



# Realizing the Potential of the Labor Force in Africa - Barriers and Opportunities

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# Overview

- ❖ Overview
  - ❖ Labor Supply
  - ❖ Labor Demand, Wages, and Job Creation
  - ❖ Labor Market Institutions
- ❖ Conclusions and issues for further research



# Background

- ❖ Sub Saharan Africa – a land of contrasts
  - ❖ 47 countries w/population: 133 million to .4 million
  - ❖ 47% living on \$1 day or less
  - ❖ 50% of the labor force in Agriculture, but share in GDP is lower
  - ❖ Past 25 years: weak economic growth, but recently a re-bound
  - ❖ High population growth, poor social indicators, high HIV/AIDSs
  - ❖ Some success stories



# Labor Force

- ❖ Growing at rate of 4.2 % per annum
- ❖ Poorly educated
- ❖ Mostly working in family business, at subsistence level
- ❖ 66% in rural areas, but rapidly urbanizing
- ❖ What do employment, unemployment, participation, wages, earnings mean?



# Labor supply

- ❖ Africa will have abundant labor supply for next 20 years; key issue is labor quality
  - ❖ Education deficit – significant in cross country regressions in explaining slow growth
  - ❖ Uneven progress in reducing that deficit
  - ❖ Child health indicators still poor, child labor high
  - ❖ HIV/Aids prevalence may affect supply of skilled labor, is affecting women more than men



# Labor demand

- ❖ Slow economic growth, low investment has resulted in slow rate of new formal sector job creation
- ❖ Impact compounded by public sector restructuring
- ❖ Even where there was growth, low rate of formal sector job creation
- ❖ Labor supply poured into self-employment – agriculture and non-agriculture



# Wage trends

- ❖ Formal sector wages responded to low demand, but slowly
- ❖ Union/formal sector wage premium remains, especially for large firms
- ❖ Formal sector real wages lower on average, but in some countries real wages have risen
- ❖ Higher than some competitors in \$, but not in PPP\$



# Earnings trends

- ❖ Mixed evidence on informal sector. HBS data show smaller gap with formal sector than LF data, and parallel earnings movement
  - ❖ Does a rising tide lift all (urban) boats?
- ❖ Increased returns to education – shortage at higher skill levels? Or selectivity bias?
- ❖ Overall, wages are a small portion of total costs



# Job Creation

- ❖ Main reason for low job creation is low investment and growth
- ❖ Most countries have to export, but have low competitiveness
  - ❖ Indirect costs are high because of poor and unreliable infrastructure, higher taxes and poor business environment. Capacity utilization is low
  - ❖ Total factor productivity is low, technology is outdated
  - ❖ Wages conundrum: wages may be at subsistence levels, but given low productivity, they are too high for investors



## Some successes

- ❖ Madagascar's EPZ increased jobs, exports
  - ❖ Number of formal sector jobs nearly doubled in 10 years
  - ❖ Cash income empowered women
- ❖ In Tanzania between 1992 and 2000, the private formal sector job growth made up for jobs lost in the public sector



# Labor Market Institutions

- ❖ Regulations, adjudication mechanisms and organizations reflect an underdeveloped political process
  - ❖ Created during period of nationalistic-socialist state
  - ❖ Need to refocus now that the model has changed – look forward, not back
  - ❖ Core labor standards not enforced
- ❖ Despite limitations, unions and regulations mostly not inhibit competitiveness
- ❖ Labor market peaceful – fewer strikes



# Conclusions

- ❖ Reasons for poor outcomes in the past in Africa mostly lie outside the labor market – Africa is an expensive, high risk environment for industry, especially manufacturing.
- ❖ Through good policies, some countries have produced good results in improving labor supply, job creation, and poverty reduction
- ❖ Improvements in formal sector job creation helps informal sectors earnings – one way linkage. Higher formal sector job growth is key for poverty reduction.



# Areas for future research

- ❖ Wage setting mechanisms and formal-informal sector links
  - ❖ Why higher wages by firm size – efficiency wages or monopoly?
  - ❖ Does this inhibit formal sector job growth? Bias toward capital?
- ❖ More in-depth: which aspects of the business environment affect employment most?
- ❖ Skilled labor market and international migration