Challenges of productivity, job creation and informality in Africa: What are the factors hindering progress?

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Let me start where I will conclude ...

• The root cause of the employment and informality challenges in Africa is low productivity.

• With due respect (with the risk of being):
  • In spite of its resilience, tenacity, extraordinary capacity to adapt (through «adaptive or survivalist innovation») and live through a series of crisis, the main economic history of Africa since the 1960s could be safely summarized as a history of low productivity growth in the face of high population growth.

• The good news:
  • Economic growth is turning around for good! But it is unfairly disparaged as «jobless» - using the wrong yardstick for measuring impact.
A tale of two decades: Productivity growth and levels in Africa (relative to Asia and Latin America)

Annual change in labour productivity constant US dollars (2000 = base year)

Labour productivity levels (constant US dollars)

Labour productivity level in Africa as percentage of Latin America & Caribbean and Asia & Pacific

Author’s analysis based on ILO STAT dataset

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A longer time view

Output per employed worker (1950-2011)

Author’s analysis based on Groningen Project’s 10-sectors data on productivity
Output per employed worker in Latin America (1952-2010)

Output per employed worker in Africa (2060-2011)

Output per employer worker in Asia (1960-2010)

See the differences in the scales

Author’s analysis based on Groningen Project’s 10-sectors data on productivity

A sectorial view
• A consensus exists among economists that productivity growth is the main driver of long-term per capita growth and living standards.

• Economists have extensively examined factors explaining cross-country differences in productivity growth, emphasizing the role of macroeconomic and institutional factors, trade openness, and human capital (Edwards, 1997; Barro, 2001; and Acemoglu et al., 2004).

• But, the debate on the factors that boost productivity growth is far from being settled.
Main Determinants of national productivity (TFP)

• **Macroeconomics environment**
  
  • Quality and quantity public expenditure as a ratio of GDP. It’s essential for infrastructure, education etc.
    • But, when excessive it leads to a heavy tax burden, high interest rate, unsustainable debt, high inflation, inefficiencies, mismanagement and corruption...),
  
  • Currency instability and overvaluation,
  
  • High interest rate – lowers access to finance
  
  • etc.
Trade openness and FDI

• Facilitates technology diffusion in particular through FDI,
• Economies of scale and market enlargement
• But needs supporting policies for competitiveness
• Skill of the Labour Force (Labour quality)
  • Efficiency, innovation etc are dependent on labour quality
• **Institutional factors**

• Institutions impact on the business environment, hence, affect investment and productivity.

• They refer to government effectiveness, economic freedom, rule of law, and administrative and regulatory burden etc.
• Sectorial composition of outputs

• The share of the labour force in low-productivity sectors – agriculture and informal non-agriculture sectors.
A closer look at the diverging trends in productivity and sectoral composition among Africa, Asia and Latin America
Trends in sectorial share of employment in Sub-Saharan Africa (1960-2011)

Output per employed worker in Sub-Saharan Africa (1960-2011)

Author's analysis based on Groningen Project’s 10-sectors data on productivity

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Trends in sectorial share of employment in Latin America (1961-2011)

Output per employed worker in Latin America (1952-2010)

Author’s analysis based on Groningen Project’s 10-sectors data on productivity
Author’s analysis based on Groningen Project’s 10-sectors data on productivity
Labour productivity gaps in SSA (average), 2011

Author’s analysis based on Groningen Project’s 10-sectors data on productivity
• Informality in Africa is mainly a byproduct of six to seven decades of persistently low productivity and low growth in the face of higher population growth.

• Factors that explain low productivity growth such as poor macroeconomic environment, weak institutions, inefficient and burdensome bureaucracy fuel informality

• Higher rate of informality is also among the factors for low productivity growth, leading to a vicious circle of low-productivity trap.
Growth and informality

- The graphs show that high rates of economic growth (productivity growth) are correlated with lower share of informal value-added and lower informal employment.

World Bank, 2019, Global Economic Prospects, A flagship report
Productivity and Informality

World Bank, 2019, Global Economic Prospects, A flagship report
Let me conclude where I started ...

• One cannot overemphasize the need for policies and institutions in Africa that not only foster sectorial productivity growth but also facilitate sectorial shifts to higher-productivity sectors – in order to break the vicious circle of low-productivity.

• But, sadly, productivity in most countries (especially in Africa) is yet to get the center place and importance in policy-making that it deserves!