications of these models have been concerned with developmental experiences of African LDCs. This literature is well known, and its findings need not be summarised here (see Squire, 1981 and Mazumdar, 1994 for surveys).

A common feature of most African economies is the existence of a large rural-urban wage gap. If the wage-gap could be attributed to differences in factors such as costs of training or the quality of labour, no market imperfection need be present. These factors, however, do not explain the bulk of the observed wage differences and studies have focused on government policies in labour markets. The general pattern is one of a rural labour market for relatively unskilled labour in which wages for rural workers are approximately equal to their productivity. The rural markets may be of a competitive nature with a large number of employers (mainly small farmers), an abundance of unemployed labour, adequate information on wage rates and considerable geographical mobility of labour. In contrast, non-competitive conditions prevail in urban labour markets for semi-skilled labour. This is attributed to government actions such as minimum wage legislation, as well as trade union organisations and the presence of high paying enclave-type transnational corporations. These factors would raise urban wages in the modern sector significantly above rural wage rates.

While the causes of the rural-urban wage gaps are still being debated, evidence indicates that the size of the gap is indeed quite substantial in several African countries. A recent study by Mazumdar (1994) provides estimates for 1988 of the ratio of average earnings in manufacturing to agriculture in several African countries as follows: Botswana (3.4), Ghana (2.0), Kenya (2.6),
Malawi (4.6) and Zimbabwe (4.3). Using the same ILO data sources, the ratios between manufacturing and agricultural wages for 1991 were as follows: Botswana (2.1), Kenya (2.7), Ghana (0.9), Malawi (3.1) and Zimbabwe (4.8). Hence, under structural adjustment this indicator for urban-to-rural wage gaps appears to have declined in some cases (Botswana, Ghana and Malawi), whereas it increased in other cases (Kenya and Zimbabwe). Mazumdar’s observation that it is ‘... impossible to make generalizations which are even approximately valid for African economies as a whole’ appears to continue to hold during adjustment in the 1990s (Mazumdar, 1994, p. 74).

Jamal emphasizes that both urban and rural African households tend to participate in the economy in highly diversified, multi-occupational ways, which he refers to as ‘emergent "straddling" survival strategies’ (Jamal, 1995b, p.3). He argues that the key assumption of the adjustment model, namely that the relative prices need to change in favour of tradeables, much of which are agricultural export commodities is inappropriate in the African context. The author contends that a change of the relative economic fortune of one subsector of the economy (such as the export crop subsector, or the urban formal sector) may lead to only a rather limited reallocation of labour towards that subsector. It may however prompt a very considerable change in the private payments and remittances flows which continuously occur within households (or between households of the same clan, etc.). One implication of the "straddling" survival hypothesis is that migration flows are not determined by the individual’s perception of rural to urban income differentials (as suggested by the Harris-Todaro framework), but that such migration is part of a strategy of the extended family to diversify and reduce dependence on any single source of income and economic activity. Therefore, falling real wages have failed to stem rural to urban migration flows. This feature is central to Jamal’s explanation why SAPs adopted across SSA have not led to the intended acceleration of growth. Furthermore, Jamal notes that the terms of trade losses experienced in many African economies during 1970 to 1990 limited the scope for shifting relative prices in favour of agricultural export crops.

Other instances of major change, with its attendant instability and far reaching effects on African labour markets are:

(i) the very rapid urbanization throughout Africa, with the urban population growing at more than twice the rate of the overall population;
(ii) the rapidly declining importance of wage employment in the formal sector and the concomitant dramatic expansion of the informal sector, which by now provides more than 80 per cent of the urban employment;
(iii) the rapidly falling real wages in the formal wage sector since the early 1970s; for example, monthly real wages in Sierra Leone in 1987 stood at less than 6 per cent of the peak wage level of 1970, whereas the same for Tanzania in 1991 was 25 per cent of the peak in 1974. One person month of the urban formal wage could only buy three days of essentials in Sierra Leone and just two weeks in Tanzania.

34 As indicated below, real manufacturing wages have declined in real terms in many African countries.
35 Those experiencing a ‘boom’ would share some of the unanticipated windfall gains with those in less fortunate sectors. Such sharing is a mutual insurance which reflects, amongst others, the expectation that the gains may just be temporary in a context of continued instability of prices, due to weather and climatic factors, transport bottlenecks, dramatic shifts of international commodity prices, etc.
36 Jamal comments that ‘never in history did such massive urbanisation occur without a concomitant increase in formal sector employment. The estimates presented are for Sierra Leone, Tanzania and Zambia and they assumes that 45 per cent of the urban population is in some form of employment (Jamal, 1995, pp. 13-14).
Hence, the share of wages in total income by urban dwellers has very sharply reduced and an increasing share of household income, much of which is unrecorded, is derived from a variety of informal employment; in the rural areas a similar pattern prevailed.

The real wage developments in Ghana, Kenya, Zambia and Zimbabwe are presented in a graphical form in Appendix 2. The data illustrate the decline of real wages in the countries reviewed in this paper, although the point in time when the decline started and the magnitude of the fall differ across the countries. Zambia’s average earnings in manufacturing and the non-agricultural sector as a whole have been declining since the late 1970s; their 1992 real value was about one-third only of the 1977 value. In Kenya private as well as public sector wages have declined since 1987 and the real wages fell by approximately 50 per cent. In Zimbabwe the manufacturing wages as well as average non-agricultural wages have declined sharply since 1990 - a fall of approximately 30 per cent in the subsequent three years. In Ghana the decline started in 1989 and was much more limited.37 (See Appendix 2 for the detailed table and graphs).

Only a few studies have analysed wage behaviour at the firm-level in adjusting economies in Africa (Knight, 1981 and Knight and Sabot 1983). This undoubtedly reflects the fact that the necessary information on the determinants of wages are difficult to obtain, often requiring the implementation of large and expensive firm-level studies. An exception is Jones (1994) who attempted to examine the determinants of manufacturing wages using data from a 1993 sample survey of 200 firms in Ghana.38 The author estimates an earnings function across enterprises, in order to assess the following determinants of the levels of wage differences between the firms: gender, apprenticeship, five variables describing educational achievements and five industry-specific dummy variables.39 It was found that previous work experience and educational attainment were important determinants of the level of earnings which was realised in Ghanaian manufacturing during the period of adjustment. We now turn to the issues of human capital and training under adjustment.

5.2 Human Capital and Training Under Adjustment

The commonly made assertion that SSA has suffered from low productivity because of a shortage of skilled labour does not give much information about the nature and extent of the problem, nor does it shed much light on desirable and feasible policy recommendations. The overall productivity levels and their trends are poor if compared with other developing countries (see above). However, disaggregation does reveal strong as well as weak performances. Skill shortages, particularly in manufacturing industry, may occur because (i) educated entrepreneurs and technically qualified workers are in short supply in a given country; (ii) enterprises invest too little in training, and (iii) enterprises lose skills as employees leave to join other firms or to establish their own enterprises. Evidence on entrepreneurial and technical education, the training of workers and labour turn-over are reviewed in turn in order to provide a basis for policy recommendations on human resource development strategies and training in the context of SSA.

Human Capital. An eclectic approach to the causes of productivity growth in Africa suggests that, while greater outward-orientation may contribute to increase productivity growth, the current conditions of early industrialisation in Africa imply the paramount

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37 Ghana’s real monthly earnings in the non-agricultural sector and manufacturing increased substantially during the 1980s, using 1981 as the base year; this reflected a successful but not sustained period of adjustment.
38 The survey was funded by the World Bank as part of its Regional Program on Enterprise Development (RPED).
39 The education variables were the percentage of workers with primary schooling, the percentage of workers with secondary schooling and the percentage of workers with polytechnic diplomas. However, the percentage of workers with middle schooling or university education were not significantly related to the earning differentials between the enterprises.
importance of simultaneous attention to creating general and technical skills via education and training. This has been argued in, amongst others, Cassen and Mavrotas, (forthcoming); Lall and Wignaraja (forthcoming); and Pack (1993). Without this skill creation, these analysts argue, the responsiveness of output to improved incentives is likely to be limited. They assert that considerable empirical evidence shows that industrial success in East Asia has been associated with education and training as well as outward-oriented trade policies.

This view derives empirical support from micro-level evidence on productivity differences in Africa. An early study on Ghana used a range of variables including the age of the firm, education levels of the workers and experience of the entrepreneur to account for productivity differences. Interestingly, only the education level of the workers turns up as statistically significant (Page, 1980). This confirms the hypothesis that worker education is an important determinant of industrial productivity. Other studies have focused more on managerial skills rather than worker skills to explain productivity differences. A study on Kenya and the Philippines suggests that the major cause of low productivity in factories in both countries is too large a diversification of products and consequently short production runs (Pack, 1987). It goes on to suggest that in many factories inadequate management skills also contribute to low productivity compared to international best practice. A similar finding was reported by Abdouli in a cross-country study of productivity in several African countries (1989). The study concluded as follows:

"it seems that technical performance is mostly affected by the quality of management in charge of decision making, and to a lesser degree, by the size of the enterprise itself" (Abdouli, 1989, p. 27).

These results are confirmed by the literature on firm-level technological capabilities. Lall and Wignaraja (forthcoming), attempted to account for the variation in technological capabilities in a sample of Ghanaian firms. Amongst other things, they found that there was a highly significant difference between the years of education of entrepreneurs of technologically competent and other firms. In terms of employment of technical manpower, competent firms also had a significantly higher proportion of scientists, engineers and technicians in their workforces than other firms. The authors concluded that human capital was a vital factor in accounting for differences in technological performance in firms under adjustment. However, enterprise training proved to be an important factor too.

Some insights into the nature of entrepreneurial education and training in African-owned enterprises can be gained from a recent study which covered 269 small enterprises in Tanzania, Mali, Malawi and Ghana (Parker, Riopelle and Steel, 1995). It found that entrepreneurs in small enterprises (6-49 employees) had more years of formal schooling than the general population averaging 11.9 years in Malawi, 11.2 years in Tanzania, 10.2 years in Ghana and 6.7 years in Mali. However, only about 20 per cent of small enterprise owners in Tanzania and Ghana had entered some form of post-secondary education (such as a technical school) while in the other two countries the proportion was much smaller. This confirms that the levels of technical education amongst African entrepreneurs are comparatively low.

Such low levels of technical entrepreneurial education need not constitute a barrier to enterprise growth, provided that other employees within the enterprise are technically qualified. A separate study on 34 enterprises (large as well as SMEs) in Ghana offers an insight on the employment of technical manpower at the firm-level (Lall, Barba-Navaretti, Teitel and Wignaraja, 1994). It revealed very low levels of use of technical manpower -- the
employment of engineers in Ghanaian metal working firms, for instance, was under 1 per cent of the total labour force. This may be compared to the figure for the employment of engineers in metal working firms in India and Sri Lanka which were, respectively, 6.5 and 2.8 per cent. The comparisons with the two Asian countries illustrate the extent of skill upgrading that may be needed if Ghanaian firms are to adopt more complex industrial processes. The Ghana study also showed that the employment of technical personnel tends to be concentrated in a few firms — nearly 60 per cent of the total number of engineers in the metal working sector was concentrated in only two firms.

**Enterprise Training.** Empirical evidence of firms in Asian LDCs has shown that although various kinds of experience in production played some role in augmenting technological capabilities within firms, the effort to undertake explicit training was probably more significant. As technologies evolve, a continued process of job-specific training and retraining is required to supply the technical and managerial skills needed by new process and product innovations. Increasing linkages between firms and training institutions, which result in a conscious transmission of information and skills, are also a vital feature of industrialisation. Frequent contact with training institutions can provide a valuable input into technological development by undertaking activities with public goods characteristics and filling in for deficient markets. As SAPs imply the rapid liberalisation of restrictions on imports of goods and services an increased competition from imports will result. Enterprise performance in an increasingly outward-oriented economy depends on the acquisition of technological capabilities to cut costs, improve productivity and upgrade quality. Formal education is essential for the acquisition of technological capabilities; it depends fundamentally on the training of the workforce. Active enterprise training is crucial for the acquisition of technological capabilities in African economies under adjustment.

Hence, we examine the available evidence on enterprise training in four African economies (Ghana, Kenya, Tanzania and Zimbabwe) which have introduced SAPs in the 1980s and early 1990s. Recent studies of the process of acquiring technological capabilities in enterprises during adjustment, using a similar questionnaire and interview method, investigated the extent to which training incidence had changed during adjustment. Enterprise training incidence in manufacturing was defined broadly to capture both informal and formal training within firms as well as linkages between firms with institutions that provide training and other technical services. The latter has been neglected in most discussions of enterprise training in developing countries.

Kenya adopted SAPs early in the 1980s, but limited progress was made in terms of trade policy reform during the decade. However, in the early 1990s Kenya resumed its adjustment programme and implemented a series of sweeping trade policy reforms (see above). Information is available on enterprise training in Kenyan manufacturing from a survey conducted in February/March 1995 which covered 41 firms in garments and engineering (Wignaraja and Ikiria, forthcoming). Table 8 provides some summary measures of enterprise training in these two manufacturing industries. These measures are the percentage of sales proceeds devoted to training, the percentage of employees sent on external training and the percentage of employees who were apprentices. The table also provides comparable information on Tanzania and Zimbabwe from enterprises studies which were conducted during the same period. The following conclusions may be drawn from the table. First, a high proportion of employee training in Kenya still occurs through the traditional African apprenticeship system: it covered 19.6 per cent of garment employees and 16.9 per cent of engineering employees in 1994. Second, the proportion of resources devoted
to formal employee training in Kenyan firms is still very low (i.e., 0.13 per cent in both garments and engineering in 1994). Third, the share of employees sent on external training courses increased slightly from 0.27 per cent to 0.47 per cent in garments during 1989-94 and from 0.60 to 1.21 per cent in engineering. In spite of the increase, these ratios are still quite low by the standards of other developing countries.

The Kenya enterprise survey also indicate few linkages with training and other institutions. Table 9 shows the percentage of firms using five main training and institutions within each industry in 1989 and 1994. Of the 41 sample firms, 15 (i.e. 36.6 per cent) used an institution in 1994. This represents a notable increase over 1989 when only 6 firms (14.6 per cent) said that they had used an institution. However, the pattern of usage still remains highly skewed towards a single institution. The Kenya Bureau of Standards (KBS) is used by the largest number of firms in both industries - 30 per cent of garment firms and 33.3 per cent of engineering firms used the KBS in 1994. None of the other institutions were used by any of the garment firms in 1994 while the Kenya Industrial Research and Development Institute (KIRDI) and the Department of Engineering at the University of Nairobi were each used by 14.2 per cent of the engineering firms. The Jomo Kenyatta University of Agriculture and the Kenya Polytechnic were each used by only 4.8 per cent of the engineering firms. This indicated that Kenyan firms have recorded little improvement in training during adjustment.

Wignaraja and Ikiara’s study confirms the findings of an earlier analysis of 40 enterprises in Kenya on the extent of formal training for workers as well as for technicians (Teitel, 1993). Of the 40 firms, 83 per cent said that they provided some form of on-the-job training for workers; however, most were vague on the exact nature and duration of such training. In addition, it was found that only 25 per cent of the firms had paid for training for technical personnel outside the firm - including studies towards a technical degree, management and computer training, production and tool room training as well as short seminars. The bulk of the training outside the enterprise was provided in the country rather than overseas. The study concluded that on-the-job and off-the-job programmes were weak in Kenyan enterprises.

Ghana, like Kenya, started its adjustment programme relatively early with the introduction of the Economic Recovery Programme in 1983. Ghana's trade reform effort was sustained and credible in the 1980s. Today, Ghana is widely acknowledged as having one of the most open trade regimes in Africa; indeed it is viewed as a potential NIC by some (World Bank, 1994). Hence, one would expect that training efforts in Ghanaian firms are likely to have risen during adjustment. However, a study undertaken in mid-1992 covering 34 firms in four industries (garments, wood working, food processing and engineering) (Lall and Wignaraja, forthcoming) found that formal training efforts in the sample firms were negligible. None of the garment firms sent employees on external training in 1991 while the share of employees sent by engineering firms on external training courses was only 0.31 per cent, the share sent by food processing firms was only 0.24 per cent and the share sent by wood working firms 0.19 per cent. The study observed that the bulk of the training in Ghanaian firms still took the form of traditional apprenticeships rather than explicit employee training and that overseas training was limited to a few multinational affiliates which regularly sent employees abroad for training. This study concluded that, contrary to expectations, Ghanaian firms have recorded little improvement in training during adjustment.
### Table 8: Enterprise Training under Adjustment in Kenya, Tanzania and Zimbabwe

<table>
<thead>
<tr>
<th>Country</th>
<th>% of sales spent on training, 1994</th>
<th>% of employees sent on external training at home and abroad</th>
<th>% of employees as traditional apprentices, 1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya (41 firms):</td>
<td></td>
<td>1994</td>
<td></td>
</tr>
<tr>
<td>Garments</td>
<td>0.13</td>
<td>0.27</td>
<td>0.47</td>
</tr>
<tr>
<td>Engineering</td>
<td>0.13</td>
<td>0.6</td>
<td>1.21</td>
</tr>
<tr>
<td>Tanzania (61 firms):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Garments</td>
<td>negligible</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Engineering</td>
<td>negligible</td>
<td>4.1</td>
<td>4.5</td>
</tr>
<tr>
<td>Zimbabwe (33 firms):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Garments</td>
<td>negligible</td>
<td>n.a.</td>
<td>0.4</td>
</tr>
<tr>
<td>Engineering</td>
<td>negligible</td>
<td>n.a.</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Sources: Wignaraja and Ikiara (forthcoming) on Kenya; Deraniyagala and Semboja (forthcoming) on Tanzania; and Latsch and Robinson (forthcoming) on Zimbabwe.

### Table 9. Percentage of Firms Using Training and Other Institutions in Kenya 1989-1994

<table>
<thead>
<tr>
<th>KBS</th>
<th>KIRDI</th>
<th>UNI NAIROBI</th>
<th>JK AG. UNI Dept. of Engineering</th>
<th>KEN POLY.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garments</td>
<td>10</td>
<td>30</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Engineering</td>
<td>14.3</td>
<td>33.3</td>
<td>0</td>
<td>14.2</td>
</tr>
</tbody>
</table>

Note: Abbreviations see text. Source: Wignaraja and Ikiara (forthcoming). Information collected from a survey of 41 enterprises.

Tanzania may be considered a relatively late adjuster (see above). Although an Economic Recovery Programme was initiated in 1986, significant trade liberalisation did not take place until the late 1980s. However, trade policy reforms since then have been sustained and are regarded as credible; the World Bank credits Tanzania as scoring high on an index of changes in macroeconomic policy (World Bank, 1994, pp.260-61). A study undertaken in February/March 1995 involving 61 firms in garments and engineering sheds light on the nature of enterprise training (Deraniyagala and Semboja, forthcoming). As table 8 shows, the study did not find significant evidence of traditional African apprenticeship in the sample firms. At the same time, it found that formal training efforts were extremely limited in the Tanzanian firms. As in Kenya, the proportion of resources devoted to training was still negligible in 1994. In addition, the garment firms had not sent any employees on external training courses in 1989 nor in 1994 while the share of employees sent by engineering firms increased modestly from 4.1 per cent to 4.5 per cent in the same period. There was little increase in the incidence of linkages with training institutions in Tanzania.

Zimbabwe adopted trade liberalisation only in the early 1990s. A study undertaken in February/March 1995 involving 33 firms in garments and engineering illustrates the extent of
firm-level training (Latsch and Robinson, forthcoming). The results of this survey are reported in Table 8. In contrast to Kenya, the Zimbabwean study found low levels of traditional apprenticeship in both industries in 1994 - 0.9 per cent in garments and 3.8 per cent in engineering. But, similar to Ghana, Kenya and Tanzania, it found that formal enterprise-level training efforts were very low. The available evidence indicated negligible training budgets and low proportions of employees sent on external training in both sectors. The study further noted that the sample firms in both sectors had not significantly increased their contacts with the country’s training institutions since adjustment. In some cases, declines in contacts were reported.

Some of the findings on enterprise training reported by Latsch and Robinson are confirmed by a larger study involving 200 manufacturing enterprises in Zimbabwe carried out in 1993 (World Bank RPED-programme, 1993). The authors found that only 19.0 per cent of the enterprises had used one of the country’s five main institutions in 1993. The Standards Association of Zimbabwe was the only institution used by the largest number of firms (i.e. 16.5 per cent). Interestingly, none of the firms said that they had sent their employees to the National University of Science and Technology for enterprise training. Thus, on the basis of these studies there is little evidence to suggest that a significant improvement in training has occurred in the manufacturing sector of Zimbabwe during adjustment.

Finally, we consider some more general evidence from other African countries on the training incidence. A survey of 1570 entrepreneurs in micro-enterprises in Niger, Nigeria, Senegal and Togo provides data on the types of training within enterprises (Birks, Fluitman, Oudin and Sinclair, 1994). The study found that the bulk of the training in these African enterprises took the form of traditional apprenticeships where a young entrant with little knowledge about a given profession learns by working alongside an experienced worker. The traditional African apprenticeship system is geared towards primary school leavers and involves little additional formal education. It is directed towards transferring relatively low-level manufacturing skills which do not alter much over time and which do not require numerical abilities. There is no formal certification at the end of the apprenticeship period and the apprentices receive a wage well below the going market rate.

Thus, the evidence does not indicate a reduction in training in the manufacturing sectors of the four African countries; however, only slight improvements in training occurred in two of the countries (Kenya and Tanzania). Most of the change has taken the form of a decline in the coverage of traditional African apprenticeship. But formal training efforts have shown little signs of increasing. This could be one area where a pro-active approach to Africa’s adjustment by labour market institutions including employers and unions may be of particular importance.

Labour turnover. Now we briefly turn to the influence of labour turnover on training. The Ghana study found that rates of labour turnover were variable with metal working and garment firms having a relatively high turnover of 8 and 6 per cent respectively (Lall, Barba-Navarette, Teitel and Wignaraja, 1994). It also found that there was some propensity for the higher turnover rates to be concentrated in the smaller enterprises. It noted that it was likely that the leakage of skills through turnover may have constituted a barrier to investment in training, but this was to be ascertained through further investigation.

In sum, the available evidence points to the prevalence of three separate though related sources of skill shortages in Africa. Educated entrepreneurs and technically qualified workers are in short supply; enterprises invest too little in training; and enterprises lose skills as employees leave to join other firms or to establish their own enterprises. Having examined
the issue of human capital and training, we now turn to the question how adjustment is affecting labour market institutions.

6. Impact on Structural Adjustment on Labour Market Institutions

6.1 Tripartite Consultations under Adjustment: Scope and Limitations

Tripartite consultation in SSA was much written about and discussed in the 1970s, but dropped off the agenda of policy decision makers during the 1980s and 1990s.\(^{40}\) The reasons may be manifold. Amongst others, it reflects that the process of economic policy decision making during the 1980s became increasingly 'closed' and characterised by limited, if any, consultation between the various economic interest groups, including employers organizations and trade unions.

Many countries of SSA have ratified ILO conventions: by October 1994 African countries had, on average, ratified some 27 conventions. This may be taken as an indicator, though highly imperfect, of a country's commitment to the management of labour relations according to international principles. Conventions with direct implications for labour relations include those on the freedom of association and tripartite consultation;\(^{41}\) the latter has been ratified by 12 countries in SSA.\(^{42}\) Notwithstanding this formal commitment the practice has been less exemplary, with state interventions '... aimed at controlling trade union activity' (ILO, 1994, p.27). Others have registered concern at the '... tendency of our governments to negotiate structural adjustment programmes with both the IMF and the World Bank without involving or consulting their national employers and worker's bodies or even the ministries of labour'.\(^{43}\)

The arguments for and against consultations between government, trade unions and/or employers organisations reflect the limitations to consultations in a tripartite framework as well as the opportunities and benefits which these may have (Trebilcock, 1994). Potential benefits, drawing on the terminology used by Nelson (1994) are:

(i) 'corporatism' - for example, where trade unions and employers organisations are able, through influencing their membership, to engage actively in negotiated settlements regarding wage demands, employment levels, training and productivity deals;

(ii) 'informational efficiency' - i.e. any implementation of adjustment measures and programme components requires in-depth knowledge of the microeconomic environment in which the measures are expected to generate the positive impacts (now and later).

Hence, consultation as a part of the implementation process of SAPs could have a positive productivity impact - which are much needed in view of the evidence reviewed above. The potential gains, resulting from increased efficiency, improved organization, restructuring of the sector and other changes in the macroeconomic and trade regimes, may be

\(^{40}\) Across SSA some rudimentary structure for negotiation between organised labour and employers organisations has existed since the 1920s (see eg. Mazumdar, 1994).

\(^{41}\) These are the ILO Conventions 87 and 98 on respectively the right to organise and collective bargaining and Convention no. 144 on Tripartite Consultation (International Labour Standards). For an up-to-date and comprehensive overview of international labour conventions and their ratification see the ILO's World Labour Report 1993, pp. 108-9.

\(^{42}\) These were Cote d'Ivoire, Gabon, Kenya, Malawi, Mauritius, Nigeria, Sierra Leone, Tanzania, Togo, Uganda, Zambia and Zimbabwe. Countries with a relative limited commitment as indicated by few ratifications included Botswana and Zimbabwe with less than 10 ratifications each.

\(^{43}\) The Secretary-General of the Pan-African Employers' Confederation speaking at an ILO-sponsored conference in 1992 (ILO, 1994).
shared in a negotiated way between the various producers. To realise these potential productivity gains and move closer to 'best practice' requires coordinated actions; indeed, the social partners are unlikely to realise such potential gains in isolation. As indicated above, training within enterprises constitutes one example of such a positive sum game.

Employers organizations and trade unions can make significant inputs into the economic policy decision making process, in particular where there are major policy reforms with uncertain outcomes. These inputs may be of a functional or of a political nature. Functional inputs into decision making can be in terms of in-depth information about the functioning of segments of labour markets, or regarding the likely impact which policy reforms may have on, for example, large scale public and private enterprises. Consultation may serve to identify how policy reforms adopted at the macro-level can be made to generate the desired positive impacts at the decentralised micro-level of the enterprise or household-based production units (Moshi and Maenda, 1993).

The representativeness of the organisations involved is a key determinant of the extent of the possible gains. The effectiveness of consultation depends on which sub-groups of employers or workers the organisations represent and through which internal processes of representation. Finally, indirect gains from consultation may accrue to other sectors of society, for example, the users of a service delivered, etc. In cases of external benefits of consultation, some governmental actions in order to bring it about may be desirable.

These potential benefits of consultations in bi- and tripartite frameworks have not been realised in the context of SSA under adjustment: effective formal or informal consultation hardly took place. One might enquire why the governments would prefer not to consult. The following are amongst the reasons noted by unions (OTTU, 1992; Egulu, 1995):

(i) a 'fear of obstruction' of the adjustment programme;
(ii) a perceived 'non-representativeness' of the parties involved: unions and employers organisations are not representative of the workforce (or the employers) as a whole;
(iii) the 'own' interest of the government as a large employer.44

The key issues and problems for tri-partite consultations and labour relations in Africa have been reviewed by the ILO and others with a view to promoting sound labour relations. The strengths and weaknesses of trade unions and employers organizations, the state of collective bargaining, and the experiences with workers' participation and the settlement of labour disputes were reviewed, drawing on case-studies from Botswana, Ghana, Swaziland and Zimbabwe (ILO, 1994). Some of the findings of these reviews are presented in the following sections on the impact of adjustment on trade unions and employer organisations.

6.2 Impact of Adjustment on Trade Unions

Gibbon's (1993) edited volume brings together a wide range of papers on the social and political aspects of economic reforms and structural adjustment in Africa.45 The author notes that the adjustment period has '... been marked by a growing assertiveness on the part of (some) civil society organisations', and presents evidence to this effect from Kenya and Zimbabwe in particular.

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44 This may be increasingly important in the context of public sector employment reductions.
45 The study includes papers on Kenya, Lesotho, Tanzania and Zimbabwe.
In Kenya the relations between the state and civil institutions have responded to the increasingly important role of the dominant political party (KANU) during the 1980s. Different civil society organizations faced different fates, including deregistration, dissolution and 'beheading', sliding into slumber, reconstitution as patronage networks of KANU, co-optation into KANU and, lastly, heightened activism (Ngunyi and Gathia, 1993, p.37). For example, the matatu (mini-bus taxi) owners association was deregistered, as were the university's staff union and its student organisation.46

The authors describe the co-optation of the Central Organisation of Trade Unions (COTU) as a '... spectacular instance of co-option of [a] mass organisation by KANU' (Ngunyi and Gathia, p.41). By the end of the 1980s the COTU had a total of 350,000 members - approximately half of private sector wage employees. In 1989 KANU announced affiliation of the COTU to itself. This caused internal divisions within COTU followed by splits culminating with the formation of a second 'national' congress and a new federation of workers. In the context of increasing pressure on KANU during the early 1990s from the side of international donors, including conditionality regarding KANUs intransigence with respect to political pluralism, the COTU has emerged as a 'main source of opposition to structural adjustment' (Ngunyi and Gathia, in Gibbon, 1993 p.48).

Employers organisations such as the Kenya Association of Manufacturers and the Federation of Kenya Employers (FKE) '... have offered no serious challenge to government' even in instances where adjustment measures may have worked against the interests of their members as the FKE's survey on the impact of trade liberalization in Kenya showed (FKE, 1991). This 'muted ally' stance is explained by Ngunyi and Gathia as reflecting a context in which the membership of the FKE does not differ '... much from the composition of members of government'.47 Using a similar line of argument Ikiara in the same volume notes that the major agricultural parastatal NCPB was used by the government to achieve political goals, as licenses for inter-district movements of maize '... became a source of new political clients during the decade [of the 1980s] and the agricultural sector's adjustment's implementation has been ... generally blocked by a political elite, who have a wide range of well entrenched state-protected interests' (Ikiara et al, in Gibbon, 1993, p.99).

Sachikonye analyses the relationship between state and labour in Zimbabwe in the context of the country's Economic and Social Action Plan (ESAP) adopted in 1990 (GOZ, 1991). He notes that two different diagnoses of Zimbabwe's economic position run through the debates regarding the design and implementation of policy reforms. The first explains the country's sluggish GDP growth as the consequence of its unfavourable investment climate. Its policy prescription is to reduce (i) the risks associated with relatively high fiscal deficits; (ii) the costs as well as the uncertainties surrounding the system of controlled foreign exchange allocation; and (iii) the cost of doing business in Zimbabwe through price as well as investment decontrols and amendment of its labour regulations. This diagnosis, espoused by the Bretton Woods institutions, became the main thrust of the ESAP design.

The 'competing' alternative diagnosis is put forward by domestic industrialists and independent economists. They point to the fact that GDP growth during 1985-90 stood at 4.2 per cent, notwithstanding the refusal by the government to adopt an IMF-proposed package

46 An example of a 'beheaded' organisation was the Kenya Farmers' Association (KFA), which had previously built up a sole-agency monopoly position for the parastatal grain marketing board NCPB. In the early and mid 1980s new regional co-operative agencies were reconstituted to supply credit and inputs which amounted to an expansion of KANU's patronage networks. The Civil Servants Association which sought to improve the professional performance of the civil service was banned (Cohen, 1993).

47 Moreover, the authors assert that some of the organisations may have a stake in the patronage-ridden distribution of licenses to local businessmen.
with severe social expenditure reductions in 1984. The relationship between private investment flows and adjustment measures is questioned. Adjustment-related devaluations and the resulting inflation hikes, which were not anticipated at the time of investment, were among the reasons cited by investors to withhold further investment, especially in manufacturing. The Director of the Confederation of Zimbabwean Industries, representing large-scale manufacturing interests, went on record stating that the '... competing imports in their domestic markets ... could result in de-industrialization, not development' (Financial Gazette, 16 April, 1992). Finally, independent analysts have argued that the constraints of the post-independence society in general and the 1980 Lancaster House agreement in particular, though far-reaching, did not preclude some limited forms of economic redistribution. A key example quoted is the bailing out of the Agricultural Finance Corporation during the severe drought of 1987. This was not only a transfer of public funds to non-indigenous farmers, but also prevented farm land from becoming available on the market (Sachikonye quoting Stoneman, 1988).

The political relations between the Government of Zimbabwe and the Zimbabwe Congress of Trade Unions (ZCTU), became problematic at the start of the ESAP programme in the early 1990s, after a period of relative tranquillity in the early 1980s. The Government embarked on a '... project of co-optation.' (Sachikonye, 1993, p. 255). This was fiercely resisted by the ZCTU in a context in which the real wages in both the public and private sector were falling and employment opportunities declining. ZCTU and employers organizations agreed on bi-lateral consultation in the areas of collective bargaining and wage determination. As part of the ESAP the government committed itself to facilitate bi-lateralism within which employers and employees would negotiate agreements within Employment Councils. However, this intended governmental self-restraint was never practised. For example, in 1991 bilateral talks agreed wage increases at slightly below the inflation rate; this was a considerable improvement on the previous year. However, the government intervened in the wage-setting with a variety of arguments. For the public sector, it argued that local authorities wage agreements fell under the purview of the government as an employer through its Ministry of Local Government; parastatal agreements were limited to the increases granted to the civil service. For the private sector, the government advocated staggering the wage increases over several months, even though this was not part of the bilateral agreement. In April 1992 the government tabled a Labour Relations Amendment Bill, reversing the pledge of bilateral wage-setting. Sachikonye comments that '... the emphasis now announced was on state powers to fix maximum wages.' Hence, by '... mid-1992, in the wake of the government's introduction of the Labour Relations Amendment Bill and the banning of ZCTU protest against it, tripartism appeared further away than ever.' (Sachikonye, 1993.)

The ZCTU expressed the following opinions regarding the design and implementation of the ESAP (ILO, 1992). Key points emerging from a trade union perspective were that:

(i) the issue of ownership of capital was ignored. Hence, the political objective of moving towards a level playing field between 'emerging' indigenous entrepreneurs and industrialists and 'established' non-indigenous industrialists (both domestic and foreign) was not advanced;

(ii) the implementation of ESAP was perceived as flawed and ill-planned in a number of respects, for example:
(a) the trade liberalization measures, consisting of placing imported items on the list of the open general import license (OGIL) were haphazard;

(b) the Social Development Fund was placed under a loans and grants allocation committee with no particular experience of the management of training and investment.

The degree of unionization within SSA has declined markedly under the SAPs. Comprehensive data are not available but the case of Uganda may constitute a typical example. The membership of the NOTU decreased from an estimated 125,000 in 1987 to 52,647 by August 1995 - a decline of nearly 60 per cent of membership, implying a concomitant weakening of their financial position (Egulu, 1995). This development in a context of declining real wages and falling employment opportunities renders views regarding Africa’s unionised 'labour aristocracy' as out of date.

The *World Development Report 1995* (World Bank, 1995a, henceforth WDR 95) reviews a wide range of issues of employment and labour markets. It includes a normative discussion about government intervention in labour markets, and a prescriptive part about the governmental policy choices in the context of economic transition and structural adjustment. The relationship between government interventions and labour standards, the role of labour unions, income security and the role of the government itself as an employer are examined. The WDR 95 is unequivocal in its support for setting labour standards and intervention in labour markets in areas such as the eradication of child labour, the protection of vulnerable groups through anti-discrimination policies and the improvement of adherence to health and safety standards.

But beyond these areas it is argued that government intervention and regulation of the labour market will tend to lead to less economic efficiency. Hence, efficiency improvements (creating additional opportunities for adding value) are the yardstick by which policy changes and institutional roles are evaluated.

Regarding trade unions and their role in the process of adjustment a hybrid position is presented. It is argued that the distributional outcome of unionisation of the formal economy '... is likely to be regressive'. (WDR, 1995, p. 80.) The role of trade unions is not evaluated in terms of efficiency, but in terms of a perceived negative distributional impact. It is pointed out that the percentage of workers which is organised or 'protected' is low - typically less than half of the labour force in the formal sector. These workers are usually not the lowest earning households within the economy. Hence, effective social protection may increase the income inequality within the economy. The same is said about the implementation of a minimum wage law.

The income distribution argument against specific regulations (such as the minimum wage) and the functioning of trade unions more generally, is based on at least two specific theoretical and empirical assumptions. The theoretical assumption is one of segmentation (or non-substitution) within the labour market: the effect of the improved conditions does not lead to better conditions and terms, etc. of those people outside the organised segment. The empirical assumption is one of income selectivity: the membership of a particular trade union is unevenly distributed across the income range, and only reflects an income category

48 The World Development Report also includes an analysis of the links between development strategies adopted by developing countries and transitional economies and their trends in employment, incomes and wages, an analysis of the opportunities and threats to employments and wages which international integration may imply, and an outlook for workers in the 21st century.
above the average. Within the SSA context neither of these assumptions are likely to apply; we will deal with each of them in turn.

The degree of unionisation in the labour markets within Africa is low and tends to cover across a wide range of employees; the highest degree of organised labour tends to be found in mining (both public and private), public utilities and services, including banks, the postal services, other non-privatised utilities and the civil service. These diverse groups of organised labour are not in the same labour market segment, nor is there necessarily much linkage between these diverse sectors. However, it is likely that agreements made between organised labour and the relevant employers will tend to effect the terms and conditions of employment throughout the sector, i.e. including non-organised workers. To the extent that this is the case, the theoretical assumption of non-substitution will not hold.

Furthermore, the diversity of unionised workers (across sectors as well as within enterprises) implies that the conditions of work and their earnings will be diverse as well. The membership of trade unions includes earners below as well as above the median income levels. The greater the spread of earning levels, the less likely it is that the underlying distribution of earnings will worsen on account of trade union action or membership; indeed the income distribution may well improve.

The income distributional changes in response to an effective implementation of the minimum wage can not be predicted with certainty either. However, the nature of the regulation, which is focused on the lowest income category of wage earners, would tend to improve the existing income distribution. This is likely to remain the case even where there is a large category of low income non-wage earners as is typical in subsistence agriculture. The two conditions are that (i) the eligible wage earners are below the median income level and (ii) the number of people becoming unemployed and reducing their wage earnings because of the minimum wage is small relative to the number of earners who improve their income (but stay below the median income). These conditions appear quite plausible in the SSA context. Hence, the charge that trade union activities have negative income distributional consequences does not appear to be an accurate description of SSA during adjustment.

6.3 Impact of Adjustment on Employer Organisations

A range of economic and political effects of SAPs, which are likely to have a major influence on industrial relations where observed by Owuor, representing the Pan-African Employer's Confederation (ILO, 1994). As observed by our survey, a reduction of formal wage employment levels and of the level of real wages is taking place through:

(i) the loss of formal jobs through privatization and/or commercialization of state corporations, public expenditure reduction and import liberalization;
(ii) subcontracting by larger firms to keep up with domestic and international competition which will tend to lower average wages;
(iii) repeal of minimum wage legislation in a bid, bound to be unsuccessful, to contain the expanding unemployment emerging from the restructuring process;
(iv) employers seeking to increase the flexibility of hiring and firing and remove rigid redundancy restrictions;
(v) inflationary pressures forcing the removal of the wage guidelines.

In view of these changes Owuor suggests that income maintaining social safety-nets will need to be introduced and the training of workers expanded. The author also emphasized
that entrepreneurship training will also be needed to "... facilitate their engagement in self-employment". The move towards multi-party democracy, only partly associated with structural adjustment, will reinforce the impact which policy reforms may have on industrial relations in Africa. In particular, Owuor noted that:

(i) the move towards multi-party democracy may uncover and release pent-up pressures by trade unions which had previously been forced into "... political marriages of inconvenience" with dominant parties; 49
(ii) political parties will seek to set up rival trade unions and splinter unions, thereby increasing the likelihood of industrial unrest.

The process of moving towards multi-party democracy differs across countries of SSA. A descriptive classification by Buijtenhuijs and Thiriot (1995) distinguishes the 'old' democracies such as Botswana from countries which held multi-party elections for the first time only in recent years. As a result of these elections governments changed in some countries, including Zambia. However, in many cases the governments did not change, for example in Ghana, Kenya, Tanzania and Zimbabwe from among our selected case-study countries. Finally, a few African-style solutions to the pressures for democracy are emerging; the non-party based elections of Uganda deserve special mention. 50

As from the 1970s, it became increasingly difficult for employers organizations to contribute to economic policy formulation (Etukudo, 1993). At independence, statutory tripartite bodies, covering subjects such as wages, prices and incomes and labour-management relations existed only in name. African governments were hesitant to make use of them, in view of their domination by businesses identified with previous colonial regimes. It is only in the 1990s, with the advent of democratization, that a change of perception may be noted, though little of that has been put into practice to date. 51 A number of factors, political as well as structural, caused the weakness of tripartite consultations:

(i) the weak or absent entrepreneurial middle class which, moreover, tends to be divided between the production enterprises (typically joining employers' organizations) and the distributive enterprises (represented through chambers of commerce), as well as other cleavages: small versus big business, multinational branches versus indigenous, etc.
(ii) the preference of employers organizations for bipartite consultations through separate exchanges with government and with trade unions;
(iii) meetings of the tripartite bodies were infrequent or not convened at all; moreover, governments were represented at a low level while placing greater weight on presidential advisory commissions.

However in the context of adjustment measures, in particular privatization and domestic market liberalization, the importance of the government as an employer has tended

49 In SSA this occurred in Benin, Burundi, Cape Verde, Chad, Congo, Gabon, Guinea-Bissau, Rwanda, Tonga, Tanzania and Zaire, according to the Secretary General of the Organization of African Trade Union Unity (ILO, 1994).
50 In a number of countries in SSA the transition to democracy is at an impasse. Buijtenhuijs and Thiriot present an eloquent overview of the progress of the recent research on the transition to democracy in SSA as well as the debates regarding the obstacles encountered, the risks of demilitarization and theoretical debates about the style of democracy, the issues of governance and the role of civil society institutions in general (Buijtenhuijs and Thiriot, 1995).
51 President Chibwa of Zambia advocated a "change in attitude towards the relationship between government, employers and workers" at the International Labour Conference in Geneva, June 1992.
to diminish. Hence, the scope for bi-lateral consultations between employees and employers has improved. Moreover, the democratization process has tended to erode the extensive control which government traditionally had over the labour market, making more space for other civil society institutions, including organized employers and employees.

7. Issues for Policy and Research

Though the need for economic adjustment in SSA is beyond doubt, it should be recognised that it has a major effect on the demand for labour and the level and quality of employment. The pattern of adjustment of the labour markets in SSA has moved through two phases, involving both price and quantity adjustments. The first phase, characterised by significant real wage reductions throughout the various African economies reviewed, has been ongoing since the mid 1980s. This phase was in a context of budget deficits and a comparatively large public sector. The second phase since the early 1990s, has been characterised by a sharp reduction of employment levels in the formal wage sector, in addition to an acceleration of the real wage decreases. The reduction of real wage levels failed to date to translate into an increased demand for labour; indeed the demand for labour in public and private sectors remains weak even at the reduced wage levels. This survey suggests that this reflected, amongst other things, that the specific skills of Africa’s labour force do not match the requirements of growth-oriented enterprises.

Informal sector activities, both rural and urban, have expanded in terms of the sheer number of persons involved; however, this expansion has been a lateral one in a context of stagnating or declining per capita incomes and sluggish effective demand. Hence, the building up of forward linkages to enterprises with greater productivity has not been achieved, nor has the informal sector itself improved productivity. The present evidence does not indicate that countries within SSA are succeeding in shifting towards the high growth scenario which is a precondition for employment creation (see section 2.3 above). The pattern of adjustment in SSA is proving to have significant negative social consequences. Therefore, the nature of the policy reforms, their speed and desirable sequence and the selectivity of their implementation will remain three key issues of major importance and controversy for policy formulation and implementation.

The employment impact of the adjustment programmes has not adequately been assessed: only in a few cases was there any attempt to review likely employment changes projected in advance. Both ex ante as well as ex post evaluations of adjustment programmes have focused unduly on macroeconomic variables only, in particular fiscal deficits. Policy analysis for the purpose of employment impact assessment would enable a better informed basis for programme design. The implementation of policy reforms could be evaluated more comprehensively and should take into account the direct and indirect employment effects.

Within the limits of this survey of employment and labour market issues, we will list some suggestions for actions and interventions from the social partners: governments, in particular Ministries of Labour, trade unions and employers organisations. Our discussion seeks to emphasize the need for pro-active responses to adjustment from the various social partners involved in the management of labour markets.

Ministries of Labour. Given the size of the shocks to the formal labour markets under adjustment, in particular in view of the sharp reduction of public sector employment, Ministries of Labour may be required to broaden the scope of their activities beyond their traditional tasks of labour market regulation, labour market inspection and monitoring as well as the exchange of labour market information. Amongst the new activities of Ministries of
Labour may be an active role in the formulation of programmes to alleviate the social impact of structural adjustment. Such programmes will include, but can not be limited to, two separate but related elements: (i) employment-oriented social fund programmes; and (ii) skill retraining and self-employment training. We will first discuss social fund programmes, drawing on a recent review by Stewart and van der Geest (1995), followed by a discussion of training initiatives.

Social Funds. Social Funds (SFs) are a wholesale financing mechanism designed to accompany adjustment programmes. An early attempt was Ghana's Program of Action to Mitigate the Social Costs of Adjustment (PAMSCAD). SFs typically consist of a specified sum of money to be devoted to activities which will ease the pains of adjustment, including financing small-scale projects, training, and infrastructural projects. They are intended to be quick disbursing and are often located outside the normal government machinery. Hence SF programmes could be executed in collaboration with social partners.

The objectives of the SFs include poverty reduction; compensation of those directly adversely affected by adjustment programmes; gaining political support for adjustment programmes; and raising additional external finance. These objectives may conflict and often there is a mixture of motives; some schemes are more poverty-oriented and others more oriented towards political sustainability and direct compensation of those hurt by adjustment, for example e.g. Zimbabwe. Some SFs are multisectoral programmes which finance projects in economic infrastructure, social infrastructure, social assistance, as well as credit schemes. Ghana's PAMSCAD covered a variety of activities including urban public works, rural income generating projects, school feeding and nutrition education. A major element of its funds (22 per cent) was allocated to the "new poor" for compensation and training; two-thirds of the planned projects were urban. Zambia's Social Recovery Programme has financed labour-intensive projects in urban areas, designed to reach the poor. Zimbabwe's Social Development Fund (SDF) was to redeploy the retrenched as '...an immediate and urgent social imperative', but the government also recognised that '... there still remains the larger unemployment problem.' The SDF included an employment and training programme; provision of funds for projects initiated by ex civil servants; targeted food subsidies; and refunding of the cost-recovery measures for vulnerable groups.

SF programmes have in general reached only a small fraction of the poor, partly because their total size is limited and partly because of poor targeting. Some countries have designed their own schemes without reference to external agencies and without external finance; these 'own-designed' schemes differ in significant respects from the externally supported SFs. Schemes designed, initiated and financed by the country itself in order to assist the poor during crisis have been more effective in achieving that objective, being much more extensive and better targeted. Those schemes which tend to be supply-driven and utilize self-targeting, in particular through relatively low wage payments for work with low skill intensity, appear to have been more effective in targeting the poor, primarily as a result of self-selection mechanisms. Adopting administrative rules restricting access may also facilitate coverage of deprived beneficiaries. Hence, the involvement of the social partners in the execution of social fund programmes is desirable from a political perspective as well as to achieve greater targeting efficiency in the design and implementation of the SF programmes. Nevertheless, in the context of SSA the financial constraints on the creation of employment-

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52 This conclusion is derived from examining the stated objectives of the schemes and reviewing their main characteristics (Stewart and van der Geest, 1995, pp.8-12)
oriented SFs programmes will remain severe. Hence, the employment creation impact of these can only be expected to be quite limited. The SFs are primarily to be seen as a means to provide a safety net in the public sector retrenchment context and should not be seen as a substitute for the design and implementation of adjustment programmes which contribute to the creation of jobs and skills.

**Training.** Given the importance of training for productivity improvements and the building up of technological capability (see above) and given the increased competition which local manufacturing and services will face under SAPs, a much greater effort to build up human capital is needed than presently undertaken in SSA. In view of the problems of labour retention within enterprises, training should be considered as a 'public good' as skills created are deployed elsewhere in the economy. Hence, training provision may merit government intervention. However, the potential for earning increases for individual workers in response to better training, it is high and may well be increasing further; in this sense training could be regarded as a 'private good'. Because of this dual character of skill formation, sectoral trade unions are well placed to be involved in the provision of training services as they represent the interests of potential beneficiaries.

The development of local institutions for industrial training is an area that requires urgent attention in Africa. In any given country, there are only one or two public institutions that seem to provide training support for local industry. The handful of institutions that train are characterised by a shortage of trained teachers, inadequate equipment for training, poor library facilities and limited contacts with overseas training institutions. Moreover, the bureaucratic operating procedures adopted by these institutions mean that there is little effective demand from industry for their services. Local firms rarely solicit public institutions to provide in-plant training for specialised technological needs. There is a need to create responsive, well equipped training institutions in Africa; such institutions could adapt the experience of training and technology support for small and medium enterprises which is found in East Asia. (See Dahlman and Samanikone, 1990, on Taiwan’s experience.)

**Trade Unions.** In view of the far-reaching impact which adjustment programmes have on the labour market and employment, it is desirable that trade unions improve their policy analysis and policy monitoring capacity. Given their limited capacity in this area at present, this could be achieved through a greater use of the existing networks of economic and legal analysts within the countries. This could be an input for a policy dialogue with the government which could focus on greater flexibility of the implementation of policy reforms, taking into account the direct and indirect employment consequences of such reforms.

To participate in the design of public sector retrenchment programmes presents a strategic dilemma to trade unions: retrenchment involves a loss of employment and income opportunities to its members - indeed a loss of membership. However, the choice not to participate, which has been the common response across SSA, may have led to results which were not the best possible. Where procedures and criteria for retrenchment are reviewed and negotiated with worker’s representatives, it is more likely that a greater degree of efficiency as well as fairness may be achieved.

Beyond policy advocacy trade unions will need to expand their welfare activities so "... as to cater for the social needs of the victims of structural adjustment" (ILO, 1994) through policy advice as well as direct service delivery to its membership. It appears important that the range of technical services which trade unions provide be expanded. This would go beyond their established mandates which will remain focused on the negotiation of wages,
the wider application of collective bargaining agreements and services related to the enforcement of worker's rights (legal services, court advice etc.).

The specific problems of unmet training needs has to be addressed in a context of low investment by enterprises. The evidence indicates that the earnings premia on specialised technical training in SSA are considerable (Horton et al, 1994). The individual worker realises this premium, either through changing enterprises or setting up a new one, except where set-up costs are prohibitively high. Though the acquisition of skills is a 'private good', the costs of organising training is bound to be considerable and requires collective actions. Hence, the provision of these services could benefit from inputs and management from larger organisations such as trade unions.

The informal sector appears to be the employer of last resort and is effectively the destination for the majority of the school-leavers and retrenched formal sector workers across SSA. It appears inevitable that trade unions will have to become actively involved in that sector too. Credit constraints are widely quoted as the binding constraint on small enterprise development and informal sector activities. Trade unions could take steps to develop savings and loans associations to help members to start or expand small and medium scale enterprises. This could be a component of Social Fund programmes.

*Employers Organisations.* For employers organisations it appears equally imperative to improve their service delivery systems to the private sector enterprises. This may take the form of the provision of management training, legal advice and counselling, etc (see Bowland and Perera, 1985 and Clemenson, 1993). Levels of employee training are extremely low in African industry compared with other developing regions that have successfully managed the transition to manufacturing for export. Few African enterprises, apart from multinational firms, invest in training their employees in modern technologies. The traditional apprenticeship system does little to impart the requisite skills to absorb modern technologies. If Africa is to compete on international markets in a liberalised economic environment, levels of employee training need to boosted. Firm-level training may be encouraged by tax breaks and grants, for a limited period, to permit the hiring of international trainers and to send employees abroad for in-plant training overseas. Multinational corporations should be encouraged to provide training to local subcontractors in order to upgrade industrial skills though time-bound incentive schemes.

Finally, employers organisations should work closely with governments towards creating an enabling investment environment in SSA.
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Source: ILO Yearbook 1995
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<td>1078.0</td>
<td>3633.0</td>
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<td><strong>Kenya (Ksh.)</strong></td>
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<td>672.0</td>
<td>858.0</td>
<td>1301.0</td>
<td>2290.0</td>
<td>4502.0</td>
<td>7569.0</td>
<td>15130.0</td>
<td>16660.0</td>
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<td>858.0</td>
<td>1301.0</td>
<td>2290.0</td>
<td>4502.0</td>
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<td>557.0</td>
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<td>Q Real average monthly earnings non-agricultural wages</td>
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<td>362.7</td>
<td>362.7</td>
<td>362.7</td>
<td>362.7</td>
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<td>Q Real average Monthly Earnings manufacturing wages</td>
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</tbody>
</table>

*D = Data obtained from various sources  
*C = Own calculations  
**S = Series used in graphs*
Real Wage developments in Kenya
(1983=100)

Real wage developments in Zambia
(1980=100)
Real Wage developments in Zimbabwe
(1983=100)

- - Real aver. earnings non-agric. sector  - - Real aver. earnings manufact. sector
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