



# Meeting the challenges of unemployment and poverty in Africa

Poverty in Africa is substantially higher than in other developing regions. More enigmatic is that poverty in Africa is chronic and rising. The share of the total population living below the \$1 a day threshold of 46 per cent is higher today than in the 1980s and 1990s—this despite significant improvements in the growth of African GDP in recent years. The implication: poverty has been unresponsive to economic growth. Underlying this trend is the fact that the majority of people have no jobs or secure sources of income.

Various reasons have been given for Africa's lack of response of poverty to economic growth. First is the inadequacy of the growth rate. African countries need to grow by an estimated 7 per cent a year to reduce poverty enough to achieve Millennium Development Goal 1, of halving the number of poor people by 2015. This growth is far higher than the average of nearly 4 per cent in the last decade.

Second is the low labour absorption in the growth sectors. Growth has been concentrated in the traditionally capital-intensive extractive sector. Agriculture, which employs most people in most African countries, is characterized by low productivity growth, and thus has not provided enough real employment and income security to the population, particularly in rural areas.

Third is inequality in the distribution of opportunities created by economic growth.<sup>1</sup> Poor people lack the capacity to meaningfully participate in the economy, either as producers of goods and services or as suppliers of labour. There is a close association between employment performance and poverty prevalence: poverty rates have remained roughly constant in the same manner as the recorded unemployment rate since the 1980s (Tarantino 2003; ILO 2004c). And the volatility of growth has added to the vulnerability of poor people. Only a few countries in Africa have sustained growth over the years. Yet that is precisely what is required to increase employment and reduce poverty.

- Decent employment is the main escape route. A major route out of poverty in Africa is decent employment, a concept that encompasses the quality of employment—rooted in productive and secure jobs that provide adequate income and reasonable work conditions—and the quantity of employment.<sup>2</sup> Decent employment strengthens the link between economic growth and aggregate poverty reduction.

Prerequisites for creating decent employment include the transformation of African economies from low productivity traditional agriculture to labour-intensive high value agriculture

and agroprocessing—and to the growing industrial and services sectors, taking advantage of globalization’s opportunities. Political leadership is thus required in managing African economies to give priority to broad-based employment creation in national development programmes, including poverty reduction strategies.

- Political awareness is emerging among leaders. Interest in dealing with Africa’s employment challenge is emerging. African governments have, in recent years, asked about the connection between employment and poverty reduction and macroeconomic management and development frameworks.

The Declaration on Employment and Poverty Alleviation in Africa by the Heads of State and Government of the African Union in 2004 acknowledged that widespread poverty, unemployment and underemployment compromise basic human rights and the dignity of individuals and communities—and constitute a threat to social, economic and political stability. The declaration emphasized the urgency of employment creation as an “explicit and central objective of our economic and social policies”.<sup>3</sup>

- Empirical analyses to guide policy are lacking. African development policies and poverty reduction strategies are often silent with regard to employment. Data on the labour market are often not available, undermining the capacity to translate a political agreement on the centrality of employment creation into concrete development strategies. The lack of detailed analyses of employment in national development programmes may be attributed to the assumption that growth would automatically translate into more jobs, and to the lack of understanding of how the labour market works in Africa (ILO and UNECA 2004). There is a need for thorough analysis of employment issues to inform the poverty reduction and development policies of African countries.
- ***Reducing poverty by generating employment.*** This report focuses on four key challenges for Africa in the fight against unemployment and poverty: achieving structural transformation to break away from the underutilization of rural labour, addressing widespread youth unemployment, harnessing globalization to create decent jobs and creating an enabling environment for accelerated expansion of private sector job-creation through increased investments.

The report puts forward concrete approaches for decent employment-based poverty reduction programmes in Africa:

- Structurally transforming the economies of African countries through labour-intensive technologies, underpinned by productivity enhancements in agriculture and the informal sector.
- Improving poor people’s access to productive resources and requisite human capital to enable them to share in the benefits of growth.

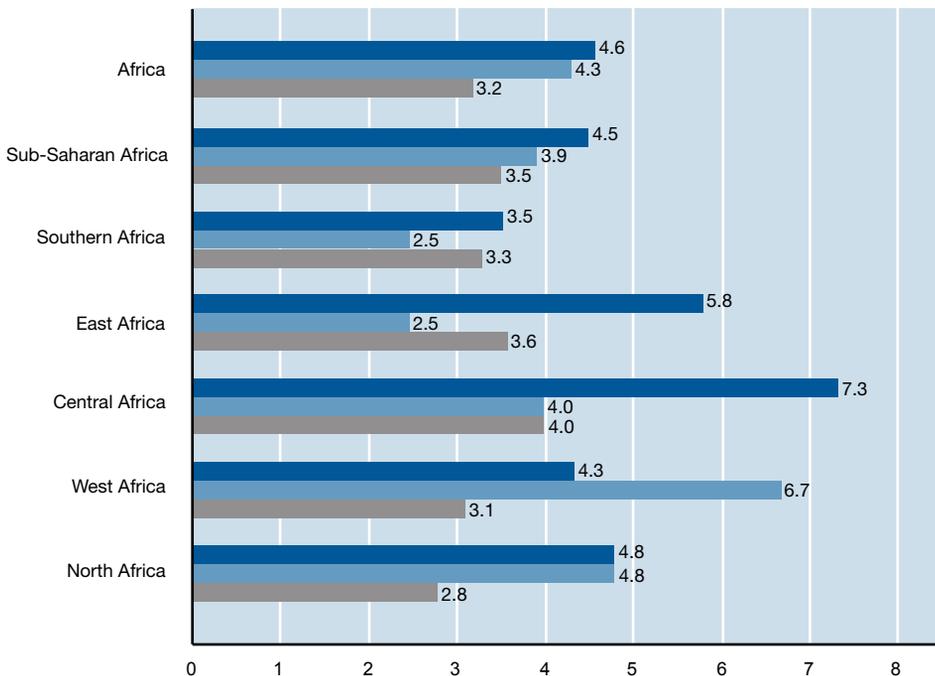
- Minimizing regulatory obstacles to private investment, domestic and foreign and providing productive infrastructure to make domestic firms competitive in a globalizing environment.
- Improving political governance to sustain growth, and to facilitate the equitable distribution of income and other economic opportunities, backed by the political will to secure change from traditional attitudes where desirable.

## Macroeconomic performance

### Higher GDP growth in 2004—but not enough to arrest poverty and unemployment

Africa recorded 4.6 per cent growth in 2004—the highest in almost a decade, and a continuing improvement over both 2002 and 2003 (figure 1). This improvement over 4.3 per cent in 2003 was underpinned by the strong global recovery and the resultant higher commodity prices, including higher oil production. Also contributing were good macroeconomic management, better agricultural performance across the continent, improved political situations in many countries and continued donor support in the form of aid and debt relief.

**Figure 1**  
GDP growth, by African region, 2002–04 (%)



Source: ECA, from official sources.

Prospects for growth in 2005 are high for oil-producing countries but shaky for oil-importing countries. The weather is expected to continue to be favourable, in support of agricultural sector growth and overall economic growth in a low-inflation environment. But continuing appreciation of domestic currencies, especially in the euro-pegged economies, is likely to hurt growth.

## **Marked regional and country differences in growth performance**

The regional differences in growth are marked (see figure 1). Except West Africa, regional growth was generally higher in 2004 than in 2002 and 2003. Central Africa was the fastest growing in 2002 and 2004. In 2004 it led the subregions with 7.3 per cent, followed by East Africa (5.8 per cent), North Africa (4.8 per cent) and West Africa (4.3 per cent).

Most countries failed, however, to meet the 7 per cent or more required to achieve Millennium Development Goal 1 to halve poverty by 2015. Only six countries achieved 7 per cent GDP growth in 2004: Chad (39 per cent), Equatorial Guinea (18.3 per cent), Liberia (15 per cent), Ethiopia (11.6 per cent), Angola (11.5 per cent) and Mozambique (8.3 per cent). Seventeen African countries registered positive but less than 4 per cent growth in 2004, while two contracted. Over 2000–04, only five countries achieved 7 per cent growth (Equatorial Guinea, Chad, Mozambique, Angola and Sudan), another nine grew at 5–7 per cent (Ethiopia, Rwanda, Liberia, Uganda, Burkina Faso, Mauritius, Senegal, Tanzania and Botswana), and two contracted (Seychelles and Zimbabwe).

## **Macroeconomic conditions—low inflation and improvements in fiscal health and the current account**

Macroeconomic conditions in the region continued to improve in 2004, thanks to prudent monetary and fiscal policies, better food supplies, increased official development assistance (ODA) inflows and debt relief as well as higher commodity prices. The restoration of peace and the stable political situation in several countries also contributed to the favourable macro-economic climate.

Inflation—measured by the consumer price index—eased to single digits at 8.4 per cent, down from 10.6 per cent recorded in 2003, as the pressure from high oil prices was relieved by good harvests and tight monetary and fiscal policies in many parts of the continent. On average, the fiscal deficit of the central government declined to an estimated 0.8 per cent of GDP in 2004, from 1.5 per cent in 2003. This is a remarkable achievement given the pressure on many countries to increase spending on poverty reduction.

The current account registered a surplus of \$2.8 billion in 2004, after three years of deficits. It improved from a deficit of 0.2 per cent of exports of goods and services in 2003 to a surplus of 1.2 per cent in 2004, thanks to rising oil and commodity prices. The number

of countries registering current account surpluses rose from 11 in 2003 to 14 in 2004, eight of them oil producers.

## **The Heavily Indebted Poor Countries Initiative provided fiscal support—but not enough to ensure sustainable debt**

Major contributors to Africa's improved macroeconomic situation were the debt relief through the Highly Indebted Poor Countries (HIPC) Initiative and increased inflows of ODA. The HIPC Initiative aims to reduce the external debts of heavily indebted poor countries by providing debt relief, and thereby redirecting resources to investments in social development that would otherwise have been used for debt-servicing. Because the initiative is still unfolding, strong views on its long-term effects may be premature. But some key constraints have been identified: the slow pace of delivery, the probability of achieving long-term debt sustainability, methodological weaknesses in estimating sustainable debt, the difficulty for countries to remain on a policy reform track after the decision point and the insufficiency of debt relief.

Despite these constraints, 12 African countries had reached their HIPC completion point by the end of 2004 and qualified for debt relief. In 2004 alone five African countries reached their completion point in the enhanced HIPC Initiative: Ethiopia, Ghana, Madagascar, Niger and Senegal. While no country reached the HIPC decision point in 2004, 11 countries had reached it before that year, qualifying for interim debt relief. Burundi and the Republic of Congo are expected to reach their decision points in 2005.

## **Official development assistance is increasing**

Net ODA flows to Africa, key for boosting growth in African countries, increased to a record high of \$26.3 billion in 2003, from \$21 billion in 2002. This reversed the downward trend since the 1990s. Development Assistance Committee (DAC) donors as a group donate far below the promised 0.7 per cent of gross national income (GNI) to ODA, but four countries exceeded this benchmark in 2003: Denmark (0.84 per cent), Luxembourg (0.81 per cent), the Netherlands (0.80 per cent) and Sweden (0.79 per cent). Expected ODA from DAC countries is projected to rise from the current 0.25 per cent of GNI to about 0.30 per cent by 2006, consistent with the Monterrey Declaration of 2002.

## **The unemployment challenge**

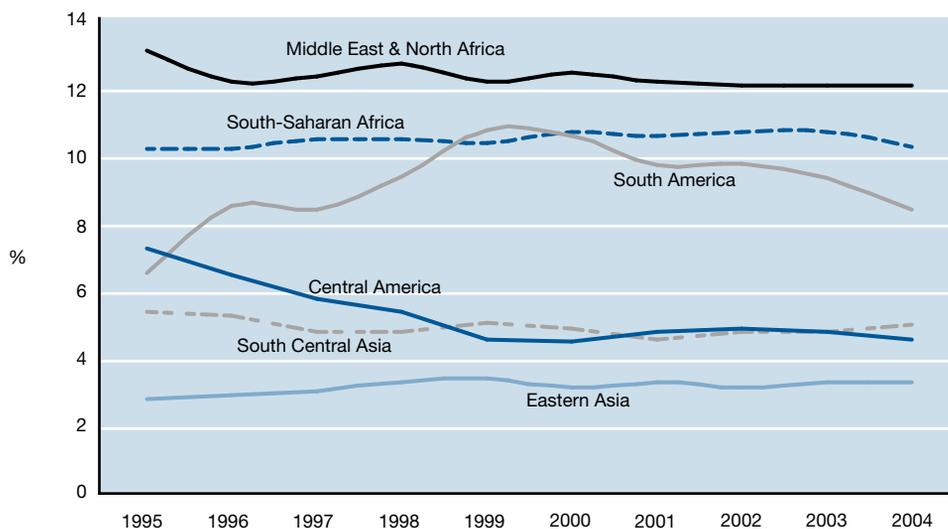
While macroeconomic performance has markedly improved in Africa since the mid-1990s, there seems to be little impact on unemployment. Average annual GDP growth increased steadily from less than 3 per cent in 1998 to 4.6 per cent in 2004. Yet unemployment has hovered around 10 per cent since 1995 (figure 2).

## The employment picture is bleak

The average rate of unemployment for 2003 is estimated at 10.9 per cent for Sub-Saharan Africa and 10.4 per cent for North Africa, higher than most other developing regions (ILO 2004a) (see figure 2).

Measured unemployment in Sub-Saharan Africa was estimated at 29.4 million, with marked differences by subregion, country, gender and age group. West Africa had the lowest unemployment rate in 2003, at 6.7 per cent, explained mainly by low participation in paid employment and the formal sector. Southern Africa had the highest rate, at 31.6 per cent. Among countries, the unemployment rate is low in Uganda, at 7 per cent, but high in Lesotho, at 39 per cent, in 1997.<sup>4</sup> Young females in Sub-Saharan Africa have a lower unemployment rate (18.4 per cent) than males (23.1 per cent), but their labour force participation is lower.

**Figure 2**  
*Unemployment rates, by region, 1995–2004 (%)*



**Source:** Tarantino 2003.

This “measured” unemployment for Africa, though higher than in other regions, seems unreliable and unrealistically low. Why? Many countries do not collect or report information. Reporting countries provide incomplete data, and not all the reported information is comparable across countries (box 1). Moreover, the computation of unemployment rates assumes that participants in the informal sector are employed, despite the fact that the vast majority of them work and earn very little.

## Box 1

### Comparability a problem? Yes

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

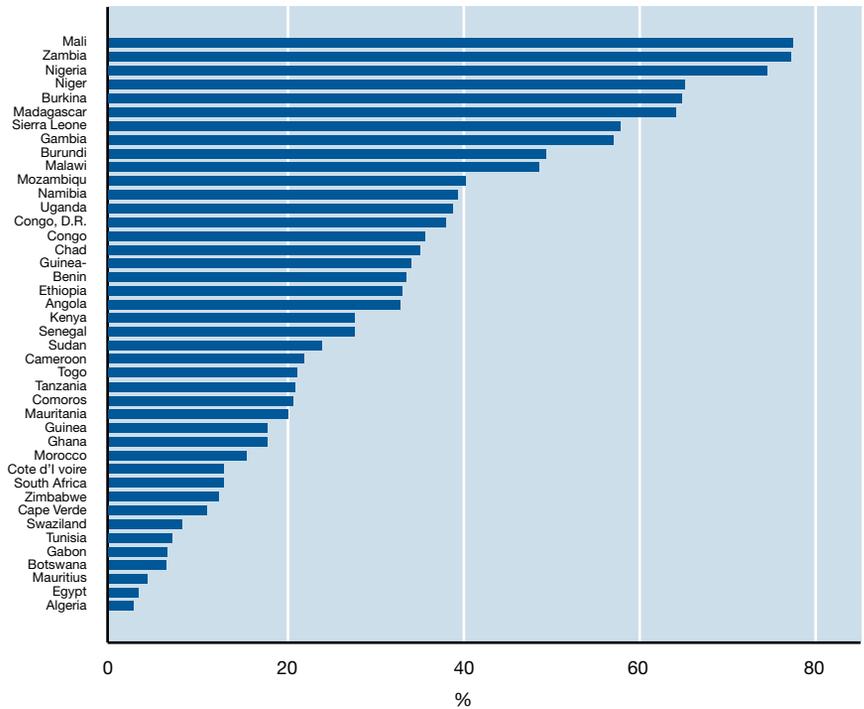
- *Conceptual variation.* National statistical offices, even when using International Labour Organization conceptual guidelines, do not follow the same measurement of employment and unemployment. For example, countries adopt different age limits in their definition of the labour force. Lower age limits in available data vary from age seven in Uganda to age 18 in Tunisia. And some countries use different upper age limits in estimating unemployment rates: age 64 in Egypt and age 69 in Namibia. Moreover, countries such as Lesotho, Zambia and Zimbabwe estimate unemployment rates from the civilian labour force rather than the total.
- *Different sources.* National labour market estimates are based on information from different sources. These differences generate substantial discrepancies in unemployment rates. In South Africa the unemployment rate derived from employment office records was 5.4 per cent in 1997, while the rate from the 1999 household survey was as high as 25.3 per cent. Unemployment rates in Algeria, Burundi, Mauritius and Nigeria are obtained from official estimates, rendering them not comparable with unemployment rates from household surveys in Egypt, Kenya, Uganda and Zimbabwe
- *Changing number of observations per year.* Due to seasonality, statistics for a given year may differ depending on the frequency: monthly, quarterly, semiannually or annually. In some countries estimates are based on two observation periods a year: March and September for Mauritius, and May and November for Egypt.

*Source:* ILO 2005a, 2005b.

## Unemployment is disguised by the high proportion of working poor and discouraged workers

The working poor account for almost 45 per cent of the total number of the employed in Sub-Saharan Africa (ILO 2004a). An estimated 110 million people considered employed earn below the poverty wage and are unable to provide their families with decent living conditions. In 1997 the working poverty rate was about 75 per cent in Mali, while only 3 per cent of the employed were living below the poverty line of \$1 a day in Algeria (Majid 2001) (figure 3). The working poor are mostly engaged in the informal sector and in agriculture, where underemployment is the norm.

**Figure 3**  
Working poverty rates, by country, in 1997 (%)



Source: Majid 2001.

### Nonagricultural workers, especially women, are concentrated in the low-paying informal sector

Over 1994–2000 informal employment accounted for 72 per cent of nonagricultural employment in Sub-Saharan Africa (ILO 2002). If South Africa is excluded, this share rises to 78 per cent. In North Africa 48 per cent of nonagricultural employment is informal.

Informal employment is generally a larger source of employment for women. In Sub-Saharan Africa 84 per cent of female nonagricultural workers are informally employed, compared with 63 per cent for their male counterparts. In North Africa, however, only 43 per cent of female nonagricultural workers are informally employed, compared with 49 per cent for men.

Workers in the informal economy tend to earn less than their counterparts in the formal sector. For example, whereas workers in the formal sector are usually paid more than the minimum wage—thanks to government wage policy and union activity—survey evidence from five African cities shows historically high proportions of informal sector workers earning less than the minimum wage (Charmes 1990): 67 per cent in Yaounde, 43 per cent in Bamako, 33 per cent in Lomé and 23 per cent in Kigali.

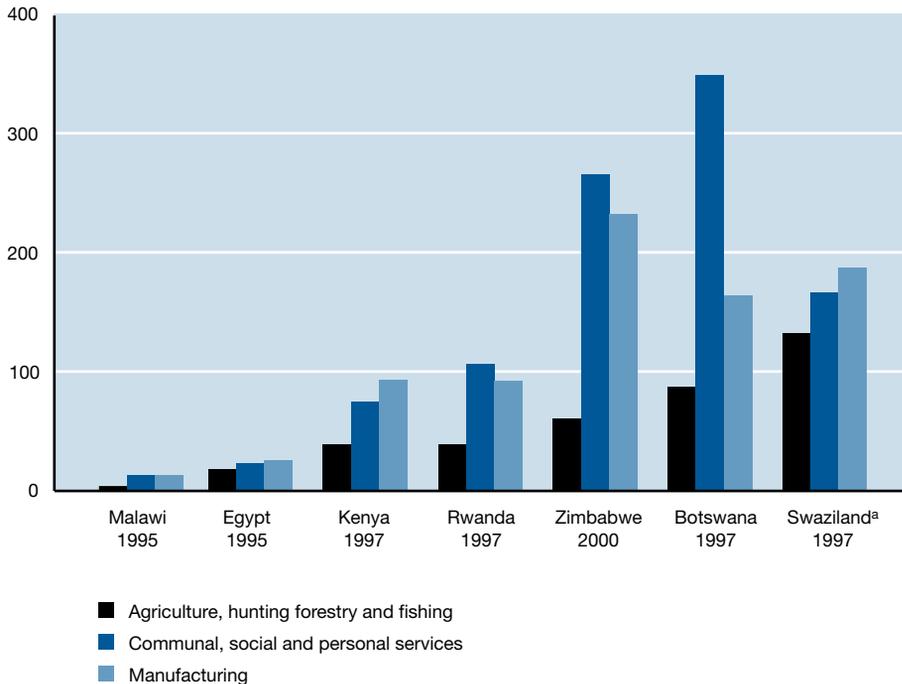
Workers in the informal economy thus face a substantially higher prevalence of poverty—and a high exposure to risk, given the conditions they live and work in (Chen 2000). Informal workers also tend to have little or no access to formal risk-coping mechanisms, such as insurance and pensions, or to services for production. They also lack the resources to pay for housing, healthcare, education and training.

Several factors account for the exclusion of the bulk of the population from formal employment: slow growth of the formal sector, limited labour market endowments and institutional barriers such as unions.

### High underemployment in the rural economy

Most workers in Africa are in the agricultural sector, characterised by seasonal underemployment. Many in rural areas work fewer hours than they would like, earn less than their counterparts in manufacturing and services (figure 4), use their skills less and are generally less productive.

**Figure 4**  
**Monthly wages by sector for seven African countries, various years (\$)**



a. Data are for unskilled workers only.

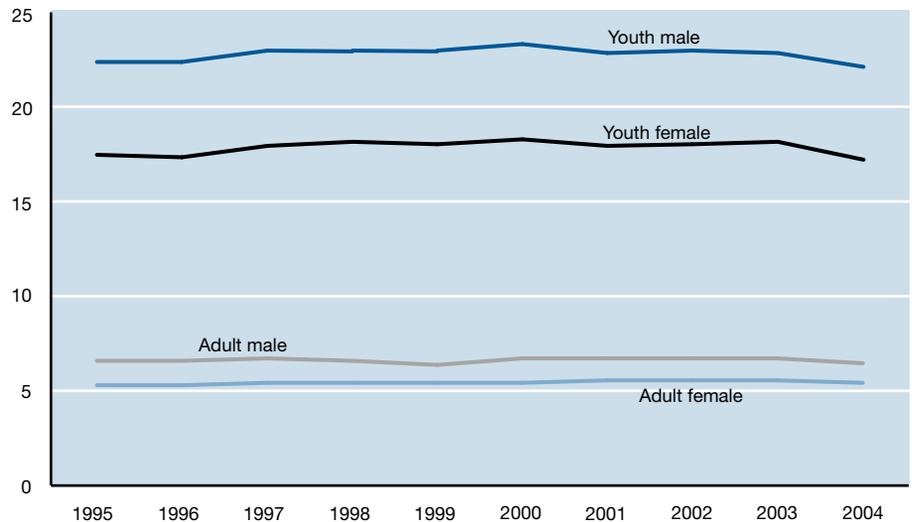
Source: ILO 2005b

In addition, traditional work arrangements—where the available tasks are through voluntary labour exchanges and community labour, common in many rural communities—distort labour allocations and lower the hours worked and incomes of individual community members. This under utilisation of the labour force’s productive capacity is a major source of working poverty.

## Youth unemployment is twice the average

Unemployment among youth is a particular problem in Africa (figure 5). At 21 per cent in Sub-Saharan Africa and 22.8 per cent in North Africa, the unemployment rate for youth ages 15–24 was twice that of the overall labour force in 2003 (ILO 2004b). In Sub-Saharan Africa unemployed youth as a share of the total unemployed was 63 per cent, even though youth made up only 33 per cent of the labour force. These much higher unemployment rates for youth hold for both males and females (see figure 5).

**Figure 5**  
*Unemployment rates in Sub-Saharan Africa, by gender and age group, 1995–2004 (%)*



**Note:** *Youth* refers to people ages 15–24 (or the closest available ages); *adult* refers to people ages 25–64.  
**Source:** Tarantino 2003.

## Female unemployment is disguised disproportionately

The official unemployment rate is lower for women than for men among both adults and youth, though more so for youth (see figure 5). This gap is observed only in Sub-Saharan Africa and East Asia. And the reality of the African labour environment is that

a disproportionately large share of female unemployment is disguised (box 2). So the effective unemployment rate for women is likely to be higher than what official statistics indicate.

## **Box 2**

### ***Female unemployment in Africa is underestimated***

Female unemployment in Africa may be underestimated for several reasons:

Given social norms, women are disproportionately involved in unpaid work at home and are not counted as unemployed.

More women than men can also be classified as “discouraged workers.” Women are less likely to find jobs in an environment of high unemployment so they drop out of the formal labour market and perhaps resort to the informal sector. In either case, they would not be counted as unemployed in the official statistics, and their unemployment would be “disguised”.

The official unemployment rates mask the fact that female workers are mostly in informal employment in Africa. In Sub-Saharan Africa 84 per cent of female nonagricultural workers are in the informal sector, compared with 63 per cent of males. In addition, most female informal sector workers are in self-employment rather than wage employment. In North Africa 72 per cent of female informal sector workers were self-employed in 1994–2000.

*Source: ILO 2002.*

## **The poverty-unemployment relationship**

Poor people have severely limited access to, and control over, key assets, including land and physical and human capital. Lacking production and labour market endowments, the poor have low income and low consumption. Most poor people are also inadequately educated and may be less healthy than the rest of the population. Many depend for their livelihoods on (low productivity) subsistence agriculture or on the informal sector, where returns to labour and capital are generally low. Workers in the informal sector have low salaries, limited protection and frequent spells of unemployment. These factors, coupled with lack of access to the institutions that shape policies, prevent poor people from acquiring the capabilities for decent living.

The number of people living below the poverty line only tells half the story. In Africa, not only do many people live below the poverty line but they also stay poor for long and sustained periods. Many of these chronically poor people only emerge briefly from poverty because of seasonal employment, but lack the impetus to contribute to technological change and economic growth. Unable to directly participate in the growth process, for this group, albeit insufficient, overall economic growth is necessary to boost their incomes.

In sum, the absence of a clear link between economic growth and poverty reduction has been shaped by two factors: first, the low employment intensity of the growth process, and second, poor people's inability to integrate into the growth process and reap the gains from employment opportunities.

## **Employment content of poverty reduction programmes needs to be addressed**

A major framework for poverty reduction in Africa is the Poverty Reduction Strategy Paper (PRSP), an initiative of the World Bank and the International Monetary Fund, embraced by many African countries. This instrument has enabled countries to increase investment in social services and achieve good results from fiscal operations. However, there is a need to re-think how employment can be mainstreamed into PRSPs. An evaluation of the 21 full PRSPs in Africa reveals considerable scope for incorporating neglected aspects of employment. Policy measures should be more sensitive to addressing African national employment concerns more systematically.

Most PRSPs do address employment generation through policies in agriculture and rural development, credits and loans, education and training, infrastructure investment, institutional capacity building and private sector development. But important employment effects of other policies—such as liberalization and privatization, global and regional integration and the effects of globalization—are ignored.

## **Broad-based employment growth is required to reduce poverty**

Curbing poverty through employment generation demands deliberate action. It requires coordinating the supply and demand for labour, because employment-intensive growth is necessary but not sufficient. That is, even if jobs are created, it is unlikely that the poor possess sufficient skills to take advantage of the new employment opportunities. That is why poor people must have access to human capital (education, skills and training, health), to assets such as land, and to markets. Special measures are required to overcome gender discrimination and restrictive labour regulations.

## **Meeting the challenges of employment for poverty reduction**

The fundamental issue in Africa's labour markets is the failure to create more and better paid jobs to meet the needs of the labour force and reduce poverty. The four key challenges:

- Achieving structural transformation to break away from rural underemployment and poverty.
- Addressing youth unemployment.

- Harnessing globalization to create decent jobs.
- Facilitating private sector investment to create more employment.

## **Structural transformation is required to break away from rural underemployment and poverty**

Stronger linkages among sectors, especially between the rural agricultural economy and the modern industrial and service sectors, are needed to enhance the employment and poverty-reduction effects of growth. They require structural transformation of African economies to generate employment growth that at least match the growth of the labour force.

The problem of low employment is rooted in the lack of structural economic transformation to diversify away from an agricultural sector characterized by low and falling productivity (Khan 1997). Agricultural productivity growth and increased farm incomes are prerequisites for structural transformation. Feedback from productivity gains in agriculture has been shown to spur growth of the manufacturing sector, for example. Empirical evidence shows that poverty reduction is strongest when agricultural growth is sustained at above 2 per cent a year (Islam 2004 [2004 in references]).

The continued annual decline in agricultural labour productivity in Africa therefore constitutes an impediment to structural transformation (FAO 2005).

The African labour force has been locked in this sector using traditional methods of production without expanding manufacturing and services to absorb excess labour from agriculture. Meanwhile, rapid urbanization has created an urban labour surplus. Raising productivity across the economy requires increased financial and human capital development, which requires demographic transition—namely, low mortality and fertility rates.

To transform the agricultural and the rural sectors would require agroindustrial, agribusiness and service sector development to be accompanied by increased agricultural productivity through initiatives that promote human capital development and spur a green revolution. This would have positive effects on urban labour markets by reducing food prices and hence the nominal wage growth necessary to absorb labour in the urban industrial sector.

Stimulating structural transformation in Africa to accelerate growth, create employment, and reduce poverty hinges on completing Africa's demographic transition, smoothing population migration from rural to urban areas and reducing population and urbanisation growth rates; increasing agricultural productivity, and enhancing agricultural links to the industrial and service sectors; and facilitating the growth of job-creating small and medium-size enterprises through rigorous public-private partnerships to improve the provision of infrastructure, credit, inputs, markets, training and other services.

## Youth unemployment needs to be tackled head-on

Youth in Sub-Saharan Africa are 3.5 times more likely to be unemployed than adults are (ILO 2004b). A survey in South Africa found that 39 per cent of unemployed youth had almost stopped actively searching for a job (Kanyenze, Mhone and Sparreboom 2000). Less experience and inadequate education put youth at a disadvantage even when higher economic growth translates into overall increased employment opportunities. During periods of economic upturn youth are the last to be hired, and in economic downturn they are first to be fired.

Severe economic and social costs are associated with youth unemployment. With limited options unemployed youth are more likely to engage in criminal behaviour, particularly armed robbery, as evidenced by events in Nigeria and South Africa, as well as other high risk and self-destructive behaviour, such as sex work and illicit drug use. A particularly troublesome adverse consequence of youth unemployment is the recruitment of child combatants for armed conflict, which has harmed African economies (Fosu 2005a). Key tasks to address the special difficulties of youth in labour markets are: mainstreaming youth employment programmes and policies; reforming education; engaging in public-private sector partnerships in order to secure resources; and providing for the health of youth, especially young women.

Mainstreaming youth in key development programmes such as poverty reduction strategies is imperative for addressing the youth employment problem. However, the employment content of PRSPs in Africa remains weak. This shortcoming must be addressed in the next generation of poverty reduction strategies. Furthermore, the development of national employment strategies targeting youth employment should be accelerated by adoption of the UN Secretary-General's Youth Employment Network initiative, coupled with the establishment of job centres with specific youth departments.

Youth unemployment is partly the consequence of a mismatch between inadequate educational outcomes and skills demanded (Boateng 2002). The educational system must provide the skill profiles required by the labour market if employability of young people is to be enhanced. At the formal school level this requires achieving full enrolment in primary schools and reducing dropout rates. Also required are complementary policy interventions to enhance quality, gender parity, curriculum development and technical and vocational education.

Partnerships are essential for overcoming financial and resource constraints in education. They also help provide feedback from the private sector to the educational system on labour market needs, thus mitigating the skills mismatch in education systems in much of Africa.

Health policies that address youth in general, and young women and HIV/AIDS in particular, are crucial. Good health is the basis for performing well in education, training and on the job. The causality between youth health and unemployment runs both ways. On one hand, unemployed youth are vulnerable to the health risks associated with poverty, marginalisation and risky behaviour. On the other hand, poor health status constrains

young people from actively participating in the labour market due to absenteeism, which compromises their trainability and undermines productivity.

## **Harnessing globalization to create decent jobs and reduce poverty**

Although Africa's share in worldwide flows of trade, investment and remittances is low, globalisation affects its economies substantially.<sup>5</sup> On the basis of foreign trade as a share of GDP, Africa is one of the most open regions in the world, behind only East Asia. However, the share of foreign direct investment in GDP remains at around 2 per cent, and worldwide, foreign direct investment has fallen, while Africa's share of world exports has declined from about 6 per cent in 1980 to approximately 2 per cent in 2003 (UNCTAD 2004). Africa has apparently failed to harness the forces of globalization.

Globalization plays an important role in creating decent jobs in the domestic labour market through increased investments, diffusion of technology and improved labour standards. However, there are downsides. Domestic economic decisions are heavily influenced by global conditions, and production processes are spread over several continents, meaning employment could be less stable and requiring measures to address these downside risks.

The magnitude of benefits from globalization is positively linked to productivity growth. Trade and foreign direct investment will increase only if a country is competitive in the international market. Competitiveness in turn depends crucially on wage-adjusted productivity. Likewise, there is a strong link between productivity growth and poverty reduction, as increases in productivity will allow wages to rise. Though a higher share of exports is generally associated with less poverty, this effect is stronger for countries with high literacy rates and a low share of raw material exports.

To create competitive conditions for enhancing the positive impacts of globalization for poor people, the following measures are recommended:

- **Upgrading skill levels.** Globalization will increase employment and reduce poverty in Africa only if skill levels are improved and economic structures are transformed. The East Asia success story of the 1970s and 1980s is not likely to be repeated in Africa if skill supply is inadequate. Unit labour costs in Africa are higher than in East Asia. To be competitive African countries need to increase and retain investment in human capital and address institutional factors fuelling nominal wage growth.
- **Developing key infrastructure.** Infrastructure provides the main mechanism for transmitting global opportunities to local markets. Lessons from both Asian and African countries show that productivity and hence employment-creating investments can be raised if key infrastructure is installed. Information and communication technology infrastructure, for example, has to be updated. In an increasingly knowledge-intensive world support for knowledge-based development is necessary for effective participation in the world economy (Lall 2004).

- ***Well designed industrial policies.*** The “Asian miracle” was not driven by liberalization *per se* but by well-designed industrial policies, including directed credit, trade protection, export subsidization and tax intervention. The East Asia policy package worked because incentives were combined with discipline through government monitoring and the use of export performance as a productivity yardstick. In Africa export processing zones have been successful in Madagascar and Mauritius. By 2001 in Madagascar export processing zones firms had created more than 100,000 jobs (Glick and Roubaud 2004). Women accounted for 68 per cent of workers in the sector, though their share declined as the skills intensity of jobs increased. To be successful, export processing zones need strong government backing and effective public management to closely monitor enterprises. They should also be embedded in an outward-oriented strategy of development.
- ***Promoting sector and industry links.*** Labour-intensive sectors, as well as firms with strong links to other sectors of the economy, should be preferred in order to increase the domestic impact of technological upgrading. Link programmes should focus on the competitive needs of domestic enterprises through private and public support institutions. Indeed, complementarities with domestic firms should be the selective basis for attracting foreign direct investment (Fosu 2004).
- ***Taking a stake in global value chains.*** Tighter management of global value chains by multinational firms requires products of higher quality and more reliable supply. To increase the benefits from production of high value agricultural products, smallholders must be linked to international markets through those value chains. For example, to help small Kenyan farmers participate more in value chains of horticultural production, support for farmer groups, including joint irrigation schemes, is needed. Also needed are market information, extension services and standards. New institutional arrangements are needed to enforce contracts between farmers and exporters. These measures can reduce the risk for both farmers and exporters of high value products.
- ***Encouraging the African diaspora to invest.*** Migrants can contribute to employment creation through remittances. For example, migrants have financed most of a small Senegalese village’s collective projects, such as the post office, drinking water systems, community clinics and school renovation. Likewise, returning migrants can use their experience and contacts to set up businesses. Migrant networks should be regarded as an asset and better exploited. Because contract enforcement across borders is especially difficult for small and medium-size enterprises, ethnic networks can play a crucial role in fostering cross-border trade and investment links. Furthermore, migrants can facilitate the flow of information and knowledge, thereby increasing productivity.
- ***Mitigating risks of globalization.*** Mitigating the adverse effects of globalization includes providing basic social security, retraining workers for growing sectors and improving access to education and credit. Providing safety nets will not only reduce adjustment costs but could also have positive dynamic effects. If poor farm households were protected against income losses, they could take on riskier but higher return activities, thus raising their average income.

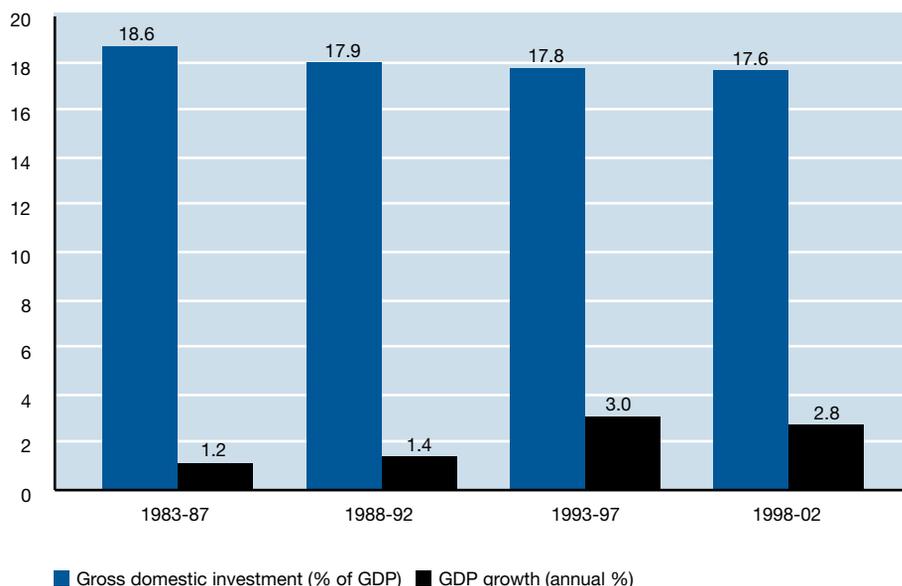
## Creating an enabling environment to generate decent private sector jobs

The public sector has traditionally been the largest employer in Africa. Facing fiscal constraints, however, African governments can no longer fulfil this task. So far, the formal private sector has not been able to take over the role as the major job supplier, with only around 10 per cent growth in employment (Adenikinju and Oyeranti 2003). Today, the role of government is to create an enabling environment for private sector development, the fruits of which include increased investments and employment for the population.

Macroeconomic stability is a key to an enabling investment environment. Macroeconomic stability in Africa was largely achieved in the mid-1990s: fiscal deficits have mostly been kept under control, exchange rate regimes have become more flexible, and inflation has been kept below double-digit levels in most countries. Meanwhile, economic growth has picked up. But it has not been associated with higher levels of investment. The average investment rate for Sub-Saharan Africa has largely stagnated over the last two decades (figure 6), suggesting that the improved growth performance is attributable to increased productivity of capital.

**Figure 6**

*Gross domestic investment and real GDP growth in Sub-Saharan Africa, 1983–2002*



Source: World Bank 2004b.

High transaction costs, resulting from an unfriendly business environment, are one of the main reasons why private investment is lagging. There is the need for African countries to address constraints in the business sector—poor infrastructure, the institutional setting responsible for the high cost of starting and operating a business and limited access to finance—in order to encourage private sector investment and create jobs. The cost of registering a business in Africa is the highest in the world, and is one of the main reasons why many small businesses decide to remain informal (World Bank 2004a). Firm surveys from various African countries reveal that bribes are a major cost to business, and the prevalence of corruption is linked to unpredictable and nontransparent interpretation of regulations (Collier 2000).

Poor infrastructure, in particular poor road networks, unreliable energy supply and insufficient telecommunication facilities create high transaction costs and are serious obstacles to operating a business. For example, in Uganda a survey of 243 firms found that firms often have to purchase their own generators because of unreliable energy supply (Reinikka and Svensson 1999). This cost represents 25 per cent of the firm's total investment in equipment and machinery. And many small firms cannot afford a generator. Given the constraint of public resources, infrastructure is a promising field for public-private partnerships.

Contract enforcement in Africa is extremely costly and lengthy. In four countries (Burkina Faso, Chad, Democratic Republic of Congo and Malawi) the cost is often higher than the claim itself (World Bank 2004a). So far, few African countries besides Tunisia, which has one of the fastest procedures for contract enforcements in the world, have successfully reformed.

Many informal sector enterprises in Africa fail to grow and succeed in the formal sector because the entrepreneur lacks bookkeeping and market analysis skills. Access to finance is also a major constraint for small enterprises in Africa. In most African countries banks are reluctant to lend to small and medium-size enterprises because small loans have high transactions costs and risks and low returns. Also supervisory and capital adequacy requirements often discourage serving small borrowers who lack collateral. Promoting microfinance institutions would increase the possibilities for the financial sector. For example, in Swaziland microfinance institutions provide 38 per cent of formal loans (Elhiraika 1999).

Labour markets in Africa suffer from several market failures. First, institutions such as public employment centres lack adequate resources to effectively coordinate labour demand and supply. Second, the state often intervenes in the labour market to protect workers. Although protecting labour is important, overprotecting labour can raise the implicit cost of labour, thereby discouraging employment in the private sector, as seen in several African countries.

Based on best practice examples across the continent and other developing countries, the following proposals should help address these constraints in Africa:

- ***Improving infrastructure.*** Private-public partnerships are key to mobilizing the resources required for improving infrastructure in Africa.

- ***Reducing transaction costs for formal sector businesses.*** A way to reduce business registration costs is to provide one-stop shops and minimize the number of required procedures. For example, by introducing one-stop shops, Morocco successfully reduced to five the number of registration procedures. Ethiopia also decreased the cost of registering a business by 80 per cent in 2003 simply by abolishing the requirement to publish notices in two newspapers.
- ***Addressing corruption.*** Addressing corruption starts from reforming bureaucracy, paying decent salaries, creating credible institutions to prosecute corrupt activities, and raising awareness of how corruption undermines the system.
- ***Ensuring contract enforcement.*** Having enforceable contracts is a key issue for a functioning private sector. Successful experiences worldwide show that successful reform must include bringing cases to court without lawyers, reducing written documents, improving information systems and judicial statistics, and introducing summary proceedings and random case management.
- ***Promoting entrepreneurial skills and harnessing networks.*** The positive returns from entrepreneurial training in Malawi and Zambia suggest that entrepreneurial training should be increased and entrepreneurial skills integrated into school and university curricula (Baerenz and Roesch 2003).
- ***Getting the financial sector ready for small-scale lending.*** Collateral requirements must be reformed to enhance small-scale lending. Introducing private and public credit registries with information on a client's track record would reduce the problem of asymmetric information, and could improve small and medium-size enterprises' access to credit, while reducing loan costs.
- ***Preparing the labour market to coordinate private sector employment.*** Job centres must be more than mere placement agencies. They need to assess training needs and offer adequate training in order to effectively coordinate demand and supply in labour markets.
- ***Improving overall governance.*** Improved public financial management, adherence to the rule of law and democratic principles, and macroeconomic stability are essential for generating sufficient investments to create employment and reduce poverty.

## The way forward: a summary of policy recommendations

Decent employment should be at the heart of the poverty battle. Central to the poverty problem have been: the slow growth of jobs in the formal sector, the low earnings and low productivity in the informal sector, which employs most of the urban labour force, and stagnation in the agricultural sector, employing most of the rural population.

African employment and poverty reduction policymakers should therefore undertake measures aimed at:

- Improving agricultural productivity through modern farm techniques, small-scale irrigation and improved storage and packaging as well as strengthening agroprocessing and marketing infrastructure to link agriculture with other sectors of the economy.
- Promoting labour-intensive techniques, particularly in sectors that employ a disproportionate share of poor people.
- Diversifying exports to minimize adverse effects of terms of trade instability on households.
- Reducing taxes on producers to ensure that labour benefits from improved terms of trade.
- Bolstering intersectoral links to maximize spillover effects of growth through the design and promotion of integrated development projects.
- Maximizing private sector job creation by removing constraints to investments and growth and by minimizing bureaucratic constraints.
- Setting identifiable employment targets in a comprehensive development strategy to facilitate effective monitoring of progress in realizing employment goals.
- Ensuring that poverty reduction is incorporated into national budgets and is given priority funding from domestic and external sources.
- Implementing the policy recommendations of the Declaration on Employment and Poverty in Africa in the context of committed leadership, backed by sound analytical research.

## Endnotes

- 1 For example, Ali and Thorbecke (2000) and Fosu (2005b) find that income inequality, resulting most likely from inequality in the distribution of opportunities, has a greater impact on poverty than growth.
- 2 “Decent work” sums up the aspirations of people in their working lives. It involves quality of opportunity for all women and men and opportunities for work that is productive and that delivers a fair income; security in the workplace; social protection for families; better prospects for personal development and social integration; and freedom for people to express their concerns, organize and participate in the decisions that affect their lives (see [www.ilo.org/public/english/decent.htm](http://www.ilo.org/public/english/decent.htm)).
- 3 See Commitment 5 of AU (2004).
- 4 See ILO (2004b).
- 5 For a survey on the importance of the global context for African economies, see Fosu (2001).

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