

Republic of Congo: Inclusive growth and employment

1. Objective(s) of the proposed work and consistency with DFSG objectives:

Context

Over the last 10 years, the Republic of Congo has made substantial progress in rebuilding the state and consolidating peace, but the political environment remains fragile. Congo's economy has experienced positive growth since the end of the civil war in 2001 with an average real GDP growth of 3.8 percent between 2001 and 2008. Owing to the increase in oil prices over the past years, the oil sector expanded significantly in nominal terms, increasing further its share in overall output to 69 percent in 2008, up from 59 percent in 2001. In contrast, the non-oil economy, on which a majority of the population relies for their livelihoods, has stagnated in per capita terms.

While the oil sector provides much needed resources for public investments, its overbearing dominance in the economy is a major challenge for economic development and diversification. Economic performance has been strongly affected by swings in oil prices and production levels, and the prominence of the oil sector has diverted productive resources from labor-intensive non-oil sectors towards oil extraction and related activities. Overall, the reliance on the oil sector is problematic for the Congolese economy, as this sector has a limited capacity to generate employment and poses an inherent obstacle for improving competitiveness.

Available statistics suggest that despite consecutive years of high economic growth, unemployment has risen and social indicators remain low. The unemployment rate rose from 11.9 percent of the active population in 1970 to 33.5 percent in 2005, aggravated by a recruitment freeze in public administration during the period of 1990-2004. The 2005 household survey shows that 50.7 percent of Congolese households still live below the poverty line, and income distribution is noticeably uneven, which means that growth is not well shared among the Congolese people. The household perception survey also revealed that around 85.6 percent of households see lack of employment opportunities as the main cause of poverty in Congo. However, despite limited capacity and the engagement of only few donors, the Government has shown strong commitment in the post-HIPC period to improve the economic and social situation in the country

Objectives

The Government's key priority, as described in its 2008 Poverty Reduction Strategy, is to use the country's oil wealth to build a more diversified and competitive economy in order to generate stable and shared growth and employment opportunities, thereby reducing poverty and improving social indicators. The proposed analysis will form part of a broader Employment and Growth Study, requested by the Government, which will be one of the main analytical studies done for the country in the post-HIPC period.

The development objective of the study is to analyse the sources of growth in the Republic of Congo, assess the impact of the recent growth performance on employment and develop policies aimed at generating inclusive growth and employment, predominantly in the non-oil sector. To this end, the present proposal would finance the following three components:

Component 1: Analysis of the recent growth performance to understand binding constraints for high and sustainable broad-based growth. The analysis will include a review of policies currently in place aimed at promoting the non-oil sectors of the economy.

Component 2: Empirical analysis of the evolution of the labor market. This analysis will involve examination of the following (i) key demographic trends; (ii) recent labor market trends; and (iii) a review of the effectiveness of existing labor market policies to create employment.

Component 3: Analysis of the links between growth and employment. The question why growth is not accompanied by employment generation will be analyzed as well as who would benefit most from possible employment and productivity increases. This component will also include potential employment developments based on diverse growth scenarios.

2. Technical soundness and originality:

The analysis will be based on macroeconomic as well as microeconomic data and will explore their linkages. Depending on the component of the study, different techniques will be applied.

Component 1 – Growth analytics: Different methodologies will be used to analyze growth developments, taking into account data limitations. A detailed growth decomposition, including an analysis of supply and demand side factors and of factor productivity will be carried out to identify the constraints the economy is facing as well as its potential. An emphasis will be placed on the non-oil sector and possibilities for the diversification of the economy, drawing from lessons learned from other oil producing countries.

Component 2 – Analysis of the labor market: The analysis will use data from a survey of employment and the informal sector, which has been carried out in late 2009 and has yet to be studied. Relevant micro-econometric methods will be used to analyze, among others, the characteristics of employees and employers in the formal and informal sector, production factors, the match between actual and required skills and factors preventing informal production units from entering the formal sector. The results from the employment survey will be complemented by additional information like the Enterprise Survey, which has been updated in 2009.

Component 3 – Employment and growth linkages: This component will link growth developments with social and employment indicators. By employing techniques that are available, for example in the ADePT toolkit,¹ the impact of growth on employment will be evaluated. Furthermore, given that a recently completed social accounting matrix for 2005 is available, a MAMS will be developed to study the effect of macroeconomic developments on the MDGs and employment.

3. Relevance to country priorities:

Rendering the economy more diversified to promote job opportunities and reduce unemployment is a key priority for the Government, as identified in its 2008 Poverty Reduction Strategy. Achievement of the Grant objectives will support Government efforts aimed at diversification and growth by helping the Government devise a growth strategy that leads to the creation of substantial employment in the formal non-oil sectors.

¹ ADePT is a software platform for automated economic analysis, developed in the research department of the World Bank.

The activities outlined in this proposal are in line with the CPS. Specifically, they will contribute to implementation of the CPS priority area—diversification and growth— and will complement the assistance being provided through the Bank’s Economic Diversification Support Project, in partnership with IFC, EU, IMF, and the Public-Private Infrastructure Advisory Facility.

The study will further build on the 2010 Public Expenditure Review (PER) and the Infrastructure Investment Prioritization analysis aimed at identifying future sources of sustainable growth in Congo’s infrastructure sector. It will enable the Government and development partners including the World Bank to better understand the likely returns on public investment from different interventions and how the pursuit of different sectoral growth strategies, driven by public investment, is likely to lead to tradeoffs among different policy goals (e.g., increased economic growth, greater poverty reduction, enhanced food security, increased foreign exchange earnings). It will provide an analytical basis for discussions on ways and means to reallocate expenditures from low to high priority areas.

4. Knowledge sharing, dissemination and capacity building plan:

These proposed components are part of the Employment and Growth Study and dissemination and knowledge sharing will be combined with the other results of the study. A workshop will be organized to discuss preliminary results of the different background papers as soon as they are available with the main stakeholders to solicit their input and comments. The final report will be translated into French and widely disseminated through a seminar. Furthermore, with the help of the Chief Economist’s office, the results will be made available via a webpage. Experiences from other countries, especially fragile states and oil-exporting countries will be included.

5. Client and donor engagement:

A discussion of the concept note of the overall Employment and Growth Study is scheduled for early March with stakeholders from various ministries, the university, research institutions and the private sector. This discussion will finalize the involvement of the different stakeholders in the study. Key counterparts in the government will be representatives from the Ministry of Finance, Economy and Plan, Employment, and Education. Other donors, especially those the AfDB which has co-financed the employment survey will be involved to the extent possible.