

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

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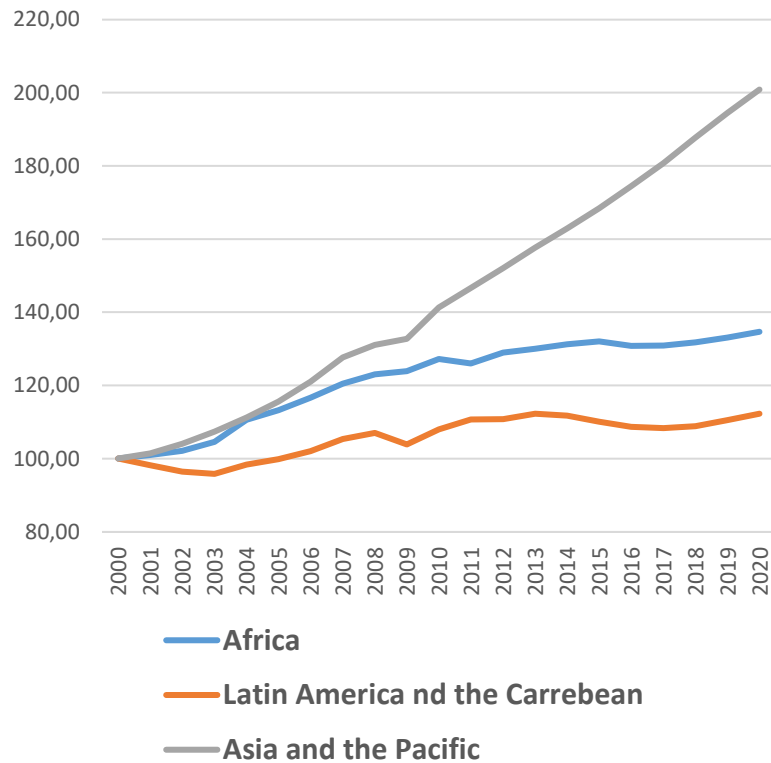
International
Labour
Organization

Let me start where I will conclude ...

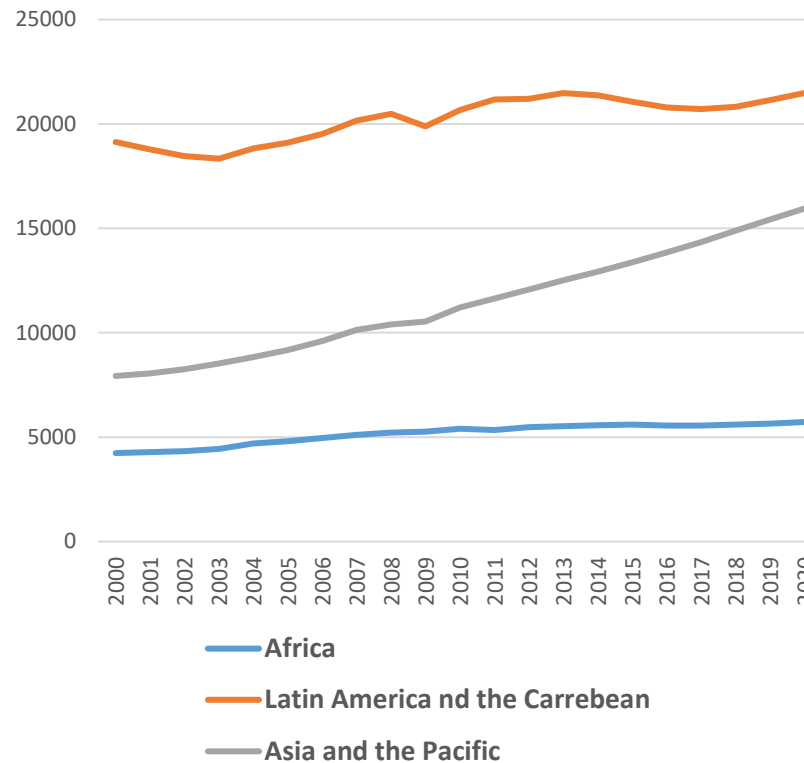
- The root cause of the employment and informality challenges in Africa is low productivity.
- With due respect (with the risk of being :
 - In spite of its resilience, tenacity, extraordinary capacity to adapt (through «adaptive or survivalist innovation») and live through a series of crisis, the main 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)

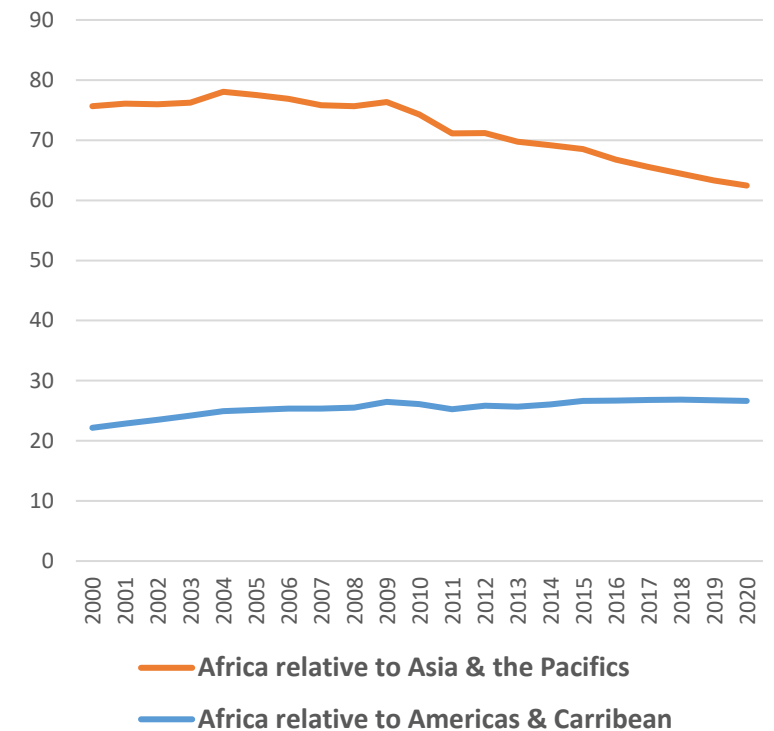
Annual change in labour productivity constant US dollars (2000 = base year)



Labour productivity levels (constant US dollars)

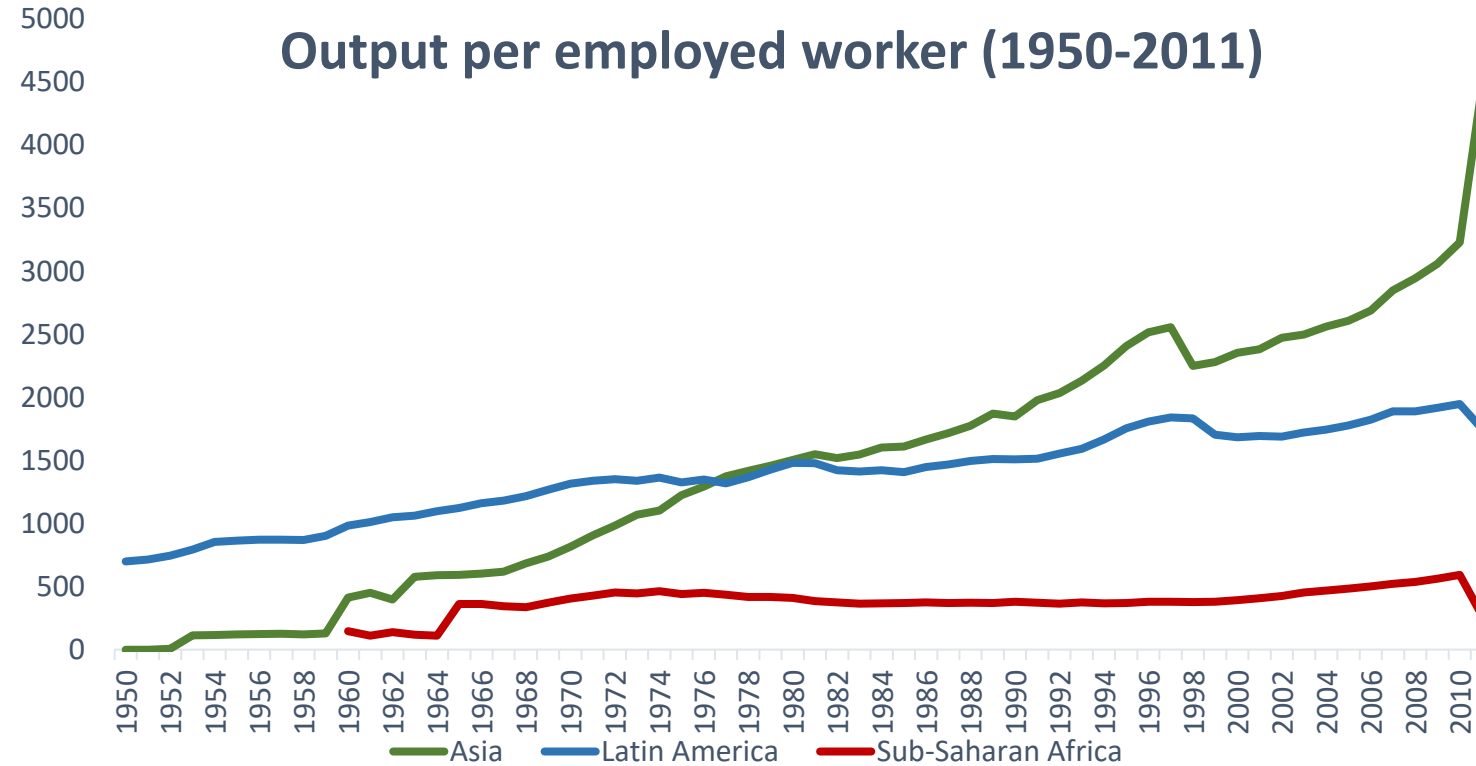


Labour productivity level in Africa as per centage of Latin America & Carribean and Asia& Pacific



Author's analysis based on ILO STAT dataset

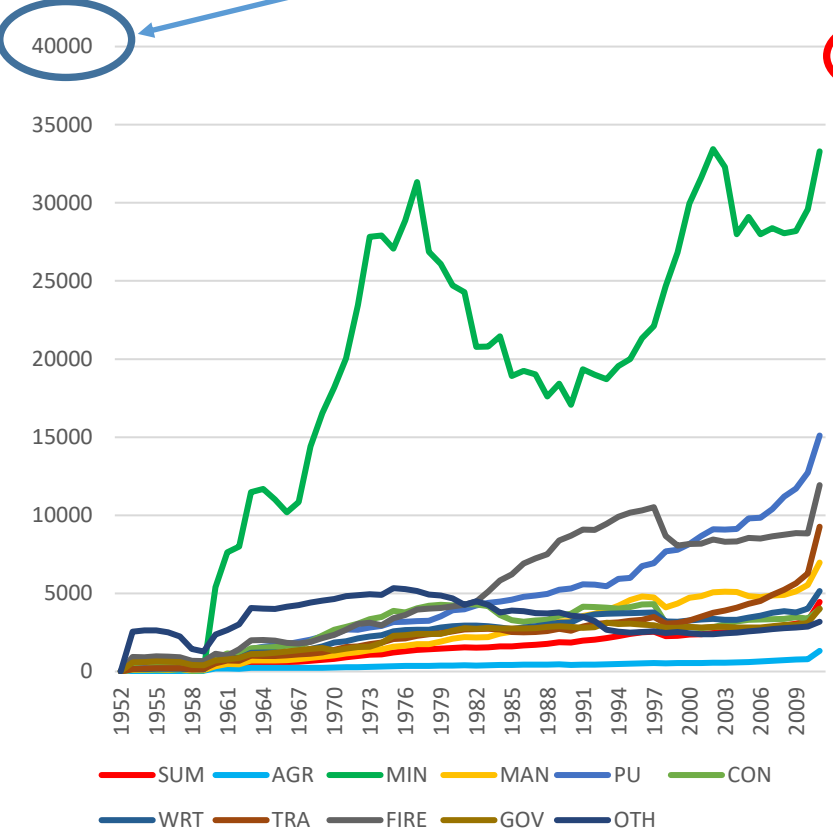
A longer time view



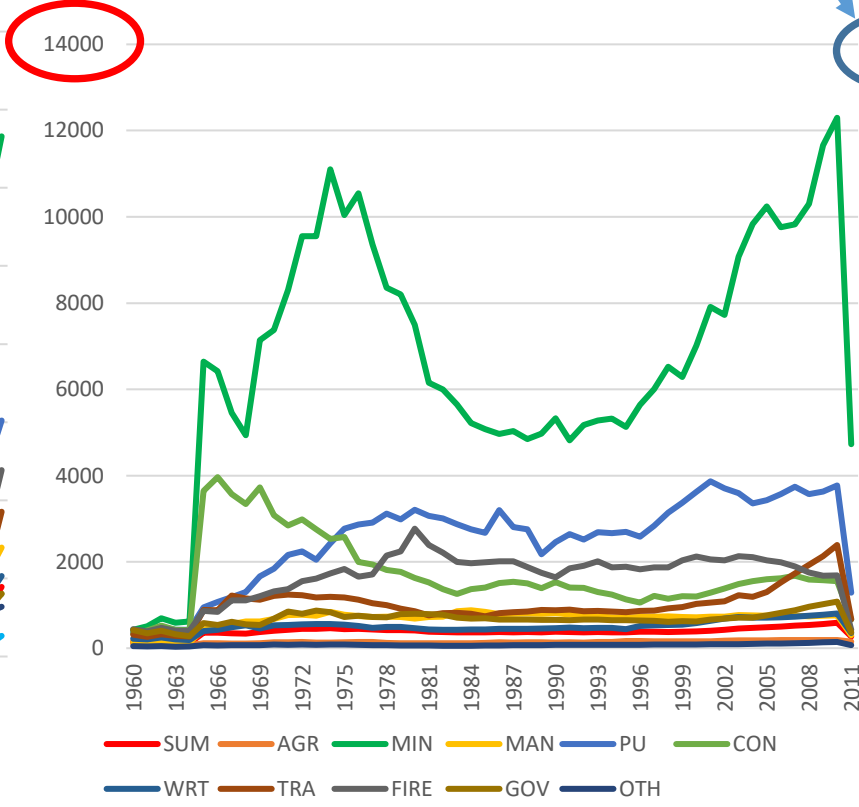
Author's analysis based on Groningen Project's 10-sectors data on productivity

See the differences in the scales

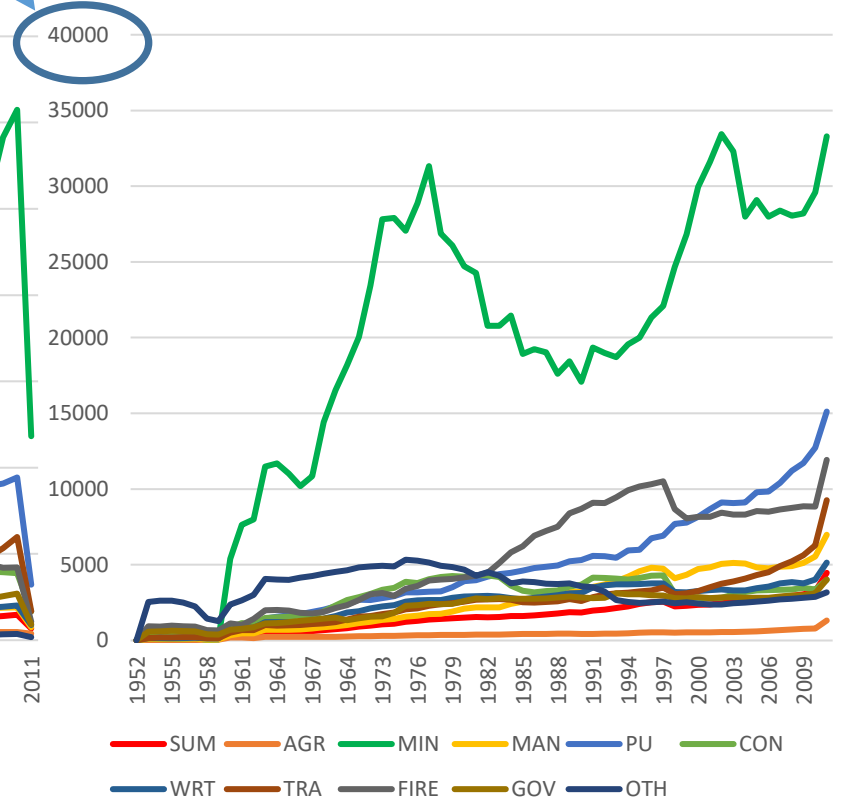
Output per employed worker in Latin America (1952-2010)



Output per employed worker in Africa (2060-2011)



Output per employer worker in Asia (1960-2010)

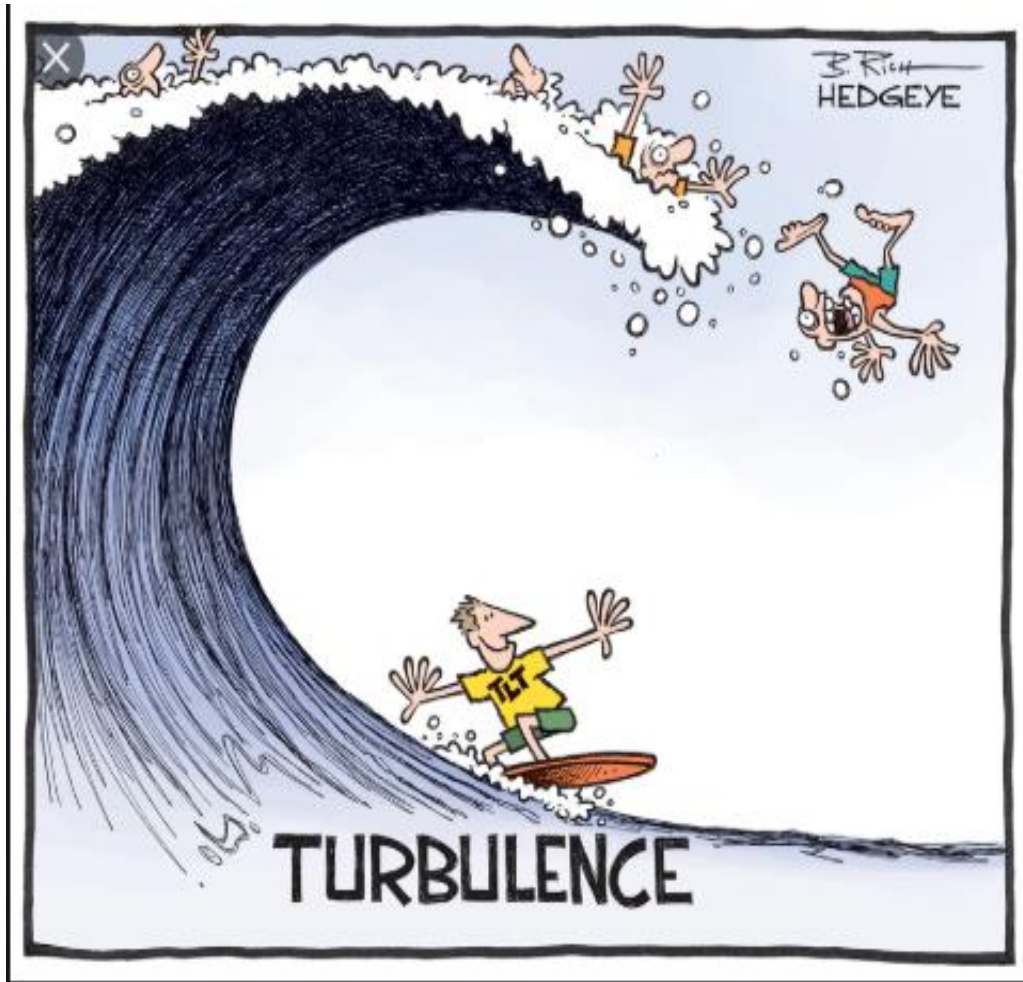


Author's analysis based on Groningen Project's 10-sectors data on productivity

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)



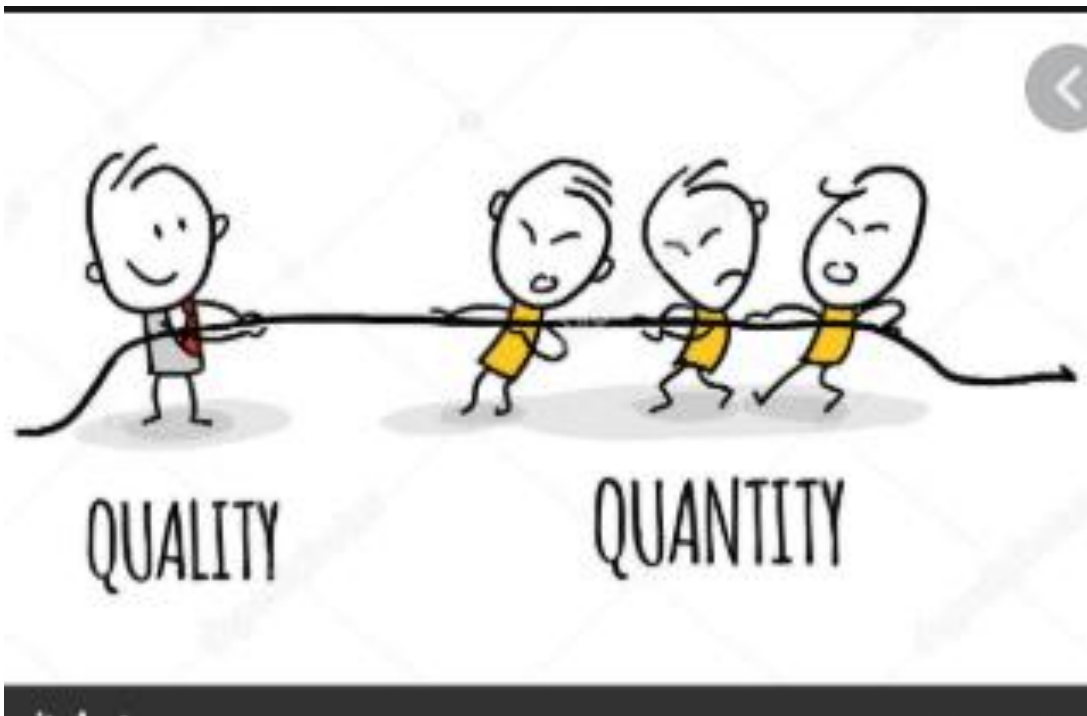
- **Macroeconomics environment**

- 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

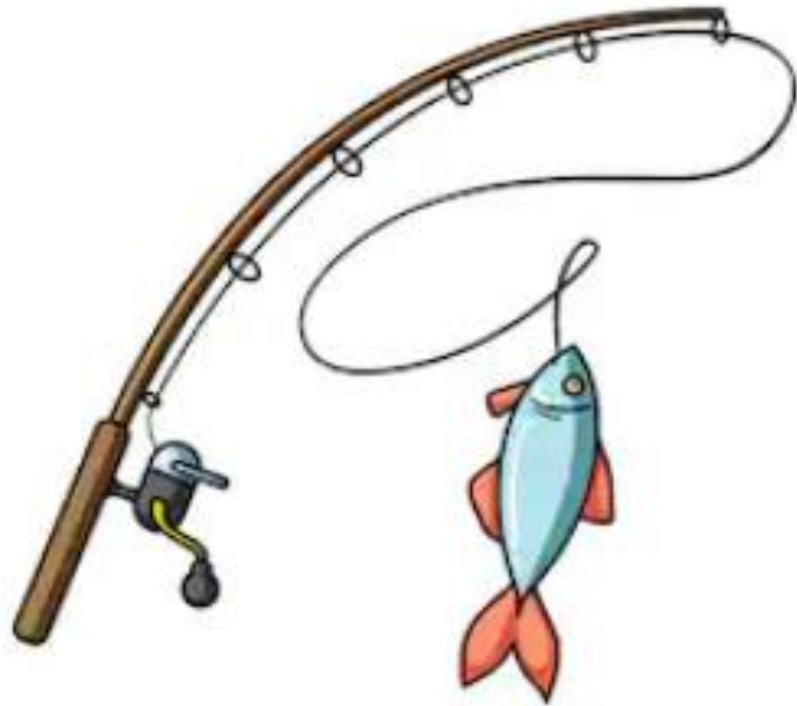


- Skill of the Labour Force (Labour quality)
 - Efficiency, innovation etc are dependent on labour quality



• Institutional factors

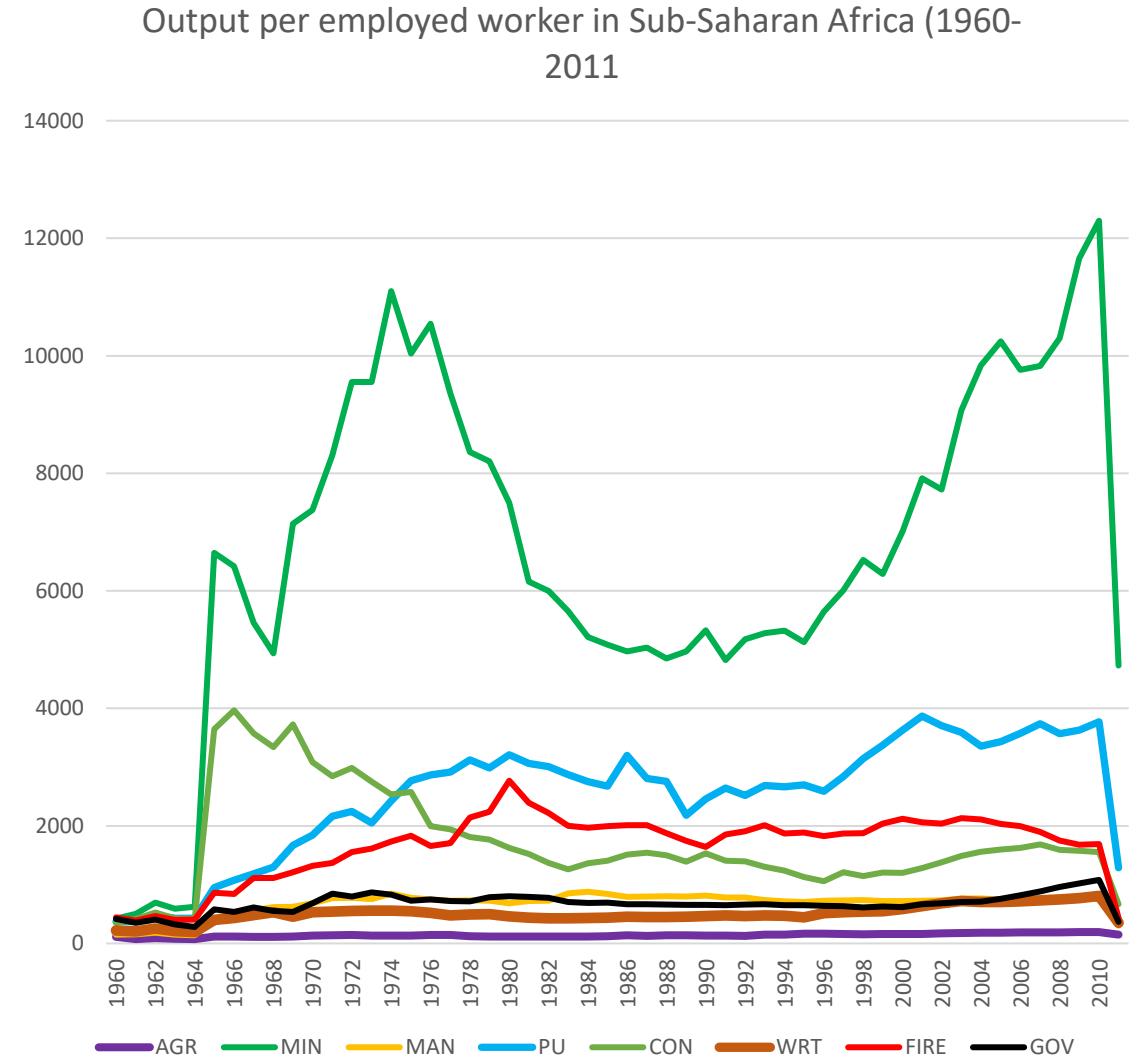
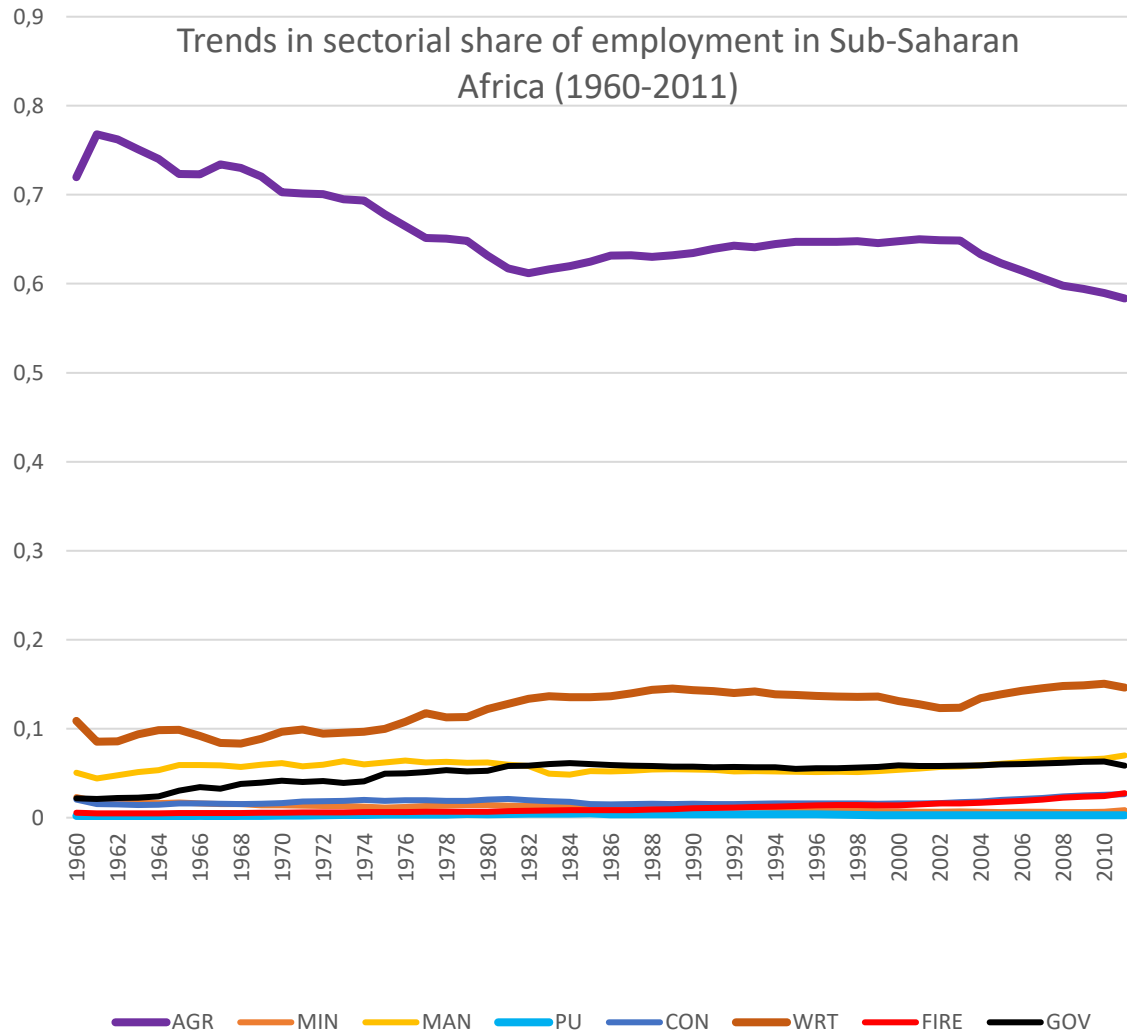
- Institutions impact on the business environment, hence, affect investment and productivity.
- They refer to government effectiveness, economic freedom, rule of law, and administrative and regulatory burden etc.



- **Sectorial composition of outputs**

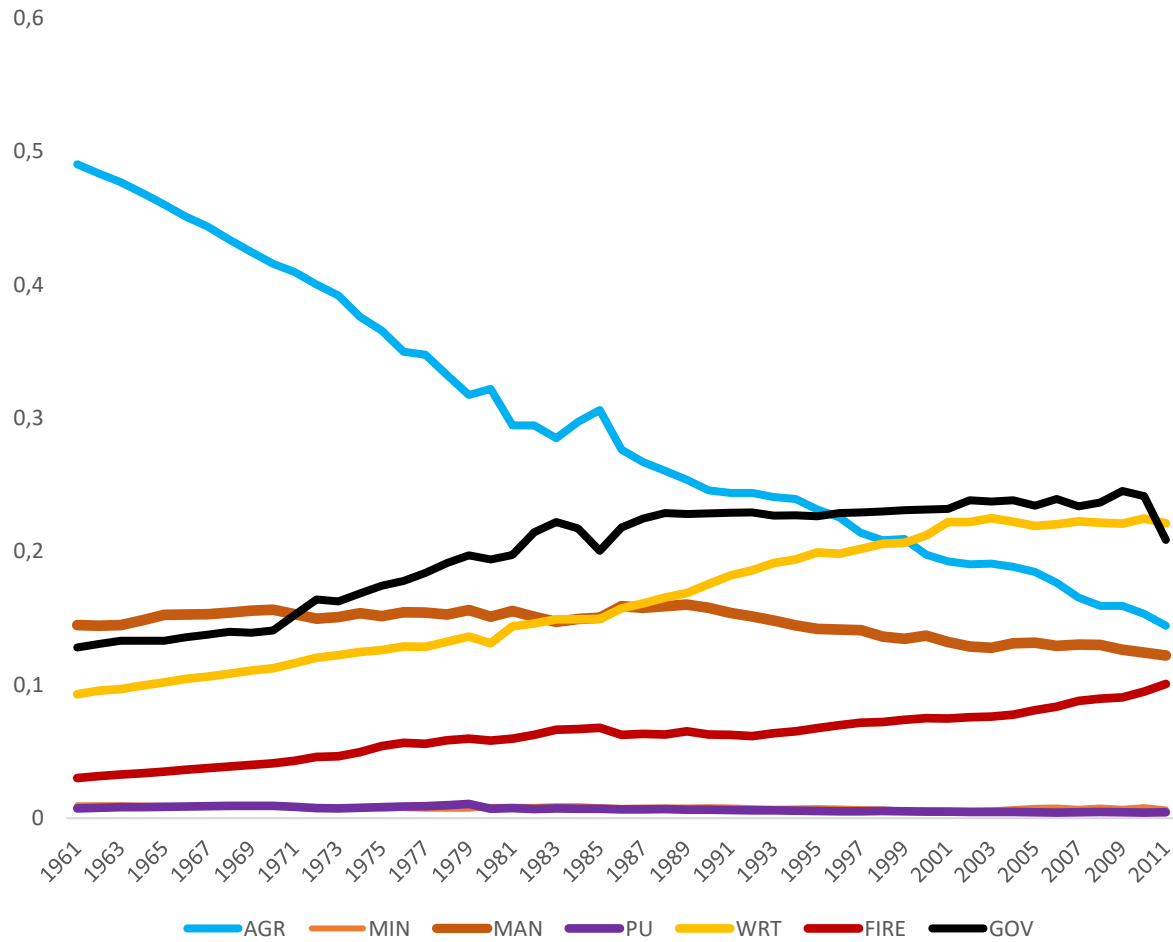
- The share of the labour force in low-productivity sectors – agriculture and informal non-agriculture sectors.

A closer look at the diverging trends in productivity and sectoral composition among Africa, Asia and Latin America

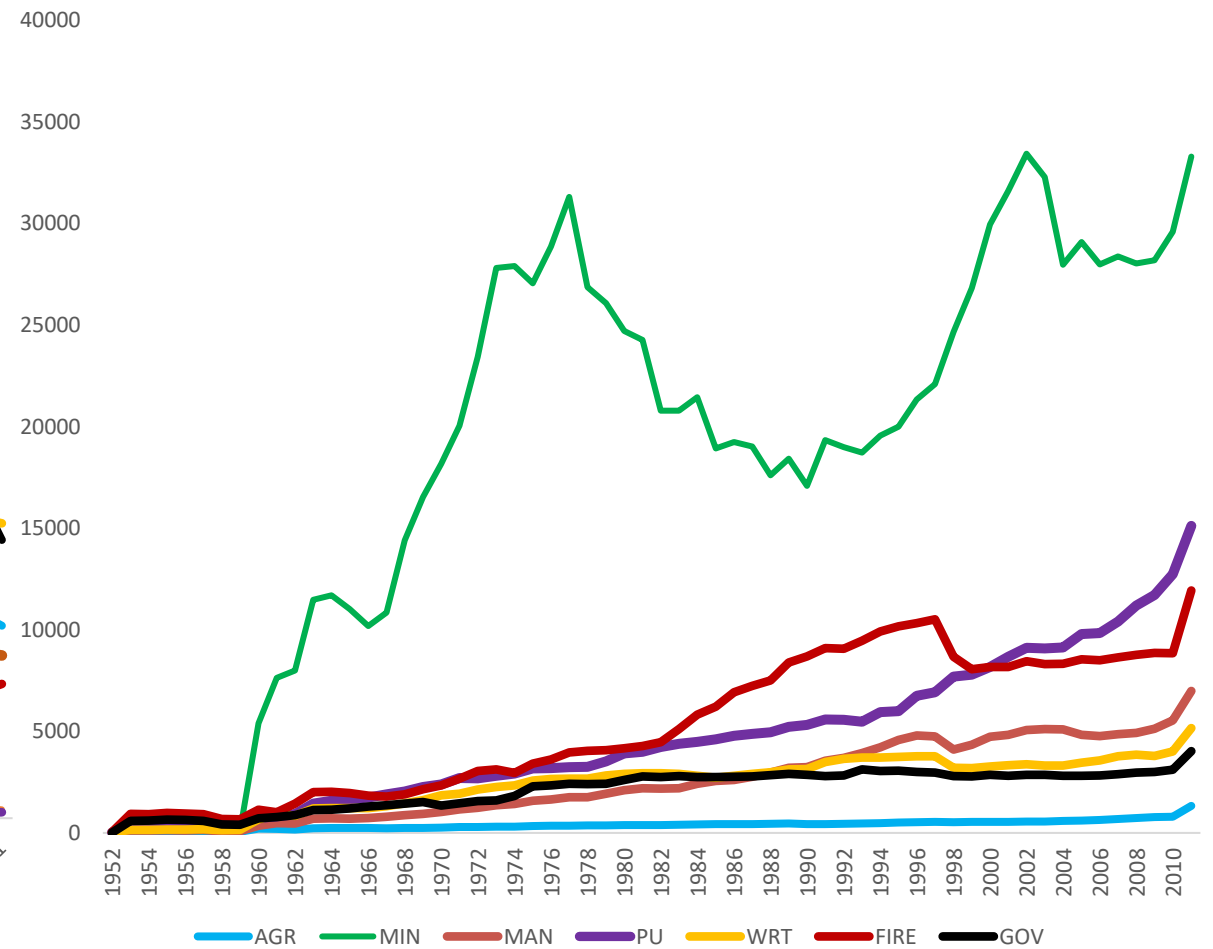


Author's analysis based on Groningen Project's 10-sectors data on productivity

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

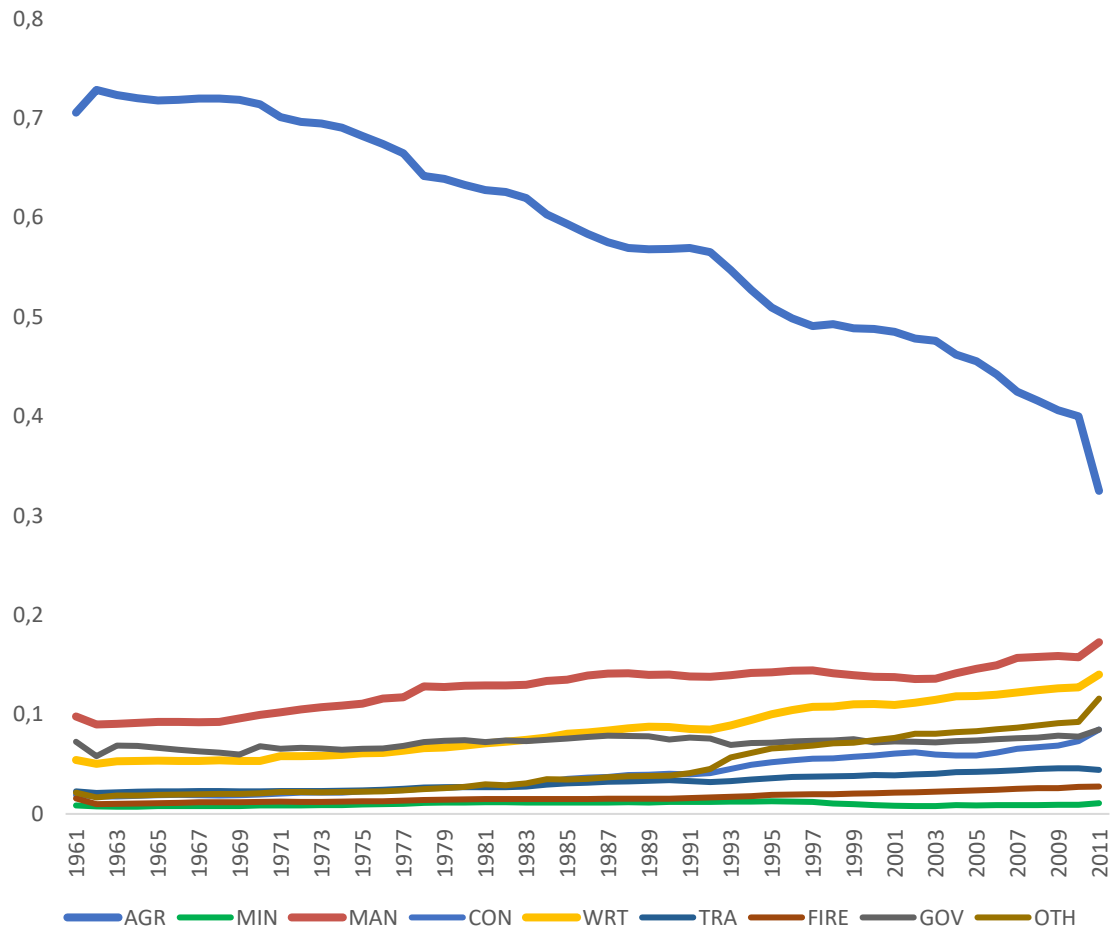


Output per employed worker in Latin America (1952-2010)

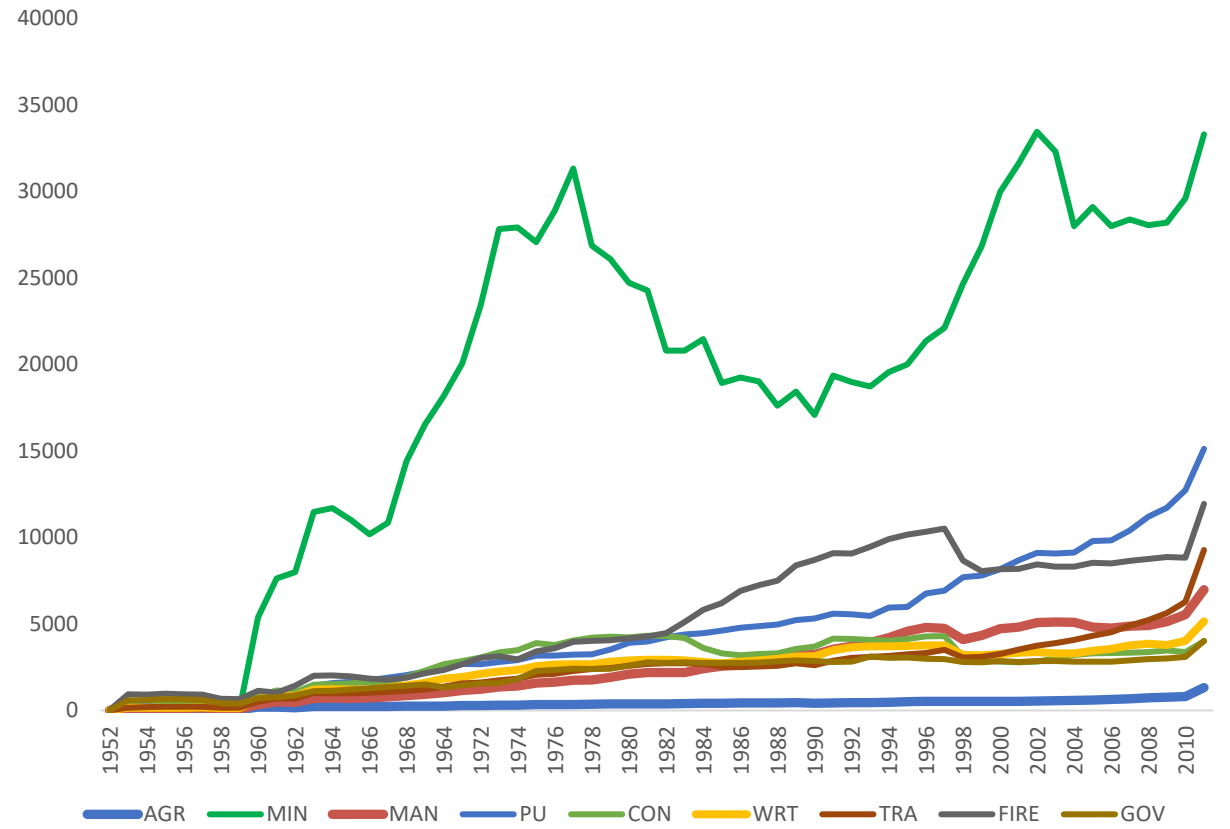


Author's analysis based on Groningen Project's 10-sectors data on productivity

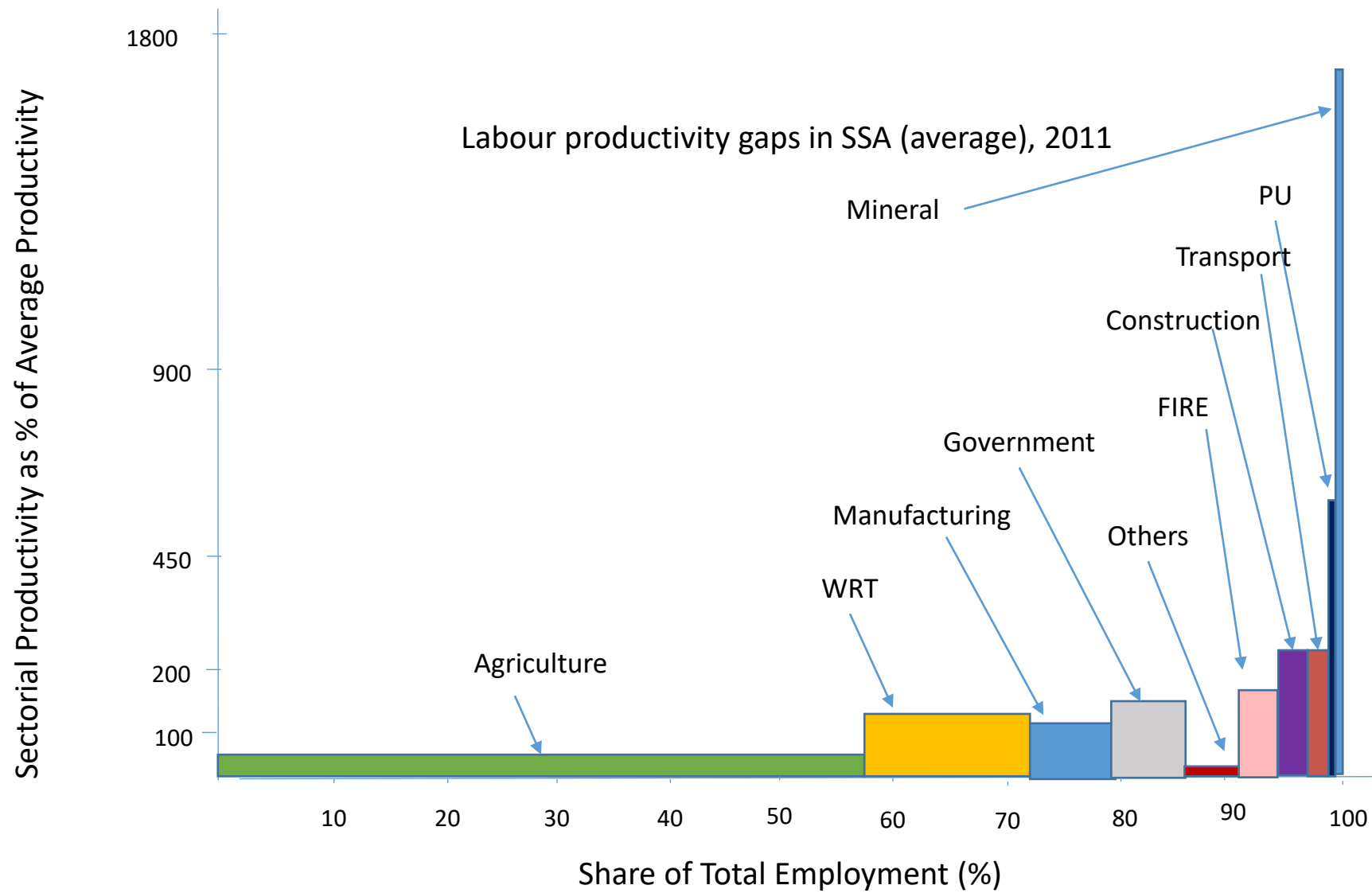
Trends in sectorial share of employment in Asia (1961-2011)



Output per employer worker in Asia (1960-2010)



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



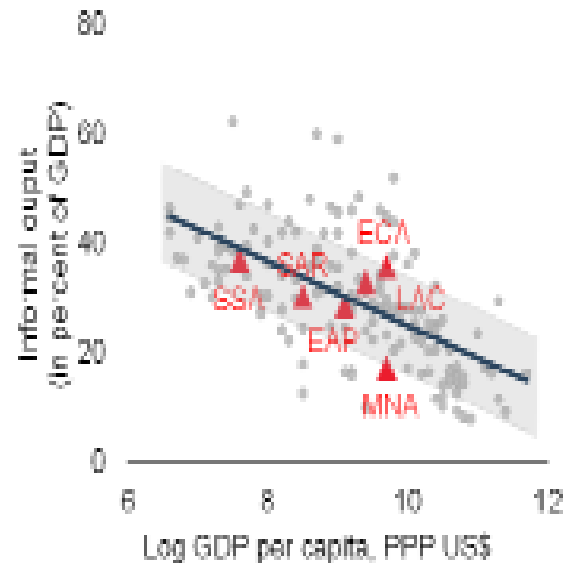
Author's analysis based on Groningen Project's 10-sectors data on productivity

- 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.

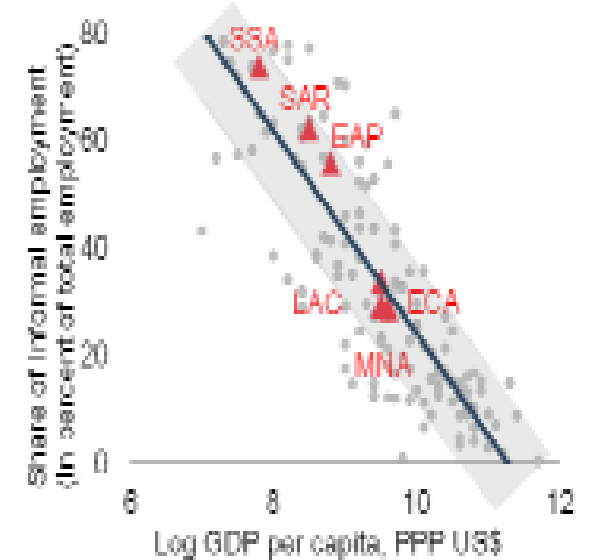
Growth and informality

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

E. GDP per capita and share of informal output



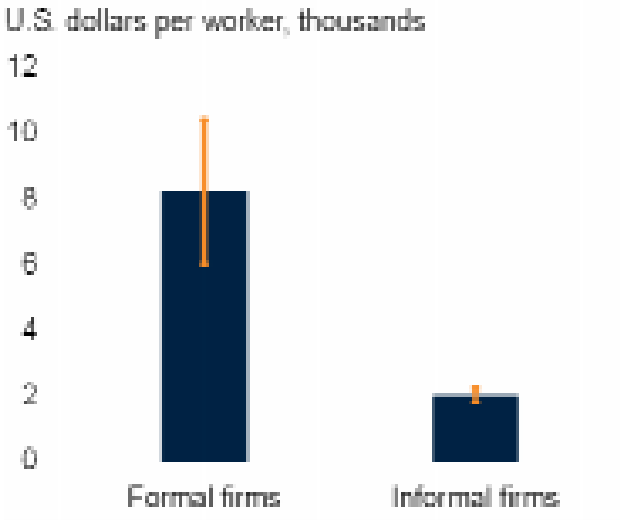
F. GDP per capita and share of informal employment



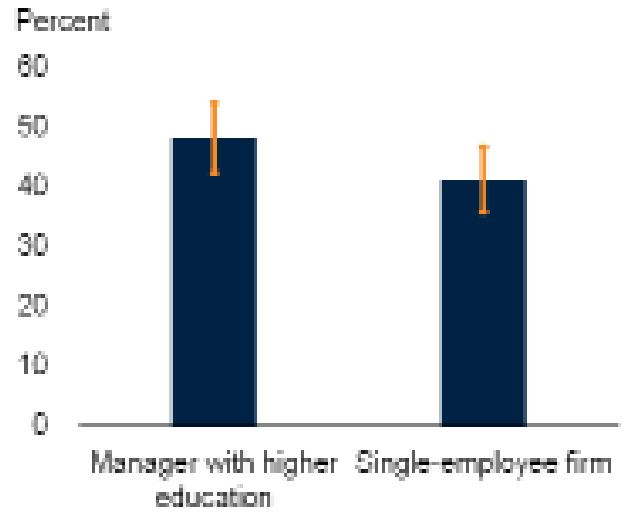
World Bank, 2019, Global Economic Prospects, A flagship report

Productivity and Informality

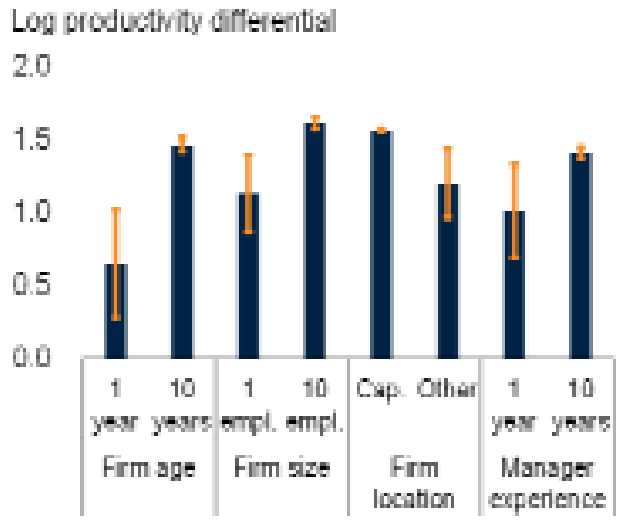
A. Average productivity in formal and informal firms



B. Productivity differential between different types of informal firms



C. Productivity differential between formal and informal firms, by type of informal firms



Source: World Bank.

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!