2nd African Decent Work Symposium 2010

"Building a Social Protection Floor with the Global Jobs Pact"

06 - 08 October 2010

Palais des Congrès, Yaounde - Cameroon

Information Note A - Panel 1: *Prospects for Labour Market Recovery: Growth, Employment and Development*

Context

Mid-2008, when the global financial crisis exploded, one could think that Africa would be less bruised and battered than some other parts of the world as it was the least integrated region in the world. However, it was hard hit as the financial crisis spilled over to the real economy in OECD countries causing *inter alia* for African economies slowing trade flows, decline in commodity prices, credit crunch, reduced remittances, declining aid and a drop in foreign investments followed by exchange rate depreciation and higher interest rates on capital markets.

Over 2000-08, Africa's GDP had grown at 5.7% per annum, virtually doubling its growth rate over the 1990-2000 when it was 3.2% per annum (Sub Saharan Africa's GDP grew at 6.1% per annum over the 2000s, compared to 2.5% over the 90s. North African GDP growth also picked up to 5% over the 2000s compared to 4.1% over the 90s) (ILO, 2010).

But economic growth went from 5.2 percent in 2008 to 1.6 percent in 2009. Per capita income, dropped by nearly 1 percent in 2009—the first such contraction in a decade for Africa (World Bank, 2010). The region's middle-income countries, which are more integrated in global markets, were the most affected as growth slipped by about 4.5 percentage points in 2009. Mineral and agricultural commodity exporters have been particularly hit, with reduced demand (and in some cases credit and long-term capital) affecting output, investment, employment, and tax revenues. In such a context of global economic crisis, the response of African policymakers helped to dampen the impact, and set the stage for the continent to benefit from a global recovery. Overall, African countries saw a widening of fiscal deficits by about 3 percent of GDP in 2009, as countries used fiscal policies to counter the effect of the slowdown in economic activity.

There were considerable regional variations in growth in 2009 across African regions and countries. Growth was highest in East Africa at 3.9 per cent, followed by North Africa at 3.5 per cent, West Africa at 2.4 per cent and Central Africa at 0.9 per cent, while Southern Africa posted a negative growth rate of 1.6 per cent. Of the 53 African countries, only 7 grew at 5 per cent or more in 2009, while 29 grew at less than 3 per cent. This compares to 25 countries growing at 5 per cent or more and 16 countries growing at less than 3 per cent in 2008 (UNECA, 2010). After this serious slow down, output is now projected to expand by around 4.2 percent in 2010 and to accelerate to 4.9 in 2011 (World Bank, 2010). Higher export volumes and a rebound in primary commodity prices from their lows of the first quarter of 2009 boosted national income and fiscal revenue in Africa but growth will remain below the 6 percent growth rate recorded in the pre-crisis period.

The recent economic crisis should not overshadow the fact that the sustained growth period up to 2008 had not resulted in significant increases in decent work or drastic reductions in poverty in Africa. The basic diagnosis is that even though growth was high before the crisis, it was not sustainable, job-less and insufficient to attain the MDGs. It did not translate into major improvements in labour markets. High unemployment, vulnerable employment and working poverty continue to characterize African labour markets. The employment content of growth has been very low because the activities that have been driving growth are capital intensive, extractive industries and enclaves. Most seriously, Africa has not industrialized and diversified enough. On the contrary, the increase in industry's share of GDP has been mostly driven by mining. Manufacturing has been in decline for decades: it stood at 14% of GDP in 1990 and in 2008 it was only 9.3% (ILO, 2010). So in fact, Africa has de-industrialized.

The global economic crisis has exacerbated the employment and decent work deficits in Africa. North Africa was hardest hit in terms of open unemployment, with unemployment rising above 10 per cent in 2009. In sub-Saharan Africa, the major employment problem is the large increase in informal sector employment and other forms of vulnerable employment. But Africa's population has increased by 2.3 per cent between 2008 and 2009, reaching about 1 billion people. Seventy per cent of the population is aged 30 or younger, making Africa one of the youngest continents in the world (UNECA, 2010). This population provides Africa with a major challenge in terms of employment creation but also a large pool of human resources upon which it could draw for rapid economic growth.

Objectives of the Panel

The session will reflect on impact of the global economic crisis on employment in Africa and it will focus on the need for pro-employment macroeconomic and structural policies to achieve the MDGs and Decent Work Agendas. Specifically, the session will:

- Explore a new policy vision for recovery and development based on job-rich growth.

- Debate what could be pro-employment macroeconomic and structural policies in Africa.

Key Messages

The lesson in the ILO view is that the road to poverty reduction and to accelerate MDG 1 is via generating more and better jobs in Africa. The impact of the global financial crisis only makes this imperative more urgent.

Policies by themselves cannot do miracles, but they matter and can make a big difference. And what seems to be needed, first of all, is **a new policy vision**. The policy packages of the past contained good elements, such as macroeconomic stability, but also incorporated many mistakes and key elements were missing. Africa needs a new, more balanced policy vision and framework for recovery and development. It is not just a question of simply "getting back on track" to the growth pattern before the crisis. Instead, this is a good moment to rethink past policies, as old certainties are falling everywhere and even in developed countries there is a lot of soul-searching about economic paradigms.

A missing element in past policies was a good operational link between growth- employment-social protection and poverty reduction. Several generations of orthodox macroeconomic policies and structural adjustment reforms have had limited success in creating the conditions necessary for rapid and sustainable growth in Africa where employment generation, and particularly the creation of high-productivity and well-paid jobs, has been even more difficult. In African countries with fast growth in the working-age population, a key challenge is to attain rates of employment growth which offer opportunities to new entrants, the unemployed and those moving from agriculture into urban areas.

For the ILO, employment policy rests on a vision of inclusive, job-rich growth. This can be promoted by focusing on:

(a) Sustainable enterprises as the major drivers of job creation;

(b) Mainstreaming employment in major policy frameworks via employment targets and good evaluation systems;

(c) Investing in effective education and skills development systems as major drivers of productivity growth and translating that growth into more and better jobs and poverty reduction

(d) Expanding aggregate demand through regional and global integration and exports, but also through domestic income and wages growth;

(e) Expanding social protection to workers through a basic social protection floor. A basic social protection floor for all, is not just good social policy, but an investment that leads to higher productivity though a more productive work force, and boosts incomes that benefit aggregate demand and therefore domestic markets, all of which produces a virtuous circle between incomes, aggregate demand, expansion of markets and job creation.

And the ILO strongly believes in doing all of this based on strong public institutions and public policy, and on strong social dialogue institutions.

A second missing element in past policies is a clear productive transformation policy. Some specific policies for raising the rates of growth of GDP, employment and productivity include:

(a) Diversification of output and exports, with a better balance between more capital intensive extractives and less capital intensive manufactures, thereby generating more job.

(b) A better balance between exports and domestic markets, to better cushion the domestic economy from exogenous shocks and give more stable longer run growth.

(c) A higher rate of domestic savings and investment, especially in the non resource based economies, to also reduce dependence on fluctuating inflows, both FDI and ODA.

(d) A green revolution in agriculture, to improve food security in cereals and keep the price of wage goods down

(e) Assisting the poor and the working poor through transfers, unconditional if affordable, or conditional if not – for instance through Employment Guarantee Schemes

(f) A shift from relatively low productivity work to better paid employment which is vital to poverty reduction in Africa.

(g) Since there is a need to raise growth rate for both employment and productivity, the two sum up to a higher required GDP growth rate, above the already very good growth of 5% achieved over the decade.

Finally, one key message is on financing. African countries should hold donors accountable to their commitments to increase aid. But it is also very important for African countries to reduce extreme levels of dependency on foreign aid. Domestic resource mobilization by enhancing the tax-to-GDP ratio in countries with a low tax burden is key. Africa should also take advantage of the paradigm change in the IMF that now recognizes the need for countercyclical policies in developing countries and seems to be moving towards less intrusive conditionality, more sensitivity to protecting social spending, and a more flexible approach to debt. The major achievements in economic governance that occurred in Africa during the last decade led to a substantial reduction in the frequency and severity of growth declines in African economies. This new environment provides a solid ground and more room for implementing new patterns of growth linking in a more effective way growth with employment and social protection.

Possible/Leading questions for the debate

- What are the main binding constraints for job-rich growth in Africa?
- How to develop much stronger link between investment, growth and productivity on the one hand, and employment, labour market and social policies on the other, together with a progressive greening of the economy.
- How can significant industrialization be promoted? Will bilateral free trade agreements achieve this?
- How to facilitate the transition to formality and decent work for the mass of workers in the informal economy of African countries?
- How to increase productivity in the agriculture sector; taking into account not only large scale commercial agriculture, but also small farmers?