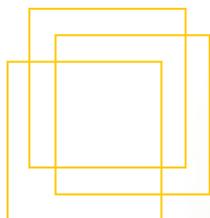




International  
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# **Towards Decent Work in sub-Saharan Africa Monitoring MDG Employment Indicators**



**Edited by  
Theo Sparreboom and Alana Albee**

# **Towards Decent Work in sub-Saharan Africa Monitoring MDG Employment Indicators**

Edited by Theo Sparreboom and Alana Albee

International Labour Office

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# PREFACE

Recognizing that decent work is a fundamental goal in its own right, a new target was introduced under the first Millennium Development Goal in 2008 – to achieve full and productive employment and decent work for all, including women and young people. The indicators that were adopted to monitor the achievement of the new target brought both challenges and opportunities. Building on ILO activities in several departments in the context of the MDGs and related analytical work, this book demonstrates the usefulness of the new employment indicators in sub-Saharan Africa as a basis for improved labour market and poverty monitoring as well as improved employment policy development.

With currently less than four years remaining until 2015, the MDG target on poverty reduction is within reach globally. However, this is not the case in sub-Saharan Africa. Despite rapid economic growth in the years leading up to the global economic crisis, the region continues to face extraordinarily large decent work deficits and widespread poverty. This is one of the reasons for the focus of the second African Decent Work Symposium on “Building a social protection floor with the Global Jobs Pact” (Yaoundé, October 2010). The Symposium deliberated on the need for enhanced national social protection floors, investment in socio-economic development and consolidation of economic recovery processes on the continent, and recommended a “New Vision for Inclusive, Job-Rich Growth for Africa”.

Indeed, the employment challenges facing sub-Saharan Africa in the years to come are arguably more daunting than in any other region. Responding to these challenges necessitates re-orientating national strategic priorities in such a way that the current economic growth agendas become pro-employment. In other words, national growth strategies in Africa are being called on to generate more high-quality productive jobs based on accelerated productive transformation and upgrading.

How this is done is specific to each country's specific circumstances, the analysis of which can be strengthened by rigorous employment diagnostics. This book demonstrates that the use of MDG employment indicators provides a major building block for such diagnostics. The indicators offer a first step in the analysis of labour market issues to which policies can be directed, and also points to areas in which additional information is required.

In practical terms at the country level, it is essential that the goals and targets enshrined in the Millennium Declaration are nationally owned and form a core part of national labour market information and analysis systems on the one hand, and national development strategies and their monitoring on the other. This book aims to contribute to this objective.

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Alana Albee  
Theo Sparreboom



# ABBREVIATIONS AND ACRONYMS

<b>AfDB</b>	African Development Bank
<b>AIDS</b>	Acquired Immune Deficiency Syndrome
<b>AUC</b>	African Union Commission
<b>CAGR</b>	Compound Annual Growth Rate
<b>CFA franc</b>	Franc de la Communauté Financière Africaine
<b>CIS</b>	Commonwealth of Independent States
<b>CNEFP (Burkina Faso)</b>	National Employment and Vocational Training Council
<b>CPI</b>	Consumer Price Index
<b>EPR</b>	Employment-to-Population Ratio
<b>EPZ</b>	Export Processing Zone
<b>EU</b>	European Union
<b>GDP</b>	Gross Domestic Product
<b>GHS</b>	Ghanaian Cedi
<b>GLSS</b>	Ghana Living Standards Survey
<b>HIES</b>	Household Income and Expenditure Survey(s)
<b>HIV</b>	Human Immunodeficiency Virus
<b>HIPC</b>	Highly Indebted Poor Countries Initiative
<b>IAEG (UN)</b>	Inter-Agency and Expert Group

<b>IBRD</b>	International Bank for Reconstruction and Development
<b>ICLS</b>	International Conference of Labour Statisticians
<b>ICSE</b>	International Classification by Status in Employment
<b>ICT</b>	Information and Communication Technology
<b>IES (South Africa)</b>	Income and Expenditure Survey
<b>ILO</b>	International Labour Organization or Office
<b>IMF</b>	International Monetary Fund
<b>INSD (Burkina Faso)</b>	National Statistical and Demographic Institute
<b>ISIC</b>	International Standard Industrial Classification
<b>ISSER (Ghana)</b>	Institute of Statistical, Social and Economic Research
<b>KILM</b>	Key Indicators of the Labour Market
<b>LCU</b>	Local Currency Unit
<b>LFS</b>	Labour Force Survey(s)
<b>LMIA</b>	Labour Market Information and Analysis
<b>LP</b>	Labour Productivity
<b>LSMS</b>	Living Standards Measurement Survey(s)
<b>MDG</b>	Millennium Development Goal
<b>MPC (South Africa)</b>	Monetary Policy Committee
<b>MYE (Burkina Faso)</b>	Ministry of Youth and Employment
<b>NBS (Tanzania)</b>	National Bureau of Statistics
<b>NEP</b>	National Employment Policy
<b>NIDS (South Africa)</b>	National Income Dynamics Study
<b>NPL</b>	National Poverty Line
<b>ODA</b>	Official Development Assistance

<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>ONEF (Burkina Faso)</b>	National Employment and Vocational Training Observatory
<b>PHDR (Tanzania)</b>	Poverty and Human Development Report
<b>PPI</b>	Producer Price Index
<b>PPP</b>	Purchasing Power Parity
<b>PRS</b>	Poverty Reduction Strategy
<b>QLFS (South Africa)</b>	Quarterly Labour Force Survey
<b>SADA</b>	South African Data Archive
<b>SALDRU</b>	Southern Africa Labour and Development Research Unit
<b>SAR</b>	South African Rand
<b>SASQAF</b>	South Africa Statistical Quality Assessment Framework
<b>SNA</b>	System of National Accounts
<b>SSA</b>	Sub-Saharan Africa
<b>Stats SA</b>	Statistics South Africa
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>UNECA</b>	United Nations Economic Commission for Africa
<b>UNSD</b>	United Nations Statistical Division
<b>US\$</b>	United States Dollar
<b>VER</b>	Vulnerable Employment Rate
<b>WAP</b>	Working-Age Population
<b>WPR</b>	Working Poverty Rate



# CHAPTER 1. INTRODUCTION

*Theo Sparreboom<sup>1</sup> and Alana Albee<sup>2</sup>*

## 1.1 Background

In 2008, a new target on decent work was included under the Millennium Development Goals following the work undertaken by the Commission for Social Development on the priority theme of promoting full, productive employment and decent work for all.<sup>3</sup> This work guided the members of the Inter-Agency and Expert Group (IAEG) on Millennium Development Goal (MDG) indicators in expanding the existing set with four new employment indicators (see box 1.1 below).<sup>4</sup>

The International Labour Organization (ILO), as the lead United Nations (UN) agency promoting full, productive employment and decent work for all, has central responsibility for ensuring that these new employment indicators are used in international labour market monitoring systems. Embedding these indicators in national development strategies and in national monitoring systems is also a foundation stone of the ILO's country-level support through Decent Work Country Programmes. The global economic crisis and its impact on labour markets have heightened further the need for this stronger set of indicators and more consistent monitoring of labour markets.

To respond to this need, a number of analytical and capacity-building activities have been supported by the ILO to strengthen labour market information,

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1 Employment Trends, International Labour Office.

2 Country Employment Policies, International Labour Office.

3 See: <http://www.un.org/esa/socdev/csd/2007/documents/final-report-eng.pdf>.

4 The IAEG is responsible for monitoring and reporting on progress towards the MDGs. The Group also reviews and defines methodologies for construction of the indicators, produces guidelines, and helps define priorities and strategies to support countries in data collection, analysis and reporting on MDGs.

analysis and evidence-based policy-making using the new indicators.<sup>5</sup> In sub-Saharan Africa (SSA), two technical seminars were organized to strengthen capacity for country-level analysis of the indicators.<sup>6</sup> During these seminars, questions were raised by statistical agencies and government departments about the calculation, interpretation and use of the indicators in the context of labour market monitoring and policy development.

This book addresses the most frequently asked questions. It provides a systematic discussion of the indicators, their strengths, limitations and empirical development over time in sub-Saharan Africa. Although technical details have been included for the benefit of analysts and practitioners, the book also targets policy-makers by focusing on the main labour market issues and policies that relate to these MDG employment indicators.

## 1.2 Millennium Development Goal employment indicators

The new employment target and indicators form part of the first Millennium Development Goal, which is to eradicate extreme poverty and hunger. MDG1 now contains three targets, the second of which, Target 1B, focuses on achieving “*full and productive employment and decent work for all, including women and young people*” (see box 1.1). This target recognizes that, for the large majority of people, labour is their main asset, and overcoming poverty and hunger requires opportunities for decent work. In other words, labour markets play an essential role in the achievement of the first Millennium Development Goal and, as such, assessing progress towards this goal necessitates rigorous monitoring of labour markets.

Even though the target on decent work was only recently introduced under MDG1, the four employment indicators used to monitor the achievement of this target are not new. With the exception of the indicator on working poverty, which was developed more recently, the indicators have routinely been used for decades in many countries to monitor labour markets.<sup>7</sup> What is new is the use of these indicators for monitoring progress in achieving decent work in the context

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5 Activities included the production of a guide which covers definitions, data sources, calculations and analysis of the new indicators (see ILO, 2009a).

6 The first Technical Seminar on “Strengthening Labour Market Information to monitor progress on Decent Work in Africa” was held in Addis Ababa in July 2009 (see ILO, 2009b); a second workshop was held in Dakar in Dec. 2009.

7 Three of the four indicators have been part of the ILO’s Key Indicators of the Labour Market (KILM) since its inception (see ILO, 1999), while the indicator on working poverty was introduced in the KILM in the fourth edition (see ILO, 2006).

**Box 1-1**

**Millennium Development Goal 1:  
Eradicate extreme poverty and hunger**

**MDG Target 1A:**

Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day\*

INDICATORS:

- 1.1 Proportion of population below US\$1.25 purchasing power parity (PPP) per day
- 1.2 Poverty gap ratio
- 1.3 Share of poorest quintile in national consumption

**MDG Target 1B (new):**

Achieve full and productive employment and decent work for all, including women and young people

INDICATORS:

- 1.4 Growth rate of GDP per person employed (growth rate of labour productivity)
- 1.5 Employment-to-population ratio
- 1.6 Proportion of employed people living below US\$1.25 (PPP) per day (working poverty rate)
- 1.7 Proportion of own-account and contributing family workers in total employment (vulnerable employment rate)

**MDG Target 1C:**

Halve, between 1990 and 2015, the proportion of people who suffer from hunger

INDICATORS:

- 1.8 Prevalence of underweight children under five years of age
- 1.9 Proportion of population below minimum level of dietary energy consumption

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\* Following the release of new poverty estimates by the World Bank in 2008 (Ravallion, Chen and Sangraula, 2008), extreme poverty is monitored using a threshold of US\$1.25 a day in 2005 prices, but the formulation of MDG1A has remained the same (referring to one dollar a day); see <http://mdgs.un.org>.

of the MDGs. This implies an enhanced role of labour market monitoring to inform policies in many developing countries.

The four indicators as a set provide a starting point for assessing labour markets in the context of a developing economy. Change in one indicator often affects other indicators within the set. For example, labour productivity can be used to assess the extent to which an economy can provide and sustain decent employment opportunities. If the growth rate of labour productivity is close to zero or negative, improvements in working conditions for any specific group of workers are difficult to achieve without reducing incomes or benefits of other groups. Conversely, sustained growth in labour productivity can be expected to raise earnings and the quality of jobs, which in turn will be reflected in decreasing vulnerable employment and working poverty rates. In the process, and in part because children and youth will remain longer in education and training systems as economies develop, the employment-to-population ratio (EPR) is likely to decrease. Therefore, the interaction between the four indicators in this set can function as a framework of country-level labour market analysis.

Sub-Saharan Africa has witnessed some development and improvement in labour market outcomes in recent years, helped by a decade of strong economic performance (IMF, 2009). Yet progress in the achievement of decent work has not matched the pattern of growth, and has been slow and uneven in many countries. As noted in a report for the *1st African Decent Work Symposium* in Ouagadougou, Burkina Faso, in December 2009, Africa was facing a series of crises even before the global crisis started in 2008 (ILO, 2009c). A key element identified in the *Roadmap for the Implementation of the Global Jobs Pact in Africa*, which is the International Labour Organization's response to the crisis, is strengthening of labour market information and analysis (LMIA).<sup>8</sup>

### 1.3 Labour market information and analysis systems in sub-Saharan Africa

Labour market information and analysis systems consist of three main components: (1) collection and compilation of data and information; (2) analytical capacity and tools; and (3) institutional arrangements and networks. The effectiveness of an LMIA system depends on data availability and quality across sources of labour statistics, and capacity to contextualize the analysis

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8 See the website of the ILO Regional Office for Africa: <http://www.ilo.org/public/english/region/afpro/addisababa/index.htm>.

of the data such that it informs policy-makers and stakeholders. The strength of the system often relates to the level of development of a country and the resources made available for the LMIA system. Effectiveness may be enhanced by more complex institutional arrangements, such as outsourcing of activities to specialized agencies or research institutions, using well-coordinated webs of LMIA institutions that have been built up over many years (Sparreboom, 2010).

A basic LMIA system consists of monitoring or tracking of a set of indicators, such as the ILO's Key Indicators of the Labour Market (KILM) or a selection thereof (ILO, 2009d), or a comprehensive set of decent work indicators, covering not only access to full and productive employment, but also rights at work, social protection and social dialogue.<sup>9</sup> Compilation of sets of indicators should draw on all sources of labour statistics, including household surveys, administrative data and establishment surveys. Household surveys have advantages for obtaining comprehensive information on the labour market and its structure as a whole, especially if the coverage of the labour force by other sources is limited, which is the case in much of sub-Saharan Africa. However, in many sub-Saharan African countries the frequency of household-based surveys that specifically target the labour force (i.e. labour force surveys) is too low to allow for regular (e.g. annual) monitoring of labour market indicators. Consequently, it is often necessary to compile statistics from across a range of household surveys and other sources to analyse labour market trends. In many cases this gives rise to issues of comparability of data if different methodologies and concepts have been used.

The lack of regularly collected and comparable labour statistics with representative coverage of the labour market hampers the development of analytical capacity and advancement in LMIA systems. This in turn holds back better understanding of labour market trends and their interaction with economic and social development needed to inform policy development. These challenges are reinforced by resource constraints in funding and staffing that are common in the civil services of sub-Saharan African countries, including in ministries of labour, and these limit the full utilization of available data.

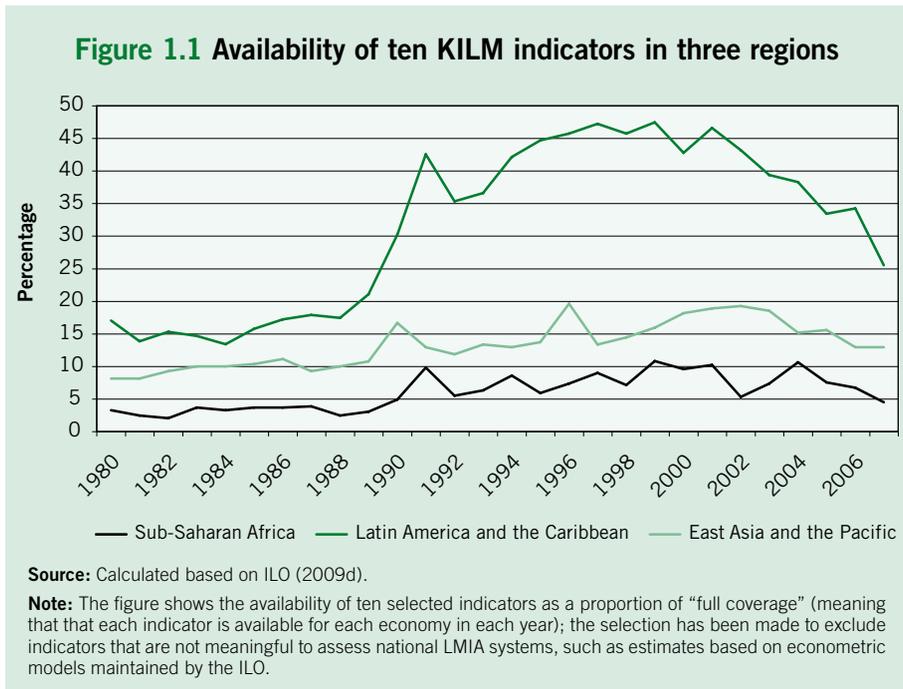
The same factors pose problems for the establishment of institutional arrangements that link producers and users of data and information, and connect monitoring of labour markets and analytical work with policy development. Ideally, LMIA systems ensure a regular interaction between statistical agencies, analytical units

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<sup>9</sup> On the measurement of decent work and the set of decent work indicators, see: <http://www.ilo.org/integration/themes/mdw/lang--en/index.htm>.

in government departments, research institutions and policy analysts, but both data limitations and resource constraints often hamper the effectiveness of these arrangements in sub-Saharan Africa.

Figure 1.1 illustrates the weak development of LMIA systems in sub-Saharan Africa. Although the availability of key labour market indicators has been improving over time in the three regions,<sup>10</sup> the level of availability is much lower in sub-Saharan Africa than in either Latin America and the Caribbean or East Asia and the Pacific. The state of LMIA systems in sub-Saharan Africa is an important reason why many countries fail to formulate proactive employment and labour policies. Such policies, including ambitious but realistic targets that are consistently monitored and evaluated, require effective LMIA systems based on regular data collection and analysis. Strengthening LMIA systems and improving the availability of labour market indicators is therefore essential to ensure better labour market outcomes, particularly towards the achievement of full and productive employment as expressed in MDG Target 1B (MDG1B).



<sup>10</sup> The most recent years are not yet captured in international data repositories, which explains the downward trend towards the end of the period in all three regions shown in the figure.

## 1.4 Policy development

Leading up to 2015, the growth in the labour force is forecast to be higher in sub-Saharan Africa than in any other region of the world. Between 2010 and 2015, the labour force will grow by more than 50 million persons, or an annual average rate of 2.9 per cent. In addition, working poverty and vulnerable employment are widespread in the region, aggravating the employment challenge (ILO, 2010a).

The employment challenges facing sub-Saharan Africa in the years to come are arguably more daunting than in any other region, despite undeniable achievements in economic growth since the late 1990s and impressive resilience to the economic crisis (IMF, 2009). Therefore, rigorous LMIA for formulating policies and monitoring change in sub-Saharan Africa is more essential than ever.

Aggregate figures provide a glimpse at the scale of the overall employment challenge, yet the potential solutions lie mainly in policies formulated and implemented at the national level. Policy-makers in Africa have until recently perceived job creation and poverty reduction as natural outcomes of private-sector driven economic growth, and while high rates of economic growth in the years to come will be a prerequisite to reducing poverty, a focus on growth alone will not suffice. The past decade clearly shows that not only the rate of growth but also the type and sectors of growth in relation to employment matter if development is to be equitable and pro-poor.

A refocusing of policy efforts is beginning to take place in relation to the objectives and targets set out in national development strategies (such as five-year national plans and poverty reduction strategies). These are increasingly emphasizing the need for job creation and increased labour productivity. National employment policies (NEPs) further deepen the commitment set out in overall national development strategies and have been completed by at least 14 African governments since 2006 (ILO, 2010c). National employment policies are built from diagnostic studies of trends and issues in the labour market and represent the consensus priorities for generating productive employment as negotiated between the government and workers' and employers' organizations.

The process of formulating national employment policies is an opportunity to promote inter-ministerial working and dialogue with workers and employers in identifying constraints, opportunities and key strategic actions. The results, in the form of NEPs, commonly include actions for adjustments to the macroeconomic

framework, labour administration/regulation and sector strategies to increase productive jobs and social protection. Employment targets are often part of these policies and have been shown to provide momentum to policy implementation, especially when reinforced in priorities set out in national-level development strategies and sector strategies.

National development strategies and NEPs are strongest when effective LMIA systems are available to inform strategic choices. Experience has shown that policies and strategies that have a limited statistical basis often remain mere statements of principle, suffer from policy evaporation over time, and cannot be monitored effectively for their impact.

## 1.5 Overview

The four MDG1B employment indicators are presented and discussed in Chapters 2 to 5. Each chapter shows how the indicator can be used in the assessment of progress towards decent work at the country level in sub-Saharan Africa, and how the indicator links to other MDG1B indicators as well as broader economic and labour market indicators. These chapters also include an overview of recent trends in sub-Saharan Africa and use country examples to illustrate these trends as well as the strengths and weaknesses of the indicators for labour market monitoring. Taken together, these four chapters demonstrate how the indicators can provide a solid starting point for labour market analysis and evidence-based policy-making using MDG1B as a foundation for effective LMIA system development.

Subsequently, Chapters 6 to 9 provide case studies of MDG1B indicators for Tanzania, South Africa, Burkina Faso and Ghana, and discuss policy implications in each country. Although these countries do not represent the full spectrum of labour market experiences in sub-Saharan Africa, they capture an important part of the regional variation in economic development paths and labour market experiences. Like much of the region, three of these countries are low-income economies, although Ghana is nearing lower middle-income status. These contrast with South Africa's status as an upper middle-income country. With MDG1B indicators as the common element, each case study highlights labour market issues as well as strengths and limitations of LMIA systems in a national context. Each country is unique, yet offers valuable lessons that are summarized in the concluding chapter together with general observations and recommendations on monitoring MDG1B indicators in sub-Saharan Africa.

# CHAPTER 2.

## LABOUR PRODUCTIVITY

*Malte Luebker*<sup>11</sup>

### 2.1 Introduction

Although work has an intrinsic value for many people, gives them a sense of achievement and serves as a source of identity and social status, all but a few who work do so for a more basic reason: to gain an income to support their own and their family's well-being. The "provision of an adequate living wage" has thus been an objective of the ILO from the outset,<sup>12</sup> and in 1944 the Declaration of Philadelphia affirmed – in words that now sound a little antiquated – the right of all people to "pursue both their material well-being and their spiritual development"<sup>13</sup> and mandated the ILO to pursue full employment as well as the "raising of standards of living".<sup>14</sup> While the words might have changed, the Decent Work Agenda's goal to "promote opportunities for women and men to obtain decent and productive work" echoes the same underlying idea. Likewise, MDG1B refers to "full and productive employment and decent work for all". The emphasis that work has to be productive is made for a good reason, since only productive work will raise the "standards of living" and provide workers with an income to lift themselves and their families out of poverty (see also Chapter 5 on "working poverty" in this book).

Growing labour productivity – producing more output with the same amount of labour input – has historically been one of the most powerful driving forces behind rising living standards and increases of real wages. The MDG indicator

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11 Conditions of Work and Employment Programme (TRAVAIL), International Labour Office. The author would like to thank Rebecca Freeman for helpful comments on an earlier draft of this chapter. All remaining errors are the author's responsibility.

12 See the Preamble to the Constitution of the International Labour Organization (1919), available at: <http://www.ilo.org/ilolex/english/constq.htm>.

13 See the Declaration of Philadelphia (1944), Article II(a): <http://www.ilo.org/ilolex/english/iloconst.htm>.

14 *ibid.*, Article III(a).

1.4, “growth rate of GDP per person employed” aims to capture the extent to which countries are laying the foundation for this process. However, high growth of labour productivity need not always translate into direct benefits for workers, and a few caveats should be kept in mind when interpreting the indicator.

This chapter will familiarize readers with ways to interpret labour productivity and discuss trends in sub-Saharan Africa. It starts by introducing the basic concepts and definitions, including how the indicator is calculated, the rationale for its adoption and how it relates to other MDG indicators (section 2.2). It then turns to a question highly relevant to policy-makers – “what is driving labour productivity growth?” – and presents both theoretical arguments and some illustrative examples from Africa and elsewhere (section 2.3). Section 2.4 gives an overview of the trends in labour productivity growth in sub-Saharan Africa over the past two decades, before drawing some conclusions in section 2.5.

## 2.2 Concepts and definitions

### 2.2.1 Basic definition and computation

Common to all measures of productivity is that they relate output to the inputs that were required to produce them. In the case of labour productivity, the question is how much output was generated per unit of labour input. This simple definition of labour productivity – output per unit of labour input – already points at two fundamental issues that have led to much controversy: (1) how best to measure output; and (2) how to define labour input.

With respect to the measurement of output, the two main alternatives are to use gross output or value added.<sup>15</sup> The first tracks the quantity of goods or services produced (e.g. number of cars produced or baskets woven) without taking into account how many intermediate inputs were used. The main advantage of this approach is that it is easy to measure and intuitive to understand; it is useful to calculate the labour requirements for a given quantity of output. A drawback is that it can be deceptive: consider a car factory that used to make all parts in-house, and then decides to buy some components – such as engines or gearboxes – from an outside supplier. It will now need fewer workers to produce the same number of cars, but it would be misleading to say that the remaining workers have become more productive. Therefore, a more common approach

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<sup>15</sup> For a comprehensive discussion, see OECD, 2001; and for a shorter overview, see Schreyer, 2001.

is to measure output as value added, which corresponds to gross output minus consumption of intermediate inputs. One key advantage is that value added can be measured at the level of an individual enterprise or an economic sector and then be aggregated for the total economy – where total value added corresponds to gross domestic product (GDP).<sup>16</sup>

With respect to the measurement of labour input, a number of options exist that range from the very simple to the highly sophisticated. The easiest alternative is to quantify the number of persons who are employed in an economy (or in an individual firm or economic sector). The “employed” comprise all persons of working age who are either in paid employment or in self-employment (own-account workers, contributing family workers and employers), even if they did only some work (which, in many countries, is defined as at least one hour per week).<sup>17</sup> However, since it makes a difference whether somebody works full-time or part-time, a second option is to measure labour input by the number of hours actually worked. Because there are systematic differences between countries in the average number of hours worked per year, using this measure will produce a more accurate picture in cross-national comparisons (see section 4 of OECD, 2001). However, reliable information on the number of hours worked is seldom available (especially for developing countries), and data are often not comparable across countries. It could also be argued that treating all labour input as homogenous disregards that workers differ in skill level and experience. Some researchers have thus suggested computing a measure for “quality-adjusted labour input” (*ibid.*, pp. 46-49). However, this is often not feasible and no generally accepted approach has emerged to date.

In the context of measuring progress on MDG1B, labour productivity is simply defined as “GDP per person employed”, i.e. as average labour productivity (this measure will be used throughout this chapter, unless otherwise indicated). This definition keeps the data requirements to a minimum, but is also a conceptually valid choice: since the intention is to track progress towards full and productive employment and decent work for all, adjusting for hours worked could produce a misleading picture in a situation where – as has happened during the global economic and financial crisis since 2008 – workers involuntarily reduce the number of hours worked and see their incomes fall as a result. However, this

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16 More precisely, the combined gross value added at market prices (i.e. output minus intermediate consumption plus taxes less subsidies on products) of all sectors corresponds to GDP. GDP is called “gross” since it is measured without taking into account the consumption of fixed capital. See Inter-Secretariat Working Group on National Accounts, System of National Accounts 1993, Section VI, available at: <http://unstats.un.org/unsd/sna1993/toctop.asp?L1=16>.

17 For the exact statistical definition, see ILO, 1982.

definition also implies that short-run changes in the indicator can be influenced by the business cycle. For instance, average labour productivity falls during a downturn if enterprises keep more workers employed than they need to sustain production (so-called ‘labour hoarding’).

The computation of average labour productivity is straightforward as:

$$LP_t = \frac{GDP_t}{employment_t} \quad (1)$$

where  $LP$  is labour productivity at point in time  $t$ ,  $GDP$  is gross domestic product measured in constant prices in the national currency, and  $employment$  represents the number of persons employed. The year-on-year growth rate  $\Delta(LP)$  can then be derived as:

$$\Delta(LP_t, LP_{t-1}) = \frac{LP_t - LP_{t-1}}{LP_{t-1}} \quad (2)$$

where  $t$  is the year in question and  $t-1$  the preceding year.<sup>18</sup> When information for the preceding year is missing, a good alternative is to calculate the compound annual growth rate (CAGR) over a longer time period:

$$CAGR(LP_t, LP_{t-x}) = \left( \frac{LP_t}{LP_{t-x}} \right)^{\frac{1}{x}} - 1 \quad (3)$$

where  $t$  is the last observation and  $t-x$  the base year.<sup>19</sup> Since labour productivity growth (much like GDP growth) can be very volatile from year to year, this approach can also be useful to identify long-run trends and differences between countries (and will be used in section 2.4 of this chapter). Policy-makers or researchers who want to study labour productivity growth at the industry level or for an individual enterprise can adapt the above formula by using value added and employment in the sector or enterprise (examples for this approach will be discussed in section 2.3 below).

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18 The same formula can be applied to individual enterprises or sectors, by replacing GDP with value added in the enterprise (sector) and total employment by employment in the enterprise (sector).

19 For example, if 2009 is the last observation and  $x$  is 9, the base year would be  $2009-9 = 2000$ .

## 2.2.2 Data sources

Compared to some other MDG indicators, the raw data to compute labour productivity growth can be obtained relatively easily in most countries: GDP at constant prices is collected in the national accounts. A common pitfall is that the Consumer Price Index (CPI) *cannot* be used to deflate nominal GDP. This is because changes in consumer prices can diverge substantially from changes in the price of output (especially in countries that produce commodities such as oil or minerals, whose prices fluctuate wildly on the world market). Data on total employment can be obtained from labour force surveys and other household sample surveys, as well as population censuses.<sup>20</sup> Establishment sample surveys, establishment or economic censuses and administrative records (such as social security registers and public sector payrolls) are an alternative source for employment data, though they usually cover only the formal sector and exclude the self-employed. Nonetheless, they can be useful in particular for disaggregated analysis by establishment characteristics or economic sector (as will be shown in section 2.3.2).

So far, only four sub-Saharan African countries (Botswana, Namibia, Mauritius and South Africa) have reported their growth rate of GDP per person employed to the United Nations.<sup>21</sup> While the MDG guidebook might help to encourage countries from the region to report their labour productivity growth to the United Nations, in the interim this chapter has to rely on data from international repositories to map trends in labour productivity growth across Africa. The data used are the ILO's estimates of total employment from the Key Indicators of the Labour Market<sup>22</sup> and the World Bank's figures for GDP in constant 2005 PPP US\$.<sup>23</sup> We prefer these sources to alternative estimates computed by private organizations such as the Conference Board, which are less comprehensive in coverage and appear to be less reliable for Africa.<sup>24</sup>

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20 For measuring employment in sample surveys, see Hussmanns et al. (1990); for measuring employment in population censuses, see UNSD and ILO (2009).

21 See the official MDG indicator dataset at: <http://mdgs.un.org/unsd/mdg/Default.aspx>.

22 See ILO (2009d), table 2a, Employment-to-population ratio (ILO estimates, by sex and age group), available at: <http://kilm.ilo.org/KILMnetBeta/default2.asp>.

23 See World Bank, World Development Indicators series "GDP, PPP (constant 2005 international \$)". The series is based on "GDP (constant local currency unit)", which is equal to nominal GDP deflated by the GDP deflator. A free download of the database is available at: <http://data.worldbank.org/data-catalog/world-development-indicators>.

24 The Conference Board's September 2010 release of the Total Economy Database includes labour productivity estimates for 20 sub-Saharan African countries. It uses two different adjustment methods for price levels that produce contradictory and implausible results. According to one methodology (2009 price levels with updated 2005 EKS PPP US\$), Mozambique's GDP was only US\$20.5 million in 2009, Ghana's GDP US\$3.8 million and Zimbabwe produced goods and services worth a mere US\$140,000 (compared to US\$42.2 billion for Uganda). This leads to erratic labour productivity estimates, suggesting that one Ugandan worker was as productive as 1,600 Mozambican, 8,600 Ghanaian or 104,000 Zimbabwean workers. See: <http://www.conference-board.org/data/economydatabase/>.

### 2.2.3 Rationale and interpretation

As one of the key drivers of economic development, labour productivity has long been an important macroeconomic indicator. In developed countries – some of whom face a shrinking working-age population – increasing labour productivity is seen as a key strategy to maintain aggregate welfare in the context of an ageing population. For developing and emerging economies, creating productive jobs for a growing labour force is paramount in the struggle to eradicate poverty and improve living standards. However, while growing labour productivity has historically been a key determinant of rising welfare, there is no guarantee that it automatically translates into meaningful human development. Many of the criticisms that have been made of “GDP per capita” as a single yardstick of development (see UNDP, 1990) hold equally when a country’s GDP is not divided by its population, but by the number of persons employed.

Nonetheless, read in conjunction with the other indicators for MDG1B that are discussed in this book, labour productivity remains a useful indicator that shows the extent to which an economy is building the preconditions for a sustainable, long-term rise in the living standards of workers.<sup>25</sup> In particular, labour productivity is a key factor in wage determination (and often used by the social partners as a reference point in collective bargaining). Neo-classical theory holds that wages must equal marginal labour productivity since a rational entrepreneur will keep on hiring extra workers until the wage rate she or he has to pay equals the value added by that extra worker. However, in the real world, labour markets usually function differently and some workers remain involuntarily unemployed (even though they could, presumably, be of use in some enterprise). Maintaining only a small workforce and paying higher wages than necessary to fill all vacant posts might, on the other hand, be a worthwhile strategy for employers to raise productivity, since they can reasonably expect that their workers will bring extra motivation to the job and want to avoid losing a well-paid position.<sup>26</sup> Moreover, marginal labour productivity and average labour productivity (the concept used in the MDG indicator) are not the same if additional output decreases with extra workers.

These factors might explain why empirical studies have found a close – but not a perfect – relationship between wages and labour productivity. An early study

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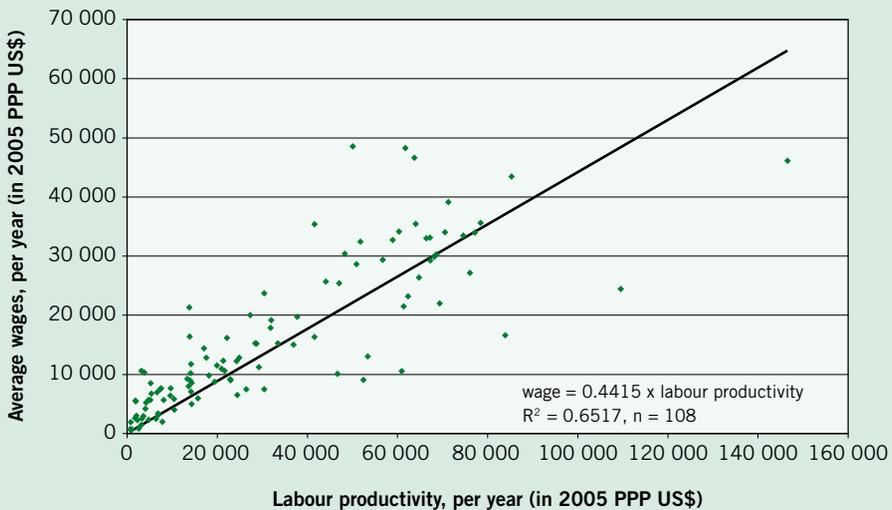
25 The ILO’s framework for measuring decent work uses labour productivity as an indicator for the “economic and social context for decent work”, based on the argument that working poverty and the low pay rate (percentage of workers who receive less than two-thirds of median earnings) are better direct measures for progress towards decent work, see ILO (2008a and 2008b).

26 This reasoning is formalized in the efficiency wage hypothesis, see, e.g. Shapiro and Stiglitz (1984) or Akerlof and Yellen (1986).

by Harris and Todaro (1969) found that wages rose only about three-quarters as fast as labour productivity in the 1950s and 1960s in Kenya, and a more recent study for South Africa's manufacturing sector found an even lower elasticity of 0.38 (i.e. a 1 per cent increase in labour productivity led to a 0.38 per cent increase in wages; see Wakeford, 2004). A possible explanation is offered by Lewis (1954), who had argued that, at early stages of development, wages in the modern sector are primarily determined by the returns that are available to workers in alternative forms of employment. In the presence of a large pool of "surplus labour", employers thus face less pressure to pass on productivity gains to workers in the form of higher wages. Both Kenya in the 1950s and 1960s and present-day South Africa (with its high structural unemployment, see Chapter 7) appear to fit this description well.

Although wage growth does not always track productivity growth, differences in the level of labour productivity can explain about 65 per cent of the variation of wages across countries (see figure 2.1). On the basis of data from 108

**Figure 2.1 Labour productivity and average wages in a cross-section of 108 countries, in 2005 PPP US\$ (2009 or latest available year)**



**Source:** ILO Global Wage Database 2010/11 and author's calculation based on ILO (2009d, table 2a) and World Bank (World Development Indicators).

**Note:** "Labour productivity" refers to GDP in 2005 PPP US\$ per person employed; data are for 2009 or the latest available observation from any given country that is included in the ILO's Global Wage Database. Yearly wages are estimated as 12 x average monthly wages (the main indicator collected in the database). For most countries, wage data refer to the formal sector only.

countries included in the ILO's Global Wage Database, wages are estimated to be higher by about 0.44 PPP US\$ for every 1.00 PPP US\$ difference in labour productivity. The relatively close correlation between GDP and labour productivity is hardly surprising since compensation of employees is one of the components of GDP in the generation of income account (alongside operating surplus, mixed income and net taxes/subsidies on products).<sup>27</sup> Nonetheless, there is considerable variation in how much of national income goes to labour, and the overall trend of declining labour shares over the past decade indicates that wages have been growing at a slower pace than labour productivity (Amsden and van der Hoeven, 1996; IMF, 2007: Chapter 5; Luebker, 2008; and ILO, 2010d).

One complicating factor in quantifying labour productivity is that GDP has to be measured in constant prices, which means that changes in nominal GDP have to be adjusted for changes in price levels. This is generally done on the basis of a "double deflation" procedure whereby an industry's intermediate consumption (say, mining equipment, dynamite and fuel) are priced at the hypothetical cost in the base year (for example, 1998) and the output (for example, diamonds) is valued at the prices that would have been obtained in the same year.<sup>28</sup> The difference between the two price values then corresponds to the value added in the mining industry in constant 1998 prices. The advantage of this "volume measure of GDP" is that one can compare changes in output per worker to the base year without any distortions that would arise from changes in prices (i.e. one avoids the false conclusion that workers have become more productive when the price of diamonds rose).

The main problem with this approach is that it can be detached from the reality experienced by both enterprises and workers: it is of little relevance for an employer to know the hypothetical value added if prices had stayed at their 1998 levels, if they have not. Likewise, what matters for workers is to get a fair share of the actual (rather than the hypothetical) value added in an enterprise or industry. Additionally, the value added in industries that experience large price swings (such as diamond mining or oil extraction) can also be very sensitive to the choice of the base year: for the oil industry, valuing inputs and outputs in constant 1998 prices (when the oil price fell below US\$13 per barrel) would lead to a very different result from using constant 2008 prices (when oil peaked at above US\$130 per barrel).

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27 See paragraph 7.3 of SNA (1993): <http://unstats.un.org/unsd/sna1993>.

28 See Chapter 3 of OECD (2001), or Chapter 13 of UNSD (2003).

## 2.2.4 Links with other MDG indicators

Labour productivity has a close relationship to two other MDG employment indicators. Firstly, a sustainable reduction of working poverty depends on the development of labour productivity, as well as other factors such as an equitable distribution of incomes (see also Chapter 6 in this book for a discussion of how low labour productivity constrains poverty reduction in Tanzania). Secondly, since total employment enters directly into the calculation of labour productivity, as defined for MDG1B, there is also a close link to the EPR (see Chapter 3). Unfortunately, at any given level of GDP growth, there is a trade-off between employment growth and labour productivity growth, which this section will discuss briefly.

The formula for labour productivity introduced above (equation 1) can be decomposed into three components as follows:

$$\frac{GDP}{employment} = \frac{GDP}{population} \times \frac{WAP}{employment} \times \frac{population}{WAP} \quad (4)$$

where WAP stands for working-age population. The first element on the right-hand side (GDP per capita) is already familiar, and a transformation also makes the other two elements easily recognizable:

$$\frac{GDP}{employment} = \frac{GDP}{population} \div \left( \frac{employment}{WAP} \times \frac{WAP}{population} \right) \quad (4')$$

The second element on the right-hand side of equation (4'), employment over working-age population, is the definition of the MDG indicator “employment-to-population ratio”, and the third element is the share of the working-age population in the total population (an important demographic indicator). Holding GDP per capita and demography constant, an increase in the EPR will thus lead to a decline in labour productivity, and a reduction in employment will boost labour productivity (see also van Ark and McGuckin, 1999).

This trade-off between employment and productivity growth has also been highlighted in the literature on the employment elasticity of output, a measure for how employment-rich growth is (see Kapsos, 2005). In the short term, higher labour productivity growth will reduce the extent to which a given

rate of growth creates employment. Given this trade-off, it is not possible to maximize the employment-intensity of growth and labour productivity growth at the same time. Rather, at any given level of growth, policy-makers face the challenge to find the right balance between increasing labour productivity and creating employment. In the sub-Saharan African context – where EPRs are generally very high (see Chapter 3) – the primary challenge will often be to make existing employment more productive, or to replace less productive jobs with more productive ones.<sup>29</sup>

### 2.3 What is driving labour productivity growth?

Conventional wisdom holds that labour productivity primarily depends on the amount of capital invested in machinery and other equipment, the pace of technological progress that makes production more efficient, and the motivation, efforts and skills of workers.<sup>30</sup> While these three factors are undoubtedly crucial to explain differences in labour productivity, other aspects sometimes matter more: a worker's productivity can depend on rainfall or someone else's productivity, for example; or on how employers and workers use social dialogue to organize production processes. Nations get rich (and increase average productivity) not only by doing the things they are already doing more efficiently, but also – and primarily – by making investments that allow them to shift from less productive activities (such as subsistence agriculture) to those with higher value added per worker (for example, manufacturing). The movement of labour from the traditional agricultural sector to the modern urban sector was already recognized as the driving force of growth in early models of development (Lewis, 1954; see also Kuznets, 1955). This chapter will thus not only look into micro-level factors (section 2.3.1), but also provide some examples of sectoral analysis (section 2.3.2) and then discuss how both combine on the level of the total economy (section 2.3.3).

#### 2.3.1 Micro-level analysis

Over time, as new technology becomes available and firms improve the way they organize production, enterprises manage to produce more with the same (or less) labour input. For instance, the “productivity miracle” from the mid-1990s in the United States and some other countries can be attributed to the

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29 Exceptions are countries with substantial unemployment, such as South Africa.

30 See, e.g. *The Economist*, issue of 9 Oct. 2010 (“Special report on the world economy”, p. 22). In a classical paper, Solow (1957) decomposed the growth of output per hour worked in the United States from 1909 to 1949 into the contribution of technical change (which accounted for 87.5 per cent) and increases in the capital stock (12.5 per cent).

adoption of information technology that helped to automate previously labour-intensive processes (see Van Ark et al., 2008). Periods of rapid productivity growth are, however, nothing new. In the three decades from 1850 onwards, labour productivity in the British coal industry rose substantially, mainly due to improved systems for ventilation and haulage and the use of steam engines for mine-drainage and to lift coal from increasing depths (see Taylor, 1961).<sup>31</sup> Technological innovation – be it steam engines or computers – is, however, not in itself sufficient: enterprises need to invest in new machinery, train workers to use the new equipment, and find ways to adapt their internal processes to make the best use of the new possibilities.

Although labour productivity sets output only in relation to one factor (labour),<sup>32</sup> labour inputs are usually combined with capital inputs (and/or land) in the production process. The size of the capital stock that is available in an enterprise obviously has a great influence on the amount of output workers can produce, and studies have shown a significant effect of capital intensity on labour productivity (see, for example, Corvers, 1997). Direct productivity comparisons between workers in different firms – or different countries – can thus be misleading when they have vastly different equipment at their disposal. Low labour productivity can be primarily the result of a lack of complementary capital, rather than the individual characteristics of a worker: a presumably less “productive” worker from a firm with outdated machinery might turn out to be capable of producing the same amount of goods if he or she had the same equipment as his or her presumably more productive counterpart. The moralistic undertone that sometimes shines through in debates on labour productivity may thus be entirely misplaced.

At the same time, the latest equipment will lie idle without workers who are capable of using it. The economic literature realized early that education not only adds to workers’ productivity by itself, but also leads to dynamic efficiency gains through the more rapid adoption of technology (see Welch, 1970). The role of skills constraints is featured prominently in the debate on labour productivity in Africa and the continent’s failure to replicate Asia’s successful transition to manufacturing (see, for example, Pack and Paxson, 1999; Wolf, 2007). Data collected in the 1990s among manufacturing firms in three African countries indeed indicate that for every extra year of schooling, workers’ productivity

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31 Interestingly, this period was accompanied by better working condition laws, namely legislation enacted in 1872 to limit working hours (see Taylor, 1961).

32 It is hence known as a single factor productivity measure, as opposed to multifactor productivity measures; see OECD (2001).

increased by 1.6 per cent (Tanzania), 2.1 per cent (Kenya) and 10.1 per cent (Zimbabwe). Far larger productivity gains of 69.5 per cent (Tanzania), 74.8 per cent (Kenya) and 45.2 per cent (Zimbabwe) were, however, associated with formal employee training programmes that built more firm-specific skills (see van Biesebroeck, 2007). Research from Tanzania indicates that informal apprenticeships can play a similar role and increase the productivity of young entrants into the labour market (Nübler et al., 2009). Building the right skills base is thus a centrepiece in many countries' strategies to raise productivity (see ILO, 2008d). The loss of skills due to HIV/AIDS and declining productivity of workers are another issue of concern. A recent ILO Recommendation highlights the important role of the workplace as regards information about and access to prevention, treatment, care and support in the national response to HIV/AIDS (ILO, 2010e). More broadly speaking, good occupational safety and health provisions and workers' access to health care can help to ensure that workers stay productive.

Another argument that has been prominently discussed in the literature is whether exposure to trade increases the productivity of firms (and entire countries).<sup>33</sup> Competing in export markets with foreign firms should push enterprises to adopt the latest technology and the best practices of production (see Balassa, 1978; Krueger, 1980; Feder, 1983). The apparently successful export-led growth model of East Asian countries led some support to this argument (see Dollar, 1992). However, the question concerning which way the causality between exports and growth runs has remained controversial: do exports as such increase productivity, or are more productive firms (and countries) simply more successful in export markets? A highly sophisticated econometric literature has evolved around this question, without arriving at an entirely conclusive answer (see the review by Giles and Williams, 1999). However, there is some evidence that African manufacturing firms increase their productivity *after* entering into exports, partly by exploiting economies of scale that a bigger market offers them (van Biesebroeck, 2005).

A related question is how enterprises – under pressure to perform on export markets or not – optimize the way they combine labour and capital inputs in the production process. Capable entrepreneurs will make the most out of

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33 The distinction between productivity of the firm and productivity at the national level is easily overlooked: while exposure to trade might increase the average productivity of firms, it might also drive others out of business. If the workers previously employed in firms that go out of business revert to subsistence activities (e.g. communal farming or informal trade) that have a lower labour productivity than their previous activity, trade will exert a downward pressure on aggregate labour productivity.

limited resources, and conversely management failure can render skilled workers unproductive. While this observation borders on the obvious, a more contentious debate has evolved around the role of trade unions and social dialogue. One school of thought holds that trade unions introduce rigidities and hinder productivity growth by obstructing change, but others have argued quite forcefully that trade unions and social dialogue have promoted productivity growth (see Chapter 11 of Freeman and Medoff, 1984). Firstly, if unions succeed in bargaining for higher wages, employers will have an incentive to invest in equipment and skills in order to match this with a rise in productivity. Secondly, workers' voice and constructive social dialogue at the enterprise level can lead to workplace improvements, better management and give workers a stake in an enterprise's success (see Buchele and Christiansen, 1995 and 1999). A related argument holds that strong workers' (and employers') rights promote coordination and productivity growth and are associated with better export performance (Storm and Naastepad, 2007; Kucera and Sarna, 2006).

While much of the academic debate has centred on manufacturing, the majority of Africa's workers are engaged in agriculture. In the early 1980s, the influential "Berg report" attributed low agricultural productivity to price distortions caused by overvalued exchange rates and the monopoly of agricultural marketing boards (World Bank, 1981). However, the subsequent market-oriented reforms showed that "getting the prices right" alone was insufficient to boost agricultural productivity in countries such as Zambia (see Deininger and Olinto, 2000) and Tanzania (see Skarstein, 2005). In Malawi, the initial liberalization policies contributed to the country's food crisis of 1987, but the country made a dramatic policy U-turn in the 1990s and succeeded in building a more dynamic smallholder sector through mechanisms such as agricultural extension services and fertilizer subsidies (Harrigan, 2003). The policy debate now highlights that market failures hamper growth of small farms and how interventions can help to overcome them (see Hazell et al., 2010).

One of the implications of market liberalization is that swings in world market prices for agricultural commodities – which have historically been quite volatile – directly affect farmers. While the farm gate price is now typically a higher proportion of the world market price, the removal of price stabilization policies also means that coffee farmers, for instance in Uganda, are now directly exposed to the volatility of world coffee prices (see Hill, 2010). A rational response to price risk is to diversify away from producing one export commodity only, and towards subsistence production of food crops. This, however, runs against achieving productivity gains through specialization.

Table 2.1 presents an example of the price fluctuations faced by a typical coffee farm in Uganda over the past four years. While the example is hypothetical (i.e. is not built on data from any single farm), the fluctuations in harvest and farm gate prices reflect price movements and rainfall patterns.<sup>34</sup> Panel A provides the basic production data, and Panel B constructs a volume measure for value added based on the double deflation method (see section 2.2.3 above). The important task is to find suitable Producer Price Indices (PPIs) to deflate the intermediate consumption independently from output (see the PPIs in lines 6 and 8). Both intermediate consumption and gross output can then be converted into constant prices (lines 7 and 9), and the difference between the two is equal to value added in constant prices (line 10). Dividing this by the number of persons employed gives labour productivity (line 11).

By contrast, Panel C first calculates the value added in current prices (line 13), and then deflates it with the CPI (line 14) to obtain the total value added in constant 2004 consumer prices. This price measure can then be used to calculate earnings per person employed in constant 2004 consumer prices. Since the three different price indices diverge from each other over time, labour productivity and earnings trends do not follow each other closely. As an example, take the growing season 2009–10 where poor rainfall led to a decline in labour productivity by 11.8 per cent. However, the fall in coffee prices meant that earnings per worker fell even more sharply, by 22.3 per cent.

### 2.3.2 Sectoral level analysis

Labour productivity often differs substantially between different sectors within the same country. Table 2.2 provides an illustration for Botswana, based on data collected by the Botswana's Central Statistical Office for the country's modern sector.<sup>35</sup> Mining – which accounts for more than one-third of Botswana's output but employs less than 4 per cent of the country's modern sector workforce – stands out for its high labour productivity, which is roughly ten times the average of the whole economy. Growing mining output (achieved without expanding employment) during the period from 1994 to 2000 contributed significantly to the strong growth of labour productivity over that period,<sup>36</sup> and the subsequent

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34 See the monthly bulletins published by the Uganda Coffee Development Authority (various years): <http://www.ugandacoffee.org/>.

35 To match output and employment data, traditional activities (which are not covered by employment statistics) were excluded; see notes for table 2.2.

36 In a counterfactual where labour productivity in mining is held constant, labour productivity for the total modern economy would have grown at a compound rate of 2.1 per cent over the same period.

**Table 2.1 Labour productivity on a coffee farm in central Uganda, 2006/07–2009/10 (hypothetical example)**

		Growing season (October to September)			
		2006–07	2007–08	2008–09	2009–10
<b>A. Basic production data</b>					
1	Cost of intermediate consumption (agro-chemicals), in current Shs	26,000	24,000	30,000	32,000
2	Total harvest of Robusta Kiboko (dry cherries), in kg	820	1031	915	821
3	Farm gate price for Robusta Kiboko (dry cherries), in current Shs/kg	1200	1180	1400	1300
4	Total value of harvest at farm gate price, in current Shs	984,000	1,216,580	1,281,000	1,067,300
5	Persons employed	5	5	5	5
<b>B. Volume measure of value added</b>					
<b>Value added, constant 2004 prices (double deflation method)</b>					
6	Producer Price Index, soap and chemical products (Q3 2004=100)	110.6	152.7	168.3	144.6
7	Intermediate consumption, constant 2004 prices	23,508	15,717	17,825	22,130
8	Producer Price Index, coffee processing (Q3 2004=100)	206.2	203.9	260.3	242.4
9	Gross output, constant 2004 prices	477,207	596,655	492,124	440,305
10	Value added, in constant 2004 prices	453,698	580,938	474,299	418,175
<b>Labour productivity</b>					
11	Value added per person employed, constant 2004 producer prices	90,740	116,188	94,860	83,635
12	Growth rate (year-on-year), in %	.....	28.0%	-18.4%	-11.8%
<b>C. Price measure of value added</b>					
<b>Value added, current prices deflated by CPI</b>					
13	Value added, in current Shs	958,000	1,192,580	1,251,000	1,035,300
14	Consumer Price Index (rebased, Q3 2004=100)	120.9	132.8	150.9	160.7
15	Value added, in constant 2004 consumer prices	792,608	898,160	829,175	644,047
<b>Earnings per person employed</b>					
16	Value added per person employed, constant 2004 consumer prices	158,522	179,632	165,835	128,809
17	Growth rate (year-on-year), in %	.....	13.3%	-7.7%	-22.3%

**Sources:** Uganda Bureau of Statistics (Producer Price Index); ILO Laborista (monthly Consumer Price Index, based on Uganda Bureau of Statistics) Uganda Coffee Development Authority monthly reports (farm gate prices and background information on yield and total harvest).

**Note:** Although the figures presented in the table are for a hypothetical example (rather than for a real, existing farm), they aim to depict a plausible development that takes into account actual changes in farm gate prices for Robusta Kiboko (dry cherries) and variation in yield due to differences in rainfall patterns.

**Table 2.2 Labour productivity in Botswana's modern sector, 1994–2009 (estimates)**

Industry	Value added per employee (at factor prices, p.a.), in constant 1993/94 Pula				Growth rates <sup>6</sup>		
	1994	2000	2008	2009	1994-2000	2000-2008	2009
1. Agriculture (modern) <sup>1</sup>	24,628	22,205	21,927	26,691	-1.7%	-0.2%	21.7%
2. Mining	459,099	889,875	801,478	699,051	11.7%	-1.3%	-12.8%
3. Manufacturing	22,206	22,274	26,835	25,918	0.1%	2.4%	-3.4%
4. Water and electricity	98,440	140,982	205,036	195,795	6.2%	4.8%	-4.5%
5. Construction	27,546	32,780	55,048	61,095	2.9%	6.7%	11.0%
6. Trade, hotels and restaurants	21,849	35,409	43,733	43,583	8.4%	2.7%	-0.3%
7. Transport	45,522	62,558	82,282	90,238	5.4%	3.5%	9.7%
8. Banks, insurance and business services <sup>2</sup>	56,584	82,577	103,662	103,957	6.5%	2.9%	0.3%
9. General government <sup>3</sup>	21,012	24,565	34,474	34,282	2.6%	4.3%	-0.6%
10. Social and personal services <sup>4</sup>	30,659	54,141	62,255	65,583	9.9%	1.8%	5.3%
<b>Total economy (modern sector)<sup>5</sup></b>	<b>42,491</b>	<b>61,138</b>	<b>75,564</b>	<b>69,703</b>	<b>6.3%</b>	<b>2.7%</b>	<b>-7.8%</b>

**Source:** Author's estimates based on National Account Statistics of Botswana and Botswana Statistical Yearbook/Statistical Bulletin for employment.

**Notes:**

1. Excludes traditional agriculture; estimate based on the assumption that traditional agriculture accounted for 71.5 per cent of total agricultural output (the average over the five-year period from 1990/91 to 1994/95).
2. Excludes ownership of dwellings (imputed rent for owner-occupied dwellings).
3. Employment data exclude Botswana Defence Force and the Ipelegeng public works programme, while data on value added include both.
4. Excludes domestic services and traditional doctors.
5. Exclusions as in notes 1 to 4.
6. Compound annual growth rates, apart from 2009, which is a year-on-year growth rate.

Exclusions are based on Republic of Botswana, National Account Statistics of Botswana, quarterly production accounts (SNA 1993/94–1999/2000 and 1997/98–2007/08) and author's estimates for missing years. Value added for calendar years prior to 1994 are estimates based on data for fiscal years. Economic sectors follow ISIC Revision 2 (Botswana adaptation); data from 1997 that are based on ISIC Revision 3 (Botswana adaptation) have been collapsed into the old tabulation categories to produce a consistent time series.

decline explains the slowdown in productivity growth in the 2000s. Particularly striking is the impact of the global economic crisis that led to a sharp fall in the demand for diamonds and a subsequent cut in production by almost half in

2009 (coal, soda ash and copper nickel matte mining were less affected).<sup>37</sup> Since the number of workers reduced less sharply than the decline in output, labour productivity fell by 12.8 per cent in volume terms.<sup>38</sup>

Large differences in labour productivity between sectors imply that a shift from less to more productive activities will raise aggregate productivity – the key mechanism of structural transformation described in the early models of development. For countries that have no significant depositories of diamonds, oil or other minerals, transition to manufacturing has historically played this role. China and other East Asian countries have successfully managed this transition and manufacturing now accounts for almost one-third of GDP in developing countries of East Asia and the Pacific. By contrast, few countries in sub-Saharan Africa (with exceptions, such as Mauritius and South Africa) have a significant manufacturing sector and the share of manufacturing has declined from 17.0 per cent of GDP in the 1970s to only 12.9 per cent in 2009 for the region as a whole.<sup>39</sup>

The deindustrialization of much of sub-Saharan Africa is often linked to the impact of Structural Adjustment Programmes. Rather than addressing the failures of the industrial policies that many African countries had pursued up to the early 1980s, they largely removed the policy instruments that have been used successfully in other countries (see, for example, Stein (1992) and Lall (1995)). This was in line with the thrust of the Berg report, that took a sceptical position on the viability of African industry and saw Africa's future in agricultural raw materials and commodities (see World Bank, 1981). The strategy relied on “getting the prices right” by removing market interventions in order to stimulate agricultural output. The hope expressed in the Berg report was that this would stimulate demand for manufactured goods, and thus gradually increase industrialization (ibid., p. 95). However, this hope failed to materialize and even “star-performers” such as Ghana have not made much progress towards industrialization (see Aryeetey et al., 2000, and Chapter 9 in this volume; see also Cornia et al. (1992), Van der Geest and Van der Hoeven (1999)).<sup>40</sup> This is

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37 See Central Statistics Office, *Stats Update*, March 2010 (Gaborone). In response to a falling demand for diamonds, Debswana (a joint venture between DeBeers and the Government of Botswana) closed all diamond mines from December 2008 to mid-April 2009 and one mine (Damatshaa) remained closed for the entire year. See the Debswana website at: <http://www.debeersgroup.com/ofr2009/mining-review/debswana.html>.

38 Since diamond prices fell in nominal terms, output per worker declined even more if measured in current prices (by 36.8 per cent).

39 See World Bank, World Development Indicators: <http://data.worldbank.org/indicator>.

40 In Ghana, the share of manufacturing in GDP fell from 11 per cent in the crisis-ridden 1970s to under 5 per cent in 2009 (see World Bank, World Development Indicators).

a somewhat counter-intuitive development, since mainstream economic theory holds that sub-Saharan Africa – with its relative abundance of labour – should have a comparative advantage in labour-intensive manufacturing. However, factor endowments alone are insufficient to bring about industrialization. The literature has pointed at the role of technological capacity that was carefully nurtured by governments in the successful late-industrializing countries of East Asia (see e.g. Amsden, 2001).

The failure of manufacturing to “take off” has repercussions for labour productivity in other sectors. As Lewis (1954) argued, an expanding modern sector would absorb surplus labour from subsistence activities such as communal agriculture or petty trading. Since the remaining workers would easily produce the same output, this structural transformation would also raise labour productivity in other activities. A related argument was made by Bhagwati (1984), who built on earlier work by Balassa (1964) and Samuelson (1964). The argument – known as Balassa-Samuelson effect – starts from the insight that tradable goods have similar prices across countries. If a country’s labour productivity is growing in the tradable sector, wages in the tradable sector tend to rise. They will in turn determine the wage level in the non-traded sectors, notably in services. An intuitive way to explain the wage equalization across sectors is that the employers in the non-traded sector need to “keep up” with their counterparts in the traded sectors if they want to retain and attract workers. However, the contrary is also true: If labour productivity and wages in the traded sector are low, employers in the non-traded sector do not need to raise wages to attract workers. The result is that prices for non-traded goods and services are systematically lower in developing countries, and hence the value added per worker is lower (see also Freeman, 2008). Thus, paradoxically, a hairdresser in Benin appears to be less productive than his counterpart in Switzerland, even if both make the same number of haircuts in a day.

Establishing how much “value added” is produced is particularly difficult for the public sector. Governments around the world produce services – be it law enforcement, defence or education – for which no market price exists. These services can therefore not be valued at market prices as is done in other sectors. Therefore, under the System of National Accounts the production of government units is valued at the cost incurred, and the value added at factor prices corresponds to the sum of two items: consumption of fixed capital and compensation of employees (of which wages are the major component). Wage increases will thus lead to an increase in recorded value added, and hence result in an apparent increase in labour productivity. The conventional expenditure-

based measure of value added is therefore not particularly helpful to analyse productivity in the public sector.<sup>41</sup> The same holds for the services produced by domestic workers, whose value is simply assumed to be equal to the wages paid.<sup>42</sup> A statement like “Wages of domestic workers are low because their productivity is low” would thus be misleading since their measured “productivity” depends on the level of their wages (and not the other way around).

### 2.3.3 Total economy level

Labour productivity growth in the total economy can be thought of as the result of at least three interrelated factors. First, if labour productivity grows in any one sector (holding its share in total employment constant), this will lead to an increase in overall labour productivity. Second, if employment shifts from less productive to more productive sectors, this will also result in an increase of aggregate labour productivity. To assess the impact of these two factors – within-sector growth of labour productivity and employment shifts between sectors – it can be useful to decompose overall labour productivity as follows:

$$LP = \sum_{n=1}^N \frac{L_n}{L} \times LP_n \quad (6)$$

where  $L$  stands for labour input (or employment) in sector  $n$ , and  $LP$  is labour productivity. Overall labour productivity is a weighted average of sectoral labour productivities, where the weight is equal to a sector’s share in total employment (or  $L_n/L$ ). This means that the greater a sector’s share in employment, the more productivity trends in that sector matter for overall productivity growth; and that employment shifts between sectors (i.e. a change in the weight) will have a larger impact the greater the difference in productivity between the sectors.

The policy implications of this insight are twofold. On the one hand, increasing productivity in sectors that employ a large proportion of a country’s labour force will have a considerable impact on aggregate productivity. For much of sub-Saharan Africa, agriculture is such a sector. Despite its importance, agriculture has often suffered policy neglect, especially with the retrenchment of agricultural extension services in the 1980s (although a rethink has begun; see Diao et al.,

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41 For a more sophisticated approach that aims at measuring outcomes (rather than output) see, e.g. Pritchard (2003).

42 System of National Accounts 1993, paragraph 6.88.

2010; Hazell et al., 2010). On the other hand, facilitating structural change and the creation of employment in sectors with high productivity – such as mining and often manufacturing – has high potential for increasing aggregate productivity. There are of course limits to this approach: not all countries are rich in mineral resources, and industrialization policies have often suffered setbacks. Nonetheless, employment shifts away from agriculture and into higher value-added activities are the path along which the newly industrialized nations of Asia – and, before them, those of the West – became rich. If sectoral labour productivity and employment shares are known, it is straightforward to construct counterfactual scenarios based on equation 6 to assess by how much a shift of employment from one sector to another would increase aggregate labour productivity, or how big the impact of increased productivity in a single sector would be on overall productivity.

A third effect is less intuitive to understand. As classical development theorists argued, a shift in employment away from agriculture might increase the productivity of the remaining workers (i.e. when the marginal productivity of labour in agriculture is low). Further, as explained above, productivity in the services sector is co-determined by productivity in the tradable sectors. Productivity gains in tradable sectors will not only make a direct contribution to aggregate productivity, but also – through the Balassa-Samuelson effect – create an additional, indirect impact by increasing productivity in non-tradable sectors.

## 2.4 Trends in sub-Saharan Africa

Since changes in labour productivity happen over the long run, this section takes a long-term perspective starting with 1991 (the first year for which employment data are available from the ILO's Global Employment Trends model).<sup>43</sup> As can be seen from table 2.3, labour productivity in sub-Saharan Africa was 4,545 PPP US\$ in that year, substantially below the world average, but ahead of South Asia and East Asia. During the “lost” decade of the 1990s, productivity fell to 4,269 PPP US\$ in 2000 (the lowest level of all regions) as employment growth outstripped the slow growth of GDP in sub-Saharan Africa. Stronger growth during the 2000s brought a recovery, though productivity in 2009 was still only about 10 per cent above its 1991 level.

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43 Incidentally, this is also close to the base year for many of the MDG targets, 1990.

**Table 2.3 Labour productivity by region in 1991, 2000 and 2009 (level and growth rates)**

	Labour productivity levels, in 2005 PPP US\$			Compound annual growth rate, in %	
	1991	2000	2009	1991–2000	2000–09
World	16,177	18,360	21,253	1.4	1.6
Sub-Saharan Africa	4,545	4,269	5,037	-0.7	1.9
South Asia	3,380	4,585	6,807	3.4	4.5
East Asia	3,193	6,198	12,164	7.6	7.8
South-East Asia and the Pacific	5,676	7,168	9,184	2.6	2.8
Middle East	31,737	30,709	34,844	-0.4	1.4
North Africa	14,064	14,186	16,182	0.1	1.5
Latin America and the Caribbean	20,221	21,180	22,288	0.5	0.6
Central and South Eastern Europe (non-EU) & CIS	20,791	16,712	23,524	-2.4	3.9
Advanced countries	54,550	64,885	70,451	1.9	0.9

**Source:** Author's calculation based on ILO (2009d, table 2a) and World Bank (World Development Indicators).

**Note:** "Labour productivity" refers to GDP in 2005 PPP US\$ per person employed. "Advanced countries" refers to Australia, Canada, Iceland, Israel, Japan, New Zealand, Norway, Switzerland, the United States and the 27 Member States of the European Union.

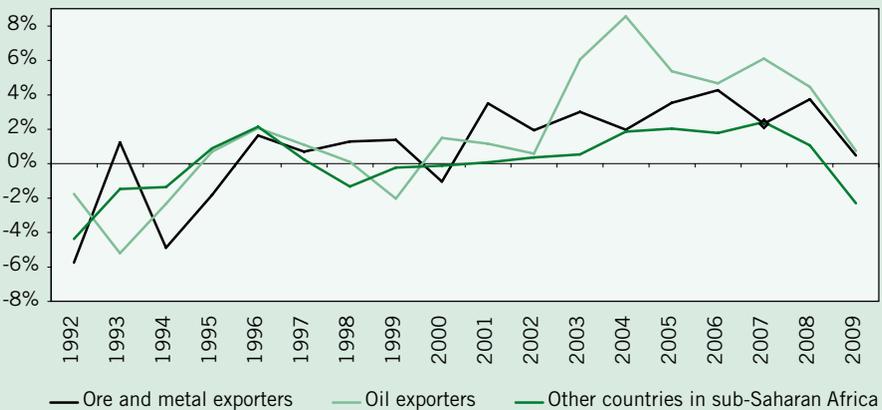
As can be seen from figure 2.2, the early 1990s was a particularly abysmal period for labour productivity growth, whereas from 2003 to 2008 sub-Saharan Africa outpaced the advanced countries with labour productivity growth rates of 2 per cent or higher. Such an outperformance is necessary to narrow – in the long run – the productivity gap between sub-Saharan Africa and developed countries, and to bring about what is known as “convergence” in the economic literature. This process was earlier observed within the group of countries that are now developed (see Baumol, 1986). However, the chart also shows that productivity growth in other emerging economies has outpaced that in sub-Saharan Africa over the entire period, which means that these countries are converging with the advanced nations at a much faster pace – and that the productivity gap between sub-Saharan Africa and other emerging countries is growing. The crisis year 2009 is, in many respects, an outlier with falling labour productivity in advanced countries and sub-Saharan Africa.

**Figure 2.2 Labour productivity growth in sub-Saharan Africa, other emerging economies and advanced countries, 1992–2009**



**Source:** Author's calculation based on ILO (2009d, table 2a) and World Bank (World Development Indicators).  
**Note:** See Table 2.3.

**Figure 2.3 Labour productivity growth in sub-Saharan Africa by export structure, 1992–2009**



**Source:** Author's calculation based on ILO (2009d, table 2a) and World Bank (World Development Indicators).  
**Note:** "Labour productivity" refers to GDP in 2005 PPP US\$ per person employed. "Ore and metal exporters" refers to countries in which ore and metal exports accounted for at least 50 per cent of all merchandise exports in 2005 (Guinea, Niger, Mauritania, Mozambique and Zambia); "Oil exporters" refers to countries in which fuel exports accounted for at least 50 per cent of all merchandise exports (Angola, Chad, Congo, Equatorial Guinea, Gabon and Nigeria). Export data are from World Bank, African Development Indicators.

While the uptick in productivity growth in the 2000s is an encouraging sign, table 2.A shows that this positive trend is by no means universal across countries. In particular, a few countries such as Angola, Chad, Equatorial Guinea and Mozambique stand out with compound annual growth rates in excess of 5 per cent. These countries all benefited from the commodities boom. To gain more insight into this, figure 2.3 distinguishes between ore and metal exporters (Guinea, Niger, Mauritania, Mozambique and Zambia),<sup>44</sup> oil exporters (Angola, Chad, Congo, Equatorial Guinea, Gabon and Nigeria)<sup>45</sup> and the remaining countries of sub-Saharan Africa.

The clear pattern is that the former groups outperformed the rest of the continent in the 2000s. During the commodity price boom of 2005–08, Guinea (whose main export commodity is Bauxite), Niger (uranium), Mauritania (iron ore and copper), Mozambique (aluminium) and Zambia (copper) gained from rapidly rising world market prices for their exports.<sup>46</sup> Likewise, established oil producers such as Angola, Gabon and Nigeria benefited from the fourfold increase in the price of oil between 2004 and 2008, while the discovery of oil reserves in countries such as Chad and Equatorial Guinea in the 1990s and early 2000s boosted GDP growth in these countries – and hence labour productivity.

The flip side of the strong performance of oil and mineral exporters is that labour productivity growth has remained weak in the “other countries” without such natural resources. In 2009, average labour productivity in these countries was only marginally above the level recorded in 1991 (+1.7 per cent cumulative growth), with strong long-run productivity gains in oil-exporting countries (+35.6 per cent cumulative growth) and ore and metal exporters (+29.0 per cent cumulative growth). Even in those countries that did experience phenomenal growth in labour productivity, this indicator can be misleading if interpreted in isolation since questions remain regarding how far it has translated into improved living conditions for workers. For instance, due to oil extraction, in Equatorial Guinea, GDP per person employed (89,089 PPP US\$ in 2009) now exceeds the level found in the United States (87,906 PPP US\$) and Switzerland (68,134 PPP US\$). However, this has not translated into corresponding gains in other MDG indicators and Equatorial Guinea still ranks 181 out of 194 countries with respect

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44 Ores and metals accounted for at least 50 per cent of all merchandise exports in these countries in 2005; no data for Sierra Leone are available from the World Bank’s World Development Indicators.

45 Fuel exports accounted for at least 50 per cent of all merchandise exports in these countries in 2005.

46 Although price changes should in theory not directly affect measured labour productivity (see section 2.2.3), it is not clear how far the effects of fluctuating commodity prices have been removed from the data in practice. In any case, the indirect effects of high export prices on productivity in non-tradable sectors remain (see section 2.3.2 above).

to the mortality of children under five years old (148 per 1,000 live births). It is thus crucial how policy-makers use natural resource wealth to promote overall development and progress on the MDGs – a question that countries with recent oil discoveries such as Ghana now face.

## 2.5 Conclusions

Labour productivity is an important indicator for overall development, and this chapter has argued that growing labour productivity is a precondition for improving the living conditions of workers, eradicating working poverty and promoting sustainable wage growth. Low growth of labour productivity in sub-Saharan Africa can explain why working poverty has been persistent in the continent (see also Chapter 5 in this book) and why wages have grown far less in Africa than in Asia and other developing regions (see ILO, 2010d). However, this chapter has also cautioned that productivity gains do not necessarily translate into higher wages and better living standards, and that the indicator should not be interpreted in isolation. Put simply, it matters how the gains from growing labour productivity are distributed among workers, and between workers and the owners of capital.

While there is a potential trade-off between increasing employment and labour productivity at a given level of GDP growth, fostering labour productivity remains an important policy objective within an overall development strategy. Policy-makers have a number of tools at their disposal to achieve this objective, starting with improving workers' skills. While increasing the general level of education has been shown to have a positive effect on productivity, more firm-specific vocational training and apprenticeship programmes can often have a strong impact. Skills also play a crucial role in adopting technological innovation, one of the key drivers – alongside investment in productive capital – of long-run productivity growth. This chapter has also argued that social dialogue, based on freedom of association and collective bargaining, can be instrumental to improving production processes and to finding optimal solutions at the enterprise level.

Given that a large share of employment in sub-Saharan Africa is in agriculture, improving productivity in this sector can play a crucial role and produce direct benefits for workers in rural areas. In many countries across the continent, the retrenchments of (albeit often imperfect) agricultural extension services as part of structural adjustment programmes has cut smallholders off from vital inputs and marketing channels for their products. However, there is now a rethink

underway towards a more activist approach towards agricultural development – as highlighted by the success of countries like Malawi. Nonetheless, improvements in agricultural productivity alone will often be insufficient and a broader strategy towards expanding employment in sectors with higher labour productivity – such as mining or manufacturing – can be another component. It remains a substantial challenge to emulate the successful structural transformation of the late-industrializing nations of South and East Asia (that lagged behind labour productivity in sub-Saharan Africa as recently as 1991).<sup>47</sup>

While labour productivity trends in sub-Saharan Africa were appalling during the “lost” decade of the 1990s, the past decade has been much more encouraging with a compound annual growth rate of 3.1 per cent. Nonetheless, productivity growth in sub-Saharan Africa still falls short of the pace achieved in other emerging economies and has been largely confined to mineral exporters. Sustaining labour productivity growth and broadening it to all countries across the continent therefore remains on the agenda towards achieving the MDGs in Africa.

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47 See Lall (1995) for a discussion of policy elements to promote industrialization in sub-Saharan Africa.

**Table 2.A Growth of GDP, labour productivity and employment in sub-Saharan Africa, 1991–2009**

	Compound annual growth rates, 1991–2000			Compound annual growth rates, 2000–2009		
	GDP in 2005 PPP US\$	Labour productivity	Employment	GDP in 2005 PPP US\$	Labour productivity	Employment
<b>Central Africa</b>	<b>0.7%</b>	<b>-2.4%</b>	<b>3.2%</b>	<b>7.4%</b>	<b>4.1%</b>	<b>3.1%</b>
Angola	1.0%	-2.1%	3.1%	11.3%	7.8%	3.2%
Cameroon	2.0%	-1.3%	3.3%	3.4%	0.5%	2.9%
Central African Republic	1.9%	-0.8%	2.8%	0.7%	-1.5%	2.2%
Chad	1.6%	-1.5%	3.2%	8.8%	5.7%	3.0%
Congo	1.3%	-1.1%	2.4%	4.2%	1.4%	2.7%
Congo, Democratic Republic	-5.3%	-8.2%	3.2%	4.4%	1.0%	3.3%
Equatorial Guinea	22.3%	19.5%	2.3%	19.0%	14.7%	3.8%
Gabon	1.2%	-1.7%	2.9%	1.7%	-1.5%	3.3%
<b>Eastern Africa</b>	<b>3.1%</b>	<b>0.2%</b>	<b>2.9%</b>	<b>5.8%</b>	<b>2.5%</b>	<b>3.2%</b>
Burundi	-2.7%	-3.7%	1.0%	3.0%	-1.3%	4.3%
Comoros	2.0%	-1.6%	3.7%	2.0%	-1.0%	3.0%
Eritrea	4.2%	2.3%	1.8%	2.1%	-3.0%	5.2%
Ethiopia	3.9%	1.0%	2.9%	8.3%	4.2%	3.9%
Kenya	1.9%	-1.8%	3.8%	3.9%	0.8%	3.1%
Madagascar	2.7%	-0.5%	3.1%	2.6%	-0.6%	3.2%
Malawi	2.9%	0.6%	2.3%	4.2%	1.4%	2.8%
Mauritius	5.5%	3.5%	2.0%	3.4%	2.5%	0.9%
Mozambique	5.5%	1.7%	3.7%	8.0%	5.5%	2.4%
Réunion	2.4%	-0.8%	3.2%	3.3%	-0.4%	3.8%
Rwanda	0.7%	-1.5%	2.2%	7.0%	3.6%	3.3%
Somalia	3.4%	1.9%	1.4%	5.0%	2.8%	2.1%
Tanzania, United Republic of	3.0%	-0.1%	3.1%	6.7%	3.2%	3.4%
Uganda	6.9%	4.0%	2.8%	7.4%	3.9%	3.4%
Zambia	0.8%	-2.9%	3.8%	5.4%	3.3%	2.0%
Zimbabwe	0.5%	-1.4%	1.8%	-5.1%	-5.2%	0.1%

	Compound annual growth rates, 1991–2000			Compound annual growth rates, 2000–2009		
	GDP in 2005 PPP US\$	Labour productivity	Employment	GDP in 2005 PPP US\$	Labour productivity	Employment
<b>Southern Africa</b>	<b>2.1%</b>	<b>-1.3%</b>	<b>3.4%</b>	<b>3.4%</b>	<b>0.7%</b>	<b>2.7%</b>
Botswana	6.0%	1.9%	4.0%	3.0%	-0.3%	3.3%
Lesotho	3.8%	-0.6%	4.5%	3.5%	2.6%	0.9%
Namibia	3.8%	1.0%	2.7%	4.3%	1.6%	2.6%
South Africa	1.8%	-1.5%	3.4%	3.4%	0.6%	2.7%
Swaziland	3.8%	0.7%	3.2%	2.2%	-0.1%	2.3%
<b>Western Africa</b>	<b>2.8%</b>	<b>-0.2%</b>	<b>3.1%</b>	<b>5.2%</b>	<b>2.2%</b>	<b>2.9%</b>
Benin	4.8%	1.3%	3.4%	4.0%	0.3%	3.7%
Burkina Faso	4.9%	1.9%	3.0%	5.3%	1.7%	3.6%
Cape Verde	6.3%	2.9%	3.3%	4.8%	1.1%	3.6%
Côte d'Ivoire	2.6%	-1.2%	3.8%	0.9%	-1.6%	2.5%
Gambia	3.3%	-0.5%	3.8%	4.9%	1.8%	3.1%
Ghana	4.2%	1.0%	3.2%	5.3%	2.4%	2.8%
Guinea	4.2%	1.1%	3.1%	2.9%	0.5%	2.3%
Guinea-Bissau	1.1%	-1.4%	2.5%	0.8%	-1.4%	2.2%
Liberia	3.5%	-0.1%	3.6%	5.3%	1.2%	4.1%
Mali	4.3%	2.6%	1.7%	5.5%	2.6%	2.8%
Mauritania	3.0%	-0.5%	3.4%	3.9%	0.5%	3.4%
Niger	1.7%	-2.6%	4.4%	4.3%	0.8%	3.4%
Nigeria	2.6%	-0.4%	3.0%	6.1%	3.2%	2.7%
Senegal	3.1%	0.1%	3.0%	3.9%	0.7%	3.2%
Sierra Leone	-5.3%	-5.9%	0.6%	10.1%	7.1%	2.9%
Togo	2.5%	-1.2%	3.8%	2.2%	-1.3%	3.5%
<b>Sub-Saharan Africa</b>	<b>2.3%</b>	<b>-0.7%</b>	<b>3.0%</b>	<b>5.0%</b>	<b>1.9%</b>	<b>3.1%</b>

**Source:** Author's calculation based on ILO (2009d, table 2a) and World Bank (World Development Indicators).

**Note:** "Labour productivity" refers to GDP in 2005 PPP US\$ per person employed. Regional groupings are as in ILO (2009d).



# CHAPTER 3.

## EMPLOYMENT-TO-POPULATION RATIO

*Sara Elder*<sup>48</sup>

### 3.1 Introduction

The employment-to-population ratio (EPR) represents the proportion of a country's working-age population that is employed or, in other words, the share of utilized labour in an economy. A high ratio means that a large proportion of a country's population is employed, while a low ratio means that a large share of the population is not involved directly in market-related activities because they are either unemployed or (more likely) out of the labour force altogether.

The indicator in itself says nothing to the type or quality of the work involved, which weakens attempts to make valuations of trends over time. But this weakness can be overcome by adding depth to a labour market analysis with additional employment indicators, including the share of workers in vulnerable employment (Chapter 4) and the share of those who work but remain in poverty (Chapter 5). Without additional indicators, it is difficult to interpret whether a high EPR is a positive or negative sign for a country. While a very low ratio represents definitively the negative underutilization of a country's productive potential,<sup>49</sup> there is more ambiguity in the interpretation of high EPRs. The ratio could be high for reasons that are not necessarily positive – for example, where education options are limited so that young people take up any work available rather than staying in school to build their human capital. For these reasons, it is strongly advised that indicators be reviewed collectively in any evaluation of country-specific labour market outcomes.

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<sup>48</sup> Employment Trends, International Labour Office.

<sup>49</sup> Countries in North Africa and the Middle East offer examples of low EPR caused by the untapped potential of female labour. On average, less than one-fourth of women who could work did so in the two regions in 2009. Respectively, the female EPR was 23.1 per cent in North Africa and 21.6 per cent in the Middle East, compared to the world average of 48.0 per cent (and a male global average of 72.8 per cent, see ILO (2010a).

EPRs are of particular interest when broken down by sex, as the ratios for men and women provide information on gender disparity in employment in terms of the opportunities to take up work in any given country. Likewise, disaggregating EPRs by age is relevant given that a person's relationship to employment evolves throughout the lifespan. The trends in EPRs for young people, defined as 15 to 24 years, tend to be quite different from those of adults since an increasing number of youth are able to engage in education, thus postponing their labour market entry until later years (the analysis in section 3.2 discusses youth employment trends in greater detail). Disaggregation by both elements – sex and age – is necessary in any labour market information system so that vulnerable groups can be identified, targeted and monitored in policy interventions.

It is also important to note that both male and female employment rates are highly sensitive to the level of economic development in a country. The correlation between income level, measured as GDP per capita, and EPR consistently shows a slightly U-shaped pattern, revealing how the EPR (and the labour force participation rate) is generally higher at the early stages of development and reflecting the existence of large, labour-intensive agricultural sectors and the existence of large shares of working poor in these countries.<sup>50</sup> As gross domestic product per capita increases, the EPR of both men and women seems to initially decline, then levels off at the mid-level of development. The probable reason for the initial decline is the fact that, with economic growth, more children and youth attend school on a regular basis so that fewer are available for economic activity during periods of education. At the higher end of economic development, there is a slight tapering off of economic participation.

The EPR was selected as one of four indicators to measure progress toward MDG1B. Specifically, it serves as the gauge for the target of “full” employment as formulated in the goal itself: “achieve full and productive employment and decent work for all, including women and young people”. The initial debate regarding the selection of indicators for monitoring the employment target led to the inevitable discussion regarding the utility of the EPR as a measure of the volume of work as an alternative to the use of the unemployment rate, a more widely known measure of the extent of the lack of work available to those who seek it. Both indicators offer insight into the underutilization of labour – the unemployment rate directly and the EPR indirectly. But, in fact, the unemployment rate captures only a small share of the unutilized population,

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<sup>50</sup> See section 3.1.3 in ILO (2010f).

specifically the share of persons who are not working, available for work and actively seeking work.<sup>51</sup> The share of unemployed persons in the total working-age population is always going to be relatively small, between 3 and 6 per cent, depending on the region, in 2008.<sup>52</sup> In contrast, the total share of unutilized labour potential – the unemployed plus persons outside of the labour force (captured also by subtracting the EPR from 100) – was between 30 and 54 per cent in the same year. The broader population coverage, therefore, makes the EPR the preferred indicator choice for the target “to achieve full and productive employment and decent work for all”. Both decreasing unemployment and implicitly expanding employment opportunities fits within the target.

This chapter provides information regarding the concepts, definitions and limitations of the indicator. This is followed by an overview of trends in EPRs in sub-Saharan Africa and an assessment of the correlation between the EPR and other MDG1B indicators in section 3.2. Finally, section 3.3 looks more specifically at determinants of the levels and trends of EPRs in sub-Saharan Africa and offers guidance on how to judge both in the context of MDG1B in order to select appropriate policy responses.

### 3.1.1 Employment

The determination of a person’s economic activity status – employed, unemployed or outside of the labour force (inactive) – that is applied in the production of labour statistics by national statistical agencies or other organizations is guided by the labour force framework set out by the International Conference of Labour Statisticians (ICLS) in 1982. The resolution adopted by the 13<sup>th</sup> ICLS officially defines employed persons as those above a specified age who performed any work at all, in the reference period, for pay or profit (or pay in kind), or were temporarily absent from a job for such reasons as illness, maternity or parental leave, holiday, training or industrial dispute.<sup>53</sup> The resolution also states that unpaid family workers who work for at least one hour should be included in the count of employment, although many countries use a higher hour limit in their definition.

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51 The criterion of actively seeking work is sometimes relaxed by countries, in particular in low-income economies in sub-Saharan Africa, which can complicate the international comparability of the indicator.

52 This should not be confused with the measure of an unemployment “rate”, which is the share of unemployed in the labour force, not in the working-age population.

53 Resolution concerning statistics of the economically active population, employment, unemployment and underemployment, adopted by the 13th International Conference of Labour Statisticians, Geneva, 1982; see ILO (1982): [http://www.ilo.org/global/What\\_we\\_do/Statistics/standards/resolutions/lang--en/docName--WCMS\\_087481/index.htm](http://www.ilo.org/global/What_we_do/Statistics/standards/resolutions/lang--en/docName--WCMS_087481/index.htm).

There are priority rules associated with the labour force framework for sorting the sampled working-age population into the proper sub-category (employed, unemployed, inactive). For the most part, national statistical programmes, where they exist around the world, apply the rules to generate standardized labour market statistics from their surveys.<sup>54</sup> The statistics are then collated to generate labour market indicators and it is these indicators that are analysed and used to inform the design, implementation, monitoring and evaluation of employment policies and programmes, as well as progress toward MDG1B.

### Box 3-1

#### Frequently asked questions about the measurement of employment

*Should a person who worked only one hour in the week really be classified as employed?*

There is an ongoing debate among labour economists concerning the one-hour limit applied in the international definition of employment. The one-hour limit helps to ensure consistency between the measurement of employment and the measurement of production as defined by the UN System of National Accounts (SNA). Employment is intended to measure the entire employed population, placing the same weight on a person working one hour per week as a person working 60 hours per week. It includes certain categories of unpaid workers and covers both the formal and informal sectors; hence, it is a broad measure, which poses challenges when it comes to the interpretation of the employment-to-population ratio.

As a result of such critiques, a “working group on labour underutilization” was set up on the recommendation of the ICLS with the objective to come to agreement on the measurement of various forms of labour underutilization relating to sub-categories of employment (time-related underemployed, employed with low earnings, employed with underutilized skills) and inactivity (discouraged workers, other inactive persons available for work). The time-related underemployed, defined as an employed person working less than a specified number of hours, who is willing and available to work more hours (thus representing the underutilization of the productive capacity of the employed population in terms of hours of work), would be included in a broad

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<sup>54</sup> Exceptions in the application of the international standard definitions are common and represent a significant challenge to producers of compilations of statistics, including the UN in the collection and dissemination of the MDG indicators. For more information on the specific challenges to international comparability, see “Guide to understanding the KILM” in ILO (2009d).

measurement of labour underutilization that can be used to supplement “traditional” indicators such as the EPR and unemployment rate. The concept of labour underutilization, its components and the indicators derived from them are a work in progress and not yet approved at the international level.<sup>1</sup>

*Does the measure include both formal and informal employment?*

Yes, depending on the type of survey used. If the survey is household-based then persons working in both the formal and informal sector, paid or unpaid, are captured and counted among the employed. Establishment surveys count only those working within establishments and therefore exclude large portions of own-account workers engaged in the informal economy. For this reason, a national employment-to-population ratio should always be based on a household-based survey.

*I stay at home, tending the kids and house, preparing the meals, etc. I am not paid for any of these activities. Am I counted among the employed?*

No. According to the UN SNA that sets the boundary between economic and non-economic activity, unpaid domestic activities such as housework do not qualify as economic activity. The labour force framework follows the boundaries set out in the SNA, meaning that the person engaged in unpaid domestic activities is classified as economically inactive (or outside the labour force). There is widespread debate about the exclusion of home work from the SNA and the measure of the economically active population, with many arguing that the exclusion undermines the value of such work that falls primarily to women.<sup>2</sup>

<sup>1</sup> For more information, see ILO, 2008e.

<sup>2</sup> For more information on the debate, see ILO, 2010f, especially box 11.

### 3.1.2 Working-age population

For most countries, the working-age population is defined as persons aged 15 years and older, although this may vary slightly from country to country. The ILO standard for the lower age limit is, in fact, 15 years, an age that corresponds directly to standards for work eligibility in many countries. However, in some countries, including some in the region of sub-Saharan Africa, it is often appropriate to collect data on younger workers because “working age” can, and often does, begin earlier. Some countries in these circumstances include younger workers in their measurements (see table 3.1). Similarly, some countries have an upper limit for eligibility, such as 65 or 70 years, although this is infrequently imposed.

**Table 3.1** Availability of EPR data in sub-Saharan Africa, by country, year of household-based survey and applied age band

Country	Survey years*	Age group
Benin	2003 (IES)	15+
Botswana	1984, 85, 91 (PC), 94, 95, 96, 98, 00, 01 (PC), 05, 06	12+
Burkina Faso	1985 (PC), 94	10+
Burundi	1998 (IES)	15+
Cameroon	1985 (OE), 01 (IES)	15+
Chad	1993 (PC)	15-64
Congo	2005 (IES)	15+
Democratic Republic of Congo	2005 (IES)	15+
Djibouti	1991	15+
Ethiopia	1981, 94 (PC), 97, 99, 03**, 04**, 05, 06**	10+
Gabon	1993 (PC)	10+
Ghana	1984 (PC), 88, 89, 92, 98 (IES), 99	15+
Guinea	1994, 02 (IES)	7+
Kenya	1999 (PC), 05 (IES)	15+
Lesotho	1986, 97, 99	10+
Liberia	2007	15+
Madagascar	1997, 03, 05	6+
Malawi	1987 (PC), 98, 04 (IES)	10+
Mali	1997, 04, 06 (IES)	15+
Mauritius	1995–2003 (OE), 04–07	16+
Mozambique	1997 (PC), 02 (IES)	7+
Namibia	1991 (PC), 94, 97, 00, 01, 04	15+
Niger	1995, 01 (PC), 05 (IES)	10+
Nigeria	1983, 86, 03 (IES)	10+
Réunion	1999 (PC)	15+
Rwanda	1989, 96	15-64
Saint Helena	1998 (PC)	15-69
Sao Tome and Principe	1991 (PC), 00	10+
Senegal	1991, 02	10+
Seychelles	1992 (PC), 02 (PC), 05	15+

Sierra Leone	2003 (IES), 04 (PC)	10+
South Africa	1994–2007	15+
Swaziland	1995, 97 (PC)	12+
Tanzania, United Republic of	1991, 01	10+
Togo	2006 (IES)	15+
Uganda	1997, 03	10+
Zambia	1980 (PC), 86, 90 (PC), 91, 96, 98, 00 (PC)	12+
Zimbabwe	1987, 92 (PC), 97, 99, 02 (PC), 04	15+

**Source:** The inventory is based on available national EPRs as published in the ILO (2009d). Additional sources of information may exist but remain unknown or untapped by international organizations.

**Notes:** \*Unless otherwise specified (OE = official estimate; PC = population census; IES = income and expenditure survey), the survey is a labour force survey. \*\*Survey covers urban areas only.

The population base for employment ratios typically refers to the resident non-institutional population of working age living in private households, excluding members of the armed forces and individuals residing in mental, penal or other types of institution. Many countries, however, include the armed forces in the population base for their employment ratios even when they do not include them in the employment figures.

### 3.1.3 Employment-to-population ratio

The EPR is calculated as follows with the numerator (employment) and denominator (working-age population) *coming from the same data source and applying to the same age group*:

$$\text{EPR} = \text{Number of persons employed} / \text{Working-age population} * 100$$

Employment numbers alone are inadequate for purposes of comparison unless expressed as a share of the population who could be working. One might assume that a country employing 30 million persons is better off than a country employing 3 million persons, whereas the addition of the working-age population component would show another picture; if there are 3 million persons employed in Country A out of a possible 5 million persons (60 per cent EPR) and 30 million persons employed in Country B out of a possible 70 million (43 per cent EPR), then Country A has shown more efficiency in using its employment resources. The use of a ratio helps determine how much of the population of a country – or group of countries – is contributing to the production of goods and services.

## 3.2 Trends in EPRs in sub-Saharan Africa

### 3.2.1 Regional estimates of the EPR

The regional EPR in sub-Saharan Africa was the second highest in the world at 65.8 per cent in 2009. The only region with a higher ratio was East Asia (at 69.8 per cent in 2009), but given the strong declining trend in this region and a continuing upward slope for sub-Saharan Africa, it could be that in a few years sub-Saharan Africa becomes the region with the highest share of people working in the world (see figure 3.1). In fact, sub-Saharan Africa registered both the highest average annual employment and population growth rates over the last ten years (2000-10) at 3.1 and 2.5 per cent, respectively. For the moment, then, employment growth in SSA keeps pace with the substantial demographic growth.

Employment in the region has proved to be fairly well protected from the global economic crisis that began in 2007, most likely as a result of the region's weaker integration into the global financial and trade system.<sup>55</sup> Between 2007 and 2009, the regional unemployment rate increased by only 0.2 percentage points (from 8.0 to 8.2 per cent), compared to 2.6 percentage points in the Developed Economies & European Union (ILO, 2010a).<sup>56</sup> Likewise, the EPR for the region has continued to increase over the crisis period (from 65.7 to 65.8 per cent between 2007 and 2009) while six of the nine regions have experienced losses in the shares of employment. There was a slight decrease in male EPRs (0.2 percentage points) but this was balanced out by the 0.3 point increase in the female ratio.

The gap between male and female EPRs in the region is below that at the global level; 17.8 percentage points versus 24.8 points at the global level and 14.7 in the Developed Economies & EU (see figure 3.2). The reasons behind the comparatively low gender gap in employment ratios are likely to be very different between the two regions. In sub-Saharan Africa, both the male and female EPRs are high (74.8 and 57.1 per cent, respectively, in 2009) due to the economic need to work for income in an environment marked by widespread poverty and a lack of social protection. In the Developed Economies & EU, institutional

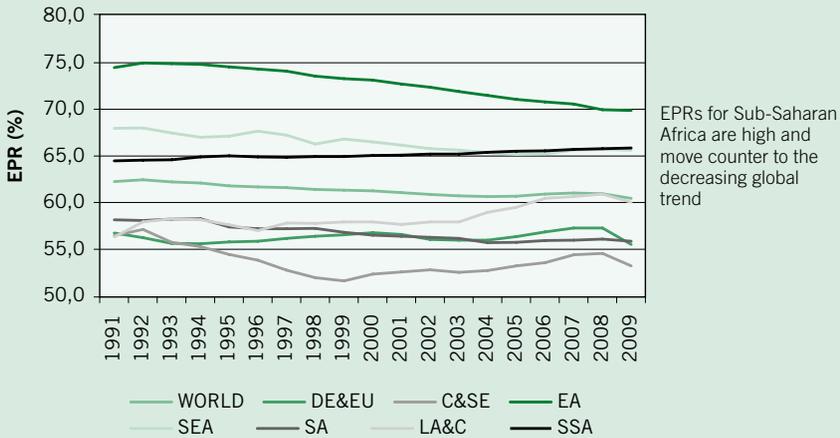
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55 Resource-rich countries such as Nigeria and South Africa, which are more dependent on trade and foreign direct investment, are the ones most exposed to global markets and therefore most impacted in the crisis period. See Chapter 7 on South Africa; Kucera and Roncolato (2008); and the African Development Bank Group website on the financial crisis for more information on the impact on Africa; <http://www.afdb.org/en/topics-sectors/topics/financial-crisis/>.

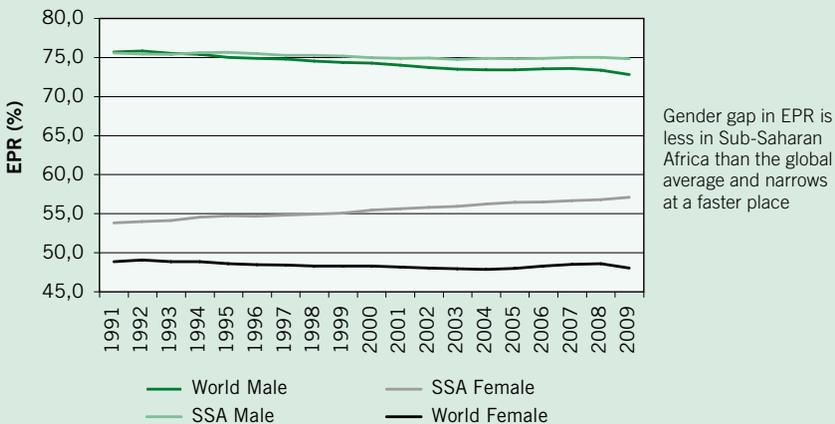
56 "Developed Economies & European Union" is a region defined in the ILO, *Global Employment Trends series*.

frameworks ease the access of women to employment but the availability of higher-paying jobs and social protection means that for some men and women, working is more a matter of choice than necessity. As a result, only 63 per cent of the male working-age population are employed in the Developed Economies & EU compared to 74.8 per cent in sub-Saharan Africa.

**Figure 3.1 Global and regional EPR, 1991 to 2009**



**Figure 3.2 EPR by sex, global and sub-Saharan Africa, 1991 to 2009**



**Regions:** DE&EU, Developed Economies & European Union; C&SE, Central and South-Eastern Europe (non-EU) & CIS; EA, East Asia; SEA, South-East Asia and the Pacific; SA, South Asia; LA&C, Latin America and the Caribbean; ME, Middle East; NA, North Africa; SSA, sub-Saharan Africa.

**Source:** ILO (2010a).

The female EPRs in the region rose between 53.8 and 57.1 per cent from 1991 to 2009. The only other regions with increases of greater magnitude were Latin America and the Caribbean and the Middle East, but female EPRs in both regions had started from a much lower base.

### 3.2.2 Country-level EPRs

Plotting country-level EPRs (latest years) on a world map highlights two items of interest. First, the sub-Saharan African region contains numerous countries with the world's highest levels of EPRs. Specifically, total EPRs exceeded 75 per cent in Burkina Faso, Ghana, Kenya, Rwanda, Tanzania and Zambia. Unfortunately, the data for many countries in the region are out of date – among the countries with high EPRs listed immediately above, the most recent data point was 2004 for Tanzania; the EPR for Burkina Faso, on the other hand, was measured as much as 16 years ago in 1994, Rwanda in 1996 and Ghana and Kenya in 1999, which could easily be said to invalidate their inclusion in such a global comparison. This brings us to the next important point: there is a gross lack of LMIA in sub-Saharan Africa. Data for many countries are extremely out of date (see table 3.1) and, for the following countries, are either not available at all or remain inaccessible as a result of a weak LMIA system and/or inadequate institutional arrangements (see Chapter 1): Angola, Benin, Cape Verde, Central

**Figure 3.3** World map of EPRs, latest years



Source: ILO (2009d).

African Republic, Comoros, Côte d'Ivoire, Equatorial Guinea, Eritrea, Gambia, Guinea-Bissau and Mauritania.<sup>57</sup>

Lower EPRs are found in the more “modern” economies of southern Africa – for example, Botswana (42.4 per cent in 2006) and South Africa (40.5 per cent in 2007) but also in Djibouti (26.1 per cent in 1991), Réunion (33.7 per cent in 1999) in eastern Africa, and Sao Tome and Principe (40.6 per cent in 2000) and Gabon (43.1 per cent in 1993) in Central Africa.

### 3.2.3 EPR and other MDG1B indicators

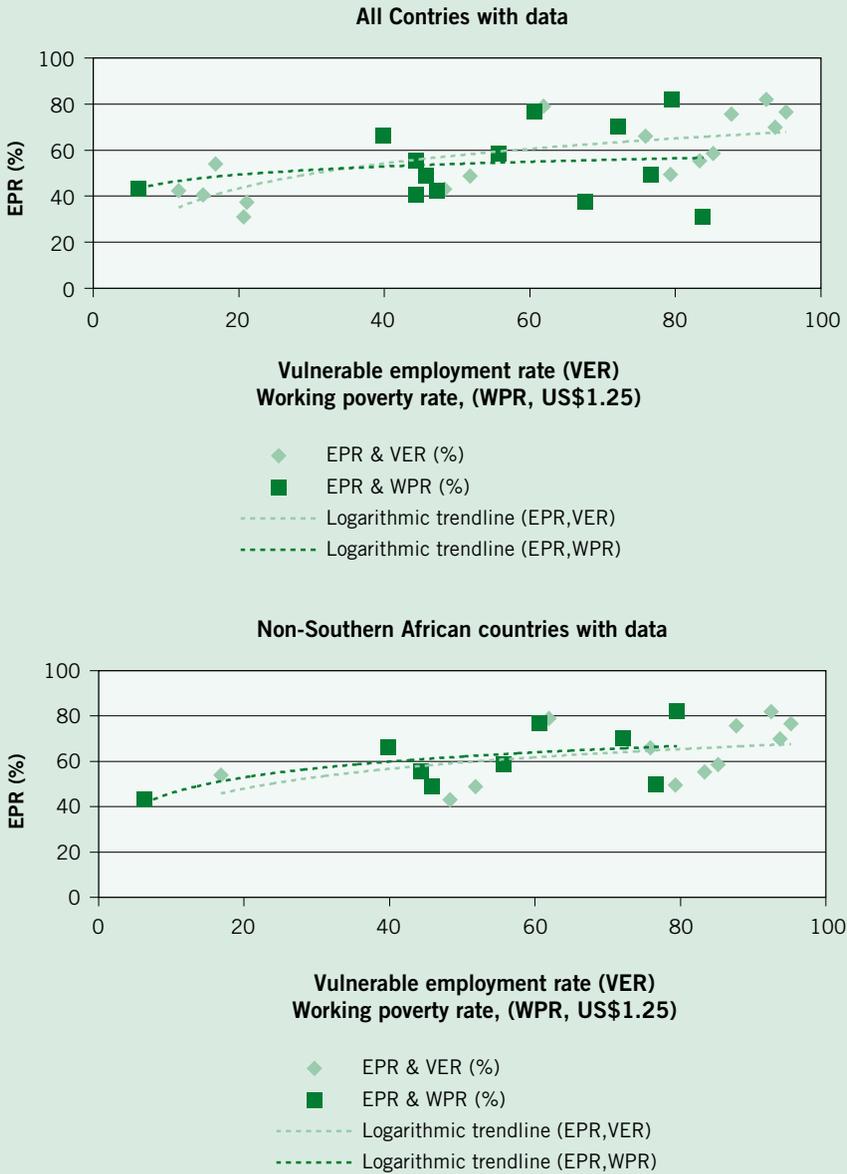
There is a positive correlation between both EPR and the vulnerable employment rate and EPR and the working poverty rate. Many low-income countries lack social protection programmes, leaving persons in poor households with little option but to work to sustain themselves and their families. Also in many low-income countries, wage and salaried employment as an option is not widely available; the majority of workers seek an income through own-account work or work without pay within a family establishment or landholding, the two categories of “vulnerable employment” (see Chapter 4).

Figure 3.4 confirms the positive correlation between EPR and the other two employment-based MDG1B indicators. The chart on the left plots the three indicators for all sub-Saharan African countries with available data while the chart on the right excludes southern African countries (data were available for Botswana, Namibia, South Africa and Swaziland). The reason for showing the two charts separately is to demonstrate the point that the labour markets in countries in the region of southern Africa behave quite differently from other countries of sub-Saharan Africa (see also the discussion in section 3.3.2). In relation to the vulnerable employment rate, there is no diversion from the standard correlation among southern African countries and those in the other regions; in all sub-Saharan African countries, low EPRs correspond to low vulnerable employment rates. For working poverty, however, the southern African countries show low EPRs despite high working poverty rates. In other words, there is an inverse relationship that weakens the positive trends line when these countries are included in the plot. Specifically, it is the availability of social protection as well as the political histories in southern African countries that throw off the usual income-employment relationship.

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57 Income and expenditure survey data exist for Burundi, Congo, Democratic Republic of Congo, Nigeria and Togo (see table 3.1) but have not yet been added in ILO (2009d).

**Figure 3.4 EPR in relation to two other MDG1B indicators (vulnerable employment rate and working poverty rate) in sub-Saharan African countries with data**



### 3.3 What does the EPR mean in sub-Saharan Africa?

#### 3.3.1 Determinants of EPRs in sub-Saharan Africa

Table 3.2 lists some determinants of the levels of EPRs, the typical correlation between the variables, and some brief information on the relevance to sub-Saharan Africa.

**Table 3.2 Some determinants of EPRs in sub-Saharan Africa**

Determinant	Nature of the relationship
Access to education	Negative. As more young people gain access to education, they postpone their entry to the world of work. Enrolment at both secondary and tertiary levels is increasing in SSA, although levels remain low compared to other regions. <sup>58</sup>
Religious, cultural and social norms	Negative. Certain religions and cultures discourage employment of certain population groups, such as women.
Health	Negative. HIV/AIDS pandemic and malnutrition can prevent a person from working and can severely impact the productivity of those who remain in the workforce. In 2007, an estimated 33 million persons were living with HIV/AIDS. Two-thirds of them were in sub-Saharan Africa. <sup>59</sup>
Income level	Mostly negative. A poor person without a social safety net to rely on has no choice but to work to help feed his/her family; in a high-income household, there is more leisure to decide who is going to work, how much, etc. Twenty-nine of the 43 World Bank-designated low-income countries are located in SSA (see also Chapter 5).
Fertility	Can be positive or negative. Continuing high fertility rates in SSA can exacerbate household poverty and the need for all able bodies to work for survival. On the other hand, women with numerous children may be more likely to stay at home to tend to them. Thirty-four of 41 countries with fertility rates higher than 5.0 are located in SSA. <sup>60</sup>
Sectoral base of the economy (agricultural-, industrial- or service-based)	Certain sectors are more labour-intensive than others. Agriculture, the largest sector in most sub-Saharan African countries with data, relies mainly on labour rather than capital input.

58 See Chapter 2 on Sub-Saharan Africa in ILO, 2008f.

59 See UN, 2009, pp. 32-33.

60 UN Population Division/DESA, World Fertility Data 2008; [http://www.un.org/esa/population/publications/WFD%202008/WP\\_WFD\\_2008/Data.html](http://www.un.org/esa/population/publications/WFD%202008/WP_WFD_2008/Data.html)

Determinant	Nature of the relationship
Infrastructure	Mostly positive. Poor infrastructure can seriously restrict the ability of economies to match labour supply to demand. With the higher possibility for finding work typically in urban areas and difficult transport between rural and urban areas, large numbers of men in SSA migrate to urban areas for long periods of time, resulting in a strong prevalence of female-headed households in rural areas and a greater likelihood of working poverty among women (see Chapter 5). Poor infrastructure can also inhibit access to education, which has longer-term consequences for employment opportunities for young men and women.
Political regimes	Democratic regimes tend to be more open to placing employment issues at the heart of development and developing employment strategies aimed at job creation; instability and corruption, however, can skew the efficiency of labour markets.
Wars and conflicts	Negative. Wars and conflict disrupt employment in conflict areas; recruitment of large numbers of conscripts lowers employment of men but can have a substitution effect with women taking up the slack.

### 3.3.2 What should the target employment-to-population ratio be in sub-Saharan Africa?

The EPR was adopted as an indicator for monitoring progress toward the goal of “full and productive employment and decent work for all”. Presumably, then, there is an ideal EPR that is indicative of full employment which can serve as the goal for attainment at the country level. The assumption is inaccurate. Unfortunately, there is no “correct” EPR that can be applied in a blanket sense across economies. There are, however, certain “rules” for determining a “good” and “bad” EPR and moving forward in monitoring and policy response. As a general guide, EPRs that are much higher and lower than 60 per cent are likely to indicate some malfunctioning in the labour market. The specific areas of friction can be determined only with an assessment of other labour market indicators and, even then, only when analysing in depth the socio-economic context of the country.

Table 3.3 offers a “checklist” for monitoring the EPR at the national level. The questions and sub-questions are intended to facilitate the interpretation of the indicator and to pinpoint generic policy responses that relate to the core issue indentified.

**Table 3.3 Guidelines for monitoring national EPRs and designing policy responses<sup>61</sup>**

Question	Response	Sub-questions, core issues and generic policy responses		
1. How does the national EPR compare to the regional average of the Developed Economies & European Union? <sup>62</sup>	a. Much higher	Is there wide-spread poverty in the country? (confirm with vulnerable employment and working poverty indicators)	Yes	Poverty-reduction/development strategies: Policies including a focus on employment creation, infrastructure development, strengthening education and access to education for all, maternity health and reproductive rights for women, fostering social protection including for the informal sector, etc.
			No	Social protection: Continual development and monitoring of social protection – pension policies, childcare facilities, etc.
	b. Much lower	Is the unemployment rate high?	Yes	Inequality and segmentation of the labour market: In a situation where the very poor must work while wealthier families can afford to support a household member during the job search period.
			No	Gender equality in conditions of work: Continual monitoring of conditions of work and sectoral sex segregation with action taken if needed.
		Are there population segments that are excluded from the labour market, for example, women?	Yes	Discrimination: Policies to encourage female employment – anti-discrimination and awareness-building campaigns about the benefits of utilizing the productive potential of women.
			No	Gender equality in conditions of work: Continual monitoring of conditions of work and sectoral sex segregation with action taken if needed.
Is there a strong bias toward public sector employment in the country (possibly related to the production of natural resources), with little job creation in the private sector?	Yes	Sectoral diversification: Programmes and policies to encourage entrepreneurship with an aim to diversify the sectoral base of employment; investment in education and training; industrial/sectoral policies.		

61 The table is not intended to be all-inclusive in terms of possible policy responses. Rather, it is intended to serve as an example of the analytical process for labour market information and analysis (LMIA) for policy and programme development.

62 One can certainly not say that the EPR of the Developed Economies & European Union region indicates a perfect freedom of employment choice (personal and economic) for all the region's citizens. However, it still remains the region with the highest degree of economic development, political freedom and stability, institutional development, gender equality and social protection, all of which contribute to the following conclusion: if the choice to work is "free" for all a country's citizens, meaning independent of considerations such as discrimination, economic need and household responsibilities, the EPR is likely to be near the regional average of 60 per cent seen in the Developed Economies & European Union.

Question	Response	Sub-questions, core issues and generic policy responses		
		Is the unemployment rate high?	Yes	Severe structural employment issues with high incidence of dependence on state support: Large untapped labour potential; combination of active labour market policies needed to encourage investment and job creation.
		Is there wide-spread poverty in the country? (confirm with working poverty indicators)	Yes	Severe structural employment issues with high incidence of dependence on state support: Large untapped labour potential; combination of active labour market policies needed to encourage investment and job creation.
2. Is the gender gap in EPRs higher or lower than 20 percentage points?	Higher	Gender equality in access to employment: Policies to encourage female employment – anti-discrimination and awareness-building campaigns about the benefits of utilizing the productive potential of women.		
	Lower	Is there wide-spread poverty in the country? (confirm with vulnerable employment and working poverty indicators)	See 1.a.	
3. Is there a declining trend in the EPR for young people over time?	Yes	Is the youth unemployment rate more than 2-3 times that of the adult unemployment rate?	Yes	School-to-work transition, mismatch in supply and demand of labour: Integration of work-study programmes into education systems; targeted interventions for vulnerable youth; expanding or upgrading informal apprenticeship systems.
	No	Investment in education: Programmes and policies to promote investments in education – building schools, paying for teachers and materials; promoting equal access to education; subsidies to poor families who keep children in school.		
4. Is the EPR for older age groups (55+ or 55-64, 65+) below that of the prime-age group (25-54)?	No	Social security: Strengthening or development of old-age social security.		

Using the guidelines in table 3.3 and looking at EPRs in three country examples, one comes to quite diverse conclusions when it comes to the policy response needs. The three countries examined here are Botswana, Ethiopia and Mali (see table 3.4). The EPRs were very high in Ethiopia and Mali compared to the Developed Economies and European Union estimate of 2006 at 56.8 per cent (ILO, 2010a). From this one could already guess that poverty is a widespread issue in both

countries. This is confirmed by the high estimates of 45.8 and 60.6 per cent for the share of working persons living in households with expenditure below US\$1.25 a day in Ethiopia (2005) and Mali (2006), respectively, and the high rate of vulnerable employment in the former country (91.2 per cent). While the volume of poverty seems to have been improving in both countries, in Ethiopia – the only country of the two with a comparable EPR over two points in time – poverty reduction was not reflected in decreasing shares in employment. In contrast, the EPR in Ethiopia increased between 1999 and 2005. Both countries represent circumstances where poverty drives the majority of able bodies to attempt some income-generating activity. At the same time, the unemployment rates of the two countries are not especially high. The higher 9.6 per cent in Mali in 2007 could indicate some degree of dichotomy between the job markets of persons from wealthier versus poor households there.

**Table 3.4 MDG1B indicators and unemployment rates in Botswana, Ethiopia and Mali**

	Botswana		Ethiopia		Mali	
	1996	2006	1999	2005	1998	2007
Employment-to-population ratio (%)	36.3	42.4	68.6	76.6	n.a.	72.6
Gender gap in EPR (male-female, percentage points)	11.8	11.4	21.5	15.7	n.a.	11.4
Unemployment rate (%)	21.5	17.6	8.2	5.4	n.a.	9.6
Vulnerable employment rate (%)*	14.7	11.7	90.5	91.2	n.a.	n.a.
Working poverty rate, US\$1.25 a day (%)**	47.3	n.a.	73.9	45.8	79.7	60.6
Working poverty rate, US\$2 a day (%)**	72.7	n.a.	95.0	89.5	86.7	81.8

**Source:** ILO (2009d), tables 2b, 3, 8a and 20a.

**Notes:** n.a. = Not available

\*Vulnerable employment rates refer to 1994 and 2003 for Botswana.

\*\*Working poverty rates refer to 1993 for Botswana, 1995 and 2005 for Ethiopia, and 1994 and 2006 for Mali.

The labour market situation in Botswana looks completely different in view of the few indicators shown in table 3.4. There the EPR was low at 42.4 per cent in 2006 despite the fact that there are still many working poor in the country (although the latest information for working poverty is 1996). At the same time, the unemployment rate was very high at 17.6 per cent. One finds a similar combination of results with the labour market indicators of other southern African countries – low EPRs together with low rates of vulnerable employment,

high unemployment rates and high working poverty rates – which hint to the unique constraints of labour markets in the region. Despite the relatively high incomes per capita and wealth of natural resources and associated industries, job creation is severely constrained and large segments of the countries' productive potential remain unutilized. In all southern African countries, less than half of the population who could work do so: the remainder are discouraged and dependent on state welfare or alternative sources of income, including remittances. For those who do work, the majority remain poor. There is rigid segmentation of the labour markets in terms of industrial sectors, public and private sectors, formal and informal sectors (see also Chapter 7 on South Africa).

Back to the issue of adopting a goal for the EPR indicator that is in line with MDG1B, one can apply the general “60 per cent rule” mentioned above to conclude that the EPRs are “too high” in Ethiopia and Mali and “too low” in Botswana. Development goals aimed to encourage decent work for all should therefore incorporate the targets of lowering or raising EPRs, respectively, through an appropriate policy mix.

### 3.4 Conclusions

The EPR as an MDG1B indicator offers a starting point from which a more detailed analysis of employment circumstances should follow. In itself, it offers information only on the volume of employment in the country and, even here, interpretation is not straightforward. Contrary to popular belief, “full” employment in the sense of an EPR of 100 per cent is neither a positive outcome nor to be aspired to. It would indicate an unwelcome situation in which every person above a certain age is forced to work, including the elderly and youth who could otherwise be in education. It is an untenable situation that ignores the principles of personal freedom and human development.

In reality, then, an EPR of 100 per cent is not the goal, and hence the addition of the phrase “decent employment” to MDG1B. The important recognition here is that conditions of work matter too. As stated by Amartya Sen in an important contribution on “works and rights” (Sen, 2000, pp. 120-21):

*... it is right that policy attention be focused on expanding jobs and work opportunities. And yet the conditions of work are important too. It is a question of placing the diverse concerns within a comprehensive assessment, so that the curing of unemployment is not treated as a reason for doing away with reasonable conditions of work of those already employed, nor is the protection of the already-employed workers used as an*

*excuse to keep the jobless in a state of social exclusion from the labour market and employment. The need for trade-offs is often exaggerated and is typically based on very rudimentary reasoning. Further, even when trade-offs have to be faced, they can be more reasonably – and more justly – addressed by taking an inclusive approach, which balances competing concerns, than by simply giving full priority to just one group over another.*

In sub-Saharan Africa, the high EPRs in most countries indicate a lack of options among the majority of the population who live in conditions of poverty. The poor work because they have to feed themselves and their families. If a household member earned enough to cover the household expenses, to pay for the children's education, etc. then other household members might opt to remain outside the labour force. Alternatively, the State might subsidize a portion of household expense through social services, for example, free education or childcare, which could also influence the household decision as to who goes to work and who does not. But single-earner households and social services are the exception rather than the rule in sub-Saharan Africa. A major contribution of the addition of MDG1B to the MDGs should be in raising awareness of the specific constraints to reaching the goal that are particular to sub-Saharan Africa. Subsequently, the international community and African constituents will be called upon to work together to come up with more appropriate or more effective policy responses.



# CHAPTER 4.

## VULNERABLE EMPLOYMENT

*Theo Sparreboom*<sup>63</sup>

### 4.1 Introduction

In view of the formulation of the first MDG1B, which is to “achieve full and productive employment and decent work for all, including women and young people” (see box 1.1), the growth rate of labour productivity and the EPR can be seen as indicators of achievement of “full and productive employment”. They do not directly measure the characteristics of jobs, i.e. whether work is “decent” or not. The remaining two indicators of MDG1B, the vulnerable employment rate and the working poverty rate, do provide information on employment characteristics that can be used to assess the extent to which decent work has been achieved. This chapter discusses the vulnerable employment rate, while the working poverty rate is the topic of Chapter 5.

The definition of vulnerable employment is based on the International Classification by Status in Employment (ICSE, 1993), which allows for a distinction between three broad categories of the employed.<sup>64</sup> These are: (a) wage and salaried workers (also known as employees); (b) self-employed workers; and (c) contributing family workers (also known as unpaid family workers). The self-employed group (b) is divided into three sub-categories – self-employed workers with employees (employers), self-employed workers without employees (own-account workers) and members of producers’ cooperatives. The basic criteria used to define the status groups are the types of economic risk that they face in their work, an element of which is the strength of institutional attachment between the person and the job, and the type of authority over establishments and other

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63 Employment Trends, International Labour Office. Research assistance was provided by Souleima El Achkar.

64 For more information, see the website of the ILO’s Department of Statistics: [http://www.ilo.org/global/What\\_we\\_do/Statistics/topics/Statusinemployment/guidelines/lang--en/index.htm](http://www.ilo.org/global/What_we_do/Statistics/topics/Statusinemployment/guidelines/lang--en/index.htm).

workers that the jobholder has or will have as an explicit or implicit result of the employment contract.

Vulnerable employment consists of the sum of the status groups of own-account workers and contributing family workers. In developing economies, these workers are less likely to have formal work arrangements, and are therefore more likely to lack elements associated with decent work such as adequate social security and recourse to effective social dialogue mechanisms. Vulnerable employment is often characterized by inadequate earnings, difficult conditions of work that undermine workers' fundamental rights, or other characteristics pointing at decent work deficits, including low productivity.

This chapter begins by summarizing the rationale behind adopting the vulnerable employment rate as one of the indicators to assess the achievement of decent work in the context of MDG1B. This is followed by an overview of trends in vulnerable employment in sub-Saharan Africa, and a discussion of what vulnerable employment means in the context of sub-Saharan Africa. Finally, some policy issues are highlighted together with possibilities to better utilize household survey information to assess the extent to which decent work has been achieved.

## **4.2 Vulnerable employment and economic development**

A high rate of vulnerable employment, calculated as the sum of own-account workers and contributing family workers as a proportion of all employed, is associated with a low level of economic development in terms of gross domestic product (GDP) per capita. Large proportions of own-account workers and contributing family workers indicate the likelihood of a large agricultural sector and rural economy, and a limited formal economy. Own-account workers in developing economies are associated with subsistence agriculture and activities such as petty trade and other small-scale activities, often providing an irregular source of earnings. Contributing family work is a form of labour – generally unpaid, although compensation might come indirectly in the form of family income – that supports production for the market. It is particularly common among women in subsistence agriculture in developing countries.

The standard development discourse suggests that, with economic growth, the vulnerable employment rate will decline as structural transformation with regard to both the economic and the employment structure occurs. In terms of employment, structural transformation entails a shift of employment away from

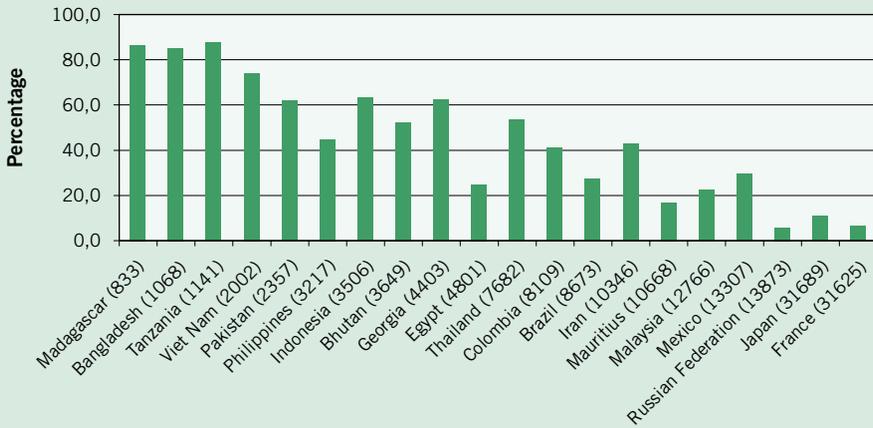
agriculture to industry and modern services sectors, which is also associated with changes in the distribution by status in employment. Agriculture, petty trade and other small-scale activities in the “traditional” or subsistence sector are dominated by own-account workers and contributing family workers because of institutional arrangements such as the farming household being both a consumption and production unit. Structural transformation necessitates alternative arrangements in dedicated production units that allow for economies of scale and organized production in line with an increasing specialization of the workforce.

Accordingly, transformation brings a reduction of own-account work of the subsistence type. In other words, a rise in the share of employees, and falling proportions of the share of own-account workers and/or contributing family workers in total employment, can be expected to accompany structural transformation from a low-income situation with a large informal or rural sector to a higher-income situation, and a high proportion of wage and salaried workers in a country may well signify advanced economic development.

Figure 4.1 illustrates the relation between GDP per capita and the vulnerable employment rate. Low-income economies show a high vulnerable employment rate or a low proportion of wage and salaried work in total employment, while the opposite is true for high-income economies. In fact, the proportion of wage and salaried work exceeds 70 per cent of employment in all developed economies except Greece and Romania, rising to more than 90 per cent in several European countries as well as the United States (ILO, 2009d).

Although the standard discourse has proven its value, it offers a highly stylized model of structural transformation. The differences between vulnerable employment rates at similar levels of income per capita in figure 4.1 suggest that countries may experience a variety of transformation paths. Especially if shorter periods are considered, labour markets may respond to economic growth not only through an increase in wage and salaried employment, but also through a reduction in unemployment and/or underemployment and working poverty, or higher wages and/or higher rates of return to own-account work resulting from higher productivity or better terms of trade. The different ways in which labour markets may respond to economic growth and growth strategies underline the need to consider a comprehensive set of labour market indicators, as opposed to a focus on one particular indicator. This point will be taken up in a later section, but first we will consider the development of vulnerable employment in sub-Saharan Africa in the last two decades.

**Figure 4.1** Vulnerable employment rate in selected countries ranked by GDP per capita (PPP), most recent year



Source: ILO (2009d).

Note: Between brackets – income per capita in constant 2005 international US\$.

### 4.3 Trends in vulnerable employment in sub-Saharan Africa

Analysis of regional trends in vulnerable employment is useful as it serves as a reference point for country-level developments. Without comparisons with trends elsewhere it is difficult to analyse and interpret economic and labour market indicators. Nevertheless, when analysing the regional vulnerable employment rate in sub-Saharan Africa it is important to realize that this rate has been calculated using imputations for countries which do not report on employment by status. These imputations have been produced using information that is available for virtually all economies, such as economic growth rates.<sup>65</sup> In comparison with other regions, the number of country-level imputations is relatively high in sub-Saharan Africa, in part because of the dearth of labour force surveys,<sup>66</sup> but the average size of national populations plays a role as well.<sup>67,68</sup>

65 See ILO (2010a), in particular Annex 4, and ILO (2010b) for a detailed methodological review; both publications are available at: <http://www.ilo.org/trends>.

66 See ILO (2009d) for an overview of data availability on status in employment (KILM 3).

67 United Nations population estimates show that around three-quarters of sub-Saharan African economies had a population of less than 20 million in 2010; see: <http://www.un.org/esa/population/unpop.htm>.

68 For example, data availability in South Asia at the national level may well be better than in sub-Saharan Africa, but this comparison would change if the availability of data would be considered at the subnational level in South Asia, and the number of people represented by each data point would be taken into consideration.

The regional vulnerable employment rate is on a downward trend in sub-Saharan Africa, but progress has been uneven and slow in view of the very high levels of vulnerable employment (see table 4.1). Between 1991 and 2008, the vulnerable employment rate decreased by more than 7 percentage points, but much of this decrease occurred during 2001–08, when average annual economic growth in the region was exceeding 6 per cent, as compared to an average growth rate of just above 2 per cent during the 1990s. The high economic growth rate during the first decade of the twenty-first century, at least until the economic crisis impacted on Africa, translated into a reduction of the vulnerable employment rate by 5.6 percentage points, while in the 1990s the rate only declined marginally by 1.5 percentage points. Despite the decrease during 2001–08, the regional vulnerable employment rate in sub-Saharan Africa is still among the highest in the world, and stood at 75.5 per cent in 2008. Only in South Asia is the proportion of workers in vulnerable employment slightly higher, while in South-East Asia and the Pacific the vulnerable employment rate is around 15 percentage points lower than in sub-Saharan Africa.

**Table 4.1 Trends in vulnerable employment rates by region, 1991–2008 (% in total employment)**

	1991	2000	2008	1991–2000 (percentage point)	2000–08 (percentage point)
WORLD	55.4	52.8	49.5	-2.6	-3.3
Sub-Saharan Africa <sup>1</sup>	82.6	81.1	75.5	-1.5	-5.6
South Asia	81.8	80.3	76.9	-1.5	-3.4
East Asia	69.2	59.0	53.2	-10.2	-5.8
South-East Asia and the Pacific	68.9	64.9	60.7	-4.0	-4.2
Middle East	50.4	43.7	38.1	-6.7	-5.6
North Africa	45.6	40.7	37.9	-4.9	-2.8
Latin America and the Caribbean	35.4	34.4	31.0	-1.0	-3.4
Central and South Eastern Europe (non-EU) & CIS	18.8	24.6	19.5	5.8	-5.1
Developed Economies & European Union	11.9	10.7	9.7	-1.2	-1.0

**Source:** ILO (2010a).

**Note:** The trend in vulnerable employment in sub-Saharan Africa is based on 49 economies including imputed values for economies without reported data on employment by status (see ILO, 2010a, Annex 3, for the list of economies).

As noted before, there is a relatively large degree of uncertainty associated with the trend in vulnerable employment in sub-Saharan Africa in comparison with other regions, and national trends may be similar to but may also diverge from the regional trend. Later chapters discuss examples of both cases, with Ghana showing trends that are similar to the sub-Saharan African trend, and Burkina Faso and Tanzania making far less progress in reducing vulnerable employment. Trends in Botswana also diverge from the regional trend, which is surprising in view of the rapid economic growth and considerable growth in wage and salaried employment in this country. The vulnerable employment rate increased from 17 per cent in 1996 to 36 per cent in 2006 in Botswana (which is still less than half of the regional rate in sub-Saharan Africa, see ILO, 2009d, Chapter 1C). Another country that experienced only a marginal reduction in the vulnerable employment rate despite rapid economic growth is Mozambique, where the rate declined from 86.7 per cent in 1997 to 84.9 per cent in 2007, both measured on the basis of a population census (Arnaldo and Norte, 2010). The country's first labour force survey, which was conducted in 2004–05, resulted in a vulnerable employment rate of 86.7 per cent, which would suggest that more recent years saw a somewhat stronger reduction of the rate in Mozambique. However, an analysis using the labour force survey alongside a population census may give rise to methodological issues, which illustrates the difficulties in ascertaining vulnerable employment trends in sub-Saharan Africa.

#### 4.4 Limited structural transformation

Are trends in vulnerable employment driven by transformation of the structure of sectoral employment in sub-Saharan Africa? Similar to trends in the vulnerable employment rate, regional shifts in employment by aggregated economic sectors (agriculture, industry and services) are also quite different between 1991–2000 and 2001–08, but suggest that structural transformation is uneven or partial at best (see table 4.2). Although in both periods the share of the workforce in agriculture was falling in sub-Saharan Africa, there was a larger shift away from agriculture in the later period, during which the share fell by 5 percentage points. In both South Asia and South-East Asia and the Pacific the shifts were larger than in sub-Saharan Africa during 2001–08, with the shift in South Asia exceeding 10 percentage points.

Perhaps more surprisingly, the share of the employed in industry in sub-Saharan Africa also fell during 1991–2000 (by 1 percentage point), and only marginally increased by around 1 percentage point during 2001–08. In other words,

**Table 4.2 Trends in employment by sector, sub-Saharan Africa, South Asia and South-East Asia and the Pacific, 1991–2008 (%)**

	1991	2000	2008	1991–2000 (percentage point)	2000–08 (percentage point)
<b>Employment in agriculture</b>					
Sub-Saharan Africa	69.5	66.0	61.0	-3.5	-5.0
South Asia	60.9	58.4	47.7	-2.5	-10.7
South-East Asia and the Pacific	60.4	49.6	42.5	-10.8	-7.1
<b>Employment in industry</b>					
Sub-Saharan Africa	8.7	7.7	8.9	-1.0	1.2
South Asia	15.5	16.2	22.2	0.7	6.0
South-East Asia and the Pacific	12.7	16.4	19.4	3.7	3.0
<b>Employment in services</b>					
Sub-Saharan Africa	21.8	26.2	30.2	4.4	4.0
South Asia	23.6	25.3	30.1	1.7	4.8
South-East Asia and the Pacific	27.0	34.0	38.1	7.0	4.1

Source: ILO (2009d).

almost all of the relative decrease of the agricultural workforce translated into an increase in the share of the employed in the services sector. By 2008, there was little difference between the size of the services sector in South Asia and in sub-Saharan Africa, but the share of employment in the industrial sector in sub-Saharan Africa had fallen to around 40 per cent of the corresponding share in South Asia, amounting to not more 9 per cent of the workforce in sub-Saharan Africa.

Even though trends in employment by aggregated economic sectors are subject to similar uncertainty as trends in vulnerable employment, trends in value added by aggregated economic sector confirm the limited role of the industrial sector in job creation in sub-Saharan Africa (see table 4.3). The share of industrial valued added in GDP increased only marginally between 1991 and 2000 (by 0.3 percentage points), and actually declined during 2000–03, again pointing to the absence of a large labour-intensive industrial sector as a major generator of jobs.

**Table 4.3 Trends in value added by sector in sub-Saharan Africa, 1991–2008 (% of GDP)**

Indicator	1991	2000	2003	2005	2007	1991-2000 (% point)	2000-03 (% point)
<b>All economies<sup>1</sup></b>							
Agriculture	20.3	17.2	16.9			-3.1	-0.3
Industry	30.6	30.9	30.7			0.3	-0.2
Services	49.1	52.0	52.3			2.9	0.3
<b>Excluding oil exporters and South Africa</b>							
Agriculture	35.6	31.8	30.6			-3.8	-1.2
Industry	22.2	22.4	22.7			0.2	0.3
Services	42.2	45.9	46.7			3.7	0.8
<b>Oil exporters<sup>2</sup></b>							
Agriculture	23.7	15.5	15.5	12.6	13.0	-8.2	0.0
Industry	30.7	49.1	47.7	55.9	56.8	18.4	-1.4
Services	45.6	35.4	36.9	31.5	30.2	-10.2	1.5

**Source:** Calculations based on World Bank (2009a).

**Notes:**

1. The table is based on 42 economies with data on value added by sector reported for 1991–2003.

2. Oil exporters are Angola, Cameroon, Chad, Congo, Côte d'Ivoire, Equatorial Guinea and Gabon.

The share of industry in GDP in sub-Saharan Africa as a whole, at 31 per cent in 2003, is boosted by oil-producing economies as well as South Africa's share of industry in GDP, also at around 31 per cent in the same year.<sup>69</sup> Excluding oil exporters in sub-Saharan Africa, and excluding South Africa, which tends to overshadow trends elsewhere because of the economic weight of the country, lowers the regional share of industry in GDP to around 23 per cent in 2003, but does not significantly alter the picture over time (table 4.3). There is some marginal increase in industry's share in GDP in the remaining economies during the most recent period for which data are available but, as in the case of employment, the main shift continues to be between agriculture and services.

Oil-exporting economies experienced a decline in the share of industry in GDP at the beginning of the decade, following the economic slowdown in

<sup>69</sup> The share of exports from Angola, Equatorial Guinea and Nigeria, mostly oil, rose from 47.4 percent of the regional total in 2000 to 59.8 per cent in 2007, and post-2000 economic growth was largely an oil-driven phenomenon (Ocampo et al., 2010).

2001–02, but the share of industry has since been growing strongly. In 2007, it reached 56.8 per cent of GDP, rising to extreme values such as 86.3 per cent of GDP in Angola and 95.7 per cent in Equatorial Guinea in 2008 (World Bank, 2009a). Recent data on employment creation due to increasing oil production are hard to find, but available data suggest that this effect is very small. In Cameroon, for example, industrial activity accounted for almost a third of GDP in 2001, but this activity accounted for only 9.1 per cent of employment, with mining accounting for a paltry 0.2 per cent (ILO, 2009d; World Bank, 2009a). The capital-intensive nature of oil production, driven by international companies and expertise, makes for a very limited direct employment impact, but indirect labour market effects may of course result from the spending of export receipts. In addition, some oil-producing countries such as Angola have proposed new procurement and employment clauses in contracts with a view to increasing local participation in the industry (AfDB and OECD, 2007).

Lack of progress with industrial development may in part be due to the limited success of import-substitution policies that were adopted in many sub-Saharan Africa countries following independence.<sup>70</sup> Thereafter, between the end of the import-substitution period (around 1980) and the turn of the century, widespread destruction of manufacturing capacity occurred. Particularly in the textile and clothing industry, which served as a stepping stone towards industrialization in many developed and developing economies, more than half of employment was lost, and in some countries the sector was or still is threatened with extinction altogether (Jauch and Traub-Merz, 2006). Subsequent export-oriented policies that replaced import-substitution, including the establishment of export processing zones (EPZs), had met with only limited success in terms of employment creation or linkages with the local economy. In addition, because EPZs offer a package of incentives to investors, and sometimes exemptions from labour laws, competition for international investors may lead to a “race to the bottom” in terms of labour and environmental standards. Violations of workers’ rights have been documented in a number of cases in sub-Saharan Africa (Egulu, 2006). More generally, textile and clothing industries are often associated with employment creation that may raise working poverty (Jauch and Traub-Merz, 2006). Both the positive impact of the textile and clothing industry on employment creation and some of the negative effects are illustrated in box 4.1 with Lesotho’s experience in export promotion.

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70 At independence, and with the exception of the settler economies in southern Africa, industrial capacity that existed during colonial times had usually fallen victim to policies favouring the import of raw materials by colonial powers, using Africa as a market for finished products.

A number of reasons for the limited creation of wage and salaried employment are identified by Fox and Sekkel Gaal (2008). These include recession and public sector restructuring in the 1990s; rapid growth of the labour force, particularly in urban areas; the low base of wage and salaried employment in many countries, which means that even rapid expansion of such employment cannot absorb more than a fraction of new entrants; weak investment in large-scale labour-intensive manufacturing firms; and the education deficit in sub-Saharan Africa, despite progress in many countries. The study suggests that issues negatively impacting on the investment climate in sub-Saharan Africa are usually outside the area of labour regulation. In other words, it is hard to argue that lack of labour market flexibility would be the bottleneck in the creation of wage and salaried employment in sub-Saharan Africa.

**Box 4-1**

***Industrialization in sub-Saharan Africa:  
The clothing and textile industry in Lesotho***

In a study of labour export policy in southern Africa, Paton describes Lesotho's pre-independence history as "an exceptionally straightforward case of creating a colonial labour reserve" (Paton, 1995, p. 212). At least 6 per cent of the population of what is now Lesotho worked in South Africa at any time during a period of 150 years, from the 1840s up to the 1990s, peaking at almost 20 per cent in 1970. Administrative, legal and institutional structures had been established to control labour supply with the aim of serving colonial interests, and at independence the country relied on South Africa for imports, exports, communications, technology as well as employment. More recently, the number of migrant mine workers decreased from close to 126,000 in 1990 to around 53,000 in 2007 (Lesotho Bureau of Statistics, 2009a), in part because of policy changes following the end of apartheid in South Africa.

The lack of domestic development is reflected in a consistently high unemployment rate, with more than one out of five in the labour force unemployed (Lesenyeho, 2009). Apart from employment opportunities abroad, regular wage employment is mostly limited to the Government and foreign-owned companies in the manufacturing and some other sectors, while temporary wage employment opportunities were created during the first phase of the Lesotho Highlands Water Project, a large project which was developed to export water and generate electricity. This phase was completed in 2002, and subsequent phases are under consideration.

The textile and clothing manufacturing sector started activity during the 1980s, when Lesotho offered a range of financial incentives to South African industrialists, including a five-year tax holiday, subsidized wages and pre-constructed factory shells. Relocation allowed South African companies to circumvent the sanctions on the apartheid regime, while benefiting from Lesotho's preferential access to the main markets in the industrialized world. In the late 1980s, the garment industry in particular came to be dominated by large internationally operating Asian companies. A study of the sector in 2002 highlighted a number of constraints, including poor industrial relations and environmental issues, but also pointed at the possibilities to overcome these constraints and the potential for the industry to stimulate growth and employment creation, especially following the adoption of the African Growth Opportunities Act in the United States (Salm et al., 2002).

In 2004, the industry faced a serious crisis, which was due to the persistent appreciation of the local currency (the loti, which is linked to the South African rand), and the expiration of the World Trade Organization's Agreement on Textiles and Clothing (also known as the Multi-Fibre Arrangement). In response, the Government of Lesotho took a series of measures, which included lobbying major garment brands in the United States, improving firm competitiveness through training of staff and other measures, intensifying investment promotion and reviewing incentive packages, for example, the corporate tax regime (Bennet, 2006).

Employment in the manufacturing sector, which is mostly clothing and textiles, rose steadily from 14,000 in 1997 to a peak of more than 52,000 workers in 2004, but dropped to just above 40,000 workers at the height of the textile and clothing crisis in 2005. By 2008, the industry seemed to have recovered to some extent, with the number of workers reaching almost 47,000 (Lesotho Bureau of Statistics, 2009b). This number of workers represents a similar percentage to the number of government employees in total employment in Lesotho (just below 8 per cent), but is unlikely to have resulted in significant decreases in the vulnerable employment rate (Lesenyeho, 2009), and less so in view of the impact of the economic crisis, which particularly hit exporting industries in sub-Saharan Africa.

#### 4.5 Vulnerable employment, dualism and decent work

Ghose, Majid and Ernst (2008) discuss three structural features that distinguish developing economies from developed economies: dualism, surplus labour and the absence of institutionalized social security.<sup>71</sup> In structuralist tradition (see

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71 See Lewis (1954), Harris and Todaro (1969).

Ocampo et al., 2010), dualism in developing economies refers to the coexistence of a formal segment, which uses reproducible capital and employs regular, full-time wage employees, while the non-formal segment relies much more on unskilled labour together with natural resources and simple tools or implements. Contrary to the formal segment, workers in the non-formal segment are self-employed or engaged in casual/irregular wage work. Furthermore, in the non-formal segment, workers could be withdrawn without reducing the amount of labour used in production. Such surplus labour is the result of widespread underemployment and sharing of available work by casual wage workers or contributing family workers. The absence of institutionalized social security limits unemployment to those who have alternative means to secure an income and, in the absence of such alternative means, unemployment spans can be expected to be short. Taken together, these features suggest that employment growth is not the same as growth in productive jobs, and lack of growth in productive jobs is not necessarily reflected in a rising unemployment rate. According to Ghose, Majid and Ernst (2008), unemployment can best be viewed as the sum of chronic unemployment, which reflects queuing for jobs in the formal segment, and transient unemployment, which reflects the search for employment by casual wage workers.

The analytical strength of the distinction between vulnerable employment and non-vulnerable employment, as defined on the basis of status in employment, derives from the fact that it overlaps to an important extent with the notion of dualism and therefore reflects the reality in labour markets in developing economies. In addition, data are available from labour force surveys as well as from some other household surveys to construct this MDG1B indicator. This means that vulnerable employment can be analysed, for example, by sector or level of education of workers, which adds to the strength of the indicator in assessing decent work deficits (Sparreboom and De Gier, 2008).

The classification by status in employment is also used in the statistical definition of informal employment. Guidelines on the measurement of informal employment were adopted by the 17th ICLS in 2003, which complement the standards adopted by the 15th ICLS in 1993 on employment in the informal sector (ILO, 2000 and 2003). Contrary to the concept of the informal sector, which refers to production units as observation units, the concept of informal employment refers to jobs as observation units. Using these two dimensions (production units and jobs), total employment can be disaggregated in a matrix (see figure 4.2). All jobs are classified according to status in employment categories as well as according to their formal or informal nature.

The major new element in figure 4.2 is the definition of informal jobs of employees (see Hussmanns, 2004). According to the resolution, “employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.)”. The reasons may include that the job is casual or of a limited or short duration, among others. The resolution also states that operational criteria for defining informal jobs of

**Figure 4.2 Conceptual framework: Informal employment**

Production units by type	Jobs by status in employment								
	Own-account workers		Employers		Contributing family workers	Employees		Members of producers' cooperatives	
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal
Formal sector enterprises					1	2			
Informal sector enterprises <sup>(a)</sup>	3		4		5	6	7	8	
Households <sup>(b)</sup>	9					10			

**Source:** Hussmanns (2004).

**Notes:**

(a) As defined by the 15th ICLS (excluding households employing paid domestic workers).

(b) Households producing goods exclusively for their own final use and households employing paid domestic workers.

Cells shaded in dark green refer to jobs that, by definition, do not exist in the type of production unit in question. Cells shaded in light green refer to formal jobs. Unshaded cells represent the various types of informal jobs.

Informal employment: Cells 1 to 6 and 8 to 10  
 Employment in the informal sector: Cells 3 to 8  
 Informal employment outside the informal sector: Cells 1, 2, 9 and 10

employees are to be determined in accordance with national circumstances and data availability. Hussmanns (2004) suggests that such employees can best be identified by certain questions on the social protection and employment benefits of employees (in particular, regarding pension fund contributions by the employer and entitlements to paid annual leave and paid sick leave by the employee).

Data are scarce, but the nature of labour markets and some estimates suggest that irregular/casual wage work is important in parts of sub-Saharan Africa. In South Africa, more than half of employment was estimated as casual/irregular wage employment in 2000, with lower but still high proportions in Botswana (19.4 per cent in 2000) and Mauritius (17.7 per cent in 1995, see table 4.2 of Ghose, Majid and Ernst, 2008). In many other sub-Saharan African countries, irregular/casual wage work as a proportion of total employment will be much lower, given that wage and salaried employment as a share of all employment in the three countries mentioned immediately above is relatively high.

Employees with informal jobs are one group of workers for which the indicator on vulnerable employment by itself is clearly not sufficient to assess decent work deficits. Another group of workers that merits special attention is that of own-account workers who do enjoy the benefits of decent work. Own-account workers in developing economies are a highly heterogeneous group, consisting of both workers in subsistence activities, which often constitute the majority, and workers involved in more dynamic, entrepreneurial activities, who may have access to elements associated with decent work such as social protection. In Namibia, for example, it was found that just over half (50.5 per cent) of the total employed population in 2004 was registered with a social security institution, which was mostly accounted for by the status group of employees, but the proportion of registered workers was also non-negligible among own-account workers. In the latter status group, 5.6 per cent of workers were registered, and even 1.5 per cent of contributing family workers had such a registration (Sparreboom and De Gier, 2008, table 6).

In other words, there is some form of dualism among those in vulnerable employment or those in the non-formal sector. Such dualism has stimulated debates about the possible voluntary nature of informality among certain groups of workers (e.g. Fox and Sekkel Gaal, 2008; Kucera and Roncolato, 2008), but it is difficult to assess how widespread this phenomenon would be in sub-Saharan Africa. Nevertheless, it is important to consider how progress in achieving decent work can be assessed for workers that are not part of the small proportion of the workforce that is in regular wage employment in sub-Saharan Africa.

One way to do this in the context of the MDG1B indicators is to consider labour productivity and working poverty separately for workers in vulnerable employment. However, breaking down labour productivity into estimates for different groups of workers is complex, as it would require data on the contribution of these groups to GDP, which is not readily available.<sup>72</sup> In the case of the working poverty rate, it is possible to calculate this rate by status in employment (or any other grouping of workers) if microdata are available (see Chapter 5, and Chapter 9 on Ghana).

Finally, an obvious drawback of the vulnerable employment rate is that it falls short in identifying those without work, as can be captured by the EPR and the unemployment rate. Even though the dualistic nature of labour markets in developing economies means that the unemployment rate is not an appropriate indicator for an assessment of the overall state of the labour market, this does not make the problem of unemployment less important in developing countries. It can be noted that, in the past ten years, the estimated regional unemployment rate for sub-Saharan Africa consistently exceeded the world average as well as the average for the developed economies (see ILO, 2010a, table A2).

## 4.6 Conclusions

The vulnerable employment rate is a powerful tool to assess decent work deficits, as it captures to an important extent, albeit not fully, dualism in labour markets in developing economies. The high rate of vulnerable employment in sub-Saharan Africa underlines the lack of decent work for the large majority of workers, and available data suggest slow and uneven progress at best in reducing this deficit. Structural transformation of economies and labour markets is limited, and the main structural change in labour markets is a shift of workers away from the agricultural sector to service activities with relatively low value added per worker. Nevertheless, the share of the employed in the agricultural sector in sub-Saharan Africa has remained much higher than in other regions. In comparison with South Asia, which also has a high rate of vulnerable employment, this implies that own-account work and contributing family work in sub-Saharan Africa is to a larger extent concentrated in the agricultural/rural part of the economy. The distinction between rural and urban vulnerable employment, with the latter associated more strongly with urban informality, is essential for policy development.

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72 One of the three indicators that are used by Ghose, Majid and Ernst (2008) to assess employment in developing countries is value added per employed worker in the non-formal sector (the other two are the share of the formal segment in total employment and the unemployment rate) and, in Chapter 4 of their book, a statistical measure is constructed from data that are available.

There are several reasons why structural transformation of economies and labour markets is not occurring in sub-Saharan Africa to the same extent as happened and is happening in other parts of the developing world. On the supply side, progress is hampered by rapid population growth, which means that even a stable vulnerable employment rate would require a strong expansion of wage and salaried work. On the demand side, there are no strong drivers of structural transformation outside enclave and capital-intensive activities, particularly in the extractive industries, which have a limited direct impact on the labour market. As the example of the textile and clothing industry showed, many African countries are facing an uphill battle to use labour-intensive industries for employment creation, and the share of workers in industry is very low by all measures. Export-oriented policies that replaced import-substitution have yet to result in significant creation of decent work, which is held back by structural bottlenecks such as backlogs in education and training.

Indeed, the United Nations Economic Commission for Africa (UNECA) recently noted that “the lack of effective industrial policy to support domestic manufacturing has led to the deindustrialization of Africa over the last three decades” (UNECA, 2010). The report by UNECA and the African Union Commission (AUC) suggests both short-term countercyclical policies and long-term recommendations on how African economies can be transformed to yield better labour market outcomes through the development of labour-intensive manufacturing, agro-industry and service provision. These include the better utilization of income from extractive industries, and the need to better match the supply of education and skills with labour market demands.

It has been argued in this chapter that the vulnerable employment rate is a good starting point for monitoring the extent to which such policies will be effective in promoting sustainable, job-rich growth. Apart from more regular data collection, it is necessary to consider how this rate relates to other indicators, including working poverty and productivity, as well as other measures such as informal employment and, in particular, how progress in achieving decent work is achieved for vulnerable groups in the labour market.

# CHAPTER 5.

## WORKING POVERTY

*Steven Kapsos*<sup>73</sup>

### 5.1 Introduction

Of the four MDG1B indicators (see box 1.1), the indicator on the proportion of people in employment living below the poverty line – the working poor – arguably provides the most direct measurement of whether “productive employment and decent work for all” is in fact being achieved in a given country. Indeed, the inclusion of the working poor indicator under MDG1B reflects a clear recognition of the strong linkage between poverty and employment – that poverty will only be reduced if productive employment opportunities are expanded and the world’s poor are able to increase the earnings they receive for their labour.

For the purpose of this chapter (and following the MDG indicator definition), the working poor are defined as employed persons living in households in which per-capita consumption is below US\$1.25 (PPP) per day. In effect, total household consumption, together with household size, determines poverty status, while employment status determines whether the poor are considered to be working poor.<sup>74</sup>

The working poverty indicator is very much linked with the other MDG employment indicators: countries with low levels of labour productivity and large shares of workers in vulnerable employment will typically have higher shares of workers living in poverty, even more so in countries with very high

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<sup>73</sup> Employment Trends, International Labour Office.

<sup>74</sup> In this definition, in a family of two members where one is a worker and total daily family expenditure is US\$3, the worker is not considered working poor at the US\$1.25 level since per-capita family expenditure is US\$1.50. Whereas, in a family with four members where one is a worker and total family expenditure is US\$3, the worker would be considered among the US\$1.25 working poor, because per-capita family expenditure would be  $US\$3/4 = US\$0.75$ .

EPRs, as this may reflect a widespread necessity to find work of any kind for basic survival. Although there is often a strong correlation between the working poor indicator and the other MDG employment indicators, this chapter will demonstrate that having a direct measurement of poverty among workers and their families brings great value for policy formulation: knowing the magnitude, geographic location, and age-, sex- and sectoral distribution of poverty among workers is vital for developing appropriate labour market policies and overall economic development policies.

While it is clear from figure 1.1 that most sub-Saharan African countries do not collect, tabulate and analyse labour market data to the same extent as many economies in more developed regions, the previous three chapters have demonstrated that data corresponding to the first three indicators under MDG1B are available for many countries in the region, which is largely because these indicators are often captured through existing surveys and censuses: GDP per person employed can be calculated for countries with GDP estimates (derived from national accounts) and employment estimates (from a labour force survey or population census). Data needed to estimate EPRs and vulnerable employment are readily available through standard tabulations of labour force survey data.

Due to a number of factors described in more detail below, monitoring trends in working poverty in sub-Saharan Africa, and indeed also in the rest of the world, has proven much more difficult, with efforts focused mainly on producing estimates of broad regional and global trends based on a macroeconomic methodology, rather than at country-level trends analysed on the basis of national survey data. Yet, this chapter will demonstrate that it is indeed feasible to measure and analyse poverty among workers in sub-Saharan African countries using existing survey mechanisms and thereby to significantly enhance the body of knowledge related to poverty and employment linkages in the region.

The next part of the chapter describes methodologies for measuring working poverty at the national and regional levels, focusing on a “macro”-approach for producing broad national and regional estimates of the working poor and a “micro”-approach using household surveys to produce detailed national estimates. The subsequent part describes regional trends in working poverty in sub-Saharan Africa based on the macro-approach as well as country estimates and profiles of the working poor based on the micro-approach. It also tests the extent to which the assumptions that underlie the macro-approach appear to be reasonable in sub-Saharan African countries. The chapter concludes with a brief discussion of policy issues.

## 5.2. Methodologies for measuring working poverty in sub-Saharan Africa

### 5.2.1 The “macro”-approach

The ILO regularly publishes global and regional estimates of the working poor. If all countries around the world produced comparable national estimates of the working poor based on the same definitions of poverty and employment, producing such aggregate estimates would be a simple exercise, done by adding up the number of workers living with their families below the poverty line in a given region and dividing by the total number of employed in the region. Unfortunately, until very recently, standardized estimates of working poverty were not available at the country level. Any estimates that did exist were based on different methodologies and definitions of the underlying variables, and thus the available country-level estimates were not well suited for providing regional aggregate estimates or for comparisons across countries.

Because of the lack of national data and the concurrent need to produce regional and global estimates of the working poor for MDG monitoring, using available internationally comparable country-level poverty and labour market data, the ILO developed a macroeconomic estimation methodology designed to produce country-level estimates and projections of working poverty for 178 countries over the period 1991–2015. The country-level estimates are then aggregated to the regional and global levels for broad monitoring purposes. This methodology is based on demographic and labour market data that are readily available for a large number of countries, namely total headcount poverty rates, the working-age population, the economically active population and the total employed population.<sup>75</sup>

At the national level, this macro-approach for producing working poverty estimates is carried out as follows:

- The lower-bound estimate of the number of working poor is generated by multiplying the total headcount poverty rate for each country by the employed population in each country.<sup>76</sup> This definition assumes that: (1) the poverty rate of the working-age population (aged 15 and above) is equal to that of the population as a whole; and (2) that the employment rate of the poor is equal to that of the non-poor.

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<sup>75</sup> For further details on the econometric model, see Kapsos (2004).

<sup>76</sup> This definition is proposed in Berger and Harasty (2002).

- ❑ A middle estimate of the number of working poor is generated by multiplying the total headcount poverty rate for each country by the labour force of the country. In addition to the first assumption of the lower-bound estimate, this definition assumes that all economically active poor individuals are employed; that is, that the poor cannot afford to be unemployed and hence the unemployment rate of the poor is negligible.
- ❑ An upper-bound estimate of the number of working poor is generated by multiplying the poverty rate for each country by the country's working-age population. In addition to the first assumption of the lower-bound estimate, the key assumption underlying the upper-bound estimate is that all of the poor who are of working age are employed. This assumption is essentially that the poor cannot afford to be economically inactive.
- ❑ For the current macro-based estimates produced for the purpose of MDG monitoring, a single estimate is produced for each country based on a weighted average of the middle and upper-bound estimates, with a larger weight placed on the middle estimate.<sup>77</sup>

### 5.2.2 Relative advantages and drawbacks of the macro-methodology

In terms of advantages, the macro-approach produces annual estimates based on a standardized set of internationally comparable poverty estimates and a harmonized series of labour force estimates. As a result, this approach allows for comparison of broad trends across regions and over time, which is important for monitoring global and regional progress towards goals such as those set out in the MDGs. The macro-approach can also be updated with relative ease when new data become available.

There are some notable disadvantages of the macro-approach. First, and most obviously, the macro-approach relies on a number of simplifying assumptions regarding the poverty status of the working-age population versus the total population as well as on the relationship between poverty status and economic activity, employment and unemployment. If these assumptions are flawed, the resulting estimates would be biased. Second, the macro-approach does not allow for analysis of working poverty among disaggregated groups, such as women and men, youth and adults, and workers in rural versus urban areas. This is

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<sup>77</sup> Weights have been selected on the basis of country-level testing in which lower- and upper-bound estimates of the working poor were calculated from household survey data and compared with macro-based estimates.

due to the fact that age- and sex-disaggregated poverty data are not available in the key international poverty data repositories. Third, the macro-approach is not appropriate for country-level monitoring, as countries do not have access to the cross-country regression model (which, importantly, was not designed to produce national estimates). Furthermore, in countries with available poverty and employment data, national working poverty estimates derived from household surveys are likely to differ from estimates obtained using the assumptions of the macro-approach. Finally, the macro-estimates are based on the workforce aged 15 and above and therefore do not capture working poor children under the age of 15, which would bias results downward in the presence of child labour.

### 5.2.3 The “micro”-approach

The above discussion points to a number of comparative advantages of household survey-based (i.e. “micro”-based) working poverty estimates. First, in household surveys in which both poverty and employment status estimates are available, micro-based estimates of working poverty are more reliable than macro-derived estimates because they are based on direct household-level measurement and do not require the simplifying assumptions that underlie the macro-estimates. Second, household survey-based estimates can be disaggregated for different subsets of the population and therefore allow for analysis of poverty-employment linkages by age (including among those aged less than 15), sex, economic sector, status in employment, and so forth. Third, because household surveys are carried out by national institutions, countries can self-monitor. This, in turn, can help to strengthen LMIA systems and ensure that national data collection, analysis and dissemination activities support effective policy formulation and monitoring.

While there are numerous advantages of household survey-based working poverty measurements, the use of macro-based methodologies has been necessitated due to the lack of available micro-based data observations. This has been due to several factors:

- ❑ *Lack of a single survey instrument to capture data pertaining to the working poor.* In most countries around the world, separate surveys are used to provide official estimates of poverty status and employment status.<sup>78</sup> Labour force surveys (LFS) are the most reliable instruments for capturing data pertaining

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<sup>78</sup> A notable exception is the Philippines, which conducts a quarterly labour force survey (LFS) and carries out a family income and expenditure survey (FIES) every three years. Importantly, the LFS and FIES survey the same households, taken from the country’s “master sample” of households, which is based on the most recent population census. This removes the major obstacles to generating reliable micro-based estimates of working poverty in the country.

to the workforce, but they are not designed to provide reliable estimates of household consumption and poverty status, thus it is not generally possible to obtain reliable working poverty estimates from an LFS. At the same time, poverty-related household surveys such as household income and expenditure surveys (HIES) and living standards measurement surveys (LSMS) are typically well-equipped to provide poverty-related measurements, but they may not include questions related to employment status. Those that do often have much shorter, less detailed labour force-related modules than what appears in a typical LFS and as a result the definitions used for calculating employment and unemployment often differ from those in an LFS. Nevertheless, with the existence of questions pertaining to employment in an HIES or LSMS, it may be possible to obtain working poverty estimates, provided that employment is reasonably defined vis-à-vis international guidelines.

- ❑ *Lack of a consistent methodology for producing working poverty estimates from existing surveys.* To date, little guidance in the way of international good practices for producing working poverty estimates has been available to countries. The ILO has been working to address this deficiency by producing national estimates of the working poor along with cross-tabulations of poverty status and other indicators such as employment by sector, status in employment and education levels on the basis of HIES. The first such estimates were recently published in the Key Indicators of the Labour Market (KILM) database, and a detailed methodological report that will cover the topic of producing national working poverty estimates is forthcoming.
- ❑ *Working poverty remains a relatively new concept in the international development arena.* The first global estimates of the working poor were produced in 2001 (Majid, 2001), and while refinements and new publications became available in subsequent years, the working poverty indicator only appeared in the official list of MDG indicators in 2008. As a result, national data collection and monitoring efforts related to the MDGs have not, until recently, considered the need to monitor working poverty. Until now, technical support to countries wishing to monitor poverty trends among different groups of workers has been limited to ad-hoc initiatives.

#### 5.2.4 Potential drawbacks of micro-based estimates

Even if the factors that inhibit production of household survey-based working poverty estimates can be successfully addressed and national estimates can be tabulated from HIES or other surveys, there are at least two potential drawbacks of such estimates:

- ❑ *Employment estimates (and therefore working poverty estimates) derived from HIES may be biased.* One important implication of the shorter length and different formulation of labour market-related questions in an HIES or LSMS is the potential bias in measurements of employment. Some forms of self-employment, unpaid family work and irregular forms of wage employment may not be captured without a detailed investigation of respondents' activities in the reference period. This could lead to an underestimation of total employment and therefore to a downward bias in working poverty estimates. This could be significant, particularly since the less formal types of employment that are not well captured by the survey instruments are likely to be grouped in the lower end of the income spectrum and thus may account for a disproportionate share of the working poor. In addition, the reference period for the labour market indicators in an HIES/LSMS may not be consistent with that used in an LFS.<sup>79</sup> This can cause further differences in employment estimates between the two types of surveys.
  
- ❑ *Lack of comparability across countries and over time.* While there is variation in the structure and content of LFS across countries, there is likely to be far more variation both across countries and over time in the types of surveys that are utilized to measure poverty. One important way in which poverty-related surveys differ is whether poverty status is defined on the basis of income or expenditure. Expenditure is generally viewed as a more reliable poverty measurement, as this takes household assets into account (some households may be able to draw from existing savings in periods of low income). Other types of differences in questionnaire design can result in important differences in the poverty estimates obtained (Chen and Ravallion, 2008). If different survey types are used within a country or across countries, and the coverage, definitions or reference period utilized for employment differ across the surveys, the employment data and working poverty estimates may not be comparable.

Taken together, while these potential drawbacks certainly do not suggest that income/expenditure surveys should not be used to produce national working poverty estimates, they point to a clear need for comprehensive metadata covering survey type, whether poverty is measured on the basis of income or expenditure, the employment and unemployment definitions used (with a clear indication of groups of workers not included), and the reference periods corresponding to the labour market variables.

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79 In Thailand's LFS, for example, the reference period for the question on employment and unemployment is one week, while for the HIES the reference period for these variables is the previous 12 months.

Ideally, countries' LFS and HIES would survey the same households, as this would eliminate most of the potential drawbacks of micro-based working poverty estimates. Accordingly, countries in sub-Saharan Africa in the process of reviewing their statistical master plans should be encouraged to consider taking steps toward a combined master sample of households for labour force and income/expenditure surveys.

### 5.3. Trends in working poverty in sub-Saharan Africa

#### 5.3.1 Macro-based regional trends

According to the macro-based estimates, the regional working poverty rate has been declining in sub-Saharan Africa, with notable progress since 2000 (see table 5.1). Between 1991 and 2008, the working poverty rate decreased by more than 7 percentage points (a very similar decline is seen in the vulnerable employment rate). As with the vulnerable employment rate, much of the reduction in working poverty occurred during the rapid growth period of 2001–08. Working poverty rates in the 1990s showed practically no improvement, declining by only 0.3 percentage points.

**Table 5.1 Trends in working poverty rates by region, 1991–2008 (US\$1.25, % in total employment)**

	1991	2000	2008	1991–2000 (percentage point)	2000–08 (percentage point)
WORLD	43.1	32.7	21.3	-10.4	-11.4
East Asia	68.3	37.0	11.1	-31.2	-25.9
Sub-Saharan Africa	66.3	65.9	58.6	-0.3	-7.3
South Asia	62.9	55.4	45.5	-7.5	-9.9
South-East Asia and the Pacific	53.5	41.8	23.3	-11.7	-18.6
North Africa	20.1	17.7	11.9	-2.5	-5.8
Latin America and the Caribbean	12.7	12.9	6.6	0.2	-6.3
Middle East	10.9	8.8	7.6	-2.1	-1.2
Central & South-Eastern Europe (non-EU) & CIS	4.2	6.7	4.3	2.5	-2.4

Source: ILO (2010a).

With more than 58 per cent of workers in sub-Saharan Africa still living with their families on less than US\$1.25 per person per day in 2008, the regional working poverty rate in sub-Saharan Africa is the highest in the world despite the progress that occurred between 2000 and 2008. Indeed, in comparison with other regions, sub-Saharan Africa has seen much less progress in reducing poverty since the early 1990s: the share of the working poor in the world as a whole declined by nearly 22 percentage points since 1991, around three times as large a reduction as in sub-Saharan Africa. Accordingly, sub-Saharan Africa is home to more than 27 per cent of the world's workers living in poverty, up from 12 per cent in 1991 (while the region's share of global employment rose from 7.9 per cent to 9.8 per cent). Based on the current rate of reduction, achieving the MDG of halving the rate of poverty (or indeed working poverty) over the 1990–2015 period does not appear to be realistic for the sub-Saharan African region as a whole.

### 5.3.2 Micro-based country-level working poverty estimates

Micro-survey-derived national estimates of the working poor provide additional details as to differences among countries and across groups of workers in sub-Saharan Africa. Figure 5.1 provides country-level US\$1.25 a day working poverty estimates for the 15 sub-Saharan African countries for which working poverty estimates have been produced and published by the ILO on the basis of national HIES.<sup>80</sup> The Democratic Republic of the Congo has the highest estimated working poverty rate among the countries, with approximately 93 per cent of workers aged 15 and above in the country living with their families on less than US\$1.25 per day. Burundi has the second highest rate, at 85 per cent. It should be noted, however, that the estimate for Burundi is for the year 1998, and as poverty has tended to decline over time, the figure in Burundi may well be lower now. Eight additional countries in the sample of 15 have working poverty rates above 50 per cent, with rates exceeding 70 per cent in Guinea, Malawi and Mozambique. Kenya has the lowest working poverty rate among the 15 countries, at 15.4 per cent in 2005.

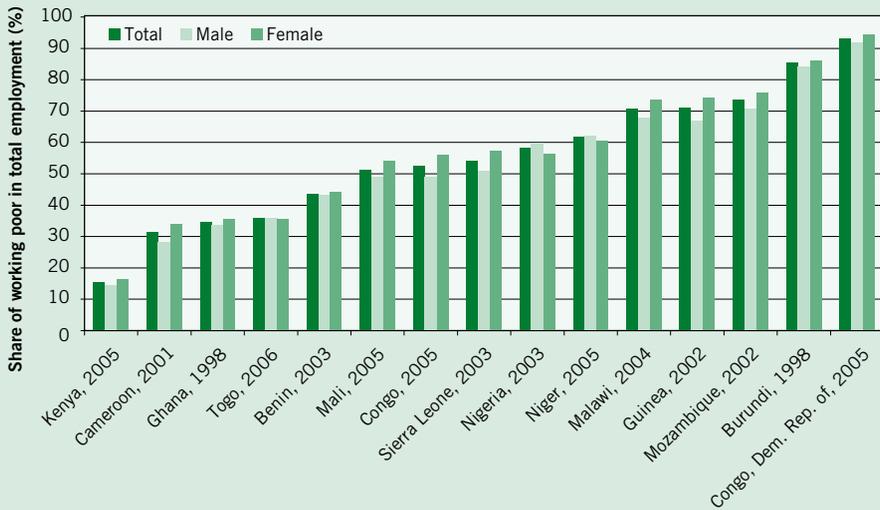
Working poverty rates among women are higher than the corresponding rates for men in 12 out of 15 countries. In Congo and Guinea, the female working poverty rate is more than 7 percentage points higher than the male rate, while in Cameroon, Malawi, Mozambique and Sierra Leone, female working poverty

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80 These data are published in ILO, 2009d, table 20b, available at: [http://www.ilo.org/empelm/what/pubs/lang--en/WCMS\\_114060/index.htm](http://www.ilo.org/empelm/what/pubs/lang--en/WCMS_114060/index.htm). These 15 countries accounted for more than 51 per cent of the total working-age population of sub-Saharan Africa in 2008.

rates are more than 5 percentage points higher than the corresponding male rates.

**Figure 5.1 US\$1.25 working poor (aged 15+, % in total employment) by sex, selected countries**



Source: ILO (2009d), table 20b.

Table 5.2 explores potential underlying causes for gender-based differences in working poverty rates by viewing these together with vulnerable employment rates and the share of women in agricultural employment versus total employment. In the first four countries in the table, the working poverty rate among women is more than 5 percentage points higher than the rates for men. In each of these countries for which data are available, the vulnerable employment rate among women is considerably higher than the corresponding rate for men, indicating that women are disproportionately engaged in precarious forms of employment. In each case, women also comprise a disproportionate share of employment in agriculture, which is indicative of women's widespread engagement in low-productivity, subsistence-oriented employment. These cases contrast with Niger and Nigeria – two countries where the working poverty rates among men are somewhat higher than among women. In these two countries, the extent of women's employment in agriculture is much lower. While vulnerable employment data for Nigeria are not available, in Niger there is only a modest gap in vulnerable employment rates between the sexes.

The higher working poverty shares among women in the majority of countries also likely reflect a higher share of female-headed households in many sub-Saharan African countries. Thirty-one per cent of rural households in sub-Saharan Africa are headed by women, while in Latin America and the Caribbean and Asia women head 17 per cent and 14 per cent, respectively.<sup>81</sup> Furthermore, in almost all countries, female-headed households are concentrated among the poorer segments of society, often with lower incomes than male-headed households.

**Table 5.2 Working poverty and vulnerable employment rates by sex, and women's share of total employment and agricultural employment, selected countries (%)**

	US\$1.25 working poverty rate		Vulnerable employment rate		Women's share of employment	
	Men	Women	Men	Women	Total	Agriculture
Congo, 2005	48.9	55.9	60.6	89.6	51.3	56.9
Sierra Leone, 2003	50.7	57.1	-	-	53.7	56.1
Mozambique, 2002	70.8	75.9	79.2	96.0	53.9	59.9
Cameroon, 2001	28.1	33.8	74.5	79.6	51.8	53.7
Nigeria, 2003	59.8	56.2	-	-	44.0	38.7
Niger, 2005	62.1	60.5	79.9	84.0	29.2	20.5

**Source:** National household income and expenditure surveys (HIES).

Figure 5.2 shows age-disaggregated working poverty rates for the same sub-Saharan African countries. In 13 out of 15 countries, the working poverty rates of youth aged 15-24 exceed the rates for adults aged 25+. The gap is notably large in Sierra Leone, where 61.4 per cent of young workers are among the ranks of the working poor, versus 52.5 per cent of adults. Gaps between youth and adult working poverty rates also exceed 5 percentage points in Congo, Ghana, Guinea, Mali and Togo. High youth working poverty rates are alarming in their own right, as this indicates that a large share of young workers are subject to basic subsistence living and vulnerability to hunger and other forms of deprivation. But it is also disconcerting that the young working poor are burdened by the necessity to toil in low productivity, subsistence employment in order to support their families, with a tremendous opportunity cost in terms of reduced educational outcomes.

81 See: <http://www.fao.org/FOCUS/E/Women/Sustin-e.htm>.

This, in turn, reduces the likelihood that these young workers will be able to acquire skills that would allow them to secure more productive and better paid jobs in their adult lives, leading to a vicious circle of poverty, poor educational outcomes and persistent decent work deficits.

**Figure 5.2 US\$1.25 working poor (% in total employment) by age group, selected countries**



Source: ILO (2009d), table 20b.

**Box 5-1**

**Poor working children in sub-Saharan Africa**

It is possible to calculate poverty rates among working children in the 15 sub-Saharan African countries and to estimate the magnitude of this group as compared with the overall working poor. Table 5.3 provides poverty headcounts and rates for the age groups 15+ (consistent with the age group used for the macro-based estimates) and 5-14 (working children).

The first takeaway is that working poverty rates among children nearly always exceed the corresponding rates for the working-age population, often by a large margin. This is expected given that it is children in poor households that are most likely to have to work to support their families. Across the full sample

of countries, the working poverty rate of children aged 5-14 is 69.1 per cent, versus a rate of 58.2 per cent for the working-age population aged 15+. In four countries, Burundi, the Democratic Republic of the Congo, Guinea and Mozambique, the poverty rates of child workers exceed 90 per cent. It is important to note that these surveys were not specifically designed to capture information related to child labour.

It is evident from the table that macro-based working poverty estimates based on the working-age population aged 15 and above do not count a large number of poor children in employment. The number of poor working children in Mali is more than 55 per cent of the number of working poor aged 15+. The corresponding ratios in Nigeria and Togo are over 40 per cent. This implies a large downward bias in macro-based working poverty estimates for the sub-Saharan African region when estimates are only produced for the 15+ population. Across these 15 countries, the number of working poor is understated by 12.2 million, or more than 17 per cent, if working poor children are excluded from the analysis.

**Table 5.3 Working poverty headcounts and rates, population aged 15+ and 5-14**

Country	Survey year	Age coverage	Age 15+		Age 5-14		Working poor children as % of working poor aged 15+
			Working poor ('000s)	Working poverty rate (%)	Working poor ('000s)	Working poverty rate (%)	
Benin	2003	5+	1,174	43.6	178	64.6	15.2
Burundi	1998	7+	2,230	85.3	438	92.8	19.6
Cameroon	2001	10+	1,611	31.0	435	43.4	27.0
Congo	2005	10+	633	52.4	25	75.9	3.9
Congo DR	2005	10+	17,567	93.1	443	97.5	2.5
Ghana	1998	7+	2,178	34.6	97	56.4	4.4
Guinea	2002	6+	1,893	70.9	397	90.2	21.0
Kenya	2005	5+	1,948	15.4	145	26.3	7.4
Malawi	2004	5+	3,990	70.7	933	83.9	23.4
Mali	2006	6+	2,313	51.3	822	69.0	35.5
Mozambique	2002	6+	5,851	73.6	394	92.3	6.7
Niger	2005	5+	2,078	61.7	414	72.7	19.9
Nigeria	2003	5+	24,358	58.2	7,136	68.6	29.3
Sierra Leone	2003	7+	953	54.1	113	82.3	11.9
Togo	2006	5+	861	35.8	274	57.6	31.8
Sum across 15 sub-Saharan African countries	-	-	69,638	58.2	12,245	69.1	17.6

**Source:** Author's calculations on the basis of national household income and expenditure surveys (HIES) and ILO (2009d), table 20b.

### 5.3.3 Using micro-surveys to test “macro”-methodology results

It should be noted that working poverty estimates are currently available for only one year for each of the 15 sub-Saharan African countries for which working poverty estimates have been produced. While the ILO is working to process additional existing surveys and tabulate multiple estimates for countries, the current estimates only provide estimates at a particular snapshot in time, and hence cannot be used to monitor trends over time and progress towards the MDGs. Although there is tangible value in having additional details related to the working poor that only micro-based estimates can provide – such as the incidence among different groups of workers discussed above – the micro-based estimates can also be used to test the outcomes derived from the macro methodology, with the ultimate aim of improving the macro-based estimates.

Table 5.4 compares micro- and macro-derived estimates of working poverty for the 15 sub-Saharan African countries. Across nearly all 15 countries and across all three types of macro-based estimates, the macro-derived estimates result in overestimation of working poverty rates as compared with the micro-derived estimates. In aggregate terms, the lower-bound estimate provides the closest approximation to the micro-based estimates, resulting in a 2.9 percentage point difference (or a working poverty rate of 61.1 per cent across the 15 countries versus 58.2 per cent derived from the microdata). The middle-estimate from the macro-approach results in a difference of 4.6 percentage points, while the upper-bound estimate results in a large difference of 20.6 percentage points. Taking a weighted average of the middle and upper-bounds that is consistent with the macro-estimates presented in table 5.1 results in a working poverty rate of 66.8 per cent, approximately 8.6 percentage points higher than the micro-derived estimates. As the 15 countries together represent more than 50 per cent of the total working-age population of sub-Saharan African, it appears quite likely that current macro-based estimates of the working poor aged 15 and above in the region are biased upwards, implying a regional working poverty rate of around 50 per cent in 2008, versus the current estimate of approximately 59 per cent. Importantly, the above analysis provides no basis on which to doubt the underlying trend generated by the macro-based approach, but rather suggests that a moderate downward revision for the entire historical series may be in order.

The adjusted estimates provided in the table remove the assumption that the poverty rate of the working-age population is equal to that of the population as a whole. This was easily carried out given the availability of the microdata files.

**Table 5.4 Micro- versus macro-based estimates of working poverty (%)**

Country	Survey year	Micro-based working poverty rate (15+)	Macro-based estimates					
			Current methodology			Adjusted		
			Lower-bound	Middle-estimate	Upper-bound	Lower-bound	Middle-estimate	Upper-bound
Benin	2003	43.6	47.3	49.1	63.5	42.0	43.5	56.3
Burundi	1998	85.3	86.4	86.9	90.0	83.8	84.2	90.0
Cameroon	2001	31.0	32.8	33.1	56.1	27.6	27.8	47.1
Congo	2005	52.4	54.1	67.2	90.0	50.9	63.2	90.0
Congo, DR	2005	93.1	90.0	90.0	90.0	90.0	90.0	90.0
Ghana	1998	34.6	39.1	40.3	64.1	34.7	35.7	56.9
Guinea	2002	70.9	70.1	90.0	90.0	66.4	85.9	90.0
Kenya	2005	15.4	19.7	21.7	32.1	16.8	18.4	27.3
Malawi	2004	70.7	73.2	73.8	86.5	68.4	68.9	80.8
Mali	2006	51.3	51.4	52.7	73.3	48.3	49.4	68.8
Mozambique	2002	73.6	74.7	76.1	90.0	70.2	71.6	86.2
Niger	2005	61.7	65.9	71.9	90.0	61.5	67.1	90.0
Nigeria	2003	58.2	64.4	65.4	90.0	59.9	60.9	90.0
Sierra Leone	2003	54.1	53.3	55.7	86.2	50.1	52.3	81.0
Togo	2006	35.8	38.7	40.4	49.9	33.3	34.8	43.0
<b>Average rates across 15 countries</b>		58.2	61.1	62.8	78.8	57.5	59.1	76.4
<b>Average difference between micro- and macro-based estimates (percentage points)</b>		-	2.9	4.6	20.6	-0.6	0.9	18.3

**Source:** Author's calculations on the basis of ILO (2009d), table 20b.

**Notes:**

1. Shaded cells indicate closest match to micro-based working poverty rate (smallest absolute difference between micro- and macro-based rates).
2. The maximum value allowed in the macro-based estimates is 90 per cent.

Eliminating this assumption brings the lower-bound macro-derived estimates much more in line with the estimates that are based on the microdata. This points to potential benefits from efforts to utilize poverty rates (or estimates thereof) of the 15+ population in the macro-approach, rather than the current practice of using the poverty rates for the total population. This could perhaps be done through an adjustment factor across all countries, basing this on the relationship between the 0+ and 15+ poverty rates observed in all countries for which such micro-based estimates are available. This will, however, require additional research and testing, both for sub-Saharan African countries as well as for other regions of the world.

It is clear that the upper-bound estimates remain far above the micro-derived estimates even when adjusted to account for age-related differences in poverty rates. This is mainly due to the failure of the key assumption underpinning the upper-bound estimate, that all of the poor who are of working age are employed. In other words, there are a large number of economically inactive poor of working age – amounting to around one-third of the total poor of working age across the 15 countries – a finding that merits additional research to better understand the various factors underlying the labour market choices of the poor. At least for sub-Saharan Africa, it appears that for future macro-generated working poverty estimates, the upper-bound estimate can be discarded, with greater weight put on the lower-bound estimate or perhaps a combination of the lower-bound and middle estimates along with an adjustment factor to take into account that poverty rates of the working-age population tend to be lower than rates for the total population.

At the same time, it is clear that producing estimates of the working poor aged 15 and above omits a large number of child workers also living with their families below the poverty line. On a purely value-based assessment, this seems out of line with the spirit of MDG 1, which aims to halve poverty, irrespective of the age of the poor. Thus, future work on producing estimates of the working poor might also consider the uncounted child labourers living in poverty.

## 5.4. Conclusions

The working poverty indicator provides a direct measurement of the extent of decent work deficits around the world, and is particularly relevant in sub-Saharan Africa, the region with the highest overall poverty rate among workers. While the analysis of the micro-based estimates indicates that the level of working poverty in sub-Saharan Africa may be somewhat lower than indicated

in the current macro-based estimates, the trend of insufficient progress towards reducing working poverty in the region is clear, with millions of workers in the region trapped in low-productivity, subsistence employment.

The micro-based estimates of working poverty provide a clearer profile of the working poor in sub-Saharan Africa. Women and youth tend to be disproportionately among the ranks of the working poor. The fairly high share of female-headed households in many sub-Saharan African countries and the tendency for a large share of women to be engaged in agriculture appear to be strongly linked with the high incidence of working poverty among women. For youth, a primary concern is that the young working poor will lack skills in later life that could help them to secure more productive and better paid jobs.

The micro-based working poverty estimates also provide evidence that some of the key assumptions underlying the macro-based estimates need to be revisited and most likely revised. Most notably, the assumption underlying the upper-bound estimate – that all of the poor of working-age are employed – does not hold, which implies that the upper-bound estimate should most likely be discarded given a revision to the macro-methodology.

A key recommendation that arises from the analysis of household survey-based estimates of working poverty is the clear need to strengthen the capacity of national statistical offices in sub-Saharan Africa to monitor trends in poverty among different groups of workers. This will require new resources and efforts to ensure that existing household income and expenditure surveys are equipped with questions to provide reasonable estimates of employment; that cross-tabulations of poverty status with key labour market indicators are incorporated into standard processing routines of these surveys; and that analytical capacity in national statistical offices and labour ministries is strengthened so that the data and information produced can be appropriately utilized for policy formulation.



# CHAPTER 6.

## UNITED REPUBLIC OF TANZANIA

### Low labour productivity constrains poverty reduction

*Alana Albee*<sup>82</sup>

#### 6.1 Introduction

Finding solutions to Tanzania's stubbornly high poverty rates amidst consistently high GDP growth begins with the need for deeper analysis of labour productivity issues. To date, labour productivity issues have not featured significantly in the national development discourse despite nearly a decade in which Tanzania has been at the forefront of sub-Saharan African countries in reporting progress towards the Millennium Development Goals.

The country's success in monitoring and reporting on development has in large part been the result of early agreement and funding from the Government and donors for a national system of indicator tracking and analysis based on data generated from a calendar of annual national household surveys. This has been complemented by commissioned analytical research on a wide range of thematic areas relating to growth and poverty reduction. Indicator monitoring and key research findings have then been combined every two years into a Poverty and Human Development Report (PHDR). Five PHDRs have been produced by the multi-stakeholder monitoring system and endorsed by the Government over the past decade.

Since 2000, household surveys have proven to be a core source of data and information for the national monitoring system and PHDRs. These surveys have begun to fill the overall gap in data created during the decade of structural adjustment from the late 1980s through 1999. This "lost" decade is well known for its adverse affect on social service provisions such as health and education,

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<sup>82</sup> Country Employment Policies, International Labour Office. Research assistance was provided by Makiko Matsumoto from the same unit in the ILO.

yet less well known for the constraints created on national statistical data which during the 1980s and 1990s were reliant on ad hoc donor support rather than nationally determined priorities. For Tanzania, national household surveys, with the exception of the demographic and health surveys, were irregular and underfunded until 2000 when the national poverty monitoring system provided the means and the mechanism for pooled donor and government support for a regular set of surveys and a systematic approach to commissioned poverty-focused research.

This case study draws from Tanzania's national data and research since 2000, and describes the importance and the complexities of providing regular information to policy-makers about employment and labour productivity issues.

Despite its strong monitoring system, Tanzania has not fared particularly well in tracking and reporting employment and labour productivity trends. This is in large part because employment has been treated as a residual of growth, rather than as a central means of poverty reduction in the national development strategies (the Poverty Reduction Strategy (PRS1), the MKUKUTA monitoring system and the Chama Cha Mapinduzi (CCM) Manifesto). It is also the result of weak national employment indicators within the more than 80 national indicators used in tracking and analysing national change and reported in the series of national reports (i.e. PHDRs). These limitations in monitoring employment trends have been the case despite Tanzania's adoption of one of sub-Saharan Africa's earliest national employment policies in 2008.

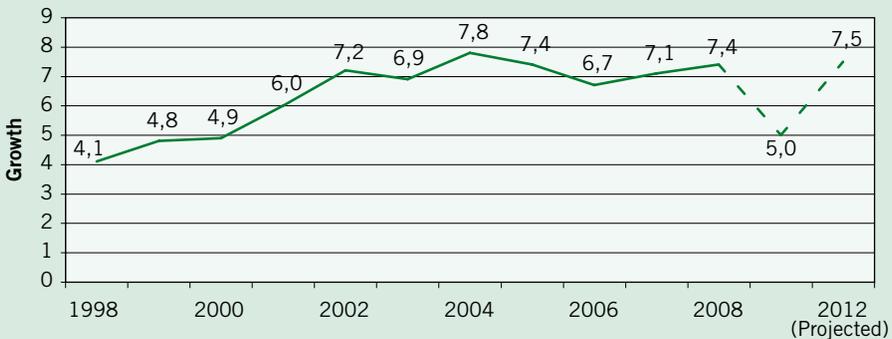
As Tanzania enters its next cycle of national development planning (MKUKUTA II, 2011 onwards) there is need to strengthen the focus of efforts on productive employment, and to track its progress as part of overall national monitoring and reporting. Without progress in labour productivity and sustained job creation, the MDG target of reducing poverty may remain a distant aspiration.

This case study argues for the inclusion of the new MDG employment indicators as a means of informing stakeholders about the progress and challenges in labour productivity and job creation. One main message is that unemployment and aggregate growth rate indicators do not provide enough information for corrective actions to be made by policy-makers. Steady gains, and improved indicators, are needed for both labour productivity and new jobs (especially for youth) if the path of growth is to reduce the high proportion of households who continue to live in poverty.

## 6.2 High growth and persistent poverty

Since 1993, economic growth in Tanzania has increased steadily although the overall trajectory has been somewhat slow and there has been a modest levelling effect created by the impact of the global financial crisis (see figure 6.1 below). Prior to the financial crisis (2000–08), GDP growth averaged nearly 7 per cent per annum and it is anticipated by policy-makers in Tanzania that the economy will recover rapidly from the 2.4 percentage point loss in GDP growth rate caused by the crisis.

**Figure 6.1 Real GDP growth in Tanzania, 1998–2008 and projections 2009–12 (%)**



**Source:** Tanzania Ministry of Finance and Economic Affairs (2009a) and (2009b).

**Note:** Real GDP calculated at 2001 constant prices (Tanzania National Bureau of Statistics, 2007).

The slight decline in the pace of population growth during this period has also helped GDP per capita to grow.<sup>83</sup> Yet the benefits of an overall demographic transition will not be felt on the labour force in Tanzania until 2017, which marks the beginning of a decline in the share of dependents in the overall labour market (World Bank, 2009c). Each year until then, nearly 720,000 youth will continue to enter the labour force (*ibid.*), and they will require improved skills to gain jobs beyond the informal sector. Public resource increases to education have reflected this concern, first through the expansion of primary-school facilities and

<sup>83</sup> Tanzania's population was growing by about 3 per cent annually during 2006–10, a rate which is slowly declining and is expected to stabilize at around 2.5 per cent after 2017. According to the United Nations Population Division, higher population growth rates are recorded for other countries in the region such as Burundi (3.9 per cent), Uganda (3.2 per cent) and Kenya (2.7 per cent); see: <http://unstats.un.org/unsd/demographic/products/socind>.

elimination of fees, which resulted in large increases in enrolment early in the last decade. This was followed by a push on secondary-school expansion and, more recently, a call for investment in higher education (Tanzania Ministry of Finance and Economic Affairs, 2009a). Yet despite this success, concerns are rising about the extent to which Tanzania's path of growth is offering opportunities for youth and reductions in household poverty. There are significant gaps in skills matching between the mostly poorly qualified young people emerging from education and the demands of the growing private sector. These are among Tanzania's greatest developmental challenges.

Growth has been rooted in major policy reforms since 1994 that have affected the structure of the economy and its sources of growth and patterns of exports. The largest shifts have been in agriculture, where the share of total GDP declined from 29 per cent in 2006 to 24 per cent in 2008, and in the services sector which increased its share of GDP from 45 per cent in 2006 to nearly 48 per cent in 2008. By 2008, communication had become the fastest growing sub-sector within services, averaging 14 per cent growth per annum since 2000 (Tanzania Ministry of Finance and Economic Affairs, 2009a).

Yet agriculture is by far the largest sector in terms of employment, and much of the production remains at subsistence level. Research reveals that *“given the large proportion of Tanzanian households that rely on farming for their livelihoods and the high rate of rural poverty, the overwhelming majority of poor Tanzanians (74 per cent) remain primarily dependent on agriculture”* (ibid., page 11). Agricultural transformation has not yet fully taken hold. The decline in its contribution to GDP, and increasing levels of off-farm employment, are not associated with smallholder productivity growth but with continued low returns to labour and limited incentives to increase production, especially of food crops.

In contrast, the leading sources of economic growth in recent years have been mining, manufacturing, construction, communication and financial services. These have had knock-on effects on the pattern of employment and exports, increasing non-traditional exports significantly from 69.2 per cent to 91.5 per cent, and decreasing the proportion of traditional exports, which were primarily based on natural resources.

Maintaining high levels of economic growth is the top priority for policy-makers in Tanzania, despite the past decade of poverty-focused national development strategies. The focus on growth has stimulated increasing emphasis on the expansion of regional trade and infrastructure through public-private

partnerships in energy, roads, ports and telecoms, as well as moves to strengthen the emerging domestic middle-class investors. Yet fast economic growth that enables domestic producers to expand and potentially affect poverty reduction will not be possible without further systemic change, for example, in deepening the financial system. This is one area that illustrates the wide gap between national strategic priorities (and policies) and their implementation. For example, credit offered to the private sector has increased only marginally during the decade since 2000, and the stubbornly wide spread between saving and lending remains a disincentive to borrowers at 12.5 percentage points. Banks are highly liquid yet are reluctant to lend to domestic small and medium enterprises, including agriculturalists, because of inefficient and ineffective regulatory systems that weaken collateralization of claims and contract enforcement.

Growth-focused policies in Tanzania are considering regional trade, domestic resource mobilization, prudent borrowing and leveraging through public-private partnerships as means of ensuring continued, sustainable and domestically driven growth. All of these face structural and systemic weaknesses in their implementation. These weaknesses, combined with growing governance concerns, are driving the next phase of Tanzanian reforms towards strengthening areas such as public financial management and the capacity of regulatory institutions. In terms of labour and productivity, the agenda is clearly on a path of private sector-led growth, which has the underlying aim of building domestic private investment.

Systemic reforms in public administration, combined with private sector growth, face hurdles created by the legacy of a strong centrally controlling State. This legacy lingers in the public administration which is not yet orientated to facilitating the private sector. Analysis of this issue has been articulated in Tanzania's 2009 *Poverty and Human Development Report* (Tanzania Ministry of Finance and Economic Affairs, 2009a) which features a provocative piece on the role of the State. It diplomatically challenges policy-makers and the public sector to rethink the developmental role of the State by steering it away from direct ownership or implementation of development activities, except in those cases in which the State has clear comparative advantage in relation to other actors (United Republic of Tanzania, 2009, p. 4):

*“... the state needs to ensure a level playing field for all private businesses ... At the same time, the state may need to take proactive measures to develop and nurture the formation of strong national players in the private sector, so that they may compete with international players. The challenge is to support the emergence of such national champions without succumbing to political patronage and capture ... ”*

The dynamism of the debate on the role of the State in stimulating growth and private sector development has involved many stakeholders in Tanzania, including civil society and the media, which have in recent years gained ground in policy advocacy. They have argued for retaining poverty reduction as a central objective of the national development strategy, arguing that equitable growth and improved governance must be core principles. Poverty reduction has, however, stagnated generally for almost two decades, although the situation contains some confusing nuances in relation to changing patterns of consumption that are not well reflected in the poverty rates. The following provides a brief discussion of these.

### 6.3 Poverty and changing consumption patterns

Data from household budget surveys show the limited decline in the proportion of households living below the basic needs and food poverty lines since 1991 (see table 6.1). This is most distinctly the case in rural areas, and in urban areas other than Dar es Salaam. Income inequality has been relatively modest and unchanged, which raises the question of why steady growth in Tanzania has not translated into significant reductions in income poverty for nearly 20 years.<sup>84</sup>

**Table 6.1 Poverty incidence in Tanzania (%)**

Poverty line	Year	Dar es Salaam	Other urban areas	Rural areas	Mainland Tanzania
Food	1991–92	13.6	15.0	23.1	21.6
	2000–01	7.5	13.2	20.4	18.7
	2007	7.4	12.9	18.4	16.6
Basic needs	1991–92	28.1	28.7	40.8	38.6
	2000–01	17.6	25.8	38.7	35.7
	2007	16.4	24.1	37.6	33.6

Source: Tanzania Ministry of Finance and Economic Affairs (2009a).

The answer to this is, in part, a reflection of the challenge in determining poverty rates based on a basket of agreed essential items, which may not adequately reflect changes in patterns of consumption and asset accumulation. In general, individuals are considered poor when their consumption is less than the “basic

<sup>84</sup> The Gini coefficient, which measures inequality on a scale of 0 to 1, with 0 representing perfect equality, was 0.34 in 2007.

needs poverty line”.<sup>85</sup> This is based on the cost of an agreed basket of food and non-food items. Housing, consumer durables, telecommunication, health and education expenses are marginally included. Yet the reality during the past decade in Tanzania has been that prices and patterns of consumption of food and durables have changed significantly, and Tanzanian consumers displayed clear price sensitivity, at all income levels. Food prices generally increased steeply, but price changes by item varied considerably, with some items such as rice and soft drinks becoming cheaper, and beef and chicken becoming more expensive. Not surprisingly, more cheap products were consumed overall, and calorie intake for the poorest households increased slightly too (Hoogeveen and Ruhinduka, 2009).

The pattern of consumption of consumer durables also changed. There were significant overall increases in purchases of durables, including in housing improvements, across all wealth quintiles and amongst the poorest. Consumption patterns in Tanzania reflected changes in prices more than changes in income. Some consumer durables that became less expensive showed large increases in ownership, including radios, mosquito nets, watches and, most significantly, telephone ownership, which more than doubled in a two-year period (Tanzania National Bureau of Statistics, 2002b and 2008).

Overall, although real incomes may not have significantly increased, changes in food prices and prices of some key durables made them more accessible, even for the poorest quintile of Tanzanians. Poverty rates have a minimal ability to reflect these changes because they are based on a fixed basket of goods (mainly food) that can only at best struggle to keep pace with changes in purchasing patterns. In Tanzania, for example, if a poor household is able to afford a mobile phone, this is not reflected in the household’s poverty status because mobile phones are not part of the basket of goods used to calculate the poverty line. Although it is generally true that food takes the largest share of poor households’ incomes and therefore is the largest share of items in the basket that determines the poverty line, the challenge remains whether poverty estimates, based on analysis of household expenditures, give adequate cognizance to significant shifts in consumption patterns that may impact on whether a household is impoverished.

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85 Calculated on consumption per adult equivalent per 28 days (Tanzanian Shilling 13,998 in 2007). The food basket is defined such that it provides sufficient calories to meet adult requirements with a pattern of food consumption typical of the poorest 50 per cent of the population. Non-food items are taken as the share of expenditure on items of the poorest 25 per cent of the population (see Tanzania Ministry of Finance and Economic Affairs (2009a), p. 146).

Changing consumption patterns that have increased asset ownership in a context such as Tanzania, which has seemingly stagnant poverty reduction, may be the result of some products becoming less expensive and therefore more accessible to the poor. However, further research is required because asset accumulation in Tanzania is likely to have been the result of price changes rather than the result of increases in labour productivity, or a combination of both. In other words, people in Tanzania do not appear to be working their way out of poverty, although this deserves further detailed research. The analysis below provides an initial view of the patterns of changes in labour productivity, while acknowledging the complexity of interpreting changes across multiple indicators.

#### 6.4 Monitoring the productive employment challenge

Productive employment in Tanzania mirrored the pattern of slow change in poverty reduction during the decade since 2000 and an examination of the new MDG employment indicators can deepen the understanding of this trend in Tanzania, beyond simple unemployment rates. These indicators should be considered for use in the national monitoring system because unemployment is not Tanzania's main labour market challenge, despite it being the main employment-related indicator in the national monitoring system.

Unemployment is relatively low in Tanzania when considering it as persons with no work but actively seeking work (international definition, see table 6.2). This is the case for all groups except urban youth. In other words, most people in Tanzania are working, and the central issue is not joblessness but the productivity, reliability and quality of jobs.

**Table 6.2 Unemployment rate in Tanzania by age group and urban/rural area, 2006 (%)**

Geographical area	Age groups				Total
	15-24	25-34	35-64	65+	
Dar es Salaam and other urban	9.3	3.0	1.0	1.1	3.7
Rural	1.2	0.9	0.3	0.3	0.7
<b>Total</b>	<b>3.1</b>	<b>1.5</b>	<b>0.5</b>	<b>0.4</b>	<b>1.5</b>

Source: Tanzania National Bureau of Statistics (NBS), 2008.

The Tanzanian labour market is characterized by a high EPR (MDG employment indicator 1.5, see box 1.1), which reflects those people over 15 years of age who are working. This indicator provides an overview of how well the economy absorbs labour; in Tanzania 85.4 per cent, or approximately 21 million people, were employed in 2006. This is high even when compared with other countries in sub-Saharan Africa (see Chapter 3).

The challenge generally is not whether people are working, but rather the productivity of their labour. The second of the new MDG employment indicators, the growth in labour productivity can generate information about the change in the amount of output per unit of labour each year.<sup>86</sup> In Tanzania, during the period 2000-06, labour productivity grew on average by 3.5 per cent per annum (using the international definition of employment) across all sectors. Yet this aggregate rate of increase masks the sector diversity in which labour productivity is pulled upwards in Tanzania by high growth in sectors that have not been labour intensive, such as mining.

In contrast, agriculture, which provides work for more than 70 per cent of the labour force in Tanzania, at first glance appears to have also had gains in labour productivity (averaging 2.8 per cent for the period 2000–06, calculated using Tanzania National Bureau of Statistics, 2002a; and United Republic of Tanzania, 2007). However, this may reflect the structural change in the economy mentioned earlier, more than real gains in unit labour productivity.

The seeming gains in labour productivity could be the result of a decline in the overall number of small agricultural producers since the beginning of the decade, combined with an increase in large-scale farm production. For smallholders, evidence indicates that household income derived from agriculture declined significantly (from 60 per cent in 2000 to 50 per cent in 2007, based on household budget surveys), and diversification intensified as rural households generally became equally dependent on off-farm sources of income as on agriculture. Terms of trade were volatile during this period for some major export crops produced by smallholders and plantations. These factors combine with an increase in the proportion of agricultural productivity from large-scale mechanized farms for some major crops in some areas (e.g. maize production in Morogoro; rice production in the Mbeya Region). When this range of factors is considered, it may be that labour productivity in agriculture appears to have increased because there are fewer people working in agriculture and because of

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86 Calculated as GDP (constant prices) divided by total employment.

steady increases overall in production from large farms. This deserves further research, drawing especially from the forthcoming data of the Agricultural Survey 2008–09 because small-scale farming households have remained the poorest of the poor for decades. Recent research (Tanzania Ministry of Finance and Economic Affairs, 2009a, p. 26) reveals:

*“The majority of smallholders remain effectively cut off from the national growth story with little access to technological improvements and inputs that enhance productivity. The country looks to ... Kilimo Kwanza (Agriculture First) policy to sustainably boost farmers’ productivity and incomes”.*

Labour productivity, in summary, is a potentially strong national indicator for Tanzanian monitoring given that it can provide an important complementary indicator to income poverty rates. Its analysis at sector level, particularly in sectors with a large proportion of the labour force, such as agriculture, may provide insights into the often complex changes in patterns of production.

To complement the labour productivity indicator, working poverty rates can provide a view of those who are working but fall below the national basic needs poverty line. This is the third new MDG employment indicator. The rate of working poverty is determined by dividing the number of working people living in poor households by the total number of working people in the population. The rate in Tanzania was 32.5 per cent in 2000 and dropped marginally to 30.7 per cent in 2007. However, because the overall size of the workforce increased during this period, the picture is not as positive as it appears from the percentage rates. There has been an increase of more than 634,000 working poor in Tanzania between 2000 and 2007.

Table 6.3 below provides a view of the numbers of working poor during the early part of the last decade, mid-decade and projections to 2015. The rise in the number of working poor will need to be reversed, and more than 1.1 million working people will need to increase their labour productivity to lift themselves above the income poverty line by 2015, if the MDG goal for poverty reduction is to be reached.

In addition to reducing the number of working poor by improving their productivity, Tanzania is also challenged to consistently ensure new jobs for the large number of young people entering the labour force each year. This challenge is not new to policy-makers in Tanzania. In 2006, soon after the general election, the newly elected President Kikwete set the target to create

**Table 6.3 Working poverty in Tanzania in 2000, 2007 and projected to 2015 ('000s)**

	2000	2007	Change 2000–07	Target 2015 <sup>(2)</sup>	Change 2007–15
Total employed <sup>(1)</sup>	15,334	18,330	2,996	22,944	4,614
Working poor	4,986	5,620	634	4,474	-1,146
Working non-poor	10,349	12,710	2,361	18,470	5,760

**Source:** Author's calculations on the basis of Tanzania National Bureau of Statistics (2002b and 2008).

**Notes:**

1. The projection of the employed population is based on population projections for Mainland Tanzania (Tanzania National Bureau of Statistics) assuming a constant 2007 EPR to 2015. The total number of persons employed in 2015 is not a target, as such, but the basis on which the numbers of working poor and working non-poor are calculated. Note that a similar exercise was carried out using the labour force participation rate in Buberwa and Matsumoto (2009).
2. The working poverty target is assumed to be the same as the poverty target for 2015 (19.5 per cent).

1 million jobs by the end of his first term (2010). The Government reportedly surpassed this by creating 1,271,923 new opportunities by July 2009.<sup>87</sup> Tanzania may indeed be on the right path, but the quality of these new jobs (mostly in the informal economy, as is evident from the vulnerable employment analysis below) and the pace of job creation will need to be enhanced and sustained at a level of approximately 720,000 productive new jobs annually through 2015 (World Bank, 2009c).

Finally, the fourth new MDG employment indicator on vulnerable employment provides insight into trends in the distribution by status in employment. The vulnerable employment rate is the sum of contributing family workers and own-account workers as a percentage of total employment. The vulnerable employment rate in Tanzania is high, illustrating the very low share of the workforce in wage and salaried jobs (see table 6.4). Nonetheless, vulnerable employment declined for most groups between 2000 and 2006, with higher overall rates among women than men, and a steeper decline for men than women since 2000. The exception is Dar es Salaam, where the increase in vulnerable employment was significant. This trend points to the burgeoning informal economy in this large and growing urban centre.

<sup>87</sup> Keynote address, H.E. J.M. Kikwete, Economist Conference Second Business Roundtable, 5 Nov. 2009; see: <http://mawasilianoikulu.blogspot.com/2009/11/presidents-adress-at-economist.html>.

**Table 6.4 Vulnerable employment rates in Tanzania by sex and area, 2000 and 2006 (%)**

	2000	2006	Change (percentage point)
Total (15+)	91.2	88.6	-2.7
Male	87.3	83.5	-3.8
Female	95.0	93.4	-1.6
Dar es Salaam	54.2	57.9	3.7
Other urban	76.3	75.8	-0.5
Rural	96.0	95.0	-0.9

**Source:** Author's calculations on the basis of Tanzania National Bureau of Statistics (2002b) and United Republic of Tanzania (2007), standard employment definition.

It is not unexpected to find that the vulnerable employment rate in Tanzania is highest amongst those with less education and lowest amongst the highly educated. However, between 2000 and 2007, the rate declined for almost all educational levels except university graduates, who experienced an increase from 15 per cent to 19 per cent (Buberwa and Matsumoto, 2009). The reasons behind this deserve further research.

In order for this indicator of vulnerable employment to add value in Tanzania, further refinements may be justified in its method of calculation. Data on various categories or types of employment have been collected in household budget surveys and labour force surveys at regular intervals for a decade. With further analysis, these could be combined with income/expenditure data to provide a more accurate picture of vulnerable employment. For example, not all own-account workers are vulnerable. Indeed, within the growing middle class in urban areas, self-employment is increasing rapidly, and such developments may mean that the current estimates based on the MDG indicator by itself run the risk of over-generalization. Further research and analysis in this area could be useful.

## 6.5 Finding solutions through applied research in growth sectors

Tanzania's increasing, but still low, level of labour productivity and its need to create more than 720,000 new jobs each year for youth require strategic interventions on a large scale and with relative efficiency. Special funds and projects, by definition and proven historically in Tanzania, can only meet a

small proportion of the need. Policy choices and resource shifts that link growth driving and enabling sectors with the labour market are urgently needed.

In Tanzania, the concept of growth driving sectors receives considerable attention from policy-makers and development advisers, but the importance of the supply and demand of labour within these sectors is only recently being considered for its importance in determining the quality and distribution of growth. Recent studies using applied research methods have linked sector strategic plans and labour requirements in Tanzania's energy sector. They were grounded on the fact that the lack of reliable and adequate electricity is a main constraint to small, medium and large business growth in Tanzania (World Bank, 2009c). The studies included consideration of the national strategic plan for expansion of electricity, and investigated whether the supply of Tanzania's labour is sufficiently skilled to take advantage of this opportunity. Studies on the potential for job and productivity gains from electrification were done in the Mtwara region and nationally (Samji et al., 2009; Mwakapugi et al., 2010). The national study found that with the sector's agreed target of connecting 500,000 households to the national grid each year, more than 1 million direct and indirect jobs could be created over a five-year period. One major challenge, however, is to prepare the labour force to take up these opportunities in a situation where there is a severe shortage of adequately trained artisans, technicians and electrical engineers. Rapid resourcing through public expenditure allocations and public-private partnerships is needed to expand skills in electrical and related trades if quality services for expanding businesses and households are to be ensured and job opportunities created.

Such applied research in key growth sectors can provide insights into labour absorption and labour productivity potential, and their resource requirements. Further studies of this nature in sub-sectors such as irrigation and transport are urgently needed, given the evidence that current skills training is weak in the face of the demands of Tanzania's growing economy. The forthcoming free movement of labour from neighbouring east African countries may provide the incentive to quicken the pace of response, yet the question remains: will it be too little too late?

## **6.6 Concluding remarks: Challenges in influencing national policy**

This case study has briefly demonstrated the potential of the new MDG employment indicators to deepen the understanding of key issues in the labour market, while also demonstrating the complexity of their interpretation in the

Tanzanian context. Their usefulness is most evident when combined with the breadth of the full set of economic, social and governance indicators that form the skeleton of the national MKUKUTA monitoring system, and also when used for analysis of employment in specific growth sectors.

Yet indicators are a small piece of a larger puzzle when the objective is to influence the direction and emphasis of policies. In growing and changing African economies such as Tanzania's, policy priorities are managed by a well-established pattern of leadership that governs the public system of administration and the policies that either enable or hinder private sector development. This is a core part of the political economy. To position employment and labour issues higher on the Tanzanian agenda will require a range of well-grounded strategic actions, and these new MDG employment indicators may make an important (albeit modest) contribution towards this goal. Further applied research on labour supply and demand in key growth sectors could also contribute significantly.

In Tanzania, as in its neighbouring countries, the leaders and structures that determine priorities and direction of policies are well-established through decades of partisan politics and a history of a strong State, backed by an elaborate public administration. Significant shifts have taken place as the economy has opened up and development assistance has expanded. The process has contributed to magnifying the parallel structures and the gap between nationally determined political priorities and "development" strategies. The party manifesto and the mandated priorities of ministries have at times seemed to serve different masters from the development agenda articulated in poverty reduction strategies including the MKUKUTA monitoring system. This situation has overstretched, and in some instances confused, key parts of the public administration because officials have had to struggle to meet the often urgent and differing priorities of their elected and appointed leaders on the one hand, and of development partners on the other.

This dichotomy has been vividly illustrated over the past decade in national monitoring and reporting. The long-established system of reporting progress to Parliament continues alongside the public administration's attempt to also track and report on the national development strategy (MKUKUTA) using national indicators and research primarily demanded by development partners and non-state actors. The challenges (and opportunities) this situation poses are well known though seldom openly debated or directly addressed through reforms. The consequences and lessons are that influencing policy in favour of labour and its productivity can be attempted through multiple avenues but their effectiveness

will depend on whether the main messages are unambiguous, well-grounded and appealing to national leaders, development partners and non-state actors.

In conclusion, improved LMIA is essential if employment is to feature more prominently in strategic priorities, policies and resource allocations. This is important if the Tanzanian labour force is to be well prepared for the growing opportunities availed through the expanding private sector. However, awareness of the complexities of the political economy and the need for clear information and best-choice strategies require further development.



# CHAPTER 7.

## SOUTH AFRICA

### Uneven progress towards the MDG employment target

*Sher Verick*<sup>88</sup>

#### 7.1 Introduction

Since the end of apartheid, the South African economy has struggled to reach its potential, constrained by a range of economic and structural factors including the legacies of the apartheid era. For the period 1994–2007, economic growth averaged only 3.6 per cent, which meant that the creation of decent jobs could not keep up with the increase in labour supply over the last decade or so, particularly among women. In addition, a shift in demand for more skilled labour led to the increasing marginalization of the poorly educated, who are predominately black. Overall, the South African labour market is highly segmented with major barriers to entry into the formal sector.<sup>89</sup>

The lacklustre performance of the South African labour market is reflected by some of the highest unemployment rates in the world. At the same time, the informal sector is relatively small, which is partly a legacy of apartheid policies that discouraged entrepreneurship. The high rate of unemployment is in turn a reflection of the underdeveloped informal sector. Overall, there is a low level of labour utilization, which has suppressed the growth potential of the country. On top of these characteristics, real wages in South Africa have either remained stagnant or fallen over the post-apartheid period, above all for low-skilled workers.

During the global boom years of 2002–07, unemployment in South Africa began to fall as domestic economic conditions further improved. In this respect, the unemployment rate reached a low of 22.9 per cent in 2008, down from 31.2 per

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<sup>88</sup> Employment Analysis, International Labour Office.

<sup>89</sup> See, for example, Banerjee et al. (2006), Kingdon and Knight (2007), and Valodia et al. (2005) for a comprehensive discussion on the South African labour market.

cent in 2003. Despite this recent trend, the persistently high level of unemployment and the lack of job opportunities in the formal economy continued to be a major challenge for the Government of South Africa, even before the recession of 2008–09. The situation has been more severe for youth, black South Africans, the less-skilled and women, who continue to experience major barriers to participating in the labour market, especially in finding jobs in the formal economy (Banerjee et al., 2006). Youth in particular have faced considerable hurdles in the labour market: according to the September 2007 Labour Force Survey, the unemployment rate of young people aged 15 to 24 stood at 46.9 per cent, which is one of the highest youth unemployment rates in the world.

Owing to its strong links with the global economy, South Africa was hit hard by the global economic crisis, which has come on top of the longer-term structural problems in its economy and labour market. Consequently, the country fell into a recession in the fourth quarter of 2008, while GDP declined by 1.8 per cent in 2009 (IMF, 2010a). This severe slump has largely been driven by a contraction in the manufacturing sector, along with a fall in output in the mining, financial, real estate and business services, and wholesale and retail trade sectors (Statistics South Africa (Stats SA), 2009; South Africa Reserve Bank, 2009). The South African Government recognized the severity of the downturn and responded with a loosening of monetary policy and a fiscal stimulus package that aimed to support demand and create jobs.<sup>90</sup>

The South African economy emerged from recession in the second half of 2009. This trend was largely due to a return to positive growth in the manufacturing sector, followed by general government, construction and personal services sectors (Stats SA, 2009). In spite of this improvement in the economy, the situation in the South African labour market is, however, unlikely to improve rapidly because of the typical lag between economic and employment recovery. For this reason, progress towards the MDG employment indicators is likely to be negatively impacted, undoing progress made in the years leading up to the crisis.

The remainder of this chapter is structured as follows. Section 7.2 addresses the state of LMIA in South Africa, before section 7.3 turns to trends in the MDG

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90 The Monetary Policy Committee (MPC) of the South African Reserve Bank started reducing interest rates in December 2008. The cumulative reduction in the repurchase rate over 2008–09 was 5 percentage points (the rate reached a low of 7 per cent, see South Africa Reserve Bank, 2009). The *Framework for South Africa's Response to the International Economic Crisis*, which is the result of tripartite negotiations, outlines the main pillars of the Government's action plan to respond to the crisis, including major public investment programmes, see: <http://www.info.gov.za/view/DownloadFileAction?id=96381>.

employment indicators. Finally, drawing on the discussion presented in section 7.3, section 7.4 focuses on policy implications.

## 7.2 Labour market information and analysis in South Africa

As discussed in previous chapters of this book, a well-functioning LMIA system requires: (1) regular collection and compilation of labour market data; (2) capacity and tools to analyse the data; and (3) the institutional arrangements and networks to improve quality and disseminate data and analysis.

In terms of these components of a successful LMIA system, South Africa has the most advanced system in Africa. Firstly, from 2000 to 2007, Stats SA conducted a biannual labour force survey (LFS). Starting in 2005, Stats SA undertook a major revision of the LFS, which resulted in changes to the survey methodology, the survey questionnaire, the frequency of data collection and data releases, and the survey data capturing and processing systems. As a result, the LFS was replaced with the Quarterly Labour Force Survey (QLFS) at the beginning of 2008. Data from this survey are released quickly, allowing for up-to-date analysis of trends in the MDG employment indicators. Moreover, Stats SA revised estimates for 2000 to 2007 on the basis of data collected from the QLFS (Stats SA, 2008a).

In addition to the LFS, some labour market information is available in the Income and Expenditure Survey (IES) 2000 and other new household surveys such as the National Income Dynamics Study (NIDS) (see table 7-1 for an overview). In terms of the IES, the 2000 survey provides the most useful source of data for labour market issues, particularly as it can be linked to the labour force survey for that year (this is not possible with the IES for 2005–06). The NIDS is being conducted as a longitudinal study and hence it will provide the first nationally representative panel of South African households that could be used for analysing such issues as trends in working poverty.

**Table 7.1 Key sources of labour market information in South Africa**

Survey	Institution
Labour Force Survey, Biannual, 2000–07	Statistics South Africa
Quarterly Labour Force Survey, 2008–	Statistics South Africa
Income and Expenditure Survey, 2000	Statistics South Africa
National Income Dynamics Study, 2008	Southern Africa Labour and Development Research Unit (SALDRU)

Secondly, with respect to analytical capacity and tools, South Africa has a range of institutions that conduct analysis and research using labour market information. The work of Stats SA, the Ministry of Labour and the Human Science Research Council is complemented and supported by a number of leading South African academics working on labour market issues.

Finally, Stats SA has made major efforts to improve the quality of data as reflected by the South Africa Statistical Quality Assessment Framework (SASQAF), which aims to identify gaps in information, quality of statistics and capacity in terms of human resources and information (Stats SA, 2008b). Furthermore, the dissemination of South African data has been facilitated by a number of portals that seek to improve data access for researchers and others users.<sup>91</sup>

In terms of analysing MDG trends, South Africa produced the first *Millennium Development Goals Country Report* in 2005 with updates in 2007 and 2008. The focal point for the 2005 edition was the then Department of Foreign Affairs, which commissioned Stats SA to coordinate the production of the report. Stats SA in collaboration with the United Nations Development Programme (UNDP) released the second *Millennium Development Goals Country Report* in 2010. As acknowledged by Stats SA in this latest report, “South Africa is one of those few African countries with adequate data for purposes of the MDGs. In particular for MDG 3, 4 and 5, South Africa has a sophisticated cause of data registration system and on MDG 1, South Africa conducts regular income and expenditure surveys” (Stats SA and UNDP, 2010, p. 2). Nonetheless, it is also recognized that “... despite these advantages, the MDG process has laid bare some of the serious deficiencies in data quality as well as data gaps” (ibid., p. 2).

### 7.3 Tracking the MDG employment indicators for South Africa

Like most African countries, progress towards the MDGs in South Africa has been mixed. According to the MDG Country Report 2005, South Africa is on track to achieve MDGs 1, 2, 3, 7 and 8, while it can only reach MDGs 4, 5 and 6 if changes are made to policies and resource allocation.<sup>92</sup> A similar finding is reported in the MDG Country Report 2010 (Stats SA and UNDP, 2010). More specific analysis of the MDG employment indicators (1.4, 1.5, 1.6, 1.7 and 3.2) also reveals a mixed picture in terms of progress, as discussed further below.

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91 See the DataFirst initiative of the University of Cape Town (available at: <http://www.datafirst.uct.ac.za/home/>) and the South African Data Archive (SADA) (available at: <http://sada.nrf.ac.za/>).

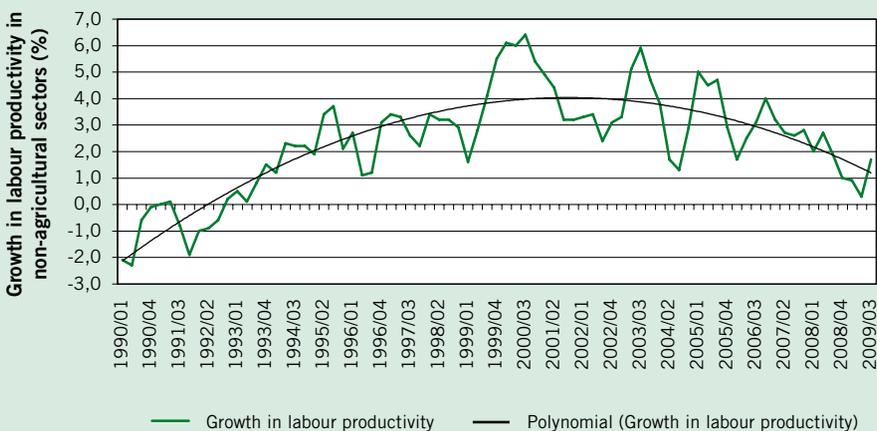
92 See: [http://www.mdgmonitor.org/country\\_progress.cfm?c=ZAF&cd=710](http://www.mdgmonitor.org/country_progress.cfm?c=ZAF&cd=710).

### 7.3.1 Labour productivity

MDG1B employment indicator 1.4, the growth rate of labour productivity as measured by GDP per person employed, provides an assessment of a country's economic situation and (potentially) its ability to create decent jobs. Labour productivity is a measure of the efficiency of workers, though it is in turn influenced by factors such as the use of other inputs and types of technologies employed in production. Overall, growth in labour productivity has important implications for long-term growth in real output and incomes and, hence, poverty reduction.

In the South African context, non-agricultural labour productivity grew at a faster rate in the years following the end of apartheid (figure 7.1). However, the growth in productivity has since slowed down, even before the onset of the global financial crisis-induced recession in 2008. Due to the recession, the non-agricultural labour productivity growth rate dropped to near zero in the second quarter of 2009, and productivity in the manufacturing sector actually declined from the fourth quarter of 2008 to the second quarter of 2009 (figure 7.2). Accompanying the expansion of the economy, productivity rose in the third quarter of 2009.

**Figure 7.1** Growth in non-agricultural labour productivity has slowed down in South Africa, Q1 1990 to Q3 2009



Source: South Africa Reserve Bank online statistics enquiry; author's calculations.

**Figure 7.2 Labour productivity has increased in South Africa in the manufacturing sector but declined during the crisis, quarterly index Q1 1990 to Q3 2009**



Source: South Africa Reserve Bank online statistics enquiry.

### 7.3.2 Employment-to-population ratio

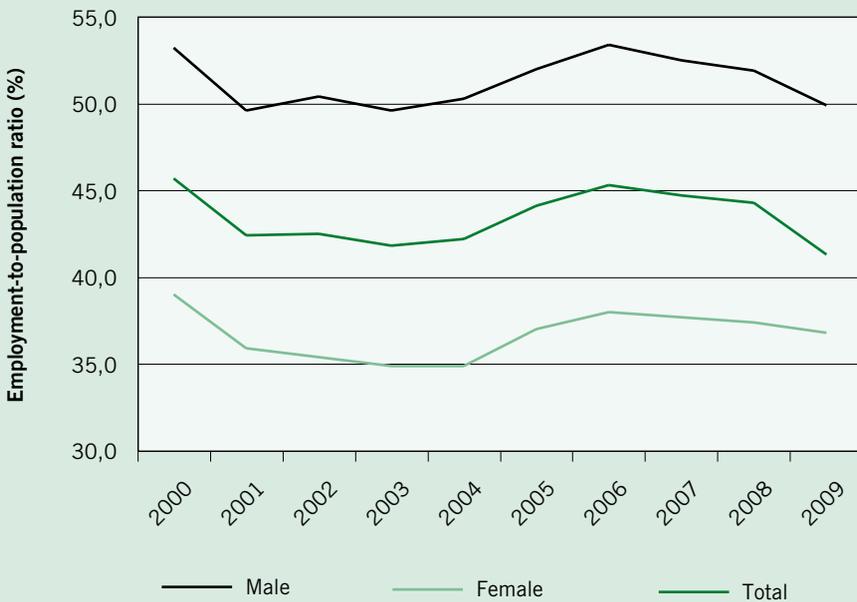
The EPR of a country provides an indication of the ability of an economy to generate jobs, though the ratio only reveals something about the quantity of employment and not the quality. In South Africa, the EPR has historically been low (below 45 per cent in recent years), which is considerably less than the average for sub-Saharan Africa (for example 65.7 per cent in 2008). One explanation for this aspect of the South African labour market is the comparatively small informal sector. In 2007, employment in the South African informal sector represented just 17.3 per cent of total employment (though it would be higher if a broader definition of informality such as the ILO notion of informal employment would be used).<sup>93</sup> In comparison, it has been estimated that, on average, 72 per cent of non-agricultural employment in sub-Saharan Africa is informal (ILO, 2002). This low level of informality is partly due to the legacy of apartheid policies, which discouraged entrepreneurship among black South Africans (Valodia et al., 2005).

Turning to the trends, it is evident that the EPR started increasing in 2004 as economic conditions in South Africa improved (figure 7.3). The ratio peaked in 2006 at 45.3 per cent, before the trend was interrupted by the global economic

<sup>93</sup> Based on Labour Force Survey data for September 2007 (revised figures), see Stats SA (2008a).

crisis. Since the start of the recession in South Africa in 2008, the ratio has fallen to 41.3 per cent in 2009. The participation of South African women in the labour market has been much lower than for men, though it has increased considerably since the end of apartheid. Nonetheless, the female EPR reached a peak of only 38.0 per cent in 2006, before falling to 36.8 per cent in 2009 (compared to a male ratio of 53.4 per cent in 2006 and 49.9 per cent in 2009).

**Figure 7.3** Employment-to-population ratios in South Africa have suffered declines from recent highs, 2000–09



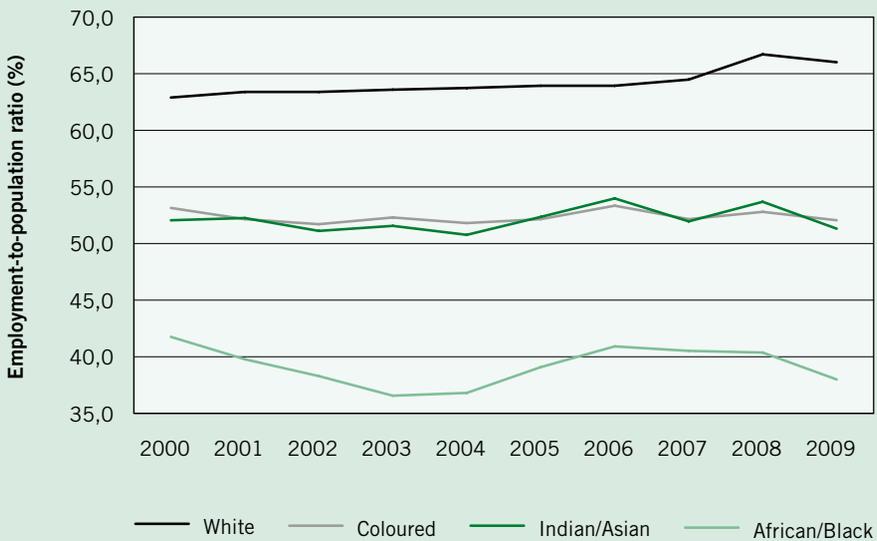
**Source:** Statistics South Africa (2008a) and Quarterly Labour Force Survey, 2008–09; author's calculations.

**Note:** Annual figures are averages of the LFS (2000–07) and the QLFS (2008–09).

Mirroring the high levels of unemployment, youth employment ratios in South Africa are also comparatively low. After reaching a low point of 11.2 per cent in 2003, the youth ratio climbed up to 14.6 per cent in 2008. The ratio is higher for young South African men than women (16.5 versus 12.7 per cent in 2008). The recession of 2008–09 has heavily impacted youth in the country: as a result, the EPR for young men and young women fell from 19.1 and 13.1 per cent, respectively, in the third quarter of 2008 to 15.8 and 11.5 per cent a year later.

In addition to the breakdowns by sex and age, it is important to consider changes in the EPR by racial group, which is a key dimension behind labour market exclusion in South Africa. Overall, the ratio has varied more for black South Africans than for other groups, while it has risen for white South Africans from 62.9 per cent in 2000 to 66.7 per cent in 2008 (figure 7.4). Focusing on more recent times, the EPR declined for all racial groups after South Africa slipped into recession in late 2008 (figure 7.5). However, it is also evident that the fall has been greatest for black South Africans, for whom the ratio has fallen by 10.2 per cent (from 40.1 per cent in Q1 2008 to 36.0 per cent in Q1 2010). Moreover, while the fall for other racial groups appears to have stabilized at the end of 2009, the ratio has continued to fall for black South Africans, despite the fact that the economy technically exited recession in Q3 2009. In comparison, the EPR for the Indian/Asian subgroup jumped back to its pre-crisis level in the first quarter of 2010.

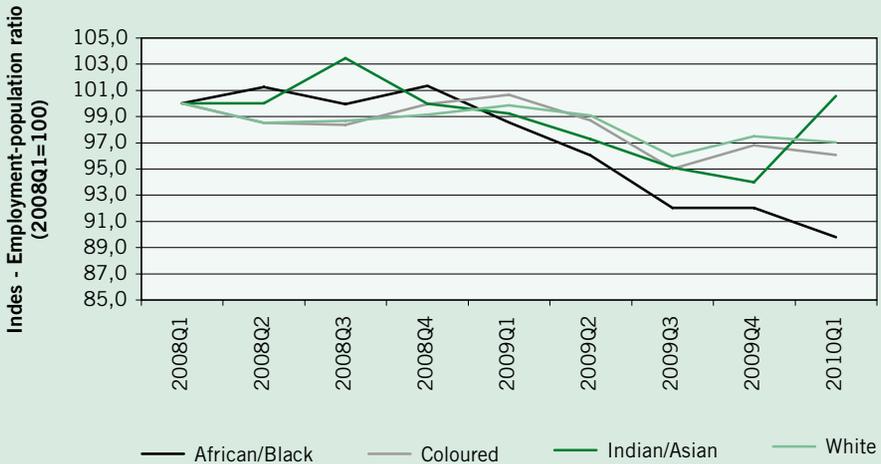
**Figure 7.4** Longer-term trends in the employment-to-population ratio by racial group in South Africa, 2000–09



**Source:** Statistics South Africa (2008a) and Quarterly Labour Force Survey, 2008–09; author’s calculations.

**Note:** Annual figures are averages of the LFS (2000–07) and the QLFS (2008–09).

**Figure 7.5** Employment-to-population ratio over the crisis of 2008–09 by racial group in South Africa, quarterly index Q1 2008 to Q4 2009



Source: Statistics South Africa Quarterly Labour Force Survey; author's calculations.

### 7.3.3 Working poverty

Measuring both absolute and relative poverty in South Africa is complicated by the lack of a consistent household survey over time. Drawing on different instruments, various studies come to the following conclusions: (1) poverty increased over the period 1994–2000; and (2) poverty decreased post 2000, driven mainly by social grant payments (Leibbrandt et al., 2010). Furthermore, using poverty lines recommended by Hoogeveen and Özler (2006) and more recent data, Leibbrandt et al. (2010) derive the poverty headcount ratio for 1993, 2000 and 2008. According to these figures, the headcount ratio (using the lower national poverty line (NPL) of SAR 515 per month) fell slightly from 0.56 in 1993 to 0.54 in 2000, and remained at the latter level in 2008.

Working poverty can be tracked using microdata from household surveys or, if such data are not available, a proxy method suggested in ILO (2009a) can be used. In the latter case, the working poverty rate is proxied by the following identities:

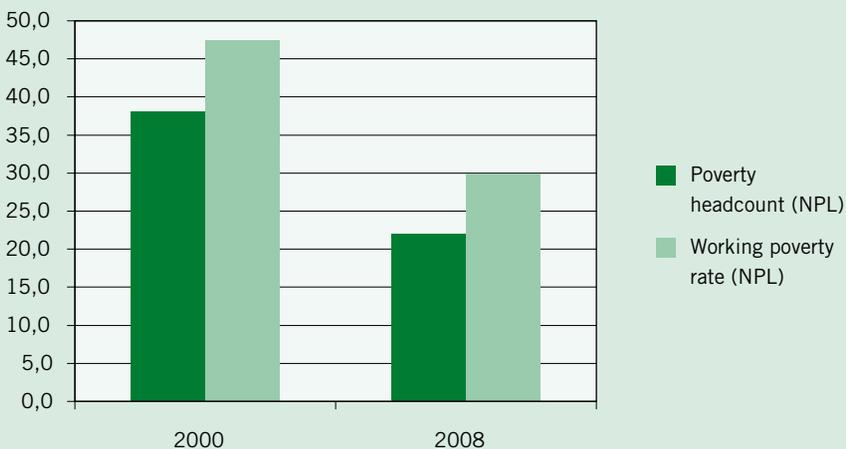
❑ Working poor = poverty rate (headcount ratio) x labour force (aged 15+)

❑ Working poverty rate = number of working poor/total employment x 100

According to ILO (2009a), the assumption for identity (1) is “that all, or nearly all, of the poor in the labour force are employed. This assumption is made because in countries where social safety nets do not exist, poor individuals must work in order to maintain a subsistence level.” While this may be accurate in low-income countries, it is certainly not in the case in South Africa where unemployment accounts for more than 25 per cent of the labour force and where social grants play an increasing role in supporting household incomes.

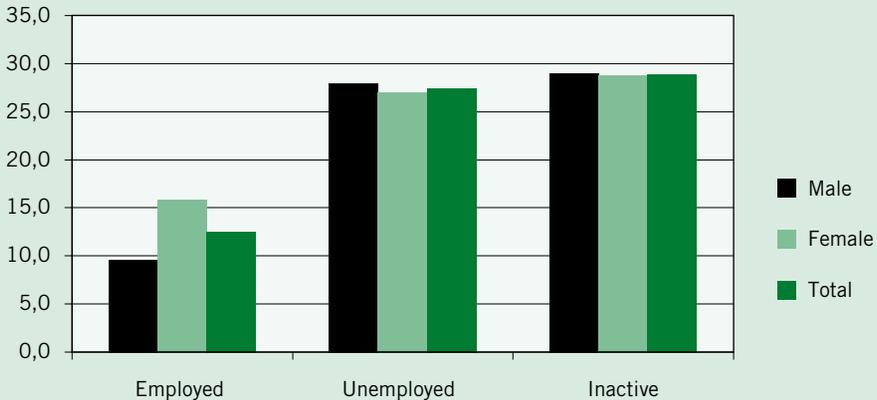
In figure 7.6, the proxy based on the poverty headcount ratio indicates that the working poverty rate in South Africa has fallen from 47.4 per cent in 2000 to 29.9 per cent in 2008. Figures on working poverty derived from household data (IES, 2000) reveal that poverty rates for individuals without employment are higher than for the employed (figure 7.7). Using the international poverty line at US\$1.25 per day, on average 12.5 per cent of employed individuals are in poverty compared to 27.4 per cent of the unemployed and 28.9 per cent for those outside the labour force. Moreover, only in the case of employed South Africans is the poverty rate higher for women than men (15.9 versus 9.6 per cent).

**Figure 7.6 Working poverty (national poverty line) had been falling over recent years in South Africa (estimate, %)**



Source: World Development Indicators online database, accessed 27 May 2010; author's calculations.

**Figure 7.7 Household survey-based estimates of working poverty (international poverty line) in South Africa by labour market status and sex, 2000 (%)**



**Source:** Income and Expenditure Survey 2000 linked to the September 2000 Labour Force Survey; author's calculations.

Using data from household surveys in 1993, 2000 and 2008, Leibbrandt et al. (2010) also find that poverty incidence is highest for households without employed household members. Using the SAR 515 per capita per month national poverty line, the incidence for individuals living in such households decreased from 0.89 in 1993 to 0.78 in 2000 before increasing again to 0.81 in 2008. In comparison, the poverty incidence was 0.48 in 2008 for individuals living in households with one worker and 0.34 for individuals living in households with two or more workers. This indicates that the working poverty rate for South Africa should be lower than the headcount ratio for the population, and in South Africa living in a jobless household implies that an individual is, with a high degree of probability, living also in poverty.

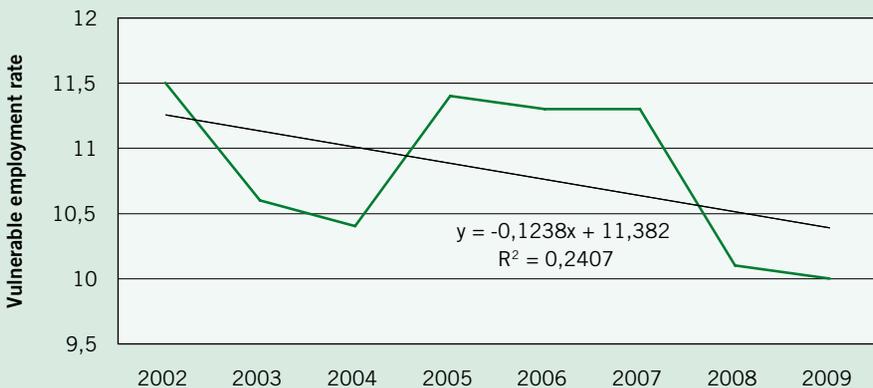
### 7.3.4 Vulnerable employment

Vulnerable employment consists of own-account workers and contributing (unpaid) family workers, and thus represents a category of persons employed under potentially precarious circumstances (relative to employees and employers). The main basis for this argument is that such workers are less likely to have formal work arrangements or access to social protection schemes and are more vulnerable during an economic downturn (ILO, 2009a). In the South African

context, this variable is affected by the low level of informality (i.e. own-account workers), which is due to historical factors, namely the legacy of apartheid policies that discouraged entrepreneurship.

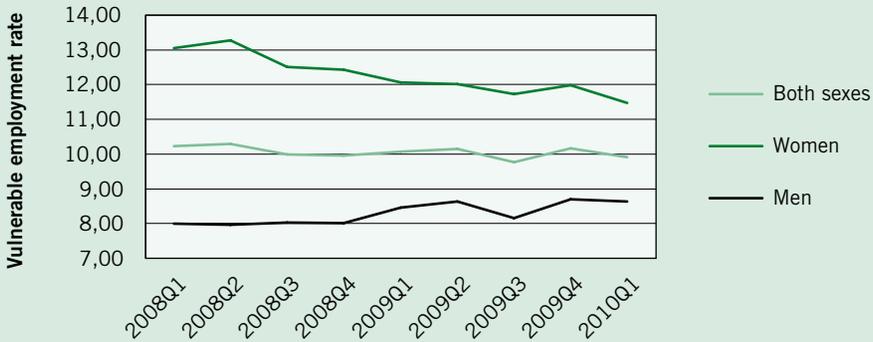
The percentage of vulnerable workers in total employment fell in 2003 and 2004 before rising again in the mid-2000s (figure 7.8). The rate subsequently declined in 2008 and 2009 as a consequence of the recession, and the fitted line suggests a downward trend in the vulnerable employment rate in South Africa. Turning to the specific period of the 2008–09 recession, the following trends in vulnerable employment are evident: (1) the vulnerable employment rate has converged for men and women, which is due to (2) the loss of employment in non-vulnerable employment among South African men (figure 7.9); and (3) this trend for women has been driven by the decrease in the number of own-account workers (figure 7.10).

**Figure 7.8 Trends in the vulnerable employment rate in South Africa, 2002–09 (%)**



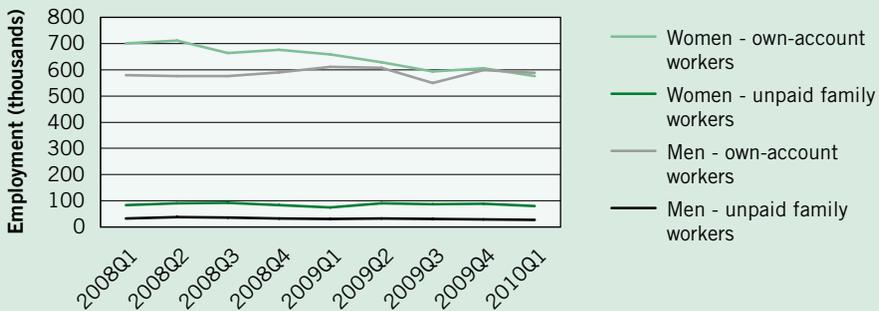
Source: Statistics South Africa and UNDP (2010).

**Figure 7.9 Convergence in male and female vulnerable employment rates in South Africa during the recession of 2008–09**



Source: Statistics South Africa Quarterly Labour Force Survey; author's calculations.

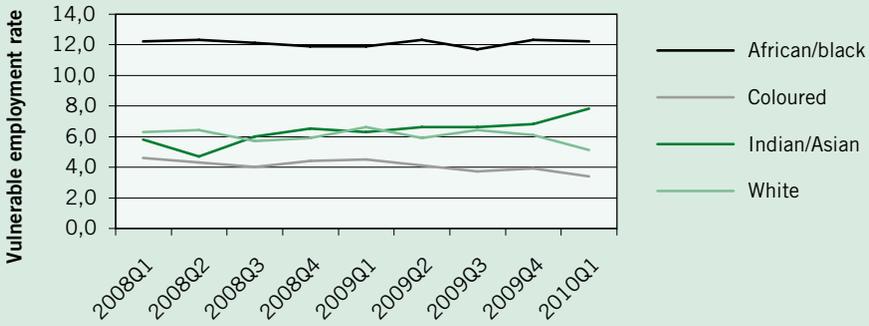
**Figure 7.10 Female own-account workers in South Africa have been more at risk of job loss during the recession of 2008–09, quarterly data**



Source: Statistics South Africa Quarterly Labour Force Survey; author's calculations.

Analysing the trends for the vulnerable employment rate by population group reveals that there has been little change for black South Africans, while it has increased for the Indian/Asian subgroup (figure 7.11). In the case of coloured and white South Africans, there is little change except for the latest quarters, where the rate has fallen slightly.

**Figure 7.11** Trends in vulnerable employment by population group in South Africa are less clear, Q1 2008 to Q4 2009

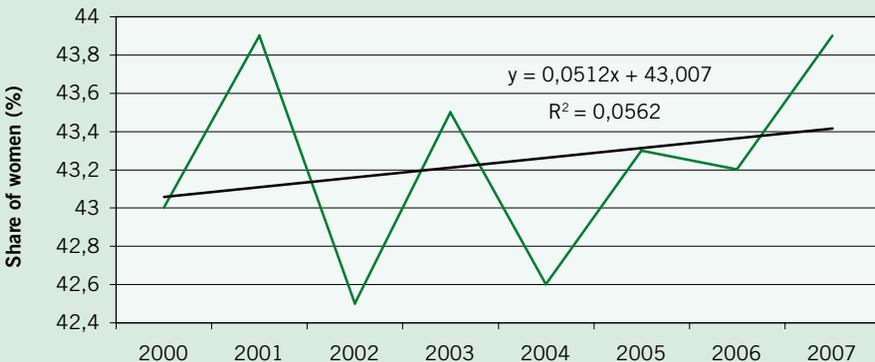


Source: Statistics South Africa Quarterly Labour Force Survey; author's calculations.

### 7.3.5 Share of women in non-agricultural employment

Under MDG 3, indicator 3.2 (share of women in wage employment in the non-agricultural sector) captures equality in terms of access to paid employment, which typically provides better conditions of work. In the South African context, the share of women in wage employment in the non-agricultural sector increased slightly from 43.0 per cent in 2000 to 43.9 per cent in 2007 (figure 7.12). This

**Figure 7.12** Share of women in non-agricultural wage employment in South Africa has been increasing slowly



Source: World Development Indicators online database, accessed 27 May 2010.

trend is slightly better than the overall development in the share of women in total employment, which has fallen from 45.1 per cent in 2000 to 44.2 per cent in 2007 (see Stats SA, 2009).

## 7.4 Policy implications

South Africa has the most advanced LMIA system in the region with its Quarterly Labour Force Survey, internal and external capacity to analyse data, and mechanisms to advance the quality and dissemination of the data, such as the SASQAF. At the same time, gaps remain, such as the lack of longitudinal household data on income and labour market status that would enable a more complete and consistent analysis of working poverty. Fortunately, this gap will be filled by the National Income Dynamics Study, which started in 2008.

By reviewing the MDG employment indicators for South Africa, a multi-faceted and nuanced picture emerges. Firstly, growth in non-agricultural labour productivity has slowed in recent years (and labour productivity decreased during the recession of 2008–09 in the manufacturing sector), which does not bode well for future economic prospects. Secondly, the number of people working in South Africa remains very low. Though the EPR increased from 2006, it fell over subsequent years, particularly during the crisis of 2008–09. During the recent recession, the ratio has fallen more for men, youth, the less skilled and black South Africans. Thirdly, working poverty has most likely fallen, while at the same time poverty rates continue to be higher for individuals without jobs. Fourthly, vulnerable employment for South African women has decreased during the crisis, reflecting a fall in the number of female own-account workers who were adversely impacted by the downturn. Finally, there has been a slight increase in the share of women in non-agricultural sector wage employment.

Despite the lack of a clear common trend across indicators, these findings have important implications for policy-makers. Firstly, more efforts are needed to improve the skills level of the South African workforce. Secondly, in order to increase participation in the labour market, the Government of South African should continue to support not only skills development but also entrepreneurship, along with reducing the cost of job searches and supporting rural industry. Moreover, as outlined by the recent industrial policy, specific policies are required to address the lack of labour demand for less-skilled workers in South Africa.



# CHAPTER 8.

## BURKINA FASO

### Employment at the heart of the national development strategy: The role of the MDG employment indicators

*Eléonore D'Achon<sup>94</sup> and Naima Pagès<sup>95</sup>*

#### 8.1 Introduction

Burkina Faso is among the poorest countries in the world, subject to intense demographic pressures and with an economy characterized by structural weaknesses. Despite good macroeconomic performance, the country's social indicators are still disquieting and major labour market challenges such as unemployment, underemployment, vulnerability and working poverty have remained. At the policy level, substantial progress has been made recently in recognizing the role of employment in the development process, and a set of policies has been put in place to create an environment conducive to improved labour market outcomes. Building capacity in monitoring and evaluating these policies remains a core challenge to be addressed if employment objectives are to be achieved.

Like other countries that adopted poverty reduction strategies (PRSs), Burkina Faso is moving towards results-based management. Accordingly, the country has established a national monitoring system that aims to ensure that the planning and programming process is based on sound information and focuses on results. The Government has also made efforts to better reflect sectoral policies and the new development strategy in the national budget, using results-based budgetary tools such as programme budgets and public expenditure reviews.

The Ministry of Youth and Employment (MYE) has made consistent strides to keep pace with these national processes. An Employment Observatory was set up and a dozen indicators, among them the new MDG employment indicators, were

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94 Country Employment Policies, International Labour Office.

95 Employment Policy Department, International Labour Office.

identified to better integrate employment in the monitoring system of the national development strategy. A study on overall employment and poverty trends, carried out in 2009, informed the diagnostic part of the national development strategy. Finally, a public expenditure review and a programme budget for the MYE were prepared in 2010 on the basis of performance indicators for the medium term. Nevertheless, major institutional challenges remain in order to set up a reliable LMIA system within the national development monitoring system, in such a way as to place employment at the heart of the decision-making and budgetary process.

This chapter deals with two topics: (1) the employment situation in the socio-economic context of Burkina Faso, based on the analysis of the MDG indicators; and (2) the institutional challenges the country faces in monitoring and tackling employment issues. The chapter concludes that making employment central to policy-making and the budgetary process is now a major challenge that needs to be met through an effective LMIA system, including an appropriate institutional framework.

## **8.2 The socio-economic background**

During the last 15 years, Burkina Faso enjoyed fairly sustained economic growth, averaging 5 per cent annually since 1994. Despite this good macroeconomic performance, the fundamentals of growth remain fragile. Burkina Faso is a landlocked country with limited natural and energy resources. It is still highly dependent on extensive agriculture and subject to the vagaries of the Sahelian climate. The economy lacks diversity and is structurally vulnerable to external shocks. Its infrastructure is poorly developed.

In 2009, despite the effects of the international (food, energy and financial) crises, the fall in the price of cotton and massive floods, the economy continued to grow by 3.1 per cent (compared with 5.2 per cent in 2008), and growth is estimated at 4.2 per cent in 2010. The inflation rate fell from 10.7 per cent in 2008 to 3.8 per cent in 2009 and is expected to decline further to 2.3 per cent in 2010. According to the International Monetary Fund (IMF), the macroeconomic situation will continue to improve in the medium term and growth rates will recover to close to 6 per cent on average while inflation threats will be contained (IMF, 2010b). Growth is driven essentially by agriculture (chiefly cotton and cereals), mining and services. Agriculture is the main source of work, accounting for up to 80 per cent of employment, but only contributing one-third of GDP and remaining highly dependent on rainfall and world prices. Subsistence

agriculture is widespread (using mainly labour, with limited other inputs such as fertilizers or equipment) and productivity is low. Industrial activities, small-scale processing and services also contribute to economic growth, but are largely informal.

The Government has adopted several measures to support domestic demand and strengthen social protection in the short term, based on an expansionist budgetary policy. In the medium term, the country will have to address fundamental developmental challenges such as reducing the reliance on cotton, diversifying production and improving competitiveness. Cotton accounts for 60 per cent of export revenues and 25 per cent of GDP, and around 3 million people are estimated to live directly and indirectly from cotton revenues (Association Interprofessionnelle du Coton, 2008).

The good macroeconomic performance following the economic reforms of the early 1990s has not led to a significant reduction in poverty. The incidence of poverty based on the national poverty line increased from 44.5 per cent in 1994 to 46.4 per cent in 2003, and is estimated at a slightly lower 42.7 per cent for 2007. In view of the high incidence of poverty, the State realized the need to ensure that the poor benefited more from economic growth by creating productive jobs and promoting decent work.

Burkina Faso's demographic structure and dynamics are the source of many challenges in terms of employment and training. Estimated at 14 million people, the population is growing rapidly at an annual rate of more than 3 per cent (National Statistical and Demographic Institute (INSD), 2006), which means a doubling of the population every generation. The demographic pressures are especially severe in urban areas due to rural-urban migration. In the major urban centres (Ouagadougou and Bobo-Dioulasso), the annual population growth rate is 6.8 per cent, more than double the national growth rate. The population of Burkina Faso is also very young, and still predominantly rural-based. Three-quarters of the population and about 90 per cent of the poor live in rural areas. Educational attainment is low, and more than two-thirds of the population are illiterate. In addition, national educational attainment levels conceal considerable inequalities by rural/urban area and by sex.

A high growth rate of the active population (estimated at 3 per cent per year) results in an annual number of around 220,000 new entrants into the labour market, far more than the number of quality job openings. Education and training provision is inadequate, with the education system slanted more

towards general education than vocational and technical training. The system is not geared to the needs of the economy, especially with a view to agricultural intensification policies.

In an economy that lacks diversity and which is structurally vulnerable, with strong demographic pressures, the labour market challenges are considerable as is demonstrated by the analysis of the MDG employment indicators.

### **8.3 The MDG employment indicators among the 12 key indicators of the national employment policy**

In Burkina Faso, 12 principal indicators, among them the four MDG employment indicators, have been identified to monitor employment trends. These indicators cover four dimensions of the labour market:

- (i) *Volume and structure of employment*: the employment-to-population ratio (MDG indicator) is complemented by an analysis of the employment distribution by sector.
- (ii) *Underutilization of labour; labour productivity*: measured by the level of unemployment and underemployment, complemented by the share of young people neither in education nor employment, and the labour productivity growth rate (MDG indicator).
- (iii) *Quality of employment*: the rate of vulnerable employment (MDG indicator) is complemented by the share of unprotected jobs of wage workers; the working poverty rate (MDG indicator) is complemented by the share of “bad jobs”.
- (iv) *Public employment promotion efforts*: measured by the proportion of public expenditure allocated to employment policies by the MYE.

These indicators can be broken down by age, level of education, sex and urban/rural area, as appropriate, and are all calculated based on national surveys (surveys of household living standards 1998 and 2003, and surveys of core welfare indicators 2005 and 2007).<sup>96</sup> The indicator on public expenditure is based on national budget data.

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<sup>96</sup> The 12 indicators have been calculated by the Ministry of Youth and Employment, the National Bureau of Statistics and the Employment Observatory with the support of the ILO.

### 8.3.1 Volume and structure of employment

The EPR, one of the MDG employment indicators, is high in Burkina Faso. During the last ten years, the average ratio was 81 per cent, with large differences according to urban/rural area and sex (see table 8.1). The large gap between rural and urban areas is associated with urban unemployment and the higher levels of education in urban areas. Such a high EPR is not desirable, in particular if it is due to a large proportion of young people who forego education and training, or if it goes hand-in-hand with a high share of poor workers and widespread underemployment (see below).

**Table 8.1** Employment rate in Burkina Faso by urban/rural area and sex (population aged 15-65, %)

	Urban			Rural			Total		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
1998	69.7	45.5	57.8	94.5	87.8	90.8	89.3	80.4	84.5
2003	67.7	44.5	56.0	89.5	81.5	85.2	84.5	74.1	79.0
2005	70.9	45.6	58.3	93.8	87.2	90.3	88.9	79.3	83.8
2007	70.4	51.3	60.8	84.4	76.7	80.2	81.3	71.7	76.2

Source: INSD (1998, 2003, 2005, 2007).

The EPR fell from 84.5 per cent to 76.2 per cent between 1998 and 2007, with a stronger decrease in rural areas. This trend may be due in part to methodological differences in surveys conducted during this period, but can also be explained by the rise in enrolment rates in education among young people. Between 1998 and 2007, enrolment rates increased from 9 per cent to 16 per cent at the secondary level, and from 1 per cent to 2.5 per cent at the tertiary level.

In 2007, the majority of the employed were working in the agricultural sector (80 per cent), down from 86 per cent in 1998 (MYE, 2009, and table 8.2). The proportion of the employed in the formal sector held steady from 1998 to 2005 (at around 4.5 per cent), before rising to 7.2 per cent in 2007.

**Table 8.2 Sectoral distribution of employment in Burkina Faso by sex and age, 2007 (population aged 15+, %)**

	Sex		Age group				Total
	Men	Women	15-24	25-35	36-49	50-65	
Formal sector	10.6	3.7	3.9	10.5	8.5	5.2	7.2
Urban informal sector	7.8	7.9	7.3	9.9	8.0	5.5	7.8
Rural informal sector	4.0	7.0	4.1	7.2	6.0	3.9	5.5
Agricultural sector	77.6	81.4	84.7	72.4	77.5	85.4	79.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: INSD (2007).

The informal sector accounts for a much larger proportion of the employed, and has been growing from 9.5 per cent in 1998 to 13.3 per cent in 2007. Growth is more pronounced in urban areas, where by 2007 almost half of workers (47 per cent) were employed in the informal sector. As shown in table 8.2, women are over-represented in the informal sector, as well as in the agricultural sector of the economy. Although some of the employment trends are encouraging, such as the increase in employment in the formal sector and decrease of the EPR, the labour market as a whole shows little sign of structural transformation in the economy over the last decade.

### 8.3.2 Underutilization of labour; labour productivity

In 2007, the unemployment rate was four times higher in urban areas than in rural areas (8.6 per cent against 2.2 per cent). It was twice as high for women as for men (11.6 per cent and 6.2 per cent, respectively) and also much higher for young people (14.4 per cent and 9.6 per cent for youth aged 15 to 24 years and 25 to 35 years, respectively). Lastly, unemployment affects the educated population much more, as 21.6 per cent of those with secondary level and 29.5 per cent of those with vocational training are unemployed, compared with 6.8 per cent of those without an education.

Urban unemployment rose between 1998 and 2003, but has been falling since 2005, albeit unevenly, depending on sex and age. The decline mainly affected men, and in 2007 the male unemployment rate returned to its 1998 level, while for women it was three times higher than in 1998. Likewise, the

youth unemployment rate was almost three times as high as in 1998. This can be explained by the rise in the education level of youth, as their educational attainment is not always linked to the demand for skilled labour created by economic policies or the skills needs in a largely informal economy.

The unemployment rate is not sufficient to measure the extent of underutilization of labour in the Burkina Faso context, where opportunities for decent work are few and employment services are weak. Other indicators must therefore be examined, including underemployment and inactivity, especially in the case of young people. The number of young people not in education or employment as a proportion of the total population aged 15-35 years, which includes discouraged jobseekers, can provide additional insights. This proportion fell steadily from 28 per cent in 1998 to 12 per cent in 2007, mainly due to the rise in enrolment rates in education, but again with large disparities favouring urban areas and men.

The high level of time-related underemployment shows that there is a significant proportion of workers underutilized in their current jobs in terms of working hours, and many would prefer to work more (see table 8.3). The rate of underemployment is slightly higher for women than for men, and young people are affected more than other age groups. The time-related underemployment rate increased considerably between 1998 and 2003, before falling between 2003 and 2007, especially in rural areas. This fall could be explained by good weather conditions, the spread of modern agricultural methods, the advance of micro-credit and the promotion of income-generating activities. However, part of this decline may also be related to variation in statistical methods between the surveys.

Labour productivity trends seem to be in accordance with trends in time-related underemployment. Both the rate of growth of labour productivity at the macroeconomic level (based on GDP and the employed population) and at the microeconomic level (based on household incomes and the number of workers in the household),<sup>97</sup> point in the same direction in Burkina Faso. At the macro-level, labour productivity rose by 12.5 per cent between 1998 and 2007, an average annual growth rate of 1.4 per cent, while at the micro-level the growth rate of labour productivity was 5.5 per cent between 1998 and 2003. Interestingly, it was 11.8 per cent in rural areas compared with -15.5 per cent in urban areas. This difference can mainly be explained by efforts to modernize agricultural production and by the rapid expansion of the informal economy in urban areas (MYE, 2009).

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97 Labour productivity at the household level is generally considered a more reliable indicator in analysing labour markets and poverty than macroeconomic aggregates (Lachaud, 2009). In Burkina Faso, productivity can be measured based on the household surveys of 1998 and 2003, as the 2005 and 2007 surveys do not include data on incomes.

**Table 8.3 Underemployment rate in Burkina Faso by urban/rural area, sex and age in 2007 (%)**

	Urban			Rural			Total
	Men	Women	Total	Men	Women	Total	
15-24 years	18.8	18.5	18.7	29.8	27.5	28.5	27.2
25-35 years	13.2	13.0	13.1	25.9	28.5	27.3	24.4
36-49 years	11.2	10.7	11.0	27.2	24.9	26.0	23.2
50-65 years	11.8	15.8	13.4	21.4	25.1	23.1	21.7
Total	13.5	14.1	13.7	26.4	26.9	26.7	24.5

Source: INSD (2007).

### 8.3.3 Quality of employment

In 2007, contributing family workers and own-account workers, regarded as the more vulnerable status in employment categories, accounted for 93.4 per cent of total employment. Similar to the pattern of many other labour market indicators, the vulnerable employment rate was higher for women and young people, and higher in rural than in urban areas (table 8.4).

**Table 8.4 Vulnerable employment rate in Burkina Faso by urban/rural area, sex and age in 2007 (%)**

	Urban			Rural			Total		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
15-24 years	76.7	85.6	81.1	99.0	99.4	99.2	95.8	97.7	96.9
25-35 years	58.0	77.8	66.0	94.1	98.5	96.5	84.8	95.2	90.3
36-49 years	55.5	77.3	64.2	97.2	99.3	98.3	88.0	96.0	91.9
50-65 years	60.8	84.7	70.3	98.0	99.9	98.9	92.3	97.9	94.8
Total	61.5	80.8	69.7	97.1	99.2	98.2	90.2	96.6	93.4

Source: INSD (2007).

Between 1998 and 2007, the vulnerable employment rate only decreased slightly from 95.2 to 93.4 per cent, which was mainly due to increasing wage employment in services, in particular in finance and communication. Although the overall share of vulnerable employment did not show much change, contributing family work decreased strongly in favour of own-account work in agriculture and other sectors of the economy. This may be explained by the rise in education rates among young people and policies to promote income-generating activities and self-employment. Nevertheless, the proportion of contributing family workers remains high (46 per cent), especially among women (70 per cent against 22 per cent among men, see table 8.5).

**Table 8.5** Distribution of status in employment in Burkina Faso by sex (population aged 15+)

	2003			2007		
	Men	Women	Total	Men	Women	Total
Modern sector wage workers	6.9	2.2	4.6	8.8	3.0	5.9
Wage workers: non-agricultural informal sector	1.5	0.7	1.1	1.0	0.4	0.7
Non-agricultural employers/self-employed	6.5	7.3	6.9	10.9	13.4	12.2
Agricultural self-employed	50.9	9.5	30.2	57.4	13.1	35.2
Family helpers and apprentices	34.3	80.4	57.4	21.9	70.1	46.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: INSD (2003 and 2007).

Some of those in wage and salaried work may not enjoy benefits that are associated with decent work if working conditions such as regularity, stability and social protection are taken into account. The rate of unprotected employees in 2007 was high, at 43 per cent, although this rate showed a decrease by 7 percentage points in comparison with 1998. Social protection is particularly lacking for many young people, but increases with the level of educational attainment, including the completion of vocational training.

In 2003, the working poverty rate was 45.1 per cent. It was much higher in rural areas than in major urban centres, and was also higher for women. Little progress was achieved in reducing the working poverty rate between 1998

and 2003. It increased slightly for men, as well as in the major urban centres (table 8.6).

**Table 8.6 Working poverty rate in Burkina Faso by urban/rural area and sex (population aged 15-65, % in total employment)**

	1998			2003		
	Men	Women	Total	Men	Women	Total
Rural	47.3	50.7	49.2	41.8	50.9	49.6
Major urban centres	10.2	14.6	11.8	12.3	15.0	13.4
Other towns	19.6	26.4	22.4	24.9	27.2	25.8
Total	41.9	47.9	45.0	42.7	47.4	45.1

Source: INSD (1998 and 2003).

Furthermore, between 1998 and 2003, a sharp rise in the incidence of poverty among employees in the formal private sector occurred (from 1.1 per cent to 11.3 per cent, see also MYE, 2009). This affects not only the workers themselves, but also relatives and others dependent on their income, as one employee tends to support around five other people.

It is important to note that the poverty rate of workers is fairly close to the incidence of poverty for the population as a whole (46.4 per cent in 2003). The working poverty rate is an estimate of the proportion of jobs that are not decent and productive, by measuring the proportion of workers living in poor households. However, given that poverty is measured at the household level, two workers with similar jobs and identical earnings can be classified as either poor or non-poor depending on the number and economic activity of other household members (see, for example, Lachaud, 2009). It may therefore be useful to assess the quality of employment independently from the number and activity of other household members. The proportion of “bad jobs”, which are defined as jobs with earnings that are not sufficient to maintain the median family above a poverty line, is another indicator for evaluating the quality of employment in relation to poverty (Bourguignon, 2005).

In 2003, a third of workers in Burkina Faso had “bad jobs” defined in this way.<sup>98</sup> Bad jobs primarily concerned self-employed farmers (44 per cent), and particularly self-employed female farmers. Two-thirds of female farmers had bad jobs, and the same is true for around 39 per cent of young people. In contrast, only around 4 per cent of formal wage workers had bad jobs.

Between 1998 and 2003, the proportion of bad jobs in total employment declined nationally from 42 per cent to 32 per cent, and showed a stronger decline in rural areas (from 62 per cent to 42 per cent). Both men and women benefited from this decline, but the proportion of youth with bad jobs remained the same. It is interesting to note that the bad jobs rate declined while the working poverty rate was stable. In other words, workers with good jobs are not necessarily members of non-poor households.

### 8.3.4 Public employment promotion efforts

In 2007, the budget allocated to the MYE was 3.91 billion CFA franc, or 0.7 per cent of the national budget (CFA franc 560 billion). Foreign resources totalled CFA franc 1.84 billion and represented less than 2 per cent of all foreign aid in 2007. The State’s financial contribution to promotion of employment, labour and social security increased in absolute value between 1996 and 2007, but decreased as a proportion of the national budget. The Government prioritized social sectors such as education and health, which saw significant increases in relative and absolute budgetary allocations, while the productive sectors and infrastructure budgets were mostly unchanged (Burkina Faso Ministry of Youth and Employment and ILO, 2010).

The MYE has a major role to play in terms of driving the National Employment Policy (NEP), through the integration of employment in macroeconomic and sectoral policies and the promotion of public employment. However, funding and management arrangements of the policy are very weak in relation to its ambitious objectives. Just under half of the MYE’s expenditure is devoted to current expenditure, of which three-quarters is for transfers (subsidies to support structures and funds). Operating costs are low due to limited institutional capacity, and heavily concentrated at central level (*ibid.*).

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98 Workers with “bad jobs” are defined as workers whose earnings are below a threshold that is calculated as the median per capita consumption expenditure multiplied by the median dependency rate (total household size/employed members). The bad jobs rate is the proportion of workers with income below this threshold among the total number of workers. This indicator therefore links poverty and employment on an individual basis. It is generated from household surveys in which information on labour income and household consumption expenditure is available.

### 8.3.5 Principal employment policy recommendations

The analysis of employment shows a high EPR with a heavy concentration of jobs in agriculture and the informal economy. Almost one-tenth of the economically active urban population is unemployed while a quarter of the employed population is underemployed, notably in rural areas. Lastly, just under half of workers are poor, and the large majority are in vulnerable employment. There is an uneven distribution of jobs by gender and age.

Employment trends suggest some modest progress, with a slight fall in the unemployment rate (especially in rural areas), an increase in labour productivity and a fall in time-related underemployment (especially in rural areas), while levels of vulnerable employment and working poverty hardly changed over the period of review (1998–2007). Furthermore, the budget of the MYE is highly inadequate in relation to current labour market challenges (which have been exacerbated by the international crisis) and the objectives of the NEP.

The analysis of employment indicators in this section suggests the following recommendations concerning employment:

#### **(i) Strengthening employment promotion policies**

Based on the analysis of MDG indicators, policies to promote productive and quality employment must be strengthened, targeting young people and women, rural workers and the poorest regions. They should be combined with measures to protect workers both in the informal and the formal sectors. The promotion of non-agricultural income-generating activities in rural areas and promotion of youth and women's employment in urban areas are a priority.

#### **(ii) Strengthening vocational training and adaptation to the needs of the economy**

Vocational training plays a crucial role, as it has a significant effect on the quality of jobs and professional integration, especially for young people and women in urban areas. The provision of vocational training must therefore be better adapted to the needs of key productive sectors in order to enhance the employability of workers and increase labour productivity, especially in agricultural transformation activities, as set out in the draft *Accelerated Growth and Sustainable Development Strategy Document 2011–2015*.

### **(iii) Putting employment at the centre of sectoral policies, especially in agriculture**

The success of the National Employment Policy depends on the degree of integration of employment objectives in sectoral policies, especially in productive sectors such as agriculture and industrial activities. Due to the poor quality of jobs in rural areas and the limited impact of agricultural measures (as is evident from the analysis of employment trends), specific pre-employment measures must be incorporated in rural development programmes, in particular targeting women.

In the forthcoming *Accelerated Growth and Sustainable Development Strategy Document 2011–2015*, priority sectors have been identified, which include agriculture. Further research is needed to formulate clear sector strategies that maximize quality job creation. In view of the evidence that the current training system has a limited impact on productive employment, future research should include analysis of skills requirements and potential skills gaps in existing labour supply so as to identify further priority training needs.

How can the analysis and recommendations inform the formulation of policies? And is it feasible that employment indicators are monitored regularly so that they are taken into account in the implementation and review of strategies and policies? An important precondition for this to happen is the establishment of an effective LMIA system, including appropriate institutional arrangements.

## **8.4 Institutional challenges in developing LMIA**

Faced with the challenge of creating productive jobs for a population that is mainly young, poorly educated and growing rapidly, the Government has established a new framework that is more favourable to employment promotion. Employment is now recognized as a national priority, and some institutional changes have been made accordingly. The transition from commitment to action is a priority for the Government.

### **8.4.1 Employment: A national priority**

In the framework of the Highly Indebted Poor Countries Initiative (HIPC), Burkina Faso has already implemented two Poverty Reduction Strategy Papers (PRSP 2000–02 and PRSP 2004–09) and has embarked on the formulation of the new *Accelerated Growth and Sustainable Development Strategy Document*

2011–2015. While productive employment has been a core objective since 2004, the new strategy marks a further stage in recognition of the role of employment (Burkina Faso Ministry of the Economy and Finance, 2009, p. 5):

*“The implementation of the PRSP was until then more centred on needs than capacities, giving pride of place to access to basic social services rather than development of capacities, namely: employment, development of the productive system, improvement of incomes and self-sufficiency ... Considerable investment must be directed to strengthening knowledge, promoting technical and vocational training and employment promotion”.*

This priority is also enshrined in the Presidential Programme, which puts employment, especially for young people, and promotion of human resources at the centre of its concerns.

Several institutional reforms have been implemented that underline the focus on employment promotion. In 2006, the MYE was established separately from the ministry responsible for labour and social security. The MYE implements and monitors youth employment and vocational training policies.<sup>99</sup> In 2008, the MYE adopted a National Youth Policy and a National Education, Technical and Vocational Training Policy. The same year, the country’s first National Employment Policy was adopted, together with an Operational Action Plan, which seeks to provide a conceptual and practical framework for all national employment promotion measures. The NEP highlights the need, on the one hand, to put in place employment and vocational training policies and, on the other, to strengthen the employment objectives in sectoral and macroeconomic policies. In order to administer and coordinate the monitoring of the NEP, the National Employment and Vocational Training Council (CNEFP) was created by decree in 2009.

#### 8.4.2 The transition from national employment policy to action: The role of employment indicators

The Government’s priority currently consists of shaping its commitment to employment promotion. The mobilization of financial resources through the budget, the key mechanism for implementing policies at national level, remains the missing link in the process of putting the NEP into operation. As noted before, the financial resources allocated to employment are still highly inadequate

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<sup>99</sup> The policy on vocational training is administered jointly by the MYE and the Ministry of Secondary and Higher Education and Scientific Research.

in view of the objectives of the NEP. The Public Expenditure Review of the MYE highlighted the need to strengthen human and financial capacities for the implementation of the NEP. It also emphasized the importance of linking the budget to employment policy priorities on the basis of target and performance indicators, which requires strengthening of the monitoring and evaluation system of the NEP.<sup>100</sup>

In Burkina Faso, as in all countries implementing a poverty reduction strategy, reforms are underway to link the budgetary and planning processes. Tools such as public expenditure reviews, medium-term expenditure frameworks and programme budgets have been introduced to ensure that national and sectoral policies are reflected in the national budget. These tools favour a management approach in which budget (re-)allocations are determined by results. This approach also aims to draw lessons from experience, favouring measures that show positive results and modifying or abandoning those that are ineffective. Employment indicators are therefore a key element in the effective and efficient implementation of the NEP.

The previous monitoring system for the Poverty Reduction Strategy (2004–10) relied on a series of 47 indicators, 28 of them general and 19 sectoral (Burkina Faso Ministry of the Economy and Finance, 2004). The first series included two employment indicators (the unemployment rate and the share of wage employed in precarious employment). The second series contained two other employment indicators, relating to the number of jobs created and the number of recipients of vocational training through support funds.<sup>101</sup> These indicators pose problems for two main reasons. Firstly, the use of the unemployment rate in the context of a largely informal economy such as Burkina Faso only captures one part of the labour market challenges, as this indicator says nothing about the lack of decent and productive work among the employed. Lack of decent work is captured by the indicator on precarious employment, but only in the case of wage employment, which is a small part of all employment. Secondly, the use of indicators on the number of jobs created and workers trained by the support funds is constrained by the weakness of the monitoring and evaluation systems of these funds, such that it is not possible to assess their efficiency and impact with any precision (MYE and ILO, 2010).

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100 A first programme budget (2011–13) was prepared on the basis of target indicators to be achieved over three years (MYE Programme Budget, Mar. 2010), with the support of the Ministry of the Economy and Finance and under the direction of the Inter-ministerial Group on Employment Public Expenditure Review.

101 There are four support funds in Burkina Faso: the Employment Promotion Support Fund (FAPE), the Informal Sector Support Fund (FASI), the Youth Initiatives Support Fund (FAIJ) and the Vocational Training and Apprenticeship Support Fund (FAFPA).

In order to reflect the specific features of the Burkina Faso context and the cross-cutting character of employment issues more clearly, 48 indicators were identified in the action plan of the NEP. The indicators consist of two groups: (1) impact indicators to monitor general employment trends on a multi-annual basis (including the 12 key indicators discussed in section 8.3); and (2) intermediate indicators (of outcomes and results) to monitor the implementation of the national growth strategy and the management of the programme budget of the MYE and the sectoral departments.

The impact indicators were identified by a technical group of the MYE, the National Statistical and Demographic Institute (INSD) and the Employment Observatory. The adoption of a participatory process involving producers and users of data was essential to establish cooperation between these players and to ensure ownership of the monitoring system. The indicators were also discussed with the Ministry of the Economy and Finance for inclusion in the set of indicators for the draft National Development Strategy. The challenge is to monitor and analyse these indicators and to ensure that information is available in order that employment questions are at the core of national decision-making, especially in budgetary terms. The LMIA system thus has a key role to play.

#### 8.4.3 The institutional framework: The labour market information and analysis system in the context of the national poverty monitoring system

The first half of the 1990s saw the emergence of employment observatories in French-speaking African countries, with the objective of improving LMIA systems and making information a genuine decision-making tool. In Burkina Faso, the National Employment and Vocational Training Observatory (ONEF) was set up in 2001 to coordinate the labour market and vocational training information system. It was placed under the authority of the Ministry of Employment in 2006. As a component of the national monitoring system, ONEF has a key role to play in monitoring labour market indicators, analysing them and generating timely information to influence decision-making processes.

As in many countries, the establishment of ONEF was supported by donors, and led to several challenges in terms of institutional efficiency and sustainability. On the one hand, a monitoring and analysis department already existed in the Ministry of Employment. The weakness in terms of this department's capacity

was used as an argument to justify the creation of an ad hoc body, and donors saw the establishment of the new body as a way to achieve efficiency in the short term. However, in the longer term, the risk is that it would entail a fragmentation of the LMIA system, with unclear definition of mandates and responsibilities. Moreover, almost ten years after the creation of ONEF, the Employment Observatory still does not have a clear budget or status,<sup>102</sup> which severely limits its role as coordinator of the national LMIA.<sup>103</sup> ONEF's limited involvement in the national monitoring system means that the information that is produced is not integrated in the decision-making process (Zerbo and Ganou, 2008; ILO, 2008c).

While ONEF is in principle well placed to play a key role in the monitoring of employment indicators, the institution faces organizational limitations that force it to operate “behind closed doors”, resulting in lack of recognition by stakeholders in the national monitoring system. To become effective, it is essential for ONEF to become a full part of the national ministerial and public service structure and as such to establish a formal link with the national monitoring system, and in particular with the sectoral and thematic commissions responsible for the annual reviews of the poverty reduction strategy.<sup>104</sup> Some argue for merging the ONEF with the existing monitoring and analysis department of the MYE as it is this department (for each Ministry) that is responsible for monitoring the National Development Strategy and the collection, processing, analysis and publication of sectoral data. Indeed, it is vital for a fruitful analysis of labour market issues that the analysis becomes an integral part of the national monitoring system if it is to have any influence on decision-making.

In Burkina Faso, a first step has already been taken, since the analysis of employment trends based on the four MDG indicators and its supplementary indicators (see section 8.3) has been integrated in the diagnostic part of the development strategy that is currently being formulated. The next stage will consist of integrating the recommendations drawn up on the basis of the new development strategy.<sup>105</sup> Thereafter, employment indicators will need to be updated regularly at key points in the decision-making process, notably

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102 The Observatory receives subsidies from the Ministry of Employment, but does not have its own budgetary procedures.

103 The lack of formal status means that ONEF is not authorized to become a member of the National Statistical Council, which thus precludes possible partnerships or formal exchanges with the INSD and other stakeholders in the national monitoring system.

104 The national strategy reviews are half-yearly. To be compatible with this timetable, the labour market monitoring system must also be based on two reviews per year.

105 These recommendations were sent to the Accelerated Growth Strategy Unit in the Ministry of the Economy and Finance in early 2010 to be integrated in the formulation of the new national growth strategy.

the preparation and adoption of the budget, development strategy reviews or parliamentary hearings.

### **8.5 Employment at the core of the decision-making process: Challenges and perspectives**

The socio-demographic constraints and economic and financial vulnerability of Burkina Faso pose major challenges in terms of employment and training. The analysis of the MDG employment indicators, supplemented by the eight other NEP indicators, show the scale of employment problems and reveal a strong correlation between employment and poverty. The analysis shows the urgency of implementing ambitious employment promotion and job-creation policies in all sectors of the economy, through the implementation of the NEP, which must be translated into practice in the National Development Strategy and the national budget.

The case of Burkina Faso also highlights certain challenges that arise: firstly, in the process of identifying employment indicators; and, secondly, in monitoring them and using them to guide policy.

#### ***The MDG indicators: A first step towards establishing a labour market information and analysis system***

Burkina Faso's experience shows us that it may be more effective to embark on a process of adaptation rather than the design of an over-ambitious new system. Thus, the choice of a few indicators for targeting, the most relevant in terms of poverty reduction and available data, such as the MDG employment indicators, may allow regular monitoring of employment trends and evidence-based decision-making. Rather than polarizing efforts on a multitude of indicators that are too complex to be adopted by national actors, it is crucial to clearly define the relationships between producers and users of data, identify points of input into decision-making processes and adapt results to the needs of the users for whom they are intended. This is just as true for countries where LMIA systems are still at an embryonic stage.

#### ***The MDG indicators and supplementary indicators for monitoring the NEP and the national development strategy***

The 12 key indicators are relevant impact indicators, which can be produced by national statistical systems. They cover the strategic objectives of the NEP and

were proposed for integration in the national monitoring and review system due to their interaction with the poverty indicators.<sup>106</sup> In the case of multi-annual indicators, they allow an interim and final evaluation of the development strategy.

The national monitoring system also relies on sectoral indicators that cover shorter time spans than the MDGs and must be monitored on an annual basis. These sectoral indicators, unlike the impact indicators, are used to monitor employment projects and programmes and to support annual decision-making in the framework of the NEP. Intermediate indicators (outcomes and results) have also been proposed for integration in the annual review of the national development strategy and the monitoring of the MYE's programme budget. At present, there is little monitoring and evaluation of employment programmes in Burkina Faso and the methodologies to do this are underdeveloped, while the capacities of ONEF and the MYE are still weak. In the medium term, it will therefore be necessary to put in place a complete NEP monitoring and evaluation system (including the two levels of indicators) and to strengthen the capacities of the Ministry of Youth and Employment to use and analyse existing data.

***A strong, efficient institutional framework combined with the national monitoring system***

The experience of countries that have put in place monitoring systems shows that too much emphasis is often placed on organizing the production of information and analysis rather than on using results to monitor and improve employment policies and programmes (Bedi et al., 2006). In this regard, Burkina Faso's experience highlights the importance of monitoring systems that combine all the activities in a coherent framework with well-defined roles and responsibilities. In terms of developing LMIA, existing structures should be strengthened rather than creating ad hoc institutions whose prerogatives and means are not clear. Ad hoc institutions run the risk of treading on the toes of established institutions, which may result in confusion and demotivation. Furthermore, in order to ensure that information and analysis are relevant, available and accessible in a timely manner, and actually used in the decision-making process, it is essential for the LMIA system to be linked to the national monitoring system. This link is especially vital in improving the quality of household surveys to allow for the production of essential labour market information that will ensure a better understanding of the nature of employment in the country.

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<sup>106</sup> The pro-poor dimension of certain employment indicators can also be enhanced (e.g. the pro-poor index of real household incomes, see Lachaud, 2009).



# CHAPTER 9.

## GHANA

### **Economic growth and better labour market outcomes, but challenges remain**

*Theo Sparreboom*<sup>107</sup> and *William Baah-Boateng*<sup>108</sup>

#### **9.1 Introduction**

Ghana is often considered a role model of development in Africa, demonstrating that daunting challenges can be overcome through appropriate institutions, governance and good economic policies (Naudé, 2010). The country has built a reputation for successful democracy, recognition of political rights and civil liberties. In terms of economic policies, 1983 marked a shift away from state control of productive capacity introduced following independence. During the last three decades, economic policies have favoured a more open economic system with a reduced role of the State. Furthermore, in more recent years, employment has become a more central issue in national development planning, particularly Ghana's poverty reduction strategies (UNECA, 2010).

This chapter shows that, in particular since the turn of the century, Ghana has made some progress towards achieving full and productive employment and decent work, as reflected in the MDG1B indicators. Nevertheless, important challenges have remained, which reflect high levels of decent work deficits during the 1990s as well as some reversals of earlier gains. The chapter begins with an overview of the Ghanaian labour market, followed by an examination of the first MDG employment indicators in section 2. Section 3 presents a brief assessment of Ghana's progress, and highlights a number of labour market challenges.

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### 9.1.1 Labour market overview

The Ghanaian labour market is characterized by high levels of labour force participation of both men and women, with nearly seven out of every ten persons aged 15 or above either employed or unemployed (see table 9.1). The participation rate is higher for those in rural areas than for urban dwellers, and by age group is highest for those aged 40-60 years (at 90 per cent) and lowest among youth aged 15 to 24 years (at 40 per cent).

**Table 9.1 Ghana: Labour market indicators, 2006**

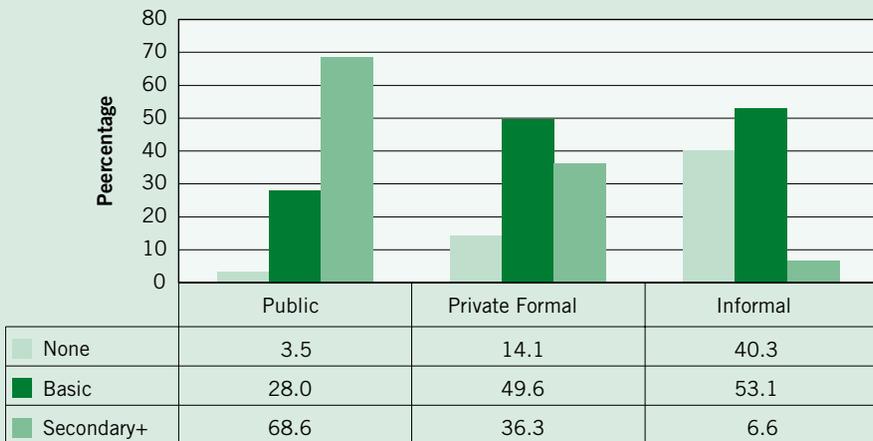
Indicator	Male	Female	Urban	Rural	All
Population (million)	10.8	11.5	7.7	14.6	22.3
Population of working age (million)	6.3	7.1	5.4	8.0	13.4
Employed (million)	4.4	4.7	3.2	5.8	9.0
Labour force participation rate (%)	71.3	67.7	62.8	73.9	69.4
<b>Unemployment rates (%)</b>					
Broad	5.8	7.0	10.0	4.3	6.4
Narrow	2.9	2.9	5.7	1.3	2.9
<b>Youth unemployment rates (%)</b>					
Broad	12.9	13.9	22.5	8.9	13.4
Narrow	6.7	6.0	12.8	3.0	6.4
<b>Employment by aggregated sectors (%)</b>					
Agriculture	56.6	49.3	17.9	72.5	52.8
Industry	14.0	13.6	21.2	9.6	13.8
Services	29.4	37.1	60.9	17.8	33.4
<b>Employment in the formal and informal economy (%)</b>					
Public	8.6	3.2	12.2	2.3	5.9
Private	12.8	6.0	16.4	5.3	9.3
Informal	78.6	90.7	71.4	92.4	84.9
<b>Education of the employed (%)</b>					
None	26.2	43.4	17.2	45.1	35.1
Basic	55.5	47.7	55.7	49.1	51.5
Secondary or more	18.3	18.3	27.1	5.8	13.4
<b>Working children aged 7-14 (%)</b>	13.7	11.7	4.2	17.1	12.7

**Source:** Calculated using the *Ghana Living Standard Survey* (Ghana Statistical Services, 2008).

**Note:** With the exception of population and working children, all indicators have been calculated for the population aged 15 and above.

The unemployment rate in Ghana, defined as the proportion of persons in the labour force without a job that are available for work and actively looking for work, is estimated to be very low. As reported in table 9.1, about 2.9 per cent of persons aged 15 years and older in the labour force are unemployed, with again little difference between women and men. Similar to many sub-Saharan African countries, the unemployment rate is higher in urban than in rural areas, and higher for youth than for other age groups.

**Figure 9.1 Educational attainment in the formal and informal economy in Ghana, 2006**



**Source:** Calculated using the Ghana Living Standard Survey (Ghana Statistical Services, 2008).

The unemployment rate based on the narrow definition appears to convey somewhat misleading information, considering the fact that in Ghana many jobless people who are available for work do not see the point in looking for work or have limited opportunities to do so. This is evident in the much higher broad unemployment rate of 6.4 per cent (13.4 per cent for youth).<sup>109</sup>

<sup>109</sup> The standard definition of unemployed persons includes individuals without work, currently available for work and seeking work in a recent past period; international standards allow for the “seeking work” criterion to be dropped, in which case the definition can be referred to as the “broad” or “relaxed” definition (see ILO, 2009d, box 8a).

Informality is a major feature of the Ghanaian labour market. Indeed, the informal economy,<sup>110</sup> where decent work opportunities are often limited, accounts for about 85 per cent of employment, with the remaining 15 per cent distributed between the public and private formal sector in a ratio of 2:3. More than 90 per cent of women compared to 79 per cent of men operate in the informal economy. An important factor contributing to the high concentration of employment in the informal sector is the low educational attainment of the Ghanaian workforce. Around 87 per cent of the employed have received basic education or less, and more than one-third has not benefited from education at all.

The association of the formal economy with educational attainment is illustrated in figure 9.1. About 40 per cent of workers in the informal economy have not benefited from any education, as compared with 14 per cent of workers in the private formal economy. In the public sector, the proportion of workers without education is even lower at 4 per cent. At the other end of the educational spectrum, more than two-thirds of workers in the public sector have at least secondary education, and the same is true for at least one third of workers in the private formal economy. However, in the informal economy, this proportion is less than 7 per cent. Even though the association between educational attainment and employment in the formal economy stands out clearly in Ghana and elsewhere (see, for example, Ghose, Majid and Ernst, 2008), it will be argued in a later section that education is likely to be a necessary but insufficient condition for access to decent employment.

Another major feature of the labour market in Ghana is the importance of agriculture and rural economic activity. More than half of the 9 million workers are employed in agriculture, compared to 33 per cent and 14 per cent in services and industry, respectively. About 73 per cent of the rural workforce is engaged in agriculture and related activities, while the large majority of the employed in urban areas work in the services sector. Interestingly, the proportion of men in agriculture is considerably higher than the proportion of women, and the reverse is true in the services sector.

There is a strong influence of labour market institutions in Ghana. The labour market is regulated by the Labour Act of 2003 (Act 651), and in recent years has experienced relatively harmonious relations among the Government, employers and organized labour within the tripartite structures. The National Tripartite

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110 Employment in the informal economy refers to those working as own-account workers and contributing family workers, as well as those working in enterprises whose operations are largely outside government regulation.

Committee is responsible for the determination of the national daily minimum wage, which has usually been undertaken with limited or no controversy.

Contrary to general perceptions, earnings in the public sector are estimated to be higher than those in the private sector, in part due to vibrant trade unionism. According to the World Bank's *Country Economic Memorandum*, average annual earnings in private formal wage employment are around 72 per cent of the average earnings in public sector employment. Further down the earnings pyramid are self-employment outside agriculture, wage employment in the private informal economy and self-employment in agriculture (World Bank, 2007, table 19).

The issue of working children remains a challenge in Ghana, and becomes even more disturbing if it occurs at the expense of the children's education. Table 9.1 shows that around 13 per cent of children aged 7-14 years were engaged in one form of work or another in 2006. The incidence of working children is reported to be marginally higher for boys than for girls, and much more common in rural than in urban areas. Survey data also show that around 92 per cent of these children attended school during the last seven days prior to the survey, suggesting that some 8 per cent of children may have stayed away from school for reasons including engaging in some work.

## 9.2 MDG1B employment indicators

### 9.2.1 Labour productivity

The rate of growth of labour productivity is the first indicator of the MDG target of achieving "full and productive employment and decent work for all, including women and young people", under the first MDG of eradicating extreme poverty and hunger (see box 1.1).

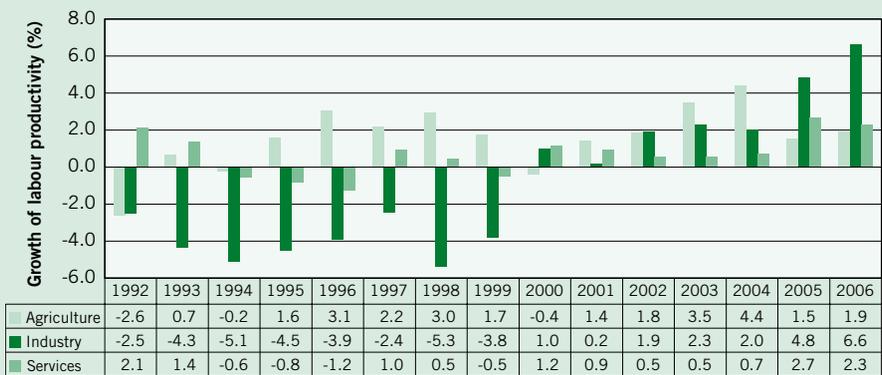
A World Bank report on job creation notes that Ghana has one of the strongest records on economic growth in sub-Saharan Africa, averaging 4 per cent in the 1990s, increasing to 5 per cent between 2001 and 2005, and exceeding 6 per cent in 2006–07 (World Bank, 2009b). The report also notes that the strongest growth occurred in services, followed by industry, while the share of agriculture in GDP declined. Although data do not allow for an assessment of annual changes in labour productivity that are associated with (sectoral) economic growth rates, the three rounds of the Ghana Living Standards Survey (GLSS) provide sufficient data to assess national trends in labour productivity over longer periods.

Figure 9.2a plots the growth rate of labour productivity based on the assumption of a constant annual employment growth rate between subsequent rounds of the GLSS (3.9 per cent during 1992–99 and 2.6 per cent during 1999–2006). Therefore, the figure highlights labour productivity trends that are captured by the difference between economic growth and employment growth. Contrary to the volatile rates of economic growth and labour productivity during much of the 1990s, deteriorating from 1992 to 1994 and again in 1998, annual growth of labour productivity has trended consistently upwards since 1999.

**Figure 9.2a Trends in labour productivity in Ghana, 1992–2006**



**Figure 9.2b Trends in labour productivity in Ghana by sector, 1992–2006**



**Sources:** Calculated using the *Ghana Living Standard Survey* (Ghana Statistical Services, 2008) conducted in 2006, previous rounds of the GLSS (1992 and 1999) and national accounts data from Ghana Statistical Services.

The pattern of growth of labour productivity by aggregated sectors is shown in figure 9.2b. Even though some gains could be registered in the agricultural sector during the 1990s, it was during 2001–04 that this sector benefited most from productivity gains. In more recent years, the industrial sector, and to a lesser extent the services sector, saw important gains in productivity as well. This pattern is consistent with an analysis of the sources of economic growth in World Bank (2009b), which shows that around 69 per cent of economic growth during the period 2001–05 is accounted for by fixed capital accumulation, growth of the labour force, and years of schooling of the labour force. The remainder, total factor productivity accounting for 30 per cent of economic growth, is mostly related to a cocoa boom and, more recently, a construction boom. Much of construction is linked to public investment, funded by foreign aid and remittances.

Particularly in more recent years, the growth rate of labour productivity in Ghana exceeded the average in sub-Saharan Africa, which was estimated at 1.8 per cent annually during the period 2000–05 (ILO, 2010a, table A7). It is clear that current labour productivity trends allow for opportunities to create decent employment in Ghana, and to reduce vulnerable employment and working poverty rates.

In sum, there has been a consistent surge in labour productivity in all three (aggregated) sectors after 1999, culminating in an upward productivity trend supported by increased investment in infrastructure, improvement in educational attainment, a peaceful and stable political environment, and increased private investment.

### 9.2.2 Employment-to-population ratio

The employment-to-population ratio or rate measures the ability of an economy to create employment, and is defined as the proportion of the working-age population that is employed. A low ratio means that a large share of the population is not involved directly in market-related activities, while a high ratio means that a large proportion of a country's population is employed. The numerator of the ratio captures all work, independent from economic sector, status in employment or hours of work, and therefore does not contain information on the nature or quality of employment.

Many low-income economies have relatively high EPRs, as reflected in the 8–10 percentage point difference between the regional rates in sub-Saharan African and the developed economies in all years for which data are available (ILO,

2010a, table A5). The high ratio in many sub-Saharan African countries points at the need for a relatively large part of the population to work, and is often indicative of lower productivity jobs that lack elements associated with decent work. In Ghana, the EPR stood at 67 per cent of the population aged 15 and above in 2006 (table 9.2), close to the average of 66 per cent in sub-Saharan Africa.

The ratio is very low at 38 per cent for youth within the 15-24 age group compared with 89 per cent for the 40-60 age group in 2006. The low ratio among youth is explained by the proportion of youth who are not available for work because they are still in school. Estimates from the GLSS indicate that about 89 per cent of youth are attending school, even though some of these youth work at the same time. The EPR is slightly higher for males than females, by 3.5 percentage points, but this difference is small in comparison with gender gaps that are usually observed elsewhere. The difference between rural and urban ratios is much more pronounced, with most of the people employed in rural areas engaged in agriculture.

**Table 9.2 Employment-to-population ratio in Ghana, 1992, 1999 and 2006 (%)**

	1992	1999*	2006
<b>All</b>	71.7	61.4	67.4
<b>Sex</b>			
Male	73.6	62.0	69.2
Female	70.1	60.9	65.7
<b>Area</b>			
Urban	59.7	54.7	59.2
Rural	78.1	65.1	72.9
<b>Age group</b>			
15-24	53.9	29.6	37.6
25-39	82.0	75.3	83.0
40-60	83.8	84.9	88.7
61+	64.1	54.9	56.8

**Sources:** Calculated using the *Ghana Living Standard Survey* (Ghana Statistical Services, 2008) and previous rounds of the GLSS.

**Note:** \* Indicators for 1999 are not fully comparable with 1992 and 2006 (see main text and World Bank, 2009b).

Between 1992 and 2006, the EPR showed a decline by around 4 percentage points (table 9.2). The very low observation in 1999 cannot be compared with the other two years for the population aged 15 and above, because in the GLSS of this year interviewers were instructed to skip the employment section for persons who were attending school (see World Bank, 2009b, box 2, p. 21). The overall decrease between 1992 and 2006 is driven by decreases in ratios for youth and older workers (61+). In the case of youth, the decreases are in part explained by higher enrolment rates in education during the period, while in the case of older workers it seems that some of the decrease is explained by increased living standards and the reduced need to continue working at more advanced ages.

Not all of the decrease in youth EPRs is explained by increased enrolment in education. Even though the unemployment rate for the population aged 25-64 declined from 2.7 per cent in 1992 to 2.3 per cent in 2006, the youth unemployment rate increased during this period from 5.3 per cent to 6.4 per cent. Especially in urban areas, youth unemployment rates continued to rise, and unemployment is often concentrated among youth despite improving educational attainment levels. Better education evidently does not guarantee employment, let alone decent employment.

Ghana has started benefiting from the demographic transition, and UN population estimates show that the share of youth in the total population has been decreasing since around 2006. Nevertheless, this share will remain high, as close to a fifth of the population will be aged between 15 and 24 for years to come, which means continued pressure on labour markets through the large number of youthful new entrants.

### 9.2.3 Vulnerable employment

The EPR measures the quantity of employment (in relation to the population), but particularly in sub-Saharan Africa it is essential to consider decent work deficits among the employed. As discussed in detail in Chapter 4, workers in vulnerable employment, defined as the sum of own-account workers and contributing family workers based on the International Classification by Status in Employment (ISCE), are less likely to have formal work arrangements and are therefore more likely to lack elements associated with decent employment such as adequate social security and recourse to effective social dialogue mechanisms.

In Ghana, it is estimated that at least three-quarters of workers were in vulnerable employment in 2006 (table 9.3), which is close to the average of 77 per cent

in sub-Saharan African for this year (ILO, 2010a, table A11). Around 43 per cent of those in vulnerable employment are engaged as own-account workers in agriculture, while a quarter consists of contributing family workers in agriculture. Own-account work outside the agricultural sector makes up most of the remaining one-third of vulnerable employment (figure 9.3).

Vulnerable employment is more prevalent in rural than in urban areas, and the vulnerable employment rate is far higher for women than for men. Considering the two status in employment groups that make up vulnerable employment, women are more often relegated to a position of contributing family worker, which usually implies a lower socio-economic status. Women in rural areas often combine household and caring activities, which are not necessarily considered as “work” in statistical terms, with agricultural activities that are considered as “work”, but at the same time are likely to have limited control over land. Administration of land is governed by a combination of tradition, customs and state legislation, and women often have limited access to and control over land resources (Institute of Statistical, social and Economic Research (ISSER), 2005). Women also face greater constraints in terms of educational attainment, and may face discriminatory practices in accessing wage employment.

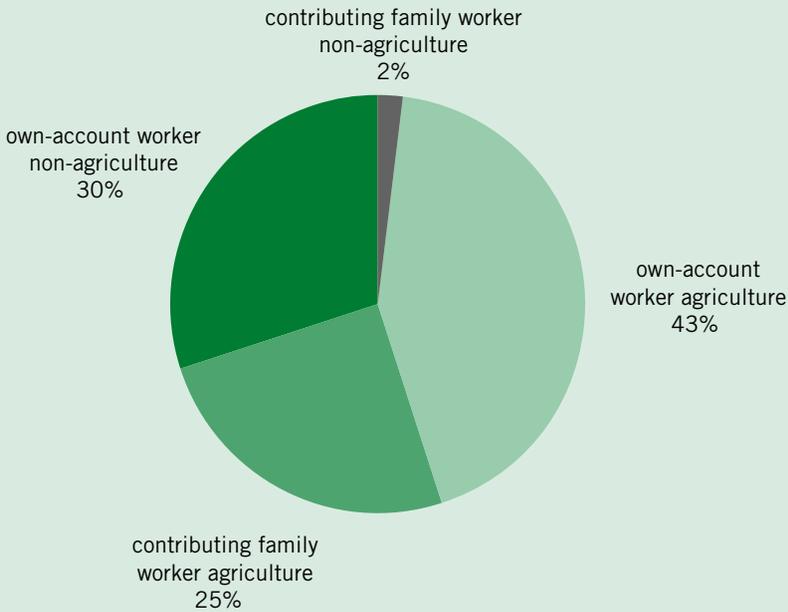
**Table 9.3 Vulnerable employment rate in Ghana, 1992, 1999 and 2006 (%)**

	1992	1999*	2006
<b>All</b>	82.8	82.9	75.4
<b>Sex</b>			
Male	74.5	73.6	64.8
Female	90.1	91.1	85.3
<b>Area</b>			
Urban	62.9	71.7	54.6
Rural	90.9	88.2	87.0
<b>Age group</b>			
15-24	91.1	87.5	75.5
25-39	77.3	82.4	72.8
40-60	79.3	79.4	75.5
61+	91.9	93.3	87.4

**Sources:** Calculated using the *Ghana Living Standard Survey* (Ghana Statistical Services, 2008) and previous rounds of the GLSS.

**Note:** Indicators for 1999 are not fully comparable with 1992 and 2006 (see main text and World Bank, 2009b).

**Figure 9.3 Distribution of vulnerable employment in Ghana by status in employment and work in agriculture, 2006**



**Source:** Calculated using the Ghana Living Standard Survey (Ghana Statistical Services, 2008).

Between 1992 and 2006, the vulnerable employment rate decreased considerably, by more than 7 percentage points. Wage employment has expanded in line with strong economic growth, but the vulnerable employment rate has also been pushed down by decreasing labour force participation of youth. The size of the youth population increased during the period under review both in absolute and relative terms, but school attendance increased by around 10 percentage points, which may have contributed to the impressive reduction in the vulnerable employment rate for youth (15 percentage points). The vulnerable employment rate decreased for adult workers as well (by 4.5 points).

Even though the rate decreased for both men and women, the decrease for men was double the decrease for women. In 2006, the vulnerable employment rate was around 20 percentage points higher for women than for men. Considering gender disparities from another angle, the share of women in non-agricultural wage employment dropped from 30 per cent in 1992 to 26 per cent in 2006.

The reduction in the vulnerable employment rate signifies an expansion of wage and salaried employment, offering new job opportunities and, in many cases, more regular incomes. Nevertheless, in Ghana there are important and growing decent work deficits even among those in wage and salaried employment. The World Bank (2009b) shows that the share of workers with social benefits, which include paid holidays, paid sick leave, pensions, free medical and other social security benefits, decreased during the period 1992–2006. This is attributed to the reduction in public sector jobs, while much of the employment generated by the private sector did not have similar benefits.

### 9.2.4 Working poverty

Similar to the vulnerable employment rate, the working poverty rate can be used to assess decent work deficits among the employed. If work does not provide an income which is sufficient to lift the worker and his or her family out of poverty, then this work, at the very least, does not fulfil the income component of decent work, and it is likely that other components are not being fulfilled either. The working poverty rate is measured as the number of employed persons living in a household with incomes below an accepted poverty line as a percentage of total employment.

Based on the national poverty lines,<sup>111</sup> around one in four workers were estimated to live in a poor household in 2006, ranging from 8 per cent in urban areas to 35 per cent in rural areas. A similar differential between urban and rural areas can be found using the extreme poverty line, and nationally around one in six workers were living in extreme poverty in 2006 (see figure 9.4a and figure 9.4b). Apart from poverty among the employed, there is considerable poverty among the unemployed. The World Bank (2009b) shows that around one in five unemployed resided in a poor household in 2006.

Between 1992 and 2006, Ghana experienced consistently declining working poverty. The decrease in working poverty was 23 percentage points, and the decrease in extreme working poverty amounted to 18 percentage points. Working poverty declined in both urban and rural areas. It is also noteworthy that, contrary to the period 1991–99, poverty and extreme poverty were on the decline in almost all regions during 1999–2006 (UNDP Ghana, 2007).

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111 In Ghana, two poverty lines have been anchored on nutrition needs. The lower (extreme poverty) line is established at Ghanaian cedi (GHS) 70 per annum, and the upper (poverty) line is established at GHS 90 per annum, both in January 1999 Accra prices (Ghana Statistical Services, 2000), taking into account that Ghana undertook a redenomination exercise in 2007 that converted old GHS 10,000 to new GHS 1.

Declines in working poverty have been made possible by productivity increases that were highlighted earlier, and workers have gained from these increases through several channels. Wages for many groups of workers increased during 1992–2006, in part due to shifts of workers from low-paying jobs (in agriculture) to better paying jobs (in industry and services) (see World Bank, 2009b).<sup>112</sup> As was also noted above, the share of wage and salaried workers in total employment increased, providing a regular source of income (and possibly additional entitlements) for a larger share of the employed. Importantly, working poverty rates not only decreased among employees, but also among those in vulnerable employment, with the largest gains recorded for own-account workers and contributing family workers in agriculture (table 9.4). Last but not least, and independent from the development of incomes or earnings, the share of the population aged 0-14 dropped by 5 percentage points between 1992 and 2006, which resulted in incomes spread among fewer people in many households.

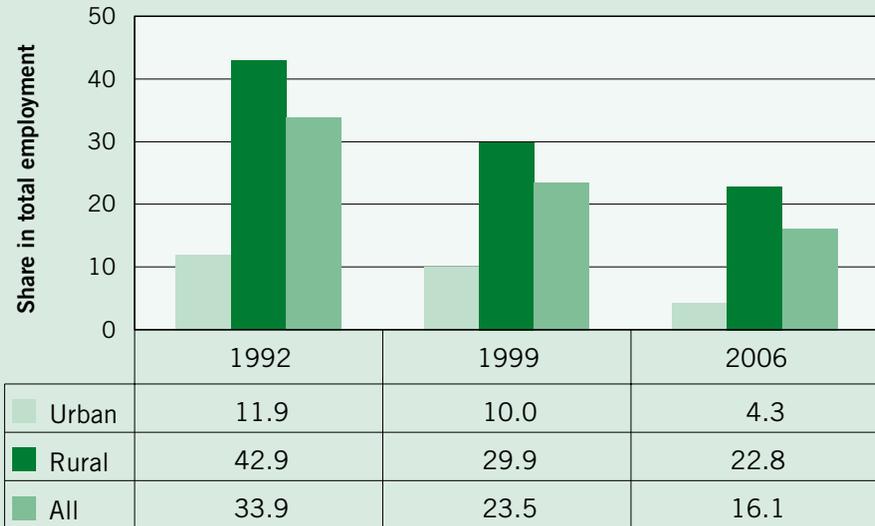
**Figure 9.4a Working poverty rate in Ghana, 1992, 1999 and 2006 (%)**



**Sources:** Calculated using the *Ghana Living Standard Survey* (Ghana Statistical Services, 2008) and previous rounds of the GLSS.

<sup>112</sup> The share of employment in agriculture decreased by 1.5 percentage points between 1992 and 2006 for workers aged 25-64.

**Figure 9.4b Extreme working poverty rate in Ghana, 1992, 1999 and 2006 (%)**



**Sources:** Calculated using the *Ghana Living Standard Survey* (Ghana Statistical Services, 2008) and previous rounds of the GLSS.

**Table 9.4 Working poverty rate in Ghana by status in employment, 1992, 1999 and 2006 (%)**

	1992	1999*	2006
<b>All workers</b>	48.8	35.1	25.7
<b>Vulnerable employment</b>	53.1	38.7	30.9
Own-account workers	35.3	24.0	14.8
Contributing family workers	40.1	29.6	24.8
Farm employment	62.7	50.0	38.1
<b>Non-vulnerable employment</b>	27.9	17.7	8.6
Employees	27.2	16.9	7.7
Employers	...	...	12.3

**Sources:** Calculated using the *Ghana Living Standard Survey* (Ghana Statistical Services, 2008) and previous rounds of the GLSS.

**Note:** Farm employment includes own-account work and contributing family work in agriculture.

It is clear that Ghana has been much more successful in reducing working poverty than sub-Saharan Africa as a whole (see table 5.1). Nevertheless, it should be noted that working poverty still affects a significant proportion of the employed, and this proportion would be higher if the international poverty line is used.<sup>113</sup>

### 9.3 Progress in achieving decent work

The assessment of the MDG1B employment indicators in this chapter showed that Ghana made progress in reducing decent work deficits, and is rightly seen as a role model. The country's impressive growth record since the beginning of the 1990s based on reformed economic and employment policies laid the foundation for improved labour market outcomes as reflected in all four employment indicators. Especially since the late 1990s, labour productivity growth has shown a consistent upward trend, at least until the onset of the global economic crisis. Gains in productivity were accompanied by the beginnings of a structural transformation of the economy, with shifts in employment away from agriculture towards the industry and services sectors. Significant reductions in the vulnerable employment and working poverty rates show that workers benefited from these gains. Importantly, the working poverty rate declined not only for wage and salaried workers, but also for workers in vulnerable employment and in particular for the large group of workers that has remained dependent on agricultural employment.

Nevertheless, important challenges remain. The limited infrastructural base, the small size of the Ghanaian market, limited access to and high cost of credit, and the reduction in public sector employment are among the factors that have contributed to a very high vulnerable employment rate. Other labour market challenges include the reversal of the downward trend in social security coverage of workers, to improve the match in supply and demand of education and skills, despite gains in educational attainment (see World Bank, 2009b), and to tackle gender imbalances in the labour market. These challenges point at the need to step up public investments in education and economic infrastructure with a view to creating a healthy, skilful and well- educated labour force to sustain the labour productivity growth rates.

Despite increasing attention to labour markets in national planning, employment-generating policies in Ghana are hampered by the absence of clear

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113 Extreme working poverty of US\$1.25 was 34.6 per cent in 1998–99 (see table 5.3), compared with a rate of 23.5 per cent using the national poverty line (figure 9.4b).

and quantifiable targets (UNECA, 2010). The use of such targets in employment policies would necessitate more regular data collection on labour markets and improved analytical capacity for monitoring in policy development institutions. In other words, Ghana's LMIA system needs further strengthening and linkages with the overall national system of monitoring and reporting to policy-makers and stakeholders in accordance with the demands of an emerging middle-income country.

# CHAPTER 10. CONCLUSIONS

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## 10.1 Trends in sub-Saharan Africa

The international adoption of a new target on the achievement of full and productive employment and decent work for all under the first Millennium Development Goal brings new challenges and opportunities for countries to strengthen LMIA systems and improve evidence-based policy-making. Both at the national and at the international level the new set of employment indicators provides a solid starting point for the analysis of labour markets, monitoring and improvement of labour market policies. This book aimed to identify trends, demonstrate challenges and highlight opportunities at both the regional and the country level in sub-Saharan Africa using the new indicators.

Taken together, the four indicators show progress in the achievement in decent work in sub-Saharan Africa, but at a slow pace and decent work deficits remain stubbornly high. During the 1990s and early 2000s, the growth rate of labour productivity in sub-Saharan Africa was below the rate in the advanced economies, providing little scope for poverty reduction, higher wages or improvement of living standards. The increase in regional labour productivity growth from 2003 to 2008, therefore, is a hopeful sign, even though it was driven by oil and commodity exporters, and the picture in the remaining countries may be less positive. Raising labour productivity lies at the heart of the reduction of decent work deficits, and is intrinsically related to the overall development of sub-Saharan Africa. Analysis of productivity measures at various levels – micro, sectoral and total economy (macro) level – is therefore an essential part of

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114 Country Employment Policies, International Labour Office.

115 Employment Sector, International Labour Office.

116 Employment Trends, International Labour Office.

development strategies. Chapter 2 highlighted the role of education and skills in raising productivity, and emphasised that development strategies should consider both (traditional) agricultural sector and expansion of high-productivity sectors including manufacturing.

Low productivity levels go together with continuing high EPR, which point at the lack of options to make a living for the majority of the population as opposed to the achievement of “full employment”. It is telling that, contrary to more developed regions, the EPR hardly changed during the recent economic crisis in much of sub-Saharan Africa. The high EPR in most countries indicates a lack of options among the majority of the population that live in conditions of poverty. For many countries, a reduction of the EPR would be desirable, in particular if such a reduction would be the result of increasing enrolment of youth in education and training. Better preparation for the labour market is all the more important in sub-Saharan Africa in view of the high share of youth in the population and the late demographic transition in this region.

The shortfall in decent jobs is demonstrated by the vulnerable employment rate and the working poverty rate. Even though both are on a long-term downward trend, which was much stronger during the more recent years of high growth rates (preceding the economic crisis) than during the 1990s, levels of both working poverty and vulnerable employment in sub-Saharan Africa remain among the highest in the world. Progress towards decent work is in general hampered by the lack of structural transformation of economies. Outside enclave and capital-intensive activities, there are no strong drivers of transformation, and many countries are struggling to maintain the share of workers in non-vulnerable employment in the face of rapid expansion of the labour force. Based on the current rate of progress, which has also been dented by the global economic crisis, the first MDG objective will not be achieved by 2015 in sub-Saharan Africa.

With regard to the progress that is being achieved on decent work, it is important to carefully analyse which groups are driving the change, and which groups are left out. Therefore, disaggregation of the indicators, as appropriate, by sex, age, geographic location and economic sector, is essential for the formulation of labour market policies and development strategies. In this context, the progress that has been made with the generation of micro-based working poverty estimates is of particular importance. These estimates not only allow for better identification of the working poor and better targeting of poverty-reduction policies, but also constitute a baseline for monitoring the progress in achieving an important

element of decent work for the large majority of workers in sub-Saharan African that are in vulnerable employment, through the use of cross tabulations of status in employment (or other classifications) and working poverty. In addition, it is important to start assessing the achievement of elements of decent work such as social security benefits for those in vulnerable employment.

Both the chapters on regional trends and the country chapters underlined that LMIA systems in sub-Saharan Africa need to be reinforced. Reinforcement should not be limited to data collection, although the frequency of data collection clearly needs to be raised to allow for better monitoring of trends. This issue came once again to the fore during the recent economic crisis, as a comprehensive, quantitative assessment of the labour market impact of the crisis was hampered by lack of data in many countries. But equally important are analysis of available data by national labour market stakeholders and capacity building in labour market analysis. Finally, in many countries, better institutional arrangements are needed to ensure that results of monitoring and analytical work are routinely reaching decision-makers.

## 10.2 Lessons from country examples

Each country is unique in the extent to which data and analysis are generated and used in the development of appropriate employment and labour policies. Nevertheless, the four countries discussed in this book offer a number of insights that have broader relevance for labour market analysis and policy development.

The chapter on South Africa amply demonstrates the advantages of an advanced statistical system, allowing for regular monitoring of labour market trends and in-depth analysis of labour market issues, including a quantitative analysis of the impact of the economic crisis. But the South African LMIA system is also developed in terms of institutional arrangements that ensure that the analysis features prominently in policy debates. This is partly due to the prominent role of labour market policies in overcoming the apartheid legacy, but also to the capacity in labour market analysis, and the well-established structures and networks in both the public and private sectors to utilize this capacity.

Due to the integration of the South African economy in global trade flows, the country was severely hit by the international economic crisis, which has reinforced longer-term structural problems in its economy and labour market. Overall, the crisis has slowed down progress towards the MDG employment target. Although some positive trends can be identified in the years leading up to

the crisis, in particular the expanding volume of employment from the low levels inherited from the apartheid era and the apparently falling working poverty rate, labour market conditions have remained very challenging for unskilled black workers. In addition, this group seems to have borne a disproportionate share of the impact of the economic crisis. An important policy challenge for South Africa therefore remains raising labour market participation in a meaningful way for all population groups, and skills development has an essential role to play in meeting this objective.

In many other countries in sub-Saharan Africa, monitoring of labour market trends still needs to be anchored in national monitoring and policy development systems, while the conditions to do so are much more difficult. In the United Republic of Tanzania, Burkina Faso and Ghana an analysis of labour market trends can only be undertaken over a multi-year period based on surveys that are often different in terms of purpose and/or content, making a quantification of the impact of the economic crisis on labour markets much more difficult. Apart from the need for conducting household surveys with a higher frequency, this situation also calls for harmonization of data collection across surveys. This means that questionnaires should be designed to allow for the production of comparable labour market indicators which can be analysed over time.

The chapter on the United Republic of Tanzania discusses the MDG1B employment indicators in the context of the country's structural development challenges and slow progress with poverty reduction. It stresses the need to look at indicators such as labour productivity at the sectoral level, in particular in agriculture in view of the large proportion of the employed in this sector, and the fact that it is the agricultural sector where many workers are not benefiting from improvements in living standards. Sector studies have also been used in Tanzania to explore the potential for the creation of decent jobs. For example, studies of the utilities sector have been undertaken to assess the potential for job creation, as well as to identify the challenge in terms of education and skills development to exploit this potential, which has particular relevance for the large number of new entrants in the labour force.

The study forcefully makes the case for the inclusion of the new MDG employment indicators in the United Republic of Tanzania's monitoring system. The monitoring system is strong in this country, based on institutionalized tracking of indicators as well as focused research. Nevertheless, labour market trends are not systematically taken into account, and policy-makers have been overly focused on unemployment. Unemployment, however, or the lack of work

altogether, is not the main issue in the United Republic of Tanzania, and tracking unemployment rates is not sufficient to inform employment policies. A strong case is made to improve monitoring the achievement of decent work among the employed, in particular in view of the solid economic growth record since 2000, which has only to a limited extent translated into improved living standards. The study argues that the MDG1B indicators can contribute to securing a more prominent place of decent work on the national political agenda.

In Burkina Faso, much progress has been made in monitoring labour markets for policy development. An Employment Observatory has been established in this country, and 12 indicators have been selected to monitor labour markets, including the four MDG1B employment indicators. The new set of indicators captures several dimensions of the labour market such as the structure of employment, labour utilization and quality of employment. Based on the new set of indicators, the chapter highlights labour market challenges in Burkina Faso such as unemployment and underemployment and high levels of vulnerable employment and working poverty. Some progress has been made with reducing underemployment (particularly in rural areas), but several other indicators including working poverty levels show little change.

The chapter on Burkina Faso offers an in-depth perspective on the establishment of employment observatories. Employment observatories, which can be seen as the analytical heart of LMIA systems, were established in several French-speaking African countries in the 1990s with the aim of improving evidence-based policy-making and better utilization of labour market data and information. However, Burkina Faso's ONEF does not have a clear mandate or status in the country's policy-making machinery and the analysis that is produced is not integrated in the national monitoring system. Without such integration, the Observatory risks being marginalized with little influence on employment policies.

Even though Ghana has never conducted a dedicated labour force survey, much labour market information is available from the series of the Living Standards Surveys from the Ghana Statistical Service. Based on the three most recent rounds of this survey, the chapter on Ghana demonstrates that progress has been made in the reduction of decent work deficits as measured by the four MDG1B employment indicators. This progress is underpinned by an impressive record of economic growth, in combination with structural changes in labour markets that go beyond what is seen in much of sub-Saharan Africa. Progress seems also broadly based in the labour market, and not limited to the relatively small group of wage and salaried workers.

Nevertheless, a number of labour market challenges have been outlined, such as the downward trend in social security coverage of workers, the challenge of decent work in Ghana's broader development context and the role of education and skills development. The study argues that the country's LMIA system needs to be better anchored in the national monitoring and reporting system to support national development policies.

### 10.3 Labour market issues and indicators

An important point made throughout this book is that to substitute guesswork for an understanding of how labour markets work relies fundamentally on labour market information. However, such information is sadly lacking in many countries and nowhere more so than in sub-Saharan Africa. A signal consequence of this information deficit is that policy formulation addressing labour market challenges can be seriously misguided – in other words, a failure upstream in the policy process quite independent of the host of capacity constraints to implement policy downstream. The benefit of the MDG1B indicators is their relatively greater availability than a variety of other indicators that one would ideally like to have. Indeed, this is precisely the reason for their having been selected for the global endeavour that is expressed through the MDGs. This section discusses a few of the benefits of MDG1B indicators in labour market analysis. The section begins, however, with a brief discussion of some of their shortcomings.

#### 10.3.1 What would we like to know?

Two shortcomings are associated with the MDG1B indicators. These relate to the quantity and the clarity of the information they convey. As to the former, just how much information these indicators convey, the answer simply stated is that it depends upon how much one would like to know. Consider, for example, the following sorts of questions one might wish to address to women and men to understand better their labour market behaviour: what made you choose a certain income-generating activity (or “occupation”)? How did you get your job, e.g. through what sort of contacts? How did you learn to do what you do? Are you engaged in multiple, separate activities in the labour market? How much do you earn, and is your earnings stream constant? What are your constraints in joining the formal economy? Answers to these and several other questions would give a far better informed view of the labour market, the result of which would be a rich base of information upon which to determine the best policy interventions. Needless to say, the MDG1B indicators are neither up to the task of providing such information nor, admittedly, are they intended to be.

What, then, are these indicators telling us? How does one assess the information that they do provide? It turns out that the indicators are not without some ambiguity in their interpretation. As a first example, take the EPR. Can it automatically be assumed that the higher this ratio is, the better? The study has addressed this question in part, noting that a declining EPR is a good thing if it means, as it often does, that young people are staying in higher education longer. The study further notes that this tendency correlates with higher income: as national wealth rises, young people stay in school longer, resulting in a decline in the ratio.

In point of fact, however, the curve showing the relation between wealth and the EPR is non-linear. The curve is more likely to be U-shaped, and the reason for this lies in the behaviour of female labour force participation (Ghose, Majid and Ernst, 2008). In the poorest countries, the EPR is often quite high, as poverty draws all household members into some effort at income generation. As the level of economic development rises, the ratio begins to fall as young people remain in school, but also as women engage in non-market activities. As national wealth increases still further, however, the ratio rises again, as married women enter the labour market on an increasing parity with men. Household technological change has had a role to play here (see, for example, Becker, 1965), freeing up (women's) time for market work. Socio-cultural factors tending toward equality between the sexes no doubt also play a role. At each tail of the U-curve, however, the "explanation" of the high EPR observed is different – economic distress, in one instance, and "liberation" in the other.

The interpretation of "vulnerability" is not free from some ambiguity either. Whether an own-account worker is vulnerable will depend upon the level of economic development: an own-account worker in a wealthy country is in most instances probably not vulnerable, whereas an own-account worker in a poor country, again, in most instances, probably is. The exact meaning of vulnerability also has some grey areas. For example, first, to the extent that informality can be considered a proxy for vulnerability, a reasonable assumption, and, second, if income can be considered one criterion of vulnerability, then a formal-economy worker could be more vulnerable than an informal-economy worker. This is because incomes in the informal economy (particularly in Latin America) are not always lower than incomes in the formal economy (Marcouiller et al., 1997).

It makes sense to consider contributing family workers within the definition of the vulnerable. But it is not just because they are contributing family workers that they are vulnerable. It is equally the case that, because they are vulnerable, they

are contributing family workers – that is to say, their contribution is a response to the fact that they are indeed vulnerable.

The productivity indicator is constructed in such a way as to benefit from the broadest availability of data. By extending definitional scope, however, one loses some information, i.e. depth. In particular, the indicator says nothing of distribution, which is likely to be a problem in countries, such as many in sub-Saharan Africa, where productivity gains might be concentrated in the relatively enclave economy of extractive industries. As a measure of well-being in any general sense, therefore, the indicator falls short.

One is left with the “working poor” as perhaps the least ambiguous of the indicators. Yet, even here, there is less information than one would ideally like to have. As the study rightly observes, macro-measurements of the working poor systematically overstate poverty when measured at the micro-level through household surveys. One reason for this is that a working man or woman can fit the definition of working poor, yet, with reference to the same income threshold, live in a household that is not poor. While there are obviously several reasons for why policy needs to be concerned with the working poor, the income-defined standard of living of the household might not be one of them.

Finally, the definition of the working poor captures the level of poverty, but not its depth. This means that two countries with the same 30 per cent rate of working poor are not necessarily comparable if the poverty gap is substantially different between the two.

### 10.3.2 A good foundation for assessing the issues and their measurement

Despite the aforementioned shortcomings, the MDG1B indicators constitute a good basis for evaluating labour market issues. The indicators are universal in scope and address key measures of labour market performance. This can be illustrated by considering the indicators’ utility in evaluating a few of the (highly stylized) features of the economic structure characterizing many of the countries in sub-Saharan Africa. These are listed in the box below.

Considering the first point in the box, the predominance of agriculture (and its positive correlation with poverty) demonstrates the usefulness of the productivity indicator, among others. The indicator can be easily decomposed to the sectoral level. Thus, instead of looking at the ratio of GDP to the labour force, one could instead look at the ratio of the share of agriculture in GDP relative to the

agricultural labour force. Changes over time could then be assessed. Declining productivity at this sectoral level could mean relatively stagnant agricultural output growth divided by a substantial increase in the denominator – the agricultural labour force. Implied policy here would be first and foremost on the demand side and involve considerations of how to increase output in agriculture.

### Box 10-1

#### *Stylized characteristics of economies in sub-Saharan Africa*

First, subsistence, “employment-led” rather than “growth-led” strategies in rural agriculture, characterize the predominant economic activity in the region in employment terms.

Second, the region has one of the highest rates of population growth in the world, creating a burgeoning supply of labour that outstrips demand in the economy. This leaves people to “create their own demand” and “create their own employment”.

The latter tendency, third, is reinforced by a low labour-absorbing reliance on extractive industries for the macroeconomic growth statistics.

Fourth, the reliance on extractive industries leads to a low distribution of profits, and, through “Dutch disease”-like dynamics inflates exchange rates and thus discourages economic diversification. The result is either sluggish or stagnant structural transformation, which only serves to reinforce the survivalist, employment-led strategies through the absence of alternatives.

Fifth, and characteristic of many poor developing countries, it is inappropriate to think of a “national market” in an integrated sense in many of these countries, whether for products or for labour. Rather, with the exception of labour migration, livelihoods and economies are local.

Rising productivity in agriculture, on the other hand, could be the consequence of at least three outcomes that the productivity indicator could reveal. It could be, for example, that: the agricultural labour force remains constant, while output increases;<sup>117</sup> or output has not changed but there has been a decline in the labour force possibly indicating labour migration and structural transformation; or, finally, that both output and labour in agriculture increase, the former at a

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117 Whether through an actual increase in the volume of production, or through price dynamics.

higher rate than the latter. The first and third of these possibilities can be taken as positive trends. Indeed, evidence shows that the third possibility yields the highest elasticity of poverty reduction in poor countries. The second possibility could be good or bad. It is bad, for example, if the decline of labour is merely the consequence of trading rural poverty for equally impoverished conditions in the urban informal economy.

A second and final example shows the possible usefulness of how all of the indicators could interact to provide useful policy information on the labour market. Using changes in the productivity indicator as a benchmark, and assuming a positive change in that indicator, hypotheses can be constructed:

- ❑ As productivity increases will be reflected in GDP growth, one could hypothesize that it is negatively related to changes in the EPR. This is because, as noted earlier, with greater wealth, should come an increase in years of schooling. If the relationship does not hold, this is information for policy-makers to ask the question, why? An inadequate distribution of higher GDP growth? An underinvestment in the education system?
- ❑ An identical relationship between productivity increases and vulnerability should prevail – a negative correlation. Here, too, if, with growth, there is no decline in vulnerability, then policy-makers would be justified in examining the source of that growth.
- ❑ Finally, the change in productivity ought to be reflected in a negative way to working poverty (whereas working poverty ought to positively correlate to vulnerability). If there is growth, but no change in working poverty, this should direct policy-makers' attention to the pattern of growth that has produced this outcome.

While these examples are rather simple and unelaborated, the intent is to suggest that the MDG1B indicators offer a first step in the analysis of labour market issues to which policies can be directed. The indicators are useful in themselves in this regard. They are useful as well in pointing to areas in which additional information would be valuable.

#### **10.4 Policy trends and implications**

In Africa, as elsewhere, most policy-makers aspire to having a stable government and a robust economy that enables citizens to live free from poverty. Significant

progress towards this objective is most notable in the continent's rapid and consistent growth during the years 1995 through 2008, which reversed the decline of previous decades, and provided the basis for the marked resilience in many countries to the impact of the global economic crisis. Although this pattern, combined with a reduction in the number of conflicts on the continent, provides some ground for optimism, the incidence of poverty remains virtually unchanged at about 50 per cent since 1981 (World Bank, 2008, pp. 1-2). The case studies in this book illustrate this situation of persistent poverty amidst economic growth even prior to the economic crisis. In real terms, the number of poor when measured at US\$1.25 a day has almost doubled in sub-Saharan Africa between 1981 and 2005, reaching over 380 million. This trend, if it continues, implies that one-third of the world's poor will be African by 2015.

The lesson from this situation for policy-makers is that even if over time Africa can "become a pole of growth" (Zoellick, 2009), accelerating progress on MDG1 will require generating more inclusive and productive work in order to reduce poverty. This is in large part because of the delay in the demographic transition in Africa that will result in large increases in working-age adults for nearly another decade in most countries. This lesson is drawn in the important UNDP document, *What will it take to achieve the Millennium Development Goals? – An International Assessment* (UNDP, 2010). Responding to this will necessitate re-orientating national strategic priorities in such a way that the current economic growth agendas become pro-employment orientated by actively promoting means of increasing productivity and employment intensity. In other words, national growth strategies (or plans) in Africa are being called on to provide (and enable the private sector to provide) more high-quality productive jobs in order to reduce the growing number of people living in poverty and maintain political stability. How this is done is specific to each country's comparative advantage, the analysis of which can be strengthened by rigorous employment diagnostics and the alignment of sector strategies behind growth driving sectors as defined in national strategies.

Policy-makers from Africa are conveying consistent messages about their intended national strategies to their development partners from the north: "*Africans want energy, infrastructure, more productive agriculture, a dynamic private sector, and a regionally integrated market.*" According to the World Bank, this is also the message that one might have heard in a devastated Europe 60 years ago (Zoellick, 2009). Yet most of Africa's labour markets are poorly prepared to benefit from the potential opportunities that these priorities could offer. How can policies better assist in addressing this challenge?

The implications are that more deliberate and specific objectives and incentives may be needed for the public and private sectors to create productive employment opportunities, and these will need to be explicit in national strategies, and mirrored in macro and sector policies if the labour force is to benefit from the strategic focus most countries are taking on growth. In public policy terms, such a deliberate pro-employment push commonly requires an early commitment defined and expressed by the national political leadership through “vision” statements and party manifestos. In the absence of such an expressed commitment, many well-intended development efforts have failed to have significant or lasting impact. This is because political leaders define and prioritize their nation’s economic and social policy agenda, and public administrators then lead the process of detailing the agenda with other stakeholders into three- to five-year national strategies (or plans). The past decade of formulating these national strategies in the shape of poverty reduction strategies (PRSs) broadened the familiarity of many stakeholders to national planning processes, as well as the structures of the public sector and their current reform agendas. However, broad stakeholder engagement equally diluted the strategic focus originally present in first-generation PRSs, and created second-generation strategies that then struggled in their attempt to implement and resource an unmanageable range of activities. Nonetheless, the process of national strategic planning of PRSs enabled more than 40 African nations to access debt relief under the Highly Indebted Poor Countries Initiatives, which in turn released substantial resources for national budgets. As the end of the decade approached, the original front-runners in the PRS process (Mozambique, the United Republic of Tanzania and Uganda) began planning for their third-generation national strategies, no longer with the aspiration of debt relief but more with the intention of gearing up the pace of growth.

The pace of formulating third-generation PRSs (now more commonly referred to as national growth strategies) has been slow in part because of the uncertainties in the wake of the global economic crisis. As they take shape, early evidence is that they will be more rigorous in their sector prioritization, focused on growth driving and enabling sectors. This is in part in response to tighter fiscal envelopes in many countries and reduced official development assistance (ODA) commitments. It is also in part a response to the type of growth dynamic experienced by many African economies during the past decade, which concentrated on externally orientated enclaves, such as capital-intensive natural resource extraction, and export processing zones with few links to the domestic economy. The orientation of much of the continent is shifting and there is significant revival of interest in regional integration, with a change in focus from a preoccupation with preferential trade agreements to an approach that promotes market integration

and that presents the region as an attractive destination for foreign and African capital (Ndulu, 2007, p. 136).

Macroeconomic policies, however, continue to be focused on economic stability, and are creating increasingly tough choices for policy-makers as they attempt to balance stability with the need for job creation through policies that could encourage growth in the domestic private sector. The constraints this creates are illustrated in the Madagascar example below, where recent research called for more development-orientated macro policies (Epstein et al., 2008):

*“... macroeconomic policies and institutions must be part of a broader development initiative, not as simply stabilization policy that forms the hopeful backdrop of credibility for an over optimistic vision of efficient free markets in savings, investments and financial allocations ... to support the creation of substantial numbers of decent jobs, while maintaining macroeconomic stability. The macroeconomic authorities (e.g. Central Banks and Ministries of Finance) have to utilize more, rather than fewer, tools of macroeconomic policies, as is suggested by the dominant Washington Consensus approach. This may include, for example, the use of more credit allocation policies...and capital management techniques ...”*

The debate continues about constraints to domestic growth created by stability-focused macroeconomic policies, and the merits of broadening and loosening these in areas such as credit allocation and capital management. Tight credit supply has been a predominant constraint on the growth of domestic markets in Burkina Faso, Ghana and the United Republic of Tanzania. Credit constraints have limited the gains made in labour productivity, particularly in agriculture, and have fed the impetus of urban migration and the expanding informal economy. Two policy areas deserve particular attention in this regard, macro-credit policies to more rapidly address the gap between interest rates on savings and borrowing, and land policies that need to efficiently expand the provision of title deeds for use as collateral in borrowing. Both of these policy areas have important roles to play in tightening the governance of lending and contract compliance. Yet in credit and land policies, the pace of change has been slow, with momentum building through the use of new communication technology for expanding credit access in poorly served rural areas and for systematizing land registration and record keeping. Yet even with more credit available to domestic producers, labour productivity may be limited unless other sector policies are mutually reinforcing.

Lessons about the need for mutually reinforcing policies are being learnt from the experiences of the highest performing developing economies of the

past decade. The most successful have been economies that have deliberately narrowed their focus in terms of growth sectors, and shifted their production up the hierarchy away from low-quality activities characterized by low returns, and flat learning, towards steep learning, high outputs and high returns to labour. Successful economies have put in place massive investments in educational skills, in technology and in physical infrastructure all in support of specific sectors in which a comparative advantage exists, or has obvious potential. Whether referred to as economic diversification, industrial policies, competitive policies, growth-poles, clusters or value-chains, the fundamental objective is the same: accelerating the accumulation of capabilities of the labour force in a deliberate and targeted manner. This has been the case in several economies outside of Africa (for example, China, Costa Rica, the Republic of Korea and Viet Nam, each of which invested in education, including in specific areas of vocational training that underpinned productivity in key sectors (see e.g. Nübler, 2011). Thus public investment in education spurred private investment and paid off in higher growth and value added.

The ingredients of success are many, and include a large dose of policy coherence in which prioritized growth sectors are underpinned by mutually re-enforcing economic and social policies, rather than developed as exclusive enclaves. Early indications of this approach are evident in Rwanda, where the strategic focus on creating the information and communication technology (ICT) hub of East Africa is being re-enforced by a rapid expansion of computerization and its required infrastructure, coupled with a re-orientation of education policy to prepare the labour force skills in ICT services. Research on growth in Africa (Collier, 2007) argues that technology trade has to some extent shifted in favour of landlocked countries, and that e-services have the potential to deliver rapid economic growth on the continent.

Among policy-makers there is slow but steadily increasing recognition that greater policy coherence is needed for pro-employment growth to be realized. Putting it into practice requires cross-sector working and recognition of the roles of social sector policies and ministries in *preparing* the labour force for work; of economic policies and the private sector in determining the *availability* of work; and in labour ministries and their administration in ensuring adherence to labour standards.

Stand-alone national employment policies can, if well designed, support this new trend of growth-focused national strategies, if they are designed for this purpose. The effectiveness of national employment policies depends on a number of factors,

including the depth of diagnostic analysis in identifying the root causes behind employment problems in any given context. Contextually specific analysis is required to meaningfully inform country-level policy-making. Employment indicators and targets can strengthen national employment policies and set an important framework of goals towards which progress can be monitored, and spell out what will be required in terms of rates and patterns of economic growth to achieve these goals. Indicators and targets are complementary to employment diagnosis, which identifies how targets can be achieved and constraints removed. Employment indicators, targets and diagnostic analysis are all therefore elements of pro-employment policies. Data and information requirements about the labour market, and the supply and demand of labour for growth sectors, is intensifying not least because of its vital role in informing policy formulation and monitoring.

In summary, the main policy challenge going forward is to re-orientate national strategic priorities such that economic growth agendas deliver on the need to create productive employment. The diversity of country endowments and history demands that national strategies for this be specific to each context. Nonetheless, audible political commitment at the country level to the objective of creating more productive employment while delivering on economic growth will be essential. The emerging policy trend is towards deliberately narrowing the focus of efforts on selected growth sectors at the country level, and coupling these with accelerating capabilities of the labour force requirements in these targeted sectors. Policies will need to be coherently aligned with the overall objective, and mutually supportive of the selective growth sectors to ensure success. Thus recognition of the roles of various economic and social sectors in delivering on pro-employment national growth strategies will be essential. National employment policies based on rigorous employment diagnostic analysis could strengthen this process. Finally, determining the impact of pro-employment national growth strategies could benefit from the use of MDG employment indicators, employment targets and rigorous analysis undertaken as part of national poverty monitoring systems.



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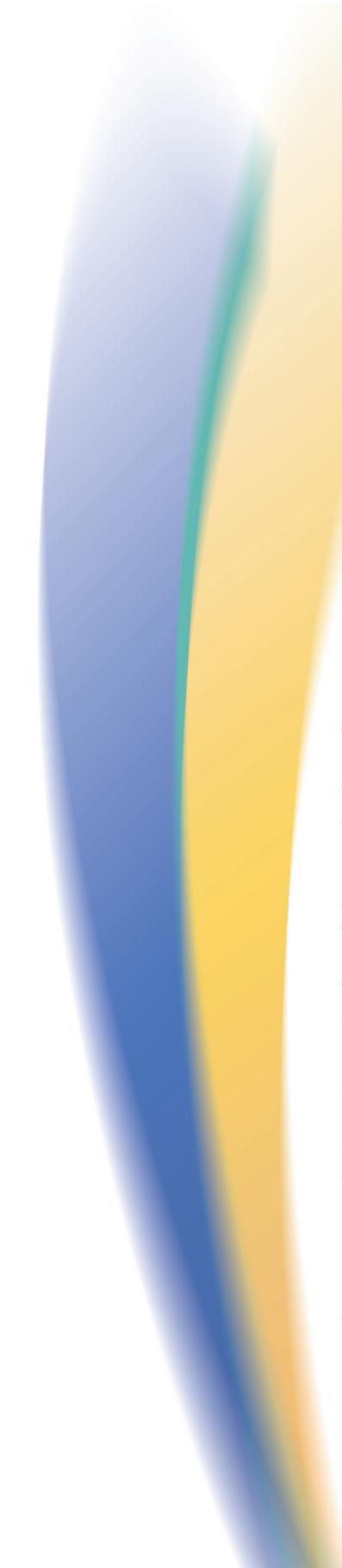
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Decent work – productive employment that delivers a fair income, security, freedom and dignity, social protection for families, opportunities for personal development and social integration, and equality of opportunity for men and women – is a fundamental goal for all societies. It is also a central element in the fight against global poverty and hunger. In 2008, the United Nations adopted a new target under the Millennium Development Goals (MDGs) “to achieve full and productive employment and decent work for all, including women and young people”. This target has particular relevance for sub-Saharan Africa, where widespread poverty is inextricably entwined with a lack of decent work.

Drawing on broad regional labour market analyses and country case studies, this book demonstrates how the new MDG employment indicators can be used as a basis for improved labour market and poverty monitoring as well as improved employment policy development in sub-Saharan Africa. It is argued that analysis based on the MDG employment indicators provides a major building block for employment diagnostics, which in turn serves to inform growth strategies that generate more high-quality and productive jobs.

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