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**Contribution on Inclusive labour market governance for productive  
transformation: Productive transformation and decent work**

**January 2019**

## **Introduction:**

Labour market systems contribute to shape Africa's development dynamics and the productive transformation<sup>1</sup>. In simplistic perspective, development is a combination of capital and labour. Capital markets are well structured and function fairly well in Africa.

Labour market structures are still weak to play effectively their roles and support the development policies. 'Keeping the progress of structural transformation requires strategic policy actions to boost productivity and create productive jobs that can quickly absorb a large number of unskilled workers'.

Despite a continent's strong sustained growth around annual average of between 200 and 2017 over the last two decades, quality jobs remains a challenge and labour market functioning contribute to inequalities and poverty (working poverty estimated at 30%) with largely insufficient inclusiveness of its services.

Productive transformation requires decent jobs and productivity improvement balanced with fair wages systems.

Share of vulnerable employment will remain at the high level of 66% until 2022 unless measures are taken to reverse the current trends and facilitate to reach the agenda 2063 target of 41% by 2013. Today, 282 million workers are in vulnerable employment and 30% of workers remained poor despite working.

It is also recognized that structural transformation may be hard to sustain without improving productivity growth, in particular in the labour-absorbing sectors such as agro-processing, construction, logistical services and light manufacturing, to sustain long term growth, and offset or reduce the productivity gap with other competing regions in the world.

Upgrading the quality of existing products, expanding export products, emerging markets, global and regional value chains, regional and global markets with trade.

## **Labour, employment and structure of African economies**

The whole dynamics of economic growth and job creation are crucially dependent on the structure of the economy. Sectoral targeting is a key dimension of employment targeting and the new generation of development strategies in Africa need to take labour-intensity into account as one of the key factors in determining which sectors to prioritize. One way of thinking about increasing the aggregate level of labour-intensity in the economy is either to increase the share of relatively labour-intensive sectors, or to increase the degree of labour intensity within sectors (or both).<sup>2</sup>

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<sup>1</sup> Africa's Development Dynamics 2018: Growth, Jobs and inequalities, AUC and OECD, 2018

<sup>2</sup> Efficient Growth, Employment and Decent Work in Africa, ILO 2011

It is generally accepted that economic growth creates conditions that stimulate the labour demand which then increases employment and incomes and reduces poverty. The paradox of Africa's high and rapid economic growth of some 5% per annum in the last decade is that this high growth rate has not made much of a dent on the unemployment problem of the continent. Even though over 40 million jobs were created during that period, that level of job creation could not keep pace with the increases in the numbers of young workers seeking jobs.

It must be said that open unemployment mainly affects workers in the formal wage sector of the economy. In Africa, this sector accounts for only 10%-15% of the labour force. Of the approximately 400 million workers that constitute the continent's work force today, some 250 million are engaged in agriculture either as wage earners in commercial establishments, or as subsistence farmers. The latter who comprise the vast majority of workers in the agricultural sector are beset by problems of low productivity caused by inadequate production inputs, low production skills, lack of market access, and lack of, or inadequate infrastructure.

For growth to positively impact employment, the structure of Africa's economies must be transformed away from this commodity dependency towards manufacturing-based employment-generation production activities, strongly anchored on commodity-based value addition, using the continent's natural resources in highly sustainable ways.<sup>3</sup>

### **Five megatrends of productive transformation and labour markets effect**

The five megatrends underlying the effectiveness of the productive transformation have also a bearing on labour market governance and the necessary implied reforms to support the evolving economies.

Africa will take advantage of the global shifting wealth (opportunity to attract labour intensive manufacturing in Africa) if skilled and productive workforce is availed, new production revolution (new technologies, new materials, new processes, automation and digitalization new manufacturing technologies) will require workforce agility adapting to innovation in production methods and product innovations, reaping the demographic dividends is largely subjected to availability of decent jobs for ....., rapid urbanization will change the consumption patterns in favor of better quality processed goods and services with the rise of middle class, and could increase the share of informal urban economy and unprotected low income jobs as well, and green economy will require developing green skills and workforce.

### ***Demography and labour markets:***

Due to rapid population growth, by 2050, the total number of people on the continent will be twice as many as it is today with 60% being youths aged 16 to 24. By that date, the continent's labour force will be larger than that of India and China combined. Unless

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<sup>3</sup> African Union First Five Year Priority Programme on Employment, Poverty Eradication and Inclusive development (2017-2022)

measures are instituted to turn this huge youth bulge from being a liability, to serving as a development asset, Africa will have failed to harness the expected demographic dividend to fuel the total socio-economic transformation of the continent. The implications of such a failure are too frightening to contemplate<sup>4</sup>. Twenty nine (29) million additional young persons turn 16 years old every year.

The positive effect of labour supply increase (increased saving rates and productivity, re-investment in the economy, etc) will only materialize if enough decent jobs are created to absorb the young job seekers entering the labour market every year. Active labour market policies are needed to offset the adverse impact of the increase of the labour force.

Investment in education and skills and effective approaches towards lifelong learning are needed as well as the promotion of youth entrepreneurship and the protection of rights at work for young people in the new and evolving context. Designing evidence-based labour market programmes will ensure disadvantaged youth are not excluded from the benefits of technological advances.

With the right policies, African countries can attract labor-intensive manufacturing firms and create more decent jobs for the continent's upcoming youth bulge.

The Key Priority Area of the first Five-Year Priority Programme (FYPP) seeks to identify key strategies, policies and programmes that ensure the creation of robust, transformational employment for youth and women, in line with the two per cent annual target for reducing unemployment<sup>8</sup>, and supporting other targets and success indicators of the AUC Agenda 2063.

Particular attention will be placed at promoting decent rural employment for youth and women employment, including in agriculture and food systems; in ICT through the Digital Africa Work project; in culture and social development through the AU Social Business Strategy; and in post-conflict recovery and reconstruction through the Post-Conflict Reconstruction and Development Policy.

Value addition and beneficiation are now accepted transformational strategies that have been acclaimed as potentially strong drivers of decent job growth. The industrialization and transformation objectives of the major relevant AU frameworks – Vision 2063, AIDA, the Mining Vision, PIDA, CAADP, etc. – all place a premium on these two development enablers. In terms of decent work, efforts will be made to support jobs creation in labour intensive sectors with high productivity and to promote productivity in labour intensive sectors with low productivity.<sup>5</sup>

## **The productivity factor**

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<sup>4</sup> African Union First Five Year Priority Programme on Employment, Poverty Eradication and Inclusive development (2017-2022)

*Improve African firms' productivity level and competitiveness:*

Problems of productivity have dogged the majority of Africa's work force, especially workers in the informal sector, in MSMSEs and in subsistence agriculture, and account for the high levels of underemployment and poverty in the African economy and inequalities in the continent's labour markets. Social protection and productivity improvement are key to efforts to reduce underemployment and poverty, and promote decent jobs in these sectors.<sup>6</sup>

Africa needs to boost its labour productivity and progressively reduce the labour productivity gap with other regions, in particular the Asian region where labour productivity is four times higher than in Africa (Agenda 2063). Safer and healthier working conditions are necessary.

Firms should boost their productivity to sustain long-term growth. It is stated that even after controlling the productivity external factors (business environment, of credit, corruption, and regulatory bottlenecks, etc), the majority of African companies remain far below the average Total factor productivity of the top 10% most productive manufacturing firms in developing countries.

This means that significant efforts should be put on improving formal firms' internal productivity factors such as the quality of the management, with focus on the SMEs, and promoting productivity and social security in informal economic units while supporting their transition to formal enterprises.

These goals and aspiration constitute the key pillars of the AU Social Policy Framework of 2008, and cohere with the UN Social Protection Floor, both of which stress the need for productivity levels to be improved and for social protection to be extended to all, including vulnerable workers in the economy, in ways that ease their transition into decent jobs.

In terms of concept of social protection countries in Africa move more and more toward multi-pillar approach to social protection that goes beyond social assistance (non-contributory). These are social insurance (or social security employment that is connected to the 'formal' employment), social assistance, access to basic social services; access to employment and livelihood; rights of vulnerable people.

*Labour shift towards labor-intensive productive sectors:*

African countries' economies should transition from activities that provide diminishing returns over time (agriculture, mining, fishing, etc) toward activities that provide increasing returns over time (manufacturing and services to reach their full potential).

Since 2000, by moving from less productive to more productive sectors/activities, labour productivity has increased in Africa by 0.45 annually, thus contributing to the structural

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<sup>6</sup> Ibid

transformation. However, the overall productivity gains from labour reallocation is diminishing over time, with a trend of African workers moving into activities/sectors where productivity is declining.

As a result, the decline in productivity of the labour-absorption sectors reduced annual labour productivity growth by 0.9% annually between 200 and 2010. The service sector as a whole absorbs a significant share of entrepreneurs and wages employment but its productivity level is low and employment is often vulnerable or informal. Service-led development comes with higher skills requirements.

Tools are needed to both identifying priority sectors as sectors that generate a lot of value added and employment, and have large multiplier effects and linkages to the domestic economy.

*Fair distribution of productivity gains between the capital and labour:*

Both production factors contribute to obtaining productivity gains and improving the competitive edge of the enterprises and the economy as a whole, including in the global value chains.

Wage inequality is a major cause of concern in developed and developing countries, with a “pyramid” of highly unequally distributed wages, emphasizing the extent of wage inequality both between enterprises and within enterprises. Many countries have recently established or strengthened their minimum wages.

African firms should embrace cost-saving, gain-sharing, productivity-incentive mechanisms for fair distribution of productivity gains between the workers and the organization. China’s real manufacturing wages increased about 14 fold from 1980 to 2015.

Wage growth is still slow and too often disconnected from social dialogue. Recent real wage growth has been more diverse, slowing in some countries and accelerating in others. A major challenge remains the low wages of millions of workers – including workers in global supply chains. Wages are too low to fulfil the basic needs of workers and their families. In addition, large wage gaps remain between salaried workers in urban formal jobs and workers in rural areas and in the informal economy.

Social dialogue institutions, where they exist, could be strengthened to work on wages and productivity.

### **Regional and global markets:**

Regional integration and global competition will force African firms to upgrade their offer and production systems to more sophisticated products both for domestic market and export. Regional and global value chain are set to accentuate this trend.

Depending on their production structure and export performance, African countries will need to prepare their labour force if they are to take advantage of four economic upgrading: (i) Functional upgrading along the value chains, in particular in the post-production segments of the value chain-processing, storage, and marketing-; (ii) Product upgrading with product sophistication; (iii) in chain upgrading and (iv) process upgrading through innovation in the production systems.

This requires local firms to upgrade their production processes and products technology, adding desirable features, quality labelling and certification to be competitive in local and global markets.

Labour market institutions will need to enhance and modernize their capacities and systems to support the productive and service economies in this move, protect low-skilled jobs against manufacturing automation/computerization threatening 66% of the jobs in developing countries.

They must ensure quality skills for the labour force to meet the market needs, progressively reducing the skills mismatch challenge with effective labour market information.

They should work on skills reskilling and upgrading (up skilling) of the workforce, including through on-the-job-training, apprenticeships, industrial attachments and internships that provide certified skills). Any skills development policy should consider not only formal training programs but also non-formal vocational training systems and apprenticeship schemes within the informal economy to support some value chains development

They must adapt the labour and social security legal instruments to fit for the productive transformation of the African economies. Labour market information should be an effective instrument to adjust the TVET system outputs with the skills demanded by the economy.

In order to incentivize and support technology transfer, labour inspection can include in foreign investment contracts provisions for skills transfer to nationals and feeds for training of national experts.

### **Regional integration and labour mobility:**

Accelerated regional market integration will be facilitated by the Intra-African Trade, the Protocol on Free Movement of Persons and the Single Air Transport Agreement as well as the development of infrastructures in the continent. This trend will boost the already expanding labour mobility within the continent.

In 2017, 79% of the 24.7 million immigrants living on the continent were born in another African country. In order to maximize the labour market integration benefits of the labour mobility on the continent, the AU Heads of States and Government adopted the AU-ILO-IOM-ECA Joint Programme on Labour Migration Governance for Development and

Integration, in January 2015. The global objective is to support skills mobility across the continent, working on skills supply excess and shortages among countries.

Beyond the remittances effect on social and economic development investment, African diaspora can be leveraged to play significant roles in marketing and distribution of products and services from Africa, technology transfer and investments.

### **Gender discriminations in labour markets and productive transformation:**

Africa has made significant progress in terms of female labour force participation (FLFP).<sup>7</sup> Women workforce participation is still low in the formal economy.<sup>8</sup> As women surpass men in educational attainment in most regions, they represent an incredible talent pool and a vital national resource.

Women appear to be more subject to job insecurity. They dominate the informal economy and rural sector, characterized by vulnerability in employment status, a low degree of protection, mostly unskilled work, and unstable earnings. They work in plantations, flower and coffee farms with deficient working conditions. In the agriculture heavily dominated by women, women's productivity is 30 percent lower than men's because women lack access to vital inputs. Mining activities and occupations can bring transformation in female rural labour market. Stimulating modern sector employment, large-scale mining can help decrease the sectoral productivity gap by pulling women from low-productivity agriculture to higher paying service sector jobs.

The proportion of women employed in services is greater than that of men, whereas the opposite holds for the industry. The WDR 2012<sup>9</sup> estimates that eliminating barriers that prevent women from working in certain occupations and sectors would reduce the productivity gap between male and female workers by one third to one half and increase output per worker by 3% to 25% across a range of countries

There is ample evidence that when women can develop their full labour market potential, there can be significant macroeconomic gains. The SDGs target on increasing women's share in wage employment in the nonagricultural and formal sectors is essential for policy planning and decision towards structural economic transformation in the continent.<sup>10</sup>

Gender equality in workplace, markets and community can be promoted through the effective application of the Women's Empowerment Principles (WEPs). The 5YPP will contribute to end all forms of discrimination against all women and girls in the labour

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<sup>7</sup> African Union (2014) *Agenda 2063 The African We Want* Second edition

[http://agenda2063.au.int/en/sites/default/files/agenda2063\\_popular\\_version\\_05092014\\_EN.pdf](http://agenda2063.au.int/en/sites/default/files/agenda2063_popular_version_05092014_EN.pdf)

<sup>8</sup> See the World Bank Enterprise's Survey (Provide full reference)

<sup>9</sup> WDR 2012 (Provide full bibliographical reference)

<sup>10</sup> Improving the Status of women in African Labour Markets as contribution to the theme of the African Union for 2015: "Year of Women's Empowerment and Development towards Africa's Agenda 2063", 1<sup>st</sup> Session of the Au Specialized Technical Committee on Social development, Labour and Employment, 2015

markets, recognize and value unpaid care and domestic work and ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in labour markets.

### **Social protection and social security in labour market for productive transformation:**

Problems of underemployment and low incomes in agriculture and the informal sector are compounded by the added vulnerabilities of those affected, stemming from a lack of inadequacy of social protection. Workers in these sectors have very little or no protection from adversities such as natural disasters, old age, financial or economic crises, etc. Social security coverage is limited to the formal sector workers only, leaving the vast majority of Africa's labour force especially women, exposed to an uncertain future. Social protection enables households to invest in productive activities and make productive social investments in education and health thereby enhancing productivity and income levels.

Unemployment and underemployment are expected to remain high in the medium to long run, keeping three out of four workers – mainly women - in vulnerable employment and rendering them unable to fully meet all their most basic needs.

Countries are therefore to establish and maintain national social protection floors, in recognition of the fact that social security is a basic human right and a social and economic necessity. The floors constitute a set of nationally-defined basic social security guarantees including effective access to essential health care and basic income security so as to help eradicate poverty and reduce vulnerability and social exclusion, while building more inclusive societies and economies. Basic social security guarantees should be established by law, and national legislation and regulation should specify the range, qualifying conditions and levels of benefit that would give effect to these guarantees.

African Union leaders have adopted the Social Protection Plan for the Informal Economy and Rural Workers-SPIREWORK (2011). In order to provide a right-based approach, a Protocol on Social Protection and Social Security to the African Charter on the Rights of Human and People is set to be adopted in 2020, with strong provisions on the rights to social security for workers in the informal economy and rural sectors, as well as for migrant workers.

### **Challenges with the informal economy:**

Informal employment remains pervasive, especially in African developing countries, and is on the rise in parts of the new digital economy, despite significant progress in reducing the share of workers in two major segments of informal employment (own-account work and contributing family work, calling for urgent policy attention (*World Employment and Social Outlook 2018*)).

## **Policy interventions:**

The labour market policy recommendations are built on the three policy pillars used for productive transformation.

### *Pillar 1: Institutional development:*

According to the Key Priority Area 1 of the First Five Year Priority Programme on Employment, Poverty Eradication and Inclusive Development (2017-2022), actions must be taken to build and enhance the 'Political Leadership, Accountability and Good Governance' in employment and labour. This encompasses building and enhancing the policy planning and monitoring capacities, promoting policy coherence for decent work and building organic link between labour, employment and TVET sectors.

In line with the KPA 4, labour market institutions' (labour inspection, public employment services, labour market information systems, social insurance institutions, etc) functioning should be reformed to be inclusive, integrating the workers in the informal economy and rural sector into their services to support their transformation (access to social security, Occupational Security and health, skills upgrading, placement services, etc).

Domestic resource mobilization is needed for effective funding of employment policies. Social insurance institutions are key labour market institutions. As their solvency and profitability depend on the parameter of employment level, they may consider investing in labour and employment policies in order to fight against unemployment and underemployment. Ministries of labour and ministries of finance could work on this new avenue of financing employment policies.

Towards deepening regional integration, the KPA 5 provide interesting avenues, tapping on the implementation of the AU-ILO-IOM-ECA Joint Programme on Labour Migration Governance for Development and Integration. Regional labour markets integration are grounded on labour migration statistics and data, skills recognition and portability, social security access and portability for migrant workers, labour rights protection, international cooperation, policy frameworks and legal instruments harmonization and coordination. Significant progresses have been made on several of these fields.

On boosting Africa's engagement with global partners, African social partners are playing an important role. These are Business Africa, ITUC-Africa and OATUU. They have strong cooperation with their sister organizations in Europe, Middle East and Asia.

### *Pillar 2: Social Development:*

On social protection systems improvement, Africa needs to speed up the implementation of SPIREWORK in order to improve the working and living conditions of the excluded categories of workers in the informal economy and rural sector, improve their productivity. These policy measures will largely facilitate their transition from informal enterprise to formal enterprise. The core strategy will be the implementation of the AU-ILO Joint Project on 'Decent Work for the Transformation of the Informal Economy' (2018-2023).

Harmonization and coordination of social security legal frameworks will support labour mobility and migration on the continent, for productive transformation.

The extension of social security, including the establishment of national social protection floor policies, should be pursued in line with national priorities and capacities, and, where necessary, with appropriate technical and financial support from development partners. The establishment of national social protection floors in African countries should be based on a detailed assessment of existing fiscal space, and ways of ensuring sufficient fiscal space in the future.

Labour market services will support the expansion of education while improving the quality of education and skills, through effective labour market information systems (LMIS) and careers orientation systems, social dialogue on TVET and labour market engaging the private sector.

They will work on reskilling/skills upgrading, on-the-Jobs Training (OJT), apprenticeship and internship through labour code provisions, etc. these policy measures are extensively described under the KPA 2 and 4 of the First 5YPP (2017-2022). In addition, the KPA6 (Public-Private Partnership for decent jobs and inclusive Development) provide the necessary framework for Member States to engage in partnership on the basis of 6 key programmes including transition from school to work and corporate social responsibility.

There is need to develop the potential of the informal apprenticeship system and strengthen the institutional capabilities to provide training for advanced technologies, and improved quality and effectiveness of training in order to promote productive transformation in the crafts sector and informal economy.

Finally, as recommended by the Ministers of Finance in 2016<sup>11</sup>, Ministers of labour and Ministers of Finance should collaborate for sustainable funding of social protection and social security policies, and employment policies<sup>12</sup> as well. Practical methods should be found to make this recommendation happen.

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<sup>11</sup> **AUC-L8. Financing social protection in Africa**, Ninth Joint Annual Meetings of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration and the Economic Commission for Africa Conference of African Ministers of Finance, Planning and Economic Development, Addis Ababa, 4 and 5 April 2016

<sup>12</sup> **AUC-L9. First five-year priority programme for the implementation of the Declaration and Plan of Action on Employment, Poverty Eradication and Inclusive Development**, Ninth Joint Annual Meetings of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration and the Economic Commission for Africa Conference of African Ministers of

### *Pillar 3: Sustainable economic development*

Again, the PPP frameworks for decent jobs creation and the social dialogue institutions will allow to mobilize the private sector more employment-oriented investment and for supportive labour market arrangements.

In order of help private sector to diversify production and exports, labour market institutions will be determinant in providing professional and modern services on labour market information (skills, sectors, labour market related business environment, etc). They can also support on productivity improvement through Occupational Safety and Health (OSH) systems, industrial relations, labour-management cooperation systems, skills management, etc.

On green growth fostering, labour market institutions are well placed to support on green skills and green jobs. Also, green productivity is a key strategic intervention area where they can play a role for responsible consumption.

#### Conclusions:

Labour market systems play an essential role on productive transformation processes, having to provide professional and modern services on workforce management in policy development and enterprise management as well. Actions must be taken to involve them in a sustainable manner on productive transformation in countries. The 3<sup>rd</sup> session of the Specialized technical Committee in April 2019 in Addis Ababa, Ethiopia offers an opportunity to launch the initiative by an address of the Bureau of the STC on Finance.

The two Bureaus should work out the modalities for implementation of the Resolutions adopted by the Ninth Joint Annual Meetings of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration and the Economic Commission for Africa Conference of African Ministers of Finance, Planning and Economic Development, Addis Ababa, 4 and 5 April 2016.

