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BACKGROUND PAPER FOR THE  
WORLD DEVELOPMENT REPORT 2013

# Growth, Employment and Poverty in Africa: Tales of Lions and Cheetahs

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Background Paper prepared for the  
World Development Report 2013

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## Abstract

Africa's recent economic performance has been quite impressive. However, strong economic growth has not always delivered corresponding benefits in terms of poverty reduction, partly because it has failed to generate sufficient productive employment (i.e., more and better jobs). This paper compares the experiences of four fast-growing African countries—Ethiopia, Ghana, Mozambique and Tanzania—in order to shed some light on the different growth paths being pursued, as well as on the policy choices that might explain the gaps in key development outcomes. There are three key messages emerging from the analysis. First, the pattern of economic growth matters for poverty reduction. Growth that is driven by capital-intensive industries seems to generate limited benefits for the poor, as the experiences of Mozambique and Tanzania attest. In these cases, efforts to diversify production structures into more employment-intensive sectors will be crucial to improve the inclusiveness of the growth process. Second, macroeconomic stability, the business environment and labour market policies do not seem to explain differences in country performance. This suggests that, while important, they alone are not sufficient to create productive employment and thus improve living standards. A wider range of economic and social policies is therefore required to achieve better development outcomes. Third, sector-specific policies play an important role in reducing poverty. In particular, support to agriculture is not only crucial to reduce the incidence of poverty in rural areas (where the majority of the African population lives), but can also contribute to accelerate the pace of structural transformation. Improving agricultural productivity and creating employment opportunities in higher-productivity employment-intensive activities—such as in light-manufacturing and modern services—will be crucial to sustainably raise living standards in Africa. Strategic public investments and greater availability of credit can play a vital role in this regard.

*The findings, interpretations, and conclusions expressed in this paper are entirely those of the author. They do not necessarily represent the views of the World Development Report 2013 team, the World Bank and its affiliated organizations, or those of the Executive Directors of the World Bank or the governments they represent.*

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# 1. Introduction

This paper undertakes a comparative case study exercise to investigate the relationship between economic growth and income poverty from an employment perspective. We select four countries—Ethiopia, Ghana, Mozambique and Tanzania—on the basis that they were predicted to be the fastest-growing African economies during 2011-2015 and had an equally strong past performance—see The Economist (2011a).<sup>2</sup> For each of these, we examine the main trends in growth, employment and poverty with a view to establishing the dynamics of different economic sectors and employment indicators. A key overarching question is whether the strong growth record registered in these countries created sufficient productive employment.

Much of what we know about employment policies is based on the experiences of middle- and high-income countries. However, there is a growing recognition that these insights may not be applicable to poorer countries, due to their particular economic and social characteristics. For instance, low-income countries are often characterised by a large informal sector, persistent underemployment, and vulnerable work. We thus examine a range of economic policies that could affect the employment situation, and assess the extent to which these were responsible for different outcomes in the selected countries. Hence, we look beyond the conventional lens of ‘labour market policies’ and also investigate the role played by macroeconomic and structural policies.

## The Growth-Poverty Nexus

The recent growth record of African economies has been quite impressive, with an average annual real growth rate of 5 percent in the 2000s. This has led to some talk about the African ‘Lions’ and ‘Cheetahs’.<sup>3</sup> Furthermore, there is considerable optimism with regard to future growth prospects. The IMF predicts that 7 out of the 10 fastest growing economies in 2011-2015 will be in sub-Saharan Africa (The Economist, 2011a).

However, a number of important challenges remain. Table 1 suggests that despite fairly robust growth rates, poverty outcomes have varied significantly. Mozambique and Tanzania experienced high average growth rates—at around 7 percent per year—but their poverty trends were disappointing. Even in Ethiopia and Ghana the growth elasticity of poverty appears to be fairly low, especially when compared to thriving Asian economies. The failure to translate high economic growth into significant poverty reduction in Africa—as documented in AfDB *et al.* (2011)—highlights the need to investigate the key mechanisms through which growth translates into sustainable poverty reduction. We therefore evaluate recent growth episodes of African countries with an employment lens. For instance, it has been argued that while Ghana’s “growth has generated employment and wage gains which have in turn led to poverty reduction” (World Bank, 2009), Mozambique’s “growth take-off has not been accompanied by economic diversification nor by commensurate employment creation” (IMF, 2011).

Table 1: Economic Growth and Poverty Reduction

| Country    | Period    | Average annual GDP growth (%) |            | Poverty Headcount Ratio |                | Average annual change (PHR) | Growth Elasticity of Poverty <sup>†</sup> |
|------------|-----------|-------------------------------|------------|-------------------------|----------------|-----------------------------|-------------------------------------------|
|            |           | Total                         | Per Capita | t <sub>0</sub>          | t <sub>1</sub> |                             |                                           |
| Ethiopia   | 1999-2004 | 5.4                           | 2.7        | 44.2                    | 38.9           | -1.1                        | -0.9                                      |
| Ghana      | 1998-2006 | 4.9                           | 2.5        | 39.5                    | 28.5           | -1.4                        | -1.4                                      |
| Mozambique | 2002-2008 | 7.7                           | 5.0        | 54.1                    | 54.7           | +0.1                        | -0.0                                      |
| Tanzania   | 2000-2007 | 6.8                           | 3.9        | 35.6                    | 33.4           | -0.3                        | -0.3                                      |

<sup>†</sup> Computed as the ratio of the annual percentage change averages for poverty reduction and per capita growth. However, aggregate data can be misleading, since it may hide urban-rural heterogeneity (e.g., Ghana).

Source: Calculated from WDI (2011)

<sup>2</sup> While Congo, Nigeria and Zambia were also projected to grow considerably fast, their inclusion in the sample would make this exercise unmanageable. In addition, those countries are notoriously rich in natural resources, which could arguably undermine the comparability of the sample.

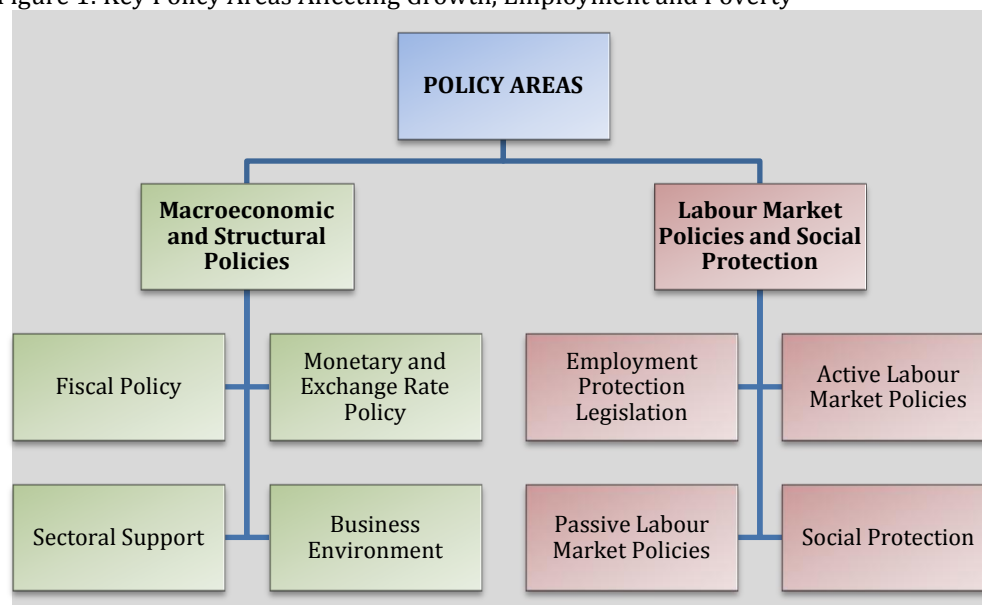
<sup>3</sup> The Lions represent fast growing African economies (McKinsey, 2010) while the Cheetahs refer to entrepreneurs that have transformed the economic landscape in Africa (Radelet, 2010).

Since we want to focus on the specific trends and policies that might have had an influence on employment and poverty outcomes, the period of analysis varies according to each country. For example, for Ethiopia we will be particularly interested in the period from 1999 to 2004, mainly due to the availability of data on poverty and employment.

## The Approach

In order to better understand the factors that might be responsible for the observed differences in poverty reduction, we investigate whether countries have adopted significantly different policy stances. Figure 1 illustrates our methodological approach. We divide the analysis into two distinct policy areas: (i) macroeconomic and structural policies, and (ii) labour market policies and social protection. The rationale is to distinguish between policies that predominately affect the broader economic environment and those that may impact directly on employment outcomes and people's livelihoods. The first policy area includes an assessment of indicators in four main sub-areas. The fiscal policy stance is evaluated through indicators such as the level of public expenditure and fiscal balances. Monetary policy entails an assessment of the level of financial development, domestic credit and interest rates—exchange rate policy is also considered here. We then explore these issues in more detail by investigating how public expenditures and domestic credit have flowed to different sectors in the economy—with special attention to agriculture and manufacturing. Finally, we look at the main obstacles to the business environment. The second policy area requires an assessment of the level of employment protection legislation, as well as existing active and passive labour market policies. In addition, social protection interventions are also considered. It is hoped that this approach can provide some useful insights into the key factors behind the different levels of success in reducing headcount poverty.

Figure 1: Key Policy Areas Affecting Growth, Employment and Poverty



## The Evidence

Greater macroeconomic stability and an improving business environment have provided a solid base for economic growth in many African countries. However, the evidence suggests that these factors are not sufficient to ensure that strong growth is translated into significant poverty reduction—as it is clear from the experiences of Mozambique and Tanzania. Overall, our analysis suggests that income poverty has been reduced due to a combination of deliberate domestic policy choices and a favourable external environment. In particular, Ethiopia and Ghana have made important strides in reducing extreme rural poverty, which could

be attributed to stronger investments in agriculture and fairly high agricultural commodity prices.<sup>4</sup> Pro-poor investments in economic and social infrastructure and greater availability of domestic credit have also played a crucial role in ensuring that the poor benefited from the growth process. However, Mozambique's export-led growth has not been translated into an improvement in living conditions, partly because its (enclave) capital-intensive industries have few linkages with the rest of the economy and have done little to improve employment outcomes. To a certain extent, Tanzania's dependence on the mining sector may have also constrained the impact of growth on poverty reduction. Furthermore, and despite recent improvements, investment levels in the four countries remain considerably lower than those experienced in fast-growing Asian economies, while their export base continues relatively undiversified and thus subject to the vagaries of world markets. This may suggest that the recent growth record might be more fragile than often recognised.

The relationship between employment dynamics and poverty reduction is complex and requires an analysis that goes beyond standard employment data—partly due to the enduring importance of the informal economy.<sup>5</sup> While in the long-run we expect a strong link between formal wage employment and poverty reduction, we are reminded that development strategies should not ignore the importance of increasing the productivity and incomes of the informal sector (especially in agriculture).<sup>6</sup> For instance, higher farm incomes (especially related to cocoa) have been crucial in reducing rural poverty in Ghana. Finally, a decomposition of GDP per capita reveals that some countries might already be benefiting from a demographic dividend (lower dependency ratios), so it is urgent to consolidate these gains with appropriate policies geared at promoting inclusive growth patterns.

## **Policy Implications**

Despite some positive trends in poverty reduction, African countries will need to sustain and build on these recent achievements—mainly by strengthening efforts to promote structural transformation. This is particularly urgent given the uncertainty surrounding the global economic environment. Based on the analysis undertaken, we argue that African countries can improve their future efforts to eradicate extreme poverty by adopting appropriate pro-employment macroeconomic and structural policies, while utilising labour market policies and social protection to support them. This would involve stronger public investments in economic and social infrastructure and measures to improve domestic credit creation for the private sector. In particular, these efforts should be targeted at increasing agricultural productivity and encouraging promising employment-intensive sectors. Labour market policies and social protection could then play a vital supporting role by ensuring equitable access to these better employment opportunities—especially for the poor and other disadvantaged groups. If the next few decades are going to mark the sustained take-off of the African 'Lions', then governments will need to make bold strategic decisions in order to tackle the challenges and seize the opportunities arising from a fast-changing global environment.

## **Structure of the Paper**

This paper is structured as follows. Section 2 provides an overview of key economic trends during the 1990s and 2000s. It looks at both aggregate and sectoral economic performance in order to identify the key driving forces in each economy. With regard to employment, we evaluate the employment dynamics in terms of specific economic sectors and the types of jobs. We also assess trends in poverty reduction and income distribution. Section 3 aims to provide a coherent body of evidence that links the three dimensions described above. For that purpose, we undertake a brief comparative analysis of macroeconomic and structural policies as well as labour market and social protection policies. Section 4 concludes with a few policy implications derived from the lessons learnt from this exercise.

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<sup>4</sup> While in Ethiopia public investment played a crucial role, in Ghana these investments appear to have been predominantly undertaken by small farmers—as cocoa prices increased substantially in the early 2000s.

<sup>5</sup> While we have broadly observed a shift in employment from agriculture to industry and services, we did not always witness a robust increase in wage employment with corresponding decreases in self-employment and unpaid family work.

<sup>6</sup> For example, while Tanzania significantly increased wage employment, the reduction in poverty was considerably lower than in Ethiopia, where wage employment virtually stagnated.

## 2. Key Trends for 1990-2010

### 2.1. Economic Growth

The recent economic performance of the four selected countries has been quite remarkable. GDP per capita has increased considerably, more than doubling in Mozambique over the 1990-2010 period (Table 2). Ghana and Tanzania remain comparatively wealthier than Ethiopia and Mozambique, although the gap appears to be narrowing in relative terms. Mozambique's GDP per capita was less than half of Ghana's and Tanzania's in 1990, but the data suggests it is catching up—partly due to the end of its protracted civil war in 1992. In fact, most of the income growth in the four countries has been concentrated in the last 10 years, particularly in Ethiopia and Tanzania.<sup>7</sup>

Table 2: GDP Per Capita (1990-2010)

|            | GDP per capita, PPP (2005 \$) |      |       |       |       | Overall Change (%) |         |
|------------|-------------------------------|------|-------|-------|-------|--------------------|---------|
|            | 1990                          | 1995 | 2000  | 2005  | 2010  | 1990-10            | 2000-10 |
| Ethiopia   | 546                           | 486  | 528   | 633   | 934   | 71.1               | 76.9    |
| Ghana      | 897                           | 960  | 1,047 | 1,193 | 1,469 | 63.8               | 40.3    |
| Mozambique | 400                           | 403  | 505   | 667   | 845   | 111.3              | 67.3    |
| Tanzania   | 836                           | 776  | 841   | 1,035 | 1,254 | 50.0               | 49.1    |

Source: Calculated from ADI (2011)

Table 3 provides data on real GDP average growth rates, which confirms that all countries have registered a strong acceleration in economic activity in the last decade. In particular, we note the growing momentum in Ethiopia and Ghana, while Mozambique and Tanzania experienced a slowdown in the late 2000s. In per capita terms, Ethiopia achieved an impressive growth rate of 7.7 percent in 2006-2010, while the remaining countries registered respectable increases during the same period—at around 4 and 5 percent.

Table 3: Real GDP Growth Rates (1990-2010)

|            | GDP growth (avg., %) |       |       |       | GDP per capita growth (avg., %) |       |       |       |
|------------|----------------------|-------|-------|-------|---------------------------------|-------|-------|-------|
|            | 91-95                | 96-00 | 01-05 | 06-10 | 91-95                           | 96-00 | 01-05 | 06-10 |
| Ethiopia   | 1.3                  | 4.7   | 6.6   | 10.4  | -2.0                            | 1.8   | 3.9   | 7.7   |
| Ghana      | 4.3                  | 4.3   | 5.0   | 6.5   | 1.4                             | 1.8   | 2.6   | 4.2   |
| Mozambique | 3.6                  | 7.5   | 8.6   | 7.2   | 0.3                             | 4.7   | 5.8   | 4.8   |
| Tanzania   | 1.8                  | 4.3   | 7.0   | 6.9   | -1.5                            | 1.6   | 4.2   | 3.8   |

Source: Calculated from ADI (2011)

Disaggregating this economic performance by sector of activity can provide interesting insights into the key driving forces operating in each country (Table 4). In Ethiopia, there was a broad-based increase in value added across the different sectors. Services grew at about 7 percent during 1996-2005, and accelerated to 15 percent in the following five years, sustained by particularly rapid growth in financial services, real estate, and retail trade (Ali, 2011). In addition, the growth of industrial value added doubled from 5 to 10 percent since 1996, while agricultural growth has also been impressive—albeit consistently lower than that of industry and services. Nonetheless, the growth of agricultural value added between 1999 and 2005 appears to have been driven by employment growth rather than productivity growth (World Bank, 2007). While the weight of agriculture in the economy has declined from about 63 to 47 percent, services registered a very strong increase—from 28 to 40 percent. Industry has also seen its share of GDP increase, albeit more moderately.

In Ghana, the services sector also experienced strong growth rates, which were above those of the remaining sectors in the 1990s. Agricultural growth picked up in the early 2000s, mostly due to the positive performance of the cocoa sector, alongside that of industry in recent years. However, it should be noted that the recent expansion in industry has not been due to stronger manufacturing, but rather due to mining. In terms of the composition of GDP, the contribution of agriculture has been gradually declining, while industry

<sup>7</sup> While Ethiopia suffered a severe drought in 2002-2003, the economic performance in the early 2000s might have benefited from the end of the 1998-2000 war with Eritrea.



has increased as a share of GDP during the 1990s. Nonetheless, the structure of GDP does not appear to have changed dramatically, especially during the past couple of decades.<sup>8</sup>

Table 4: Sector Performance and Economic Structure (1990-2010)

|                    | Value Added growth (avg., %) |       |       |       | Value Added (% GDP) |       |       |        |
|--------------------|------------------------------|-------|-------|-------|---------------------|-------|-------|--------|
|                    | 91-95                        | 96-00 | 01-05 | 06-10 | 91-95               | 96-00 | 01-05 | 06-10  |
| Ethiopia           |                              |       |       |       |                     |       |       |        |
| Agriculture        | 1.8                          | 3.2   | 5.6   | 8.0   | 62.7                | 53.3  | 44.8  | 47.3   |
| Industry           | 0.7                          | 4.6   | 8.2   | 9.7   | 8.9                 | 11.7  | 13.6  | 12.8   |
| Manufacturing      | 1.0                          | 3.9   | 5.0   | 9.6   | 3.8                 | 5.2   | 5.4   | 4.7    |
| Services           | 1.2                          | 6.8   | 6.8   | 14.6  | 28.4                | 35.1  | 41.6  | 39.9   |
| Ghana <sup>†</sup> |                              |       |       |       |                     |       |       |        |
| Agriculture        | 2.4                          | 4.1   | 5.2   | 4.5   | 43.3                | 40.7  | 40.3  | (30.5) |
| Industry           | 4.3                          | 4.6   | 5.1   | 7.9   | 23.3                | 28.1  | 27.7  | (19.9) |
| Manufacturing      | 1.9                          | 4.7   | 4.4   | 0.8   | 9.9                 | 10.0  | 9.8   | (8.1)  |
| Services           | 6.2                          | 5.4   | 5.2   | 7.7   | 33.4                | 31.2  | 32.0  | (49.6) |
| Mozambique         |                              |       |       |       |                     |       |       |        |
| Agriculture        | 2.8                          | 3.8   | 7.5   | 9.8   | 36.0                | 30.7  | 26.5  | 29.9   |
| Industry           | 1.0                          | 23.0  | 13.3  | 5.5   | 14.8                | 20.6  | 25.6  | 24.6   |
| Manufacturing      | -2.9                         | 19.0  | 15.2  | 2.6   | 9.5                 | 10.8  | 15.5  | 14.4   |
| Services           | 3.7                          | 6.5   | 7.0   | 6.7   | 49.2                | 48.7  | 47.9  | 45.5   |
| Tanzania           |                              |       |       |       |                     |       |       |        |
| Agriculture        | 3.2                          | 3.3   | 4.7   | 4.2   | 47.3                | 39.2  | 32.6  | 29.4   |
| Industry           | -0.8                         | 7.0   | 9.6   | 8.2   | 15.7                | 17.4  | 21.6  | 23.6   |
| Manufacturing      | 0.0                          | 5.7   | 8.1   | 8.8   | 7.8                 | 8.8   | 8.8   | 9.0    |
| Services           | 1.6                          | 4.2   | 7.5   | 7.8   | 37.1                | 43.3  | 45.8  | 47.0   |

<sup>†</sup> Value added growth for 1991-2005 was computed from Aryeetey and Baah-Boateng (2007). Data in brackets reflects the recent GDP rebasing and is therefore not comparable with previous periods.

Source: Calculated from ADI (2011)

The sectoral performance of Mozambique's economy has differed quite substantially from that of Ethiopia and Ghana, particularly due to the striking growth of the industrial sector during the late 1990s—at an average of 23 percent per annum. This is mostly explained by the start of export-oriented mega-projects—such as the Mozal aluminium smelter—although the pace of industrial growth has recently declined quite sharply. Despite fairly strong growth rates in agriculture and services, Mozambique's economic performance appears to have been largely determined by strong growth in manufacturing and utilities. The value added generated by agriculture and services declined as a share of GDP, while industry boomed from 15 to 25 percent. It is worth noting that, by the early 2000s, the weight of agriculture in total GDP had declined to uncharacteristically low levels when compared to countries with similar income levels (ILO, 2008).

Finally, Tanzania's economic growth has been fairly broad-based, although agricultural growth has been considerably slower than the other sectors since 1996. In fact, the growth of agricultural value added has been comparatively lower than in the remaining three countries during the same period. Some of the fastest growing sectors have relatively weak linkages with the rest of the economy (e.g., mining). In terms of economic structure, the share of agriculture has declined by about 18 percentage points, which was compensated by the rise of both industry and services. The share of manufacturing has remained fairly constant, suggesting that other industries have been more dynamic—in this case, construction and mining.

Table 5 provides a more detailed disaggregation of the relative sectoral contributions to gross value added. While there are some discrepancies among data sources, the overall conclusions are quite similar.<sup>9</sup> In Ethiopia, while the relative importance of agriculture in total value added decreased from about 62 to 47 percent, all remaining sectors saw their shares increase. In particular, the increase in 'other activities' (e.g., public administration & defence and banking) has been quite strong—from nearly 15 percent in 1991-1995

<sup>8</sup> The data for 2006-2010 reflects the recent GDP rebasing exercise. The relatively stable economic structure is confirmed by Kolavalli *et al.* (2011).

<sup>9</sup> The ADI data for Tanzania (1991-2000) and agriculture and services in Mozambique (2006-2010) differ from UN national accounts statistics. Disaggregated ADI data can be found in the Appendix.

to about 22 percent in 2001-2005. In Ghana, the fall in the share of agriculture was less pronounced, possibly owing to better relative performance and the fact that it had a lower starting point. Overall, the economic structure in Ghana has not changed significantly, especially when compared to the remaining countries. Manufacturing declined from 10 percent to 8 percent in the last few years, while construction has increased from about 7 percent to 11 percent over the last 20 years.<sup>10</sup>

Table 5: Sectoral Value Added (% GVA)

|                                           | Ethiopia   |       |       |       | Ghana                 |       |       |       |
|-------------------------------------------|------------|-------|-------|-------|-----------------------|-------|-------|-------|
|                                           | 91-95      | 96-00 | 01-05 | 06-09 | 91-95                 | 96-00 | 01-05 | 06-09 |
| Agriculture, hunting, forestry, fishing   | 61.5       | 52.7  | 44.5  | 46.7  | 42.7                  | 40.7  | 40.3  | 37.0  |
| Mining, Manufacturing, Utilities          | 5.7        | 7.6   | 8.2   | 6.9   | 17.0                  | 18.7  | 17.9  | 17.9  |
| Manufacturing                             | 3.9        | 5.2   | 5.4   | 4.4   | 10.0                  | 10.0  | 9.8   | 8.3   |
| Construction                              | 3.1        | 4.0   | 5.3   | 5.7   | 6.5                   | 9.4   | 9.8   | 10.5  |
| Wholesale, retail trade, rest. and hotels | 10.9       | 13.4  | 14.1  | 15.4  | 7.1                   | 7.2   | 7.6   | 7.8   |
| Transport, storage and communication      | 3.9        | 4.5   | 6.2   | 5.5   | 5.1                   | 4.6   | 4.9   | 5.1   |
| Other Activities                          | 14.8       | 17.9  | 21.8  | 19.8  | 21.5                  | 19.4  | 19.5  | 21.7  |
|                                           | Mozambique |       |       |       | Tanzania <sup>†</sup> |       |       |       |
|                                           | 91-95      | 96-00 | 01-05 | 06-09 | 91-95                 | 96-00 | 01-05 | 06-09 |
| Agriculture, hunting, forestry, fishing   | 35.4       | 30.1  | 25.9  | 27.9  | ..                    | ..    | 32.2  | 30.1  |
| Mining, Manufacturing, Utilities          | 10.1       | 12.6  | 20.5  | 21.6  | ..                    | ..    | 13.6  | 14.1  |
| Manufacturing                             | 9.3        | 10.6  | 15.1  | 14.7  | ..                    | ..    | 8.7   | 8.4   |
| Construction                              | 4.5        | 7.6   | 4.4   | 3.0   | ..                    | ..    | 7.6   | 8.5   |
| Wholesale, retail trade, rest. and hotels | 20.7       | 23.7  | 15.1  | 15.9  | ..                    | ..    | 15.5  | 15.4  |
| Transport, storage and communication      | 9.7        | 9.3   | 10.5  | 9.7   | ..                    | ..    | 6.7   | 7.1   |
| Other Activities                          | 19.6       | 16.6  | 23.6  | 21.7  | ..                    | ..    | 24.4  | 24.8  |

<sup>†</sup> We do not report data for the 1990s, since the total adds up to more than 100 percent (about 106 percent, on average)

Source: Calculated from UNdata (2012)

In Mozambique, the share of agriculture also fell considerably during the 1991-2005 period, mostly due to the strong expansion of industrial output. Manufacturing increased its share from 9 to 15 percent, while utilities are also an important sub-sector. The increase in construction in 1996-2000 is related to the initial (building) phase of large mega-projects. Finally, Tanzania saw key sectors in the economy decline in relative importance—such as agriculture and manufacturing—which were compensated by increases in construction and mining.

Overall, the most dramatic changes in the structural composition of output since the mid-1990s were related to increases in Ethiopia's services, Mozambique's heavy manufacturing and Tanzania's mining sectors. The share of agriculture increased in Ethiopia and Mozambique during the 2006-2009 period—by about 2 percentage points—possibly due to the impact of the global economic crisis on industry and services.

Table 6 examines the composition of GDP from an expenditure approach, rather than a production approach. For Ethiopia, the data shows a strong increase in the share of investment, as well as a more than doubling of exports and imports—net exports have consequently deteriorated significantly. The boost in total investment was mainly led by the public sector, with its share of GDP increasing from about 4 percent to above 16 percent. Although private investment has declined in relative importance, it has nonetheless grown in absolute terms. In Ghana, total investment has also increased remarkably as a share of GDP, albeit in this case it was chiefly due to an increase in private sector investment—from about 8 percent to nearly 15 percent in 2001-2005. Exports and imports have grown significantly, but experienced a strong drop in the late 2000s.

<sup>10</sup> These values and trends are confirmed by Kolavalli *et al.* (2011), although not reflecting the GDP rebasing.

Table 6: Expenditure Composition of GDP (% GDP)

|                      | Ethiopia |       |       |       | Ghana |       |       |       |
|----------------------|----------|-------|-------|-------|-------|-------|-------|-------|
|                      | 91-95    | 96-00 | 01-05 | 06-10 | 91-95 | 96-00 | 01-05 | 06-10 |
| Consumption          | 91.7     | 89.1  | 92.2  | 97.9  | 92.3  | 92.7  | 93.5  | 94.0  |
| General government   | 8.6      | 11.9  | 13.6  | 10.1  | 12.4  | 11.1  | 11.7  | 11.0  |
| Household            | 83.1     | 77.2  | 78.6  | 87.8  | 79.9  | 81.5  | 81.8  | 83.0  |
| Investment           | 14.5     | 19.9  | 23.1  | 22.3  | 19.0  | 22.8  | 25.3  | 21.0  |
| GFKF, public sector  | 3.9      | 11.0  | 14.1  | 16.1  | 11.4  | 11.4  | 10.7  | 8.3   |
| GFKF, private sector | 10.7     | 8.9   | 9.0   | 6.2   | 7.8   | 10.6  | 14.6  | 12.7  |
| Exports              | 6.0      | 11.5  | 13.6  | 12.0  | 20.8  | 35.9  | 40.9  | 26.1  |
| Imports              | 12.2     | 20.5  | 29.0  | 32.1  | 32.1  | 51.3  | 59.7  | 41.2  |

|                      | Mozambique |       |       |       | Tanzania |       |       |       |
|----------------------|------------|-------|-------|-------|----------|-------|-------|-------|
|                      | 91-95      | 96-00 | 01-05 | 06-10 | 91-95    | 96-00 | 01-05 | 06-10 |
| Consumption          | 108.7      | 93.8  | 93.8  | 95.1  | 99.5     | 93.0  | 84.9  | 86.3  |
| General government   | 10.8       | 7.7   | 10.0  | 12.0  | 17.3     | 11.1  | 15.0  | 18.8  |
| Household            | 97.9       | 86.2  | 83.8  | 83.0  | 82.1     | 82.0  | 70.0  | 67.4  |
| Investment           | 21.1       | 22.0  | 21.9  | 18.8  | 24.6     | 17.2  | 20.3  | 27.4  |
| GFKF, public sector  | 13.8       | 9.9   | 11.2  | 12.3  | 7.0      | 3.6   | 5.6   | 8.2   |
| GFKF, private sector | 7.4        | 12.1  | 10.7  | 6.6   | 17.4     | 13.2  | 14.3  | 18.7  |
| Exports              | 13.2       | 14.0  | 28.4  | 31.3  | 17.1     | 14.9  | 18.7  | 23.3  |
| Imports              | 43.0       | 29.9  | 44.1  | 45.2  | 41.2     | 25.1  | 23.9  | 37.0  |

Source: Calculated from ADI (2011)

Mozambique's share of investment in total GDP has stagnated at around 20 percent. We note a considerable increase in private investment in the late 1990s, followed by a strong declining trend. Exports have doubled in the 2000s, while imports have also grown significantly—partly because Mozal relies heavily on imported intermediate inputs. This confirms that growth has been predominantly export-led (ILO, 2008). In Tanzania, the share of investment declined in the 1996-2000 period, but it has since picked up—with both public and private sources increasing by about 5 percentage points. Exports and imports also fell as a percentage of GDP in the late 1990s, but have recently exhibited an upward trend.

In summary, the four countries under examination have recently experienced a period of strong and fairly broad-based economic growth. The aggregate trends seem to bear out the growing optimism on the future prospects of African economies, perhaps warranting analogies of 'lions' and 'cheetahs'. However, a closer examination suggests that there are important sectoral variations, possibly highlighting different growth strategies. In Mozambique and Tanzania, heavy manufacturing and mining were the key drivers of economic growth, while Ethiopia and Ghana appear to have had a more balanced growth pattern. These sectoral growth performances had a significant impact on the relative weight of different sectors in the economy—with the exception of Ghana—with an overall decline of agriculture, accompanied by increases in industry and services. Nonetheless, some of these patterns may raise important concerns. First, the rapid growth observed in the services sector needs to be further scrutinised, since the sector is very heterogeneous in terms of productivity growth potential. Second, despite the observable shift in the structure of production towards industry, capital-intensive industries tend to have weak backward and forward linkages to the domestic economy, and can therefore become enclaves with limited impact on employment and poverty reduction. Third, growth patterns fuelled by a strong export performance, rather than investment levels, can be vulnerable to changes in the global economic environment (e.g., future commodity prices).

## 2.2. Demography and Employment

Despite the strong growth record, African economies continue to face substantial economic and social challenges. For instance, an increasing number of young people are entering the labour market, thus requiring economies to create more and better employment opportunities. It is therefore crucial to analyse the extent to which the recent economic performance and structural shifts in production were accompanied by commensurate improvements in the quantity and quality of employment.

Table 7 suggests that population growth has been decelerating in most countries. Current growth rates have been kept below 3 percent, although in Tanzania it has been increasing since the late 1990s. Labour force growth rates have also declined considerably in Ghana and Mozambique, while in Tanzania the rate of increase has stagnated at around 2.8 percent since the late 1990s. In Ethiopia, there was a sharp increase in 2001-2005, possibly due to ex-soldiers entering the labour force after the end of the war with Eritrea. However, labour force growth remains relatively high, posing challenges to the economies in terms of the need to create productive jobs to absorb increasing numbers of entrants in the labour market.

Table 7: Population and Labour Force Growth

|            | Population growth (avg., %) |       |       |       | Labour Force growth (avg., %) |       |       |       |
|------------|-----------------------------|-------|-------|-------|-------------------------------|-------|-------|-------|
|            | 91-95                       | 96-00 | 01-05 | 06-09 | 91-95                         | 96-00 | 01-05 | 06-09 |
| Ethiopia   | 3.3                         | 2.8   | 2.6   | 2.5   | 3.1                           | 2.9   | 3.8   | 3.5   |
| Ghana      | 2.8                         | 2.5   | 2.3   | 2.2   | 3.7                           | 3.6   | 2.9   | 2.7   |
| Mozambique | 3.3                         | 2.7   | 2.6   | 2.3   | 4.4                           | 2.8   | 2.4   | 2.3   |
| Tanzania   | 3.3                         | 2.6   | 2.7   | 2.9   | 3.6                           | 2.8   | 2.7   | 2.8   |

Source: Calculated from ADI (2011)

The age structure of the population can be broadly measured by age dependency ratios—i.e., the ratio of the young or elderly population to the working-age population (Table 8). These ratios also provide an indication of the burden falling on the ‘productive’ population (labour force), in terms of the effort required to support the economically dependent population—the young through education, and the elderly through healthcare and possibly pensions. The data suggests that the youth dependency ratios are very high in the four countries, thus pointing to large young populations. While the ratio is declining in all countries, as expected in demographic transitions, the speed at which this is happening varies considerably. The decline in Ghana has been quite striking, while in Tanzania it has been rather low. This suggests that Ghana—and to some extent Ethiopia—may be at a more advance stage of demographic transition and perhaps starting to benefit from lower dependency ratios.

With regard to the elderly dependency ratio, the values are reasonably low for all countries. However, the ratios seem to be slowly increasing, perhaps with the exception of Mozambique. As a consequence of these trends, the median age is also increasing. Overall, these countries might be facing a potential demographic dividend, as the working-age population expands and provides a boost to economic activity. It is crucial to implement conducive policies in order to take advantage of this transition, namely by providing adequate skills and creating good employment opportunities, especially for the youth. If this opportunity is missed, and countries fail to successfully integrate new entrants in the labour market, adverse implications in relation to social cohesion as well as economic and political stability will be likely to emerge.

Table 8: Age Dependency Ratio and Median Age

|            | Age Dependency Ratio |      |      |               |      |      | Median Age |      |      |
|------------|----------------------|------|------|---------------|------|------|------------|------|------|
|            | Young (under 15)     |      |      | Old (over 65) |      |      |            |      |      |
|            | 1990                 | 2000 | 2010 | 1990          | 2000 | 2010 | 1990       | 2000 | 2010 |
| Ethiopia   | 86.5                 | 89.5 | 75.1 | 5.5           | 5.7  | 6.0  | 17.4       | 17.0 | 18.7 |
| Ghana      | 83.4                 | 74.5 | 67.0 | 5.7           | 6.0  | 6.6  | 17.8       | 19.1 | 20.5 |
| Mozambique | 92.7                 | 82.1 | 83.8 | 6.4           | 5.9  | 6.3  | 16.5       | 17.9 | 17.8 |
| Tanzania   | 89.5                 | 85.4 | 85.7 | 5.2           | 5.5  | 6.0  | 16.9       | 17.4 | 17.5 |

Source: ADI (2011) and UNdata (2012)

Table 9 presents data on the employment-population ratio—the share of the working-age population that is currently employed—and the labour participation rate—the ratio of the economically active population to the total population aged 15 and above. The latter provides an indication of the relative size of the labour supply that is available to be actively engaged in the production of goods and services. The data suggest that only Ethiopia was able to increase the employment-population ratio—from a fairly low 68 percent to a strong 80 percent. It is concerning that the ratio declined for the remaining countries. Tanzania experienced a drop of 9 percentage points, while Ghana’s ratio remains considerably low, at 65 percent. In terms of the labour participation rate, Ethiopia and Ghana have registered increases of about 3 percentage points, while Mozambique and Tanzania have actually experienced declines. However, Ghana’s labour participation rate is

comparatively smaller than the remaining countries, possibly due to a fast growing student population or even an increase in ‘discouraged’ workers.<sup>11</sup>

Table 38 (Annex) presents data on youth employment, which broadly confirms the trends uncovered here.

Table 9: Employment-Population Ratio and Participation Rate, total (1990-2010)

|            | Employment-Population Ratio (avg.) |       |       |       | Labour Participation Rate (avg.) |       |       |       |
|------------|------------------------------------|-------|-------|-------|----------------------------------|-------|-------|-------|
|            | 91-95                              | 96-00 | 01-05 | 06-08 | 91-95                            | 96-00 | 01-05 | 06-09 |
| Ethiopia   | 72.1                               | 73.8  | 77.7  | 80.2  | 81.4                             | 81.2  | 83.5  | 84.6  |
| Ghana      | 68.1                               | 67.8  | 66.0  | 65.2  | 71.9                             | 73.8  | 74.6  | 74.5  |
| Mozambique | 79.7                               | 78.6  | 78.2  | 78.0  | 86.7                             | 86.7  | 86.4  | 85.9  |
| Tanzania   | 86.9                               | 85.6  | 82.1  | 78.0  | 89.1                             | 89.0  | 88.7  | 88.5  |

Source: Calculated from ADI (2011)

Table 10 illustrates the structural composition of employment. With the exception of Ghana, more than three-quarters of workers are employed in the agricultural sector. This highlights the strategic importance of the sector, despite its declining contribution (in relative terms) to GDP. The services sector employs a considerable share of workers, especially in Ghana, but industry provides less than 7 percent of total employment opportunities in Ethiopia, Mozambique and Tanzania. This data suggests that, despite the changes in the structural composition of GDP noted above, the sectoral composition of employment has not shifted accordingly. This is partly because the industrial expansion has been observed in capital-intensive sectors with low job creation potential.<sup>12</sup>

Table 10: Structure of Employment (% Total)

|             | Survey Period | Agriculture (%) |      | Industry (%) |      | Services (%) |      |
|-------------|---------------|-----------------|------|--------------|------|--------------|------|
|             |               | Start           | End  | Start        | End  | Start        | End  |
| Ethiopia    | 1994-05       | 89.3            | 79.3 | 2.3          | 6.6  | 7.6          | 12.8 |
| Ghana       | 1999-06       | 55.0            | 57.2 | 14.0         | 13.6 | 31.1         | 29.1 |
| Mozambique† | 2003-09       | 80.5            | ..   | 3.4          | ..   | 16.1         | ..   |
| Tanzania    | 2001-06       | 82.1            | 74.6 | 2.6          | 5.0  | 15.3         | 20.3 |

† According to Fox (2011), the structure of employment has remained virtually unchanged.

Source: KILM (2011) and WDI (2011)

However, we should be cautious when analysing this data, since the definitions may vary across time and countries. For instance, even though Ghana’s surveys are similar, the 1998 data corresponds to the population aged 15 and above, while the 2006 data refers to the working-age population—i.e., those aged between 15 and 64. In Tanzania, the 2001 household survey provides data for the population aged 10 and above, while the 2006 labour force survey corresponds to those aged 15 and above. These differences could undermine the comparability of the data. Moreover, Fox (2011) argues that, because poor households are often characterised by multiple activities and sources of income, looking at ‘primary employment’ may conceal important changes in household livelihoods. Thus, Fox (2011) argues that Ghana’s labour force, as opposed to Mozambique, is indeed transitioning out of agriculture to non-farm activities—based on 1998/99 and 2005/2006 surveys. The author also presents evidence that in Tanzania non-farm jobs have registered the fastest growth in recent years—especially when compared to family farming and wage agriculture. Data from population censuses might also be useful. For Mozambique, it suggest that employment in agriculture declined from 81 to 75 percent between 1997 and 2007, while employment in industry and services increased—from 6 to 7 percent and 12 to 18 percent, respectively.

<sup>11</sup> That is, people who would be available for work but are not actively seeking employment—either because they feel there is no suitable work available (e.g., due to skills mismatch) or because they do not know where and how to find work. This can be particular relevant in urban contexts.

<sup>12</sup> Some Ethiopian industries that grew during that period have been shown to be relatively pro-poor in their labour intensity and linkages with the domestic economy—including food and beverages, textiles, chemical and chemical products, other non-metallic mineral products, and furniture (Demeke, 2006). In Tanzania, however, there has been a lack of integration of key economic sectors—such as mining and tourism—in local supply chains (Mashindano, 2009) and low employment intensities (ILO, 2004).

Table 11 presents data on employment status. Overall, we note that the magnitude of wage and salaried employment is dwarfed by the size of own-account and contributing family work. Even in Ghana, this category constitutes less than 20 percent of the total workforce. The level of vulnerable employment—that is, the sum of own-account and contributing family workers—is correspondingly very high.<sup>13</sup> In Ethiopia, despite an increase in the total number of wage and salaried jobs, their share in total employment declined marginally.<sup>14</sup> This is partly attributed to the disappointing performance of urban labour markets (World Bank, 2007), and may explain the slower reduction in poverty in urban areas. Ghana achieved substantial progress in expanding wage work, while the share of employers more than doubled. Census data for Mozambique suggests that wage employment has stagnated at about 11 percent, while the share of own-account workers has increased from 64 to 72 percent between 1997 and 2007. Finally, Tanzania seems to have boosted the share of wage employment, but it would be useful to investigate whether this has led to an improvement in average earnings. All countries observed declines in the share of own-account workers and increases in (unpaid) contributing family worker.<sup>15</sup>

Table 11: Type of Employment

|            | Survey Period | Wage and Salaried |      | Employers |     | Own-Account |      | Contributing Family |      |
|------------|---------------|-------------------|------|-----------|-----|-------------|------|---------------------|------|
|            |               | Start             | End  | Start     | End | Start       | End  | Start               | End  |
| Ethiopia   | 1999-04       | 8.2               | 7.9  | 0.8       | 0.6 | 43.5        | 40.9 | 47.0                | 50.3 |
| Ghana†     | 1998-06       | 14.4              | 19.9 | 2.0       | 4.5 | 66.0        | 55.0 | 17.6                | 20.4 |
| Mozambique | 2003-08       | 8.8               | ..   | 3.4       | ..  | 51.1        | ..   | 36.7                | ..   |
| Tanzania‡  | 2000-07       | 6.9               | 10.5 | 0.9       | 1.5 | 88.4        | 76.3 | 3.8                 | 11.4 |

† Data for 1998 was taken from the I2D2 survey.

‡ The data for Tanzania includes subsistence farmers as own-account workers.

Source: KILM (2011)

Table 12 provides information on the level of unemployment and the share of working poor in total employment. The data suggests that unemployment has been reduced in Ethiopia and Tanzania. Unfortunately, the unemployment rate has little meaning in the context of sub-Saharan Africa since most poor people cannot afford to be out of work in the absence of income support. The fact that Ghana has a higher unemployment rate than Ethiopia and Tanzania might be due to greater access to social protection rather than a sign of a worse employment situation. Underemployment rates can be more useful in providing information about the state of employment, especially in countries with large numbers of self-employed workers earning low incomes. For this purpose, we can use a measure of working poverty as a proxy for income-related underemployment. The ILO data suggests that Ethiopia has been able to significantly reduce the share of working poor in total employment between 1999 and 2004. This is probably due to improved incomes from informal activities, especially agriculture. Estimates from the ILO suggest that working poverty has also declined in the remaining countries, although these are based on econometric models and use international poverty lines.<sup>16</sup>

Table 12: Unemployment and Share of Working Poor

|            | Survey Period | Unemployment |     | Working Poor (\$1.25, % Total) |        | Working Poor (\$2, % Total) |        |
|------------|---------------|--------------|-----|--------------------------------|--------|-----------------------------|--------|
|            |               | Start        | End | Start                          | End    | Start                       | End    |
| Ethiopia   | 1999-04       | 8.2          | 5.4 | 50.9                           | 34.9   | 83.5                        | 73.1   |
| Ghana      | 1998-06       | 10.1         | ..  | 34.6                           | (25.8) | 58.3                        | (48.3) |
| Mozambique | 2003-08       | ..           | ..  | 73.6                           | (58.0) | 90.4                        | (81.1) |
| Tanzania   | 2000-07       | 5.1          | 4.3 | (84.4)                         | (64.0) | (94.1)                      | (84.7) |

Note: Values in brackets are modelled estimates

<sup>13</sup> These types of employment are usually associated with uncertain incomes and poorer working conditions. The term 'self-employment' usually includes employers, own-account workers, and contributing family workers (members of producers' cooperatives tend to be a negligible category), although sometimes it is also used as a synonym of own-account workers.

<sup>14</sup> However, the share of wage and salaried employment did increase from 5.7 per cent in 1994 to 8.2 per cent in 1999.

<sup>15</sup> Fox and Gaal (2008) suggest that employment in the services sector—which has increased in African countries—tends to be associated with self-employment or family businesses, rather than wage employment.

<sup>16</sup> Although Mozambique's poverty levels have stagnated during the 2003-2008 period, the statistics adjusted for PPP exchange rates point to strong reductions—from about 75 per cent to 60 per cent for \$1.25 a day, and from 90 per cent to 82 per cent for \$2 a day.

Source: ADI (2011) and KILM (2011).

Table 13 provides estimates of employment elasticities, which measure how employment growth changes with economic growth. The data suggests that Ethiopia and Ghana have been better able to translate GDP growth into employment increases, especially in the 2000s. Their elasticities for the 2000-2004 period were considerably higher than those for Mozambique and Tanzania, and were still higher in recent years. However, it seems that the employment elasticities have been declining since the early 1990s for all countries. This is concerning when bearing in mind the persistently high labour force growth. We note that the elasticities for Mozambique were particularly low in the 1996-2004 period, precisely when the capital-intensive industrialisation strategy enabled the economy to boom. Overall, this appears to suggest that the growth strategies pursued by Ethiopia and Ghana have been better able to encourage employment creation. Perhaps not coincidentally, these were the countries that have experienced the highest growth elasticities of poverty.

Table 13: Elasticity of Total Employment to Total GDP

|            | Elasticity of total employment to total GDP |           |           |           |
|------------|---------------------------------------------|-----------|-----------|-----------|
|            | 1992-1996                                   | 1996-2000 | 2000-2004 | 2004-2008 |
| Ethiopia   | 0.41                                        | 0.95      | 0.97      | 0.34      |
| Ghana      | 0.64                                        | 0.64      | 0.52      | 0.40      |
| Mozambique | 0.56                                        | 0.29      | 0.29      | 0.32      |
| Tanzania   | 1.04                                        | 0.64      | 0.23      | 0.27      |

Source: KILM (2009)

These elasticities, coupled with information on GDP growth, can provide valuable information about productivity change. In periods of positive economic and employment growth, employment elasticities below unity suggest that employment growth is dominated by (labour) productivity growth rather than broad-based employment generation (Kapsos, 2005). This observation highlights the dangers of evaluating economic performance exclusively through a 'productivity' lens. The low employment elasticities for Mozambique and Tanzania thus support the conclusion that economic growth has been capital-intensive with a limited impact on employment. Khan (2001) argues that employment elasticities should be around 0.7 in developing countries. However, African countries might require even higher employment elasticities—for any given rate of growth—due to strong labour force growth.<sup>17</sup>

McMillan and Rodrik (2011) decompose productivity growth into two components: (i) within sectors; and (ii) across sectors, i.e., structural change. They find that, perhaps surprisingly, several African countries have experienced growth-reducing structural change since the 1990s.<sup>18</sup> In this case, globalisation does not appear to have promoted a desirable type of structural change since labour moved towards less productive activities—e.g., informal urban services. However, Ghana and Ethiopia were found to have experienced growth-enhancing structural change.<sup>19</sup> The movement of labour from lower to higher productivity activities might partly explain the relatively strong poverty reduction performance in both countries. In Ethiopia, agriculture has the lowest productivity, while the 'modern' services sector—namely, 'finance, insurance, real estate and business services'—has the highest. In Ghana, the lowest productivity is found in 'wholesale and retail trade, hotels and restaurants' and the highest in 'public utilities (electricity, gas, and water)'. Nonetheless, the authors note that labour productivity in the manufacturing sector remains low in both countries.

In Table 14, we decompose GDP per capita growth into growth associated with changes in the size of the working-age population, the employment rate, and output per worker. The starting point is the following equation,  $Y/N = A/N * E/A * Y/E$ , where  $Y$  is total GDP,  $N$  the total population,  $A$  the working-age population,

<sup>17</sup> Since in the early stages of development the primary goal is to absorb the surplus of agricultural labour into urban industry or decently paid services.

<sup>18</sup> Their sample includes 9 African countries (Ethiopia, Ghana, Kenya, Malawi, Mauritius, Nigeria, Senegal, South Africa, and Zambia) and covers the period from 1990 to 2005. They construct data on sectoral employment from population censuses, complemented by labour force and household surveys.

<sup>19</sup> Nonetheless, their sample did not include the 2006 survey data for Ghana, which indicates a stagnating manufacturing sector and a small increase in the share of agriculture in total employment.

and  $E$  is total employment. This approach has the advantage of taking into account changes in the population structure, and complements the employment elasticities presented above.<sup>20</sup>

Table 14: Decomposition of GDP per capita

|            | Period    | GDP per capita           | % Contribution of     |                    |                      |
|------------|-----------|--------------------------|-----------------------|--------------------|----------------------|
|            |           | (2000 US\$,<br>% change) | Demographic<br>Change | Employment<br>Rate | Output per<br>worker |
|            |           | $\Delta(Y/N)$            | $\Delta(A/N)$         | $\Delta(E/A)$      | $\Delta(Y/E)$        |
| Ethiopia   | 1999-2005 | 23.8                     | 8.7                   | 36.7               | 54.6                 |
| Ghana      | 1998-2005 | 17.6                     | 22.5                  | -30.0              | 107.5                |
| Mozambique | 2003-2008 | 28.6                     | -1.6                  | -1.4               | 103.0                |
| Tanzania   | 2000-2006 | 27.7                     | -0.1                  | -34.0              | 134.1                |

Source: Calculated from ADI (2011) using the JoGGs (2012)

Our analysis suggests that most of the growth per capita in Mozambique was accounted for by productivity growth (output per worker), with negligible changes in the employment rate and demographic structure. In fact, Ethiopia is the only country where the employment rate made a positive contribution to GDP. Per capita growth would have been higher by about one-third in Ghana and Tanzania had the employment rate not changed. However, this was compensated by strong productivity growth. Finally, Ghana appears to be reaping some of the benefits associated with demographic transitions, as its share of working-age population in total population is increasing—thus, less dependents per working-age adult. About 23 percent of the change in GDP per capita was due to changes in the structure of the population, which means that, *ceteris paribus*, this trend alone would have generated per capita growth equivalent to about one-quarter of the actual observed growth. Overall, these results suggest that job creation was strong in Ethiopia, but not in the remaining countries. However, it is important to note that this exercise does not provide information on the ‘quality’ of jobs.

While the type and sector of employment are usually taken as proxies for the quality of employment, ultimately it is the income derived from these activities that has a crucial impact on poverty. However, data on average earnings is usually scarce. Nsowah-Nuamah *et al.* (2010) try to shed some light on this issue. The authors analyse three rounds of the Ghana Living Standard Survey (GLSS) and find that the share of low-paying jobs in Ghana has increased significantly from 1999 to 2006. Moreover, they find that (broad-based) income rises were mostly due to increases in earnings—particularly among the unskilled—even though the reasons behind this trend are unclear. The share of the labour force in (urban) ‘self-employment with no employees’ decreased from 24.1 to 16.6 percent, while the share of ‘private wage in a small firm’ increased from 3.4 to 6.7 percent. The share of ‘students’ increased from 10.3 to 12.4 percent, and that of ‘farmers’ from 35.1 to 37.3 percent. This suggests an improvement in the quality of jobs in Ghana, as wage employment usually entails more security than self-employment.<sup>21</sup> Finally, farmer’s monthly earnings doubled between 1999 and 2006, while private wages and self-employment earnings increased by about 50 percent. This may suggest that rural poverty was mostly reduced due to the performance of the agricultural sector (especially cocoa), while urban poverty was reduced due to workers moving out of self-employment and into wage employment in small firms (i.e., firms with less than 11 employees).

This pattern appears to challenge the common observation that the growth of urban self-employment has been stronger than wage employment in Africa. However, paid employment did marginally decrease in Ethiopia, but in this case the performance of the agricultural sector appears to have been crucial since 80 percent of the labour force depends on the sector. Median wages are quite low in Ethiopia, with urban paid employees receiving an average of \$34 per month in 2005 (World Bank, 2007). It is not possible to analyse trends, but formal sector earnings appear to be over 4 times greater than in the informal sector. It is likely that, due to the strong reduction in poverty in rural areas, farm (and perhaps non-farm) incomes have increased in the relevant period.

<sup>20</sup> See JoGGs (2012:9) for details on the relationship between the employment elasticity of growth and the contribution of the employment rate as calculated by this decomposition method.

<sup>21</sup> Despite similar average earnings, the dispersion might be greater for the self-employed.



In summary, the recent growth performance in Africa has not always led to improvements in employment outcomes. It is perhaps difficult to infer whether growth has directly contributed to the creation of more jobs, partly because most people in African countries cannot afford to be unemployed. Even under a negative growth scenario, the number of jobs—as defined by the ILO—is bound to increase, owing to the growth of the working-age population and self-employment. However, economic growth in Ethiopia and Ghana does appear to have generated more employment than in Mozambique and Tanzania, as suggested by employment elasticities. An in-depth analysis of the quality of jobs is therefore crucial to understand the employment impact of specific growth patterns. However, an assessment of the type and sector of employment—as proxies for job quality—is undermined by the specific characteristics of African labour markets. Given the importance of the informal economy, small improvements in farm incomes (or even urban micro-enterprise wages) can have a larger impact on poverty than an observable shift in the type of employment—e.g., from contributing family work to wage employment. Thus, we ought to consider different indicators and information in order to better judge the growth-employment nexus. Despite the difficulty in assessing and understanding employment dynamics in African countries—both in terms of the quantity and quality of jobs created—there is some evidence to suggest that Ethiopia and Ghana have had better employment outcomes than Mozambique and Tanzania. This conclusion is partly supported by other studies, such as the World Bank (2009) and the IMF (2011).

### 2.3. Poverty and Inequality

We now investigate income poverty and inequality trends in the four countries of our sample. Table 15 reports poverty headcount (using national poverty lines) and the poverty gap. The level of poverty is particularly high in Mozambique, where more than half of the population lives in absolute poverty. There are significant disparities between rural and urban areas, especially in Ghana, where the difference is greater than 30 percentage points. In terms of poverty trends, it has been previously noted that Ethiopia and Ghana were able to significantly reduce poverty—Ethiopia by more than 5 percentage points in only 5 years, and Ghana by 11 percentage points in 8 years.<sup>22</sup> This has been particularly noticeable in rural areas in Ethiopia, and in both rural and urban areas in Ghana. Tanzania has only been able to reduce poverty by about 2 percentage points in 7 years. Poverty in Mozambique has actually increased, especially in rural areas—thus increasing rural-urban disparities. The poverty gap index suggests that the average distance to the poverty line is quite high in Mozambique, while exhibiting a significant rural-urban disparity in Ghana.

Table 15: Poverty Indicators

|            | Initial Survey |      |      |             |      |      | Last Survey |      |      |             |      |      |
|------------|----------------|------|------|-------------|------|------|-------------|------|------|-------------|------|------|
|            | Headcount      |      |      | Poverty Gap |      |      | Headcount   |      |      | Poverty Gap |      |      |
|            | Nat.           | Rur. | Urb. | Nat.        | Rur. | Urb. | Nat.        | Rur. | Urb. | Nat.        | Rur. | Urb. |
| Ethiopia   | 44.2           | 45.4 | 36.9 | 11.9        | 12.2 | 10.1 | 38.9        | 39.3 | 35.1 | 8.3         | 8.5  | 7.7  |
| Ghana      | 39.5           | 49.6 | 19.4 | 13.9        | 18.2 | 5.3  | 28.5        | 39.2 | 10.8 | 9.6         | 13.5 | 3.1  |
| Mozambique | 54.1           | 55.3 | 51.5 | 20.5        | 20.9 | 19.7 | 54.7        | 56.9 | 49.6 | 21.2        | 22.2 | 19.1 |
| Tanzania   | 35.6           | 38.6 | ..   | 10.6        | 11.5 | ..   | 33.4        | 37.4 | ..   | 9.9         | 11.0 | ..   |

Note: Ethiopia [1999-04], Ghana [1998-06], Mozambique [2002-08], Tanzania [2000-07]

Source: ADI (2011)

Table 16 presents data on the share of income accruing to each population quintile, as well as the Gini index. The poorest 20 percent of the population receive, as a whole, between 5 and 9 percent of total income, while the following quintile collects between 9 and 13 percent. It seems clear that income inequality is higher in Ghana and Mozambique—the bottom 40 percent of the population receive 15 percent of total income, as opposed to 18 and 23 percent for Tanzania and Ethiopia, respectively. In fact, about half of total income accrues to the richest 20 percent of the population in Ghana and Mozambique.

<sup>22</sup> The preliminary results of the 2010-11 household survey suggest that poverty in Ethiopia was reduced to 29.6 per cent—30.4 and 25.7 per cent in rural and urban areas, respectively. However, Ethiopia's national poverty line is arguably low in terms of international standards.

Table 16: Income Inequality

|            | Initial Survey   |      |      |      |      |      | Last Survey      |      |      |      |      |      |
|------------|------------------|------|------|------|------|------|------------------|------|------|------|------|------|
|            | Income (% Total) |      |      |      |      | Gini | Income (% Total) |      |      |      |      | Gini |
|            | Q1               | Q2   | Q3   | Q4   | Q5   |      | Q1               | Q2   | Q3   | Q4   | Q5   |      |
| Ethiopia   | 9.2              | 13.2 | 16.7 | 21.5 | 39.4 | 30.0 | 9.3              | 13.2 | 16.8 | 21.4 | 39.4 | 29.8 |
| Ghana      | 5.6              | 10.0 | 15.1 | 22.6 | 46.8 | 40.8 | 5.2              | 9.8  | 14.8 | 21.9 | 48.3 | 42.8 |
| Mozambique | 5.4              | 9.2  | 13.1 | 19.0 | 53.3 | 47.1 | 5.2              | 9.5  | 13.7 | 20.1 | 51.5 | 45.6 |
| Tanzania   | 7.3              | 11.8 | 16.3 | 22.3 | 42.3 | 34.6 | 6.8              | 11.1 | 15.6 | 21.7 | 44.8 | 37.6 |

Note: Ethiopia [2000-05], Ghana [1998-06], Mozambique [2003-08], Tanzania [2000-07]

Source: ADI (2011)

The Gini index confirms that income inequality is quite high in Ghana and Mozambique, and very low in Ethiopia—in fact, the latter is one of the lowest in the world. In terms of trends, Ethiopia and Mozambique experienced reductions in the Gini index. However, Mozambique did not achieve this through increasing the share of income accruing to the poorest, but rather through improvements in the middle quintiles. Ghana and Tanzania observed deteriorations in the Gini coefficient, mostly due to declining income shares for the poorest 40 percent of the population.

## 2.4. Summary

Table 17 presents the key facts emerging from our analysis of the main trends in economic growth, employment and poverty reduction.

Table 17: Summary on Growth, Employment and Poverty

|     | Economic Growth                                                                                                                                                                                                                                                                                                | Employment                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Poverty & Inequality                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ETH | <ul style="list-style-type: none"> <li>• Broad-based growth (across sectors).</li> <li>• Decline in the relative contribution of agriculture to GDP, mostly compensated by services, but also industry.</li> <li>• Growth mainly driven by public investment; strong increase in imports.</li> </ul>           | <ul style="list-style-type: none"> <li>• High labour force growth (above 3%); declining young dependency ratio; fast-increasing median age in the last 10 years.</li> <li>• Increasing employment-to-population ratio; increasing labour participation rate.</li> <li>• Strong employment growth in industry and services, with a declining employment share in agriculture; high employment elasticity.</li> <li>• Unchanging type of employment, with wage and salaried workers accounting for only 8% of the labour force; falling unemployment.</li> <li>• Strongly declining share of working poor.</li> </ul> | <ul style="list-style-type: none"> <li>• Poverty headcount declined by 5.3 percentage points (from 44.2 in 1999 to 38.9 in 2004); lowest poverty gap among the four countries.</li> <li>• Stronger decline in rural areas (6.1 percentage points), substantially narrowing the rural-urban gap.</li> <li>• Low and declining income inequality (one of the lowest in the world).</li> </ul>                                                                                                                     |
| GHA | <ul style="list-style-type: none"> <li>• Stronger growth in services and industry.</li> <li>• Relatively stable sectoral contributions to GDP.</li> <li>• Growth mainly driven by private investment and exports.</li> </ul>                                                                                   | <ul style="list-style-type: none"> <li>• Declining labour force growth; strongly declining young dependency ratio; fast-increasing median age.</li> <li>• Low and declining employment-to-population ratio; increasing labour participation rate, but comparatively low.</li> <li>• Structure of employment fairly stable, with a small increase in agriculture at the cost of the other two sectors (reversal of late 1990s trends); fairly high employment elasticity.</li> <li>• Increasing share of wage and salaried employment.</li> </ul>                                                                    | <ul style="list-style-type: none"> <li>• Poverty headcount declined by 11 percentage points (from 39.5 in 1998 to 28.5 in 2006).</li> <li>• Strong declines in both rural and urban areas, but rural-urban divide remains very large (rural poverty is 38%, urban poverty is 11%); poverty gap significantly larger in rural areas.</li> <li>• High and increasing income inequality (increasing income shares only for the top 20%).</li> </ul>                                                                |
| MOZ | <ul style="list-style-type: none"> <li>• Growth mostly attributed to (capital-intensive) manufacturing and utilities.</li> <li>• Decline in the relative contribution of agriculture, compensated by industry.</li> <li>• Growth mainly driven by exports, and consumption in the late 2000s.</li> </ul>       | <ul style="list-style-type: none"> <li>• Low and declining labour force growth; high but declining young dependency ratio.</li> <li>• Marginally declining but high employment-to-population ratio; declining but high labour participation rate.</li> <li>• Structure of employment fairly stable; low employment elasticity.</li> <li>• Stagnating share of wage and salaried workers.</li> </ul>                                                                                                                                                                                                                 | <ul style="list-style-type: none"> <li>• Poverty headcount increased by 0.6 percentage points (from 54.1 in 2002 to 54.7 in 2008); poverty gap very large (21.2)—more than double of the remaining countries—and increasing.</li> <li>• Rural poverty increased by 1.6 percentage points, while urban poverty decreased by 1.9 percentage points, thus widening the rural-urban divide.</li> <li>• High but declining income inequality (although with a declining income share for the bottom 20%).</li> </ul> |
| TZA | <ul style="list-style-type: none"> <li>• Growth predominantly associated with mining and construction.</li> <li>• Decline in the relative contribution of agriculture, compensated by industry and services.</li> <li>• Growth driven by a mixture of exports and (to a certain extent) investment.</li> </ul> | <ul style="list-style-type: none"> <li>• Stable labour force growth; high young dependency ratio.</li> <li>• Strongly declining but still high employment-to-population ratio; declining but high labour participation rate.</li> <li>• Employment growth in industry and services, with a declining employment share in agriculture; low employment elasticity.</li> <li>• Low but possibly growing share of wage and salaried workers</li> </ul>                                                                                                                                                                  | <ul style="list-style-type: none"> <li>• Poverty headcount declined by 2.2 percentage points (from 35.6 in 2000 to 33.4 in 2007); poverty gap marginally declined.</li> <li>• Rural poverty only declined by 1.2 percentage points, thus exacerbating rural-urban disparities.</li> <li>• Moderate but increasing income inequality (declining income shares for the bottom 60%).</li> </ul>                                                                                                                    |

Source: Author's compilation

### 3. Domestic and External Policy Environment

This section seeks to identify the key factors that may explain the different development trajectories uncovered above. In particular, we are interested in assessing how different policy choices may have led to different employment and poverty outcomes in contexts of strong economic growth. Although the picture is likely to be complex, we try to emphasise its main distinctive features. The first part of this section provides an assessment of fiscal and monetary policy stances, as well as the exchange rate regime. It then scrutinises trends on international flows, since these impact on the balance of payments and can be important drivers of growth. We then look at whether the agriculture and manufacturing sectors have benefited from these macroeconomic policies, while also examining measures of the business environment. The second part of this section focuses on the role of labour market policies and social protection in explaining different development outcomes. The section concludes with a summary presented in tabular format.

#### 3.1. Macroeconomic and Structural Policies

Ethiopia achieved considerable macroeconomic stability in the 1990s, partly as a result of the economic reforms implemented since 1992. These reforms included pursuing prudent fiscal policies, privatising several state-owned enterprises, reducing barriers to international trade—such as lowering tariffs and removing import quotas—and devaluing the currency (Demeke *et al.*, 2006). These policies contributed to, among other things, lower inflation, greater private sector participation in the economy, and a strong broad-based growth performance. Nonetheless, the government continues to play an important role in the economy. The average proportion of state ownership in firms is about 9.4 percent, compared to an average of 0.8 percent in sub-Saharan Africa, while the proportion of private foreign ownership is considerably lower than the regional average—4.1 percent versus 14.7 percent, respectively (World Bank, 2012).<sup>23</sup> The government practises macroeconomic prudence, but without strictly adhering to inflation or exchange rate targets. The fiscal balance has been significantly reduced, although inflation has been increasing recently due to high food and energy prices.

Ghana started to implement macroeconomic reforms at an earlier stage than Ethiopia, in the mid-1980s. These reforms focused on fiscal, monetary, financial and trade policies, which were seen as critical to achieve price stability, stimulate savings and investment, and thus provide a boost to economic growth (Aryeetey and Baah-Boateng, 2007). These included expenditure controls—such as privatisation of state-owned enterprises, cost recovery measures, public sector wage restraints, and retrenchment of civil servants—as well as domestic resource mobilisation measures. Tax reforms—such as measures to improve efficiency in collection, the introduction of VAT, and the increase in personal and corporate tax rates—aimed to broaden the tax base and increase revenue. Public investments focused mainly on the rehabilitation of physical infrastructure in order to promote private sector development. These reforms signalled a significant shift in economic policy, from a strong state involvement in the economy to a more liberalised and open economic system. The focus on public investment gave place to a stronger role for the private sector—including foreign investment—while administrative controls were replaced by market forces in the allocation resources (Aryeetey and Baah-Boateng, 2007).

Mozambique exited from a damaging civil war in 1992, and consequently adopted a number of important reforms and stabilisation measures. The ensuing political and economic stability enabled a strong economic performance, boosted by critical support from the international donor community, as well as foreign investors (Nucifora and Silva, 2010). Improved macroeconomic management and a conducive business environment helped to reduce inflation and encourage private sector activity—mainly by attracting substantial foreign investments. Although the macroeconomic framework remains focused on tight monetary and fiscal policies, inflationary pressures still persist.

Tanzania implemented several market-oriented reforms in the 1980s and 1990s, which included a comprehensive privatisation effort (virtually all state-owned enterprises have been privatised); liberalisation

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<sup>23</sup> Firms with 100 per cent government/state ownership are not eligible to participate in Enterprise Surveys and are not included in the statistics.

of current account transactions, the exchange market, agricultural prices, and marketing boards; and tight fiscal and monetary policies (Treichel, 2005). These reforms have contributed to a more liberalised economic system and improved macroeconomic stability, which have in turn led to an impressive economic performance. Once again, these efforts were supported by foreign donors and were crucial to attract private investors. In recent years, economic growth has been fairly stable and inflation remained low.

Despite these considerable achievements, especially in terms of macroeconomic stabilisation, investment and saving rates across all four countries remain significantly below those experienced by fast-growing Asian countries. Gross capital formation averaged 23 percent of GDP in Ethiopia, 25 percent in Ghana, 22 percent in Mozambique, and 20 percent in Tanzania during 2001-2005. This compares poorly with developing countries in the East Asia and Pacific region, which averaged 35 percent in the same period—even though this is higher than the average for developing countries in sub-Saharan Africa (18 percent). Average savings rates ranged from about 6 percent in Mozambique and Ghana, to 8 percent in Ethiopia and 15 percent in Tanzania. Hence, while macroeconomic stability may have contributed to a strong economic performance, the different development outcomes observed in the four countries suggest that there were other factors shaping these trends. We will now try to uncover differences in the specific economic strategies pursued in the four countries.

### **Fiscal Policy Stance**

Ethiopia's fiscal revenue performance improved in the early 2000s, with total revenue (including grants) increasing from 17.4 percent of GDP in 2000 to 21.4 percent in 2003 (Table 18). The level of expenditure was broadly kept at around 26 percent of GDP during this period, although a closer look of the data reveals that there has been a shift in the composition of public spending—strong reductions in current expenditure were compensated by equivalent increases in capital spending (see

Table 39). In the period 2004-2009, both revenues and expenditures declined as a share of GDP, possibly due to stronger GDP growth. Despite some volatility, the fiscal deficit has been consistently reduced as a percentage of GDP.

Ethiopia has therefore pursued prudent fiscal policies while focusing on the development needs of the country. There has been increased fiscal space for strong public investments, mainly as a result of a shifting composition of expenditure, improved tax collection and increased foreign aid inflows. Large investments in infrastructure—reaching about 20 percent of GDP—have helped fuel domestic demand and enhance the economy’s productive potential (Ali, 2011). Furthermore, given the size, geography, and diversity of the country, infrastructure investments have been fundamental to support pro-poor growth. On the whole, public resource allocation has been significantly pro-poor, with the relative share of poverty-targeted spending in total expenditure increasing from 43 percent in 2003 to over 60 percent in 2006—probably one of the highest in sub-Saharan Africa. Fiscal revenue performance has benefited from tax reforms implemented since 2001, including improved tax administration (MOFED, 2007).

Table 18: Central Government Accounts (% GDP)

|                           | 1997-01 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008  |
|---------------------------|---------|------|------|------|------|------|------|------|------|-------|
| Ethiopia                  |         |      |      |      |      |      |      |      |      |       |
| Revenue and grants        | 17.8    | 17.4 | 19.5 | 19.3 | 21.4 | 20.7 | 18.9 | 18.4 | 17.1 | 16.0  |
| Expenditure & net lending | 23.4    | 26.7 | 23.4 | 25.1 | 27.0 | 23.4 | 23.3 | 22.3 | 20.7 | 18.9  |
| Fiscal Balance            | -5.6    | -9.3 | -3.9 | -5.8 | -5.6 | -2.7 | -4.4 | -3.9 | -3.6 | -2.9  |
| Ghana                     |         |      |      |      |      |      |      |      |      |       |
| Revenue and grants        | 20.4    | 19.8 | 25.0 | 19.3 | 24.4 | 29.7 | 29.1 | 27.8 | 32.8 | 33.0  |
| Expenditure & net lending | 28.8    | 27.7 | 32.7 | 26.1 | 28.8 | 33.3 | 30.7 | 34.9 | 41.5 | 47.0  |
| Fiscal Balance            | -8.4    | -7.9 | -7.7 | -6.8 | -4.4 | -3.5 | -1.6 | -7.1 | -8.7 | -14.0 |
| Mozambique                |         |      |      |      |      |      |      |      |      |       |
| Revenue and grants        | 22.2    | 18.5 | 26.3 | 22.1 | 22.8 | 21.7 | 20.0 | 24.9 | 25.0 | 25.3  |
| Expenditure & net lending | 25.8    | 23.7 | 32.4 | 29.1 | 27.2 | 25.4 | 23.5 | 25.5 | 27.3 | 28.0  |
| Fiscal Balance            | -3.6    | -5.3 | -6.2 | -7.0 | -4.4 | -3.8 | -3.5 | -0.5 | -2.4 | -2.7  |
| Tanzania                  |         |      |      |      |      |      |      |      |      |       |
| Revenue and grants        | 14.6    | 13.8 | 14.2 | 14.6 | 16.3 | 15.0 | 18.5 | 18.7 | 19.1 | 22.8  |
| Expenditure & net lending | 15.6    | 15.2 | 15.1 | 15.0 | 17.6 | 19.3 | 21.1 | 23.4 | 23.0 | 22.8  |
| Fiscal Balance            | -1.0    | -1.4 | -1.0 | -0.4 | -1.3 | -4.3 | -2.7 | -4.7 | -3.9 | 0.0   |

Source: AfDB (2012) and IMF (2007) for 1997-01 average

In Ghana, government revenue registered a significant improvement in the early 2000s—increasing from just below 20 percent of GDP in 2000 to about 28 percent in 2006. Public expenditure also increased, from 27.7 percent of GDP to 34.9 percent in the same period. The fiscal deficit experienced a gradual but strong decline—from 7.9 percent of GDP in 2000 to 1.6 percent in 2005. However, the deficit increased to 7.1 percent in 2006, mainly due to rapid growth of expenditure. In terms of its composition, current expenditure seems to be particularly high—above 20 percent of GDP—especially when compared to the other countries.<sup>24</sup> Increases in current spending might have been achieved at the cost of public investment. Overall, Ghana’s fiscal policy—at least in the first half of the 2000s—was focused on improving public savings with the objective of controlling inflation and avoiding crowding-out the private sector (World Bank, 2009b).

Mozambique’s revenue performance improved from 22.1 percent of GDP in 2003 to 25.3 percent in 2008. Public spending registered a sharp reduction from a high of 32.4 percent of GDP in 2001 to 23.5 percent in 2005. However, expenditure has steadily increased since then to 28 percent in 2008. The budget deficit has been consistently reduced between 2002 and 2006—from 7 percent of GDP to 0.5 percent of GDP. This partly reflects a tight fiscal policy stance, despite increasing expenditures and deficits in 2007 and 2008—possibly to counteract the effects of the global economic crisis.

Tanzania has significantly increased its domestic fiscal revenue—from 14.2 percent of GDP in 2001 to 18.7 percent of GDP in 2007—as well as public expenditure—from approximately 15.1 percent of GDP to 23

<sup>24</sup> Although falling outside of the period of analysis, by 2008 Ghana’s fiscal balance deteriorated significantly, with current expenditures reaching 30 percent of GDP.

percent in the same period. The budget deficit has also increased in this period, although it had been particularly small in the early 2000s. In recent years, public investment has been rising in infrastructure (e.g., rural roads), telecommunications, mining and tourism (ILO, 2012). The positive performance of fiscal revenues is partly explained by a strengthened tax administration.

### Monetary and Exchange Rate Policy Stances

The scope and effectiveness of monetary policy in sub-Saharan Africa is considerably constrained by its weak transmission mechanisms. Thin financial sectors and structural factors often mean that the linkages between traditional policy instruments and the money supply are significantly weaker than in developed countries. African central banks are often unable to effectively influence domestic credit creation through the setting of short-term interest rates, since long-term interest rates are more likely to depend on market concentration and credit risk.

Over the relevant period of analysis, the *de facto* monetary policy regimes of the four countries could be broadly characterised by a monetary aggregate target and a managed float. The exception is Ethiopia, which had an ‘exchange rate anchor’ to the US dollar.<sup>25</sup> This means that the central bank buys or sells foreign exchange to maintain the exchange rate at its predetermined level or within a specific range. Hence, the exchange rate serves as the nominal anchor—or intermediate target of monetary policy. The Ethiopian authorities aim to achieve relative price and exchange rate stability with a view to encouraging saving and long-term investment (MOFED, 2007). The remaining countries have a monetary aggregate target, which means that the central bank uses available policy instruments—e.g., open market operations, changing reserve requirements, or setting interest rates—in order to achieve a specific money supply growth rate.<sup>26</sup> This target becomes the nominal anchor. There is no specific target for the nominal exchange rate (i.e., no pre-determined path), although the authorities may intervene sporadically. Mozambique’s central bank tries to manage imported inflation by controlling broad money growth and reducing liquidity in the economy by issuing Treasury bills and through the sale of foreign exchange. However, it is challenging to keep inflation low in a scenario of strong economic growth and surging food and fuel prices (ILO, 2008).

Table 19 provides a few broad trends in monetary and financial variables. The money-to-GDP ratio usually provides information about the level of financial liquidity and depth. This variable is particularly high in Ethiopia, with broad money (M2) climbing to a peak of 41 percent of GDP in the early 2000s. Ghana also experienced an increase until the early 2000s—from about 17 percent to 28 percent of GDP—after which it declined, probably as a consequence of the global economic crisis. Mozambique and Tanzania had lower ratios, especially in the 1996-2005 period, but saw these increase in the late 2000s. These increases were partly a result of more credit being channelled to the private sector. Ethiopia registered a large expansion in domestic credit to the private sector—from about 10 percent to over 20 percent of GDP—while the remaining countries have significantly lower levels. The exception is the late 2000s for Mozambique and Tanzania, as noted above. Nonetheless, these levels are significantly lower than the averages registered by developing countries in the East Asia and Pacific region for the period 1991-2010: 106 percent for M2 as a share of GDP, and 97 percent of GDP for domestic credit to the private sector. A key factor underlying low investment rates in African countries is likely to be the lack of domestic credit for the private sector.

Table 19: Monetary and Financial Data

|                                            | Ethiopia |       |       |       | Ghana |       |       |       |
|--------------------------------------------|----------|-------|-------|-------|-------|-------|-------|-------|
|                                            | 91-95    | 96-00 | 01-05 | 06-10 | 91-95 | 96-00 | 01-05 | 06-10 |
| Money and Quasi-Money - M2 (% GDP)         | 28.5     | 30.9  | 40.5  | 35.5  | 16.9  | 20.8  | 28.4  | 20.8  |
| Domestic Credit to Private Sector (% GDP)  | 9.5      | 19.8  | 21.1  | 20.1  | 4.8   | 10.0  | 13.0  | 14.3  |
| Lending Interest Rate (%) †                | 11.5     | 11.3  | 8.1   | 7.5   | 29.5  | 40.9  | 35.3  | ..    |
| Interest Rate Spread (percentage points)   | 4.0      | 4.4   | 4.1   | 3.4   | ..    | ..    | ..    | ..    |
| Official Exchange Rate (avg., LCU per USD) | 4.3      | 7.3   | 8.6   | 10.7  | 0.1   | 0.3   | 0.8   | 1.1   |
| Total reserves (months of imports)         | 4.2      | 4.4   | 4.0   | 1.9   | 3.6   | 2.3   | 2.9   | 3.2   |

<sup>25</sup> Ethiopia operates a ‘crawling peg’, which entails a pre-announcement of a gradual devaluation policy, with the peg being regularly adjusted at specific intervals. However, repeated devaluations can be classed as monetary targeting (IMF, 2010).

<sup>26</sup> However, Ghana adopted an inflation targeting framework in 2007.

|                                            | Mozambique |       |       |       | Tanzania |       |       |       |
|--------------------------------------------|------------|-------|-------|-------|----------|-------|-------|-------|
|                                            | 91-95      | 96-00 | 01-05 | 06-10 | 91-95    | 96-00 | 01-05 | 06-10 |
| Money and Quasi-Money - M2 (% GDP)         | 23.0       | 19.0  | 25.3  | 30.6  | 20.2     | 17.4  | 20.8  | 26.6  |
| Domestic Credit to Private Sector (% GDP)  | 13.4       | 13.1  | 11.6  | 19.2  | 10.2     | 3.8   | 7.9   | 15.0  |
| Lending Interest Rate (%)                  | ..         | 21.0  | 23.1  | 17.7  | 22.6     | 25.3  | 16.1  | 15.3  |
| Interest Rate Spread (percentage points)   | ..         | 12.4  | 10.6  | 7.3   | 17.6     | 16.5  | 12.1  | 7.5   |
| Official Exchange Rate (avg., LCU per USD) | 4.6        | 12.5  | 22.8  | 27.4  | 401.3    | 680.4 | ..    | ..    |
| Total reserves (months of imports)         | 2.0        | 4.9   | 4.4   | 4.6   | 1.6      | 3.6   | 6.9   | 4.9   |

<sup>†</sup> Data from Ghana calculated from Aryeetey and Baah-Boateng (2007)

Source: Calculated from ADI (2011)

Lending interest rates remain prohibitively high in Africa, thus constraining access to credit for many enterprises. The average nominal lending interest rate for Mozambique was 23.1 percent in the early 2000s and 16.1 percent in Tanzania during the same period. In Ghana, these are even higher. While lending rates have declined recently, they remain considerably high, especially in relation to Ethiopia. In fact, the interest rate ‘spread’—i.e., the difference between the bank lending and savings rates in percentage points—has been notoriously high in Mozambique and Tanzania, notwithstanding recent improvements. Despite (arguably) greater competition among banks—following the privatisation of banking systems—capital markets in Africa remain very shallow. Nucifora and Silva (2010) argue that, while the banking system in Mozambique is sound and highly profitable, the exceptionally high ratios of capital adequacy and liquidity of commercial banks raise the question of whether there is sufficient financial intermediation for a fast-growing economy. In fact, Mozambique has one of the highest rates of financial exclusion among SADC countries according to survey results on Comparative Access to Finance in African Countries (Lledó and Garcia-Verdu, 2011). In Tanzania, the high lending interest rates will continue to deter investments, especially by SMEs, and the low deposit rates will discourage domestic savings (MoFEA, 2009).

In all countries, the official exchange rate has depreciated in relation to the US dollar. The Ethiopian birr experienced a gradual depreciation since 1992, while the Ghanaian cedi had a very strong depreciation during 1999-03.<sup>27</sup> The Mozambican metical had a strong depreciation until 2002, but has been fairly stable since then, whereas the Tanzanian shilling experienced a strong depreciation until 2004, followed by appreciation. Ethiopia’s international reserves (measured in months of imports) were at reasonable levels before the global economic crisis caused a worsening of the current account balance. Mozambique and Tanzania appear to have had strong positions for the last 10 years or so—with more than 4 months of imports coverage. Ghana has marginally improved since the late 1990s.

Since the macroeconomic reforms of the 1990s most countries have pursued fairly tighter monetary policies in an attempt to control liquidity and thus inflation, while adjusting exchange rates to maintain external competitiveness. However, some of these policies might be depriving the private sector of much needed finance to support stronger investment in the economy. As a consequence, employment and poverty reduction might be suffering. Lending interest rates remain very high, while financial liberalisation does not appear to have increased the provision of affordable loans to the private sector. The interest rate spreads remain high, possibly suggesting some degree of inefficiency in banking systems. Comparatively, Ethiopia’s monetary policy stance appears to be more conducive to private investment (e.g., lower lending rates), although the development of Ghana’s financial sector might not be accurately captured by these indicators.

### Interlude: International Flows

Table 20 presents data on trade, capital flows and the stock of external debt. Ethiopia introduced several trade reforms in the 1990s, which included reducing tariffs, eliminating non-tariff barriers, simplifying licensing procedures, deregulating prices, and privatising public enterprises (Demeke et al., 2003). Exports of goods and services increased as a percentage of GDP, despite declining terms of trade.<sup>28</sup> However, the

<sup>27</sup> The depreciation of the cedi has played a role in increasing export competitiveness (Aryeetey and Baah-Boateng, 2007).

<sup>28</sup> However, the terms of trade have improved in recent years. In fact, rising international commodity prices and a range of special export incentives have contributed to strong export growth in 2004-09—annual average of 10.5 per cent (Ali, 2011).



increase in imports was more pronounced—partly encouraged by a strong economic performance—thus leading a widening of the trade deficit. Export concentration has declined significantly, with coffee exports becoming relatively less important while oil seeds registered an increase. FDI inflows have increased substantially. Official development assistance (ODA) has traditionally been a crucial source of foreign resources, while workers' remittances have been increasing as a share of GDP. External debt levels have been dramatically reduced as a result of international debt relief programmes, thus reducing debt service payments.

Ghana's economic reforms also provided a boost to trade and FDI flows. In particular, the revision of investment codes that aimed to stimulate FDI was particularly important, while commercial and trade activity increased significantly with the liberalisation of trade and exchange rates (Aryeetey and Baah-Boateng, 2007). Nonetheless, FDI inflows were relatively low as a share of GDP during 2001-05, and have only increased significantly since 2006—mainly due to strong private investments in mining. Moreover, the trade deficit is relatively large, averaging nearly 19 percent of GDP in 2001-05. Export concentration appears to be worsening—exports are dominated by unprocessed primary commodities such as gold and cocoa beans. ODA flows decreased in relative importance, possibly due to Ghana's graduation to middle-income status. Debt levels have also been significantly reduced.

Table 20: Trade, Capital Flows and External Debt (% GDP)

|                                    | Ethiopia   |       |       |       | Ghana    |       |       |       |
|------------------------------------|------------|-------|-------|-------|----------|-------|-------|-------|
|                                    | 91-95      | 96-00 | 01-05 | 06-10 | 91-95    | 96-00 | 01-05 | 06-10 |
| Current account balance            | 0.3        | -1.9  | -5.5  | -7.7  | -5.2     | -7.5  | -4.5  | -7.9  |
| Trade balance                      | -6.2       | -9.1  | -15.4 | -20.2 | -11.2    | -15.5 | -18.8 | -15.1 |
| Terms of trade index (2000=100)    | 123.0      | 123.3 | 82.2  | 102.5 | ..       | ..    | ..    | ..    |
| Export product concentration index | 0.65       | 0.61  | 0.40  | 0.38  | 0.44     | 0.34  | 0.41  | 0.42  |
| FDI, net inflows                   | 0.1        | 1.9   | 4.1   | 1.3   | 1.7      | 2.3   | 1.5   | 5.8   |
| ODA, net received                  | 11.1       | 8.2   | 16.7  | 13.2  | 10.7     | 9.2   | 12.5  | 5.3   |
| Workers' remittances, received     | 0.2        | 0.3   | 0.8   | 1.2   | 0.2      | 0.4   | 0.9   | 0.5   |
| Debt outstanding and disbursed     | 105.6      | 99.8  | 71.3  | 14.4  | 76.9     | 91.4  | 94.8  | 18.2  |
| Debt on non-concessional terms     | 16.5       | 13.9  | 9.2   | 4.4   | 31.7     | 28.7  | 26.3  | 10.9  |
| Total debt service                 | 1.3        | 2.1   | 1.2   | 0.6   | 5.3      | 6.7   | 3.9   | 0.9   |
|                                    | Mozambique |       |       |       | Tanzania |       |       |       |
|                                    | 91-95      | 96-00 | 01-05 | 06-10 | 91-95    | 96-00 | 01-05 | 06-10 |
| Current account balance            | -18.8      | -13.9 | -15.3 | -10.8 | -15.4    | -6.4  | -3.5  | -9.7  |
| Trade balance                      | -29.9      | -15.9 | -15.7 | -13.9 | -24.1    | -10.2 | -5.2  | -13.6 |
| Terms of trade index (2000=100)    | 91.8       | 109.7 | 65.4  | 55.2  | 87.4     | 94.2  | 116.5 | 118.3 |
| Export product concentration index | 0.36       | 0.32  | 0.55  | 0.42  | 0.27     | 0.25  | 0.33  | 0.28  |
| FDI, net inflows                   | 1.5        | 4.2   | 5.5   | 6.1   | 0.8      | 3.2   | 3.2   | 2.8   |
| ODA, net received                  | 54.9       | 23.5  | 28.1  | 21.4  | 22.1     | 11.4  | 12.6  | 13.6  |
| Workers' remittances, received     | 2.6        | 1.3   | 1.1   | 1.2   | 0.0      | 0.1   | 0.1   | 0.1   |
| Debt outstanding and disbursed     | 272.2      | 194.3 | 93.5  | 38.2  | 147.2    | 87.3  | 63.3  | 30.3  |
| Debt on non-concessional terms     | 143.3      | 104.8 | 36.1  | 9.6   | 60.9     | 26.7  | 15.8  | 13.5  |
| Total debt service                 | 5.2        | 2.9   | 1.6   | 0.4   | 4.5      | 2.5   | 1.0   | 0.5   |

Source: Calculated from ADI (2011)

Mozambique's exports have increased significantly, with average annual growth rates of 14.9 percent over 1995-99 and 19.8 percent over 2000-08. This strong performance has been mostly driven by mega-projects, since the average growth rate for 2000-08 drops to half if we exclude them (Nucifora and Silva, 2010).<sup>29</sup> Export concentration was particularly high in the early 2000s, reflecting the activities of a few large companies. For instance, more than half of total exports originated from Mozal (aluminium smelting), and virtually all were destined to the European Union (Nucifora and Silva, 2010). FDI has continued to grow, mostly due to new large-scale investments in natural gas, coal and heavy sands. ODA to Mozambique has been sustained at very high levels, at above 20 percent of GDP. External debt levels were radically reduced, but remain comparatively high.

<sup>29</sup> The mega-projects have provided a large boost to both export and import flows since 1999.

Tanzania's exports have also experienced a remarkable performance—increasing from 14.6 percent of GDP in 2001 to 22 percent in 2008. This has been mainly due to the increased exploitation of natural resources, such as minerals. However, most of these are exported raw—for instance, gemstones such as Tanzanite and diamonds are mostly exported unpolished and uncut. Gold accounted for 34.7 percent of exports in 2008. More recently, exports of manufactured goods have also increased. The tourism sector has expanded rapidly in recent years, and is an important source of foreign exchange earnings (MoFEA, 2009). Nonetheless, imports have increased at a faster rate than exports, leading to larger trade deficits. Although FDI inflows have consistently increased since 2003, these investments have been mainly concentrated in mining and tourism (MoFEA, 2009).

Trade and capital account liberalisation has contributed to higher trade volumes and capital inflows. However, it is unclear whether these reforms have effectively contributed to employment creation and poverty reduction. Their impacts are likely to be highly dependent on the specific sectoral dynamics and whether these flows have strong linkages to the rest of the economy. Moreover, and despite favourable external conditions (e.g., commodity price boom) that have contributed to the recent economic performance, there is limited evidence that African countries are considerably diversifying their productive structures and trade patterns.

## Sectoral Support

In order to evaluate the factors and policies that may have stimulated or hindered structural transformation, we focus our attention on agriculture and manufacturing. First, we briefly assess whether fiscal policies have been conducive to promote structural change in the four countries. Second, we investigate whether financial policies have facilitated the availability of credit for agricultural and manufacturing enterprises. Finally, we investigate the level and structure of costs of manufacturing enterprises in the four countries.

Before conducting such analysis, it is worth looking at world market shares for specific economic sectors disaggregated by region. Table 21 shows that sub-Saharan Africa's world share in light manufacturing has remained low (0.9 percent) while agricultural commodities registered a dramatic fall from 5.4 percent to 2.7 percent. The agribusiness and mining sectors experienced only small increases. The policy challenge is thus to formulate appropriate policies that will enable African countries to increase their world market shares, especially in activities with higher value added and stronger productivity growth.

Table 21: World Market Shares

|                         | Light Manufacturing |        | Heavy Manufacturing |        | Agricultural Commodities |        | Agribusiness |        | Mining |        |
|-------------------------|---------------------|--------|---------------------|--------|--------------------------|--------|--------------|--------|--------|--------|
|                         | 1995-7              | 2006-8 | 1995-7              | 2006-8 | 1995-7                   | 2006-8 | 1995-7       | 2006-8 | 1995-7 | 2006-8 |
| East Asia & Pacific     | 14.9                | 25.1   | 5.3                 | 13.8   | 10.2                     | 9.6    | 10.0         | 12.2   | 6.1    | 7.6    |
| Europe & Central Asia   | 3.3                 | 5.6    | 1.5                 | 3.3    | 11.9                     | 12.0   | 3.5          | 5.3    | 9.8    | 13.0   |
| Latin & Central America | 3.6                 | 3.4    | 3.4                 | 4.0    | 12.9                     | 10.8   | 10.9         | 12.6   | 8.1    | 8.2    |
| Middle East & N. Africa | 0.7                 | 0.9    | 0.2                 | 0.3    | 3.0                      | 6.7    | 1.3          | 1.8    | 4.2    | 5.1    |
| Non-OECD                | 12.3                | 7.3    | 10.8                | 11.3   | 1.7                      | 9.9    | 5.6          | 3.5    | 15.4   | 19.1   |
| OECD                    | 61.6                | 53.2   | 78.1                | 66.3   | 52.4                     | 45.6   | 65.5         | 60.8   | 52.1   | 41.3   |
| South Asia              | 2.7                 | 3.6    | 0.3                 | 0.6    | 2.5                      | 2.7    | 1.7          | 2.2    | 1.0    | 1.9    |
| Sub-Saharan Africa      | 0.9                 | 0.9    | 0.3                 | 0.4    | 5.4                      | 2.7    | 1.5          | 1.7    | 3.4    | 3.8    |
| Total                   | 100.0               | 100.0  | 100.0               | 100.0  | 100.0                    | 100.0  | 100.0        | 100.0  | 100.0  | 100.0  |

Source: World Economic Forum et al. (2011:13)

In terms of **fiscal policy**, Table 22 provides data on government expenditure in selected sectors. The data for Ethiopia and Ghana is taken from IFPRI's Statistics of Public Expenditure for Economic Development (SPEED) database, complemented by IMF and World Bank documents for Mozambique and Tanzania. One should proceed with caution, since the definition of each sector can vary across countries. Ethiopia seems to have made strong efforts to increase public spending in agriculture—from 1.3 percent of GDP in 1990 to 3 percent in 2007. Moreover, expenditure on education has also increased significantly, which may explain the finding that the skills profile of the (urban) labour force has been improving (World Bank, 2007a). Unfortunately, the

data for ‘transport and communication’ does not include ‘transport construction’, which is a very large item that illustrates the strong focus placed on infrastructure. Ghana has also scaled up funding for education—in fact, doubling its share of GDP in about 17 years—although public spending in agriculture remains negligible. Mozambique has significantly increased public spending in education and health, although the share for agriculture remains quite low.<sup>30</sup> Finally, Tanzania has increased expenditure in all sectors, especially in education, although government spending in agriculture remains comparatively low.<sup>31</sup>

Table 22: Government Expenditure by Sector (% GDP)

|                  | Ethiopia |      |      | Ghana |      |      | Mozambique |      |      | Tanzania |      |      |
|------------------|----------|------|------|-------|------|------|------------|------|------|----------|------|------|
|                  | 1990     | 2000 | 2007 | 1990  | 2000 | 2007 | 1990       | 2001 | 2007 | 1990     | 2000 | 2008 |
| Agriculture      | 1.3      | 1.7  | 3.0  | 0.1   | 0.2  | 0.2  | 0.7        | 0.9  | 1.0  | ..       | 0.3  | 1.1  |
| Education        | 1.9      | 2.5  | 2.8  | 3.4   | 4.1  | 6.8  | 3.7        | 6.4  | 5.7  | ..       | 3.2  | 4.7  |
| Health           | 0.6      | 0.8  | 0.6  | 1.3   | 0.8  | 2.8  | 1.6        | 5.1  | 3.3  | ..       | 1.2  | 2.1  |
| Transp. & Comm.† | 0.7      | 0.4  | 0.1  | 1.0   | 0.6  | 0.6  | ..         | 2.5  | 2.5  | ..       | 1.0  | 2.2  |

† ‘Roads’ for Mozambique and Tanzania

Source: IFPRI (2012) and several IMF and World Bank official documents

In order to better understand the importance given to the sector, we can investigate the government allocation of resources. Table 23 reports public spending in agriculture as a share of total government expenditure. We note that Mozambique’s high spending in the early 2000s might be related to the strong floods that affected the country, while the data for the late 2000s in Ghana might be influenced by the food crisis. Overall, the data confirms that, perhaps with the exception of Ethiopia, agriculture receives a relatively low share of resources from national budgets. This contrasts with the fact that a significant share of the population in these countries is heavily dependent on the sector. The scale of investments seem to fall significantly short of what would be required to engender a ‘green revolution’ through increases in productivity.

Table 23: Government expenditure on agriculture (% total expenditure)

|            | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|------------|------|------|------|------|------|------|------|
| Ethiopia   | 6.6  | 9.5  | 14.3 | 13.7 | ..   | ..   | ..   |
| Ghana      | 3.9  | 5.0  | 6.7  | 5.8  | 1.0  | 9.6  | 10.3 |
| Mozambique | 17.1 | 1.2  | 9.1  | 9.1  | ..   | ..   | ..   |
| Tanzania   | 4.5  | 6.8  | 5.5  | 5.5  | ..   | ..   | ..   |

Source: Fan et al. (2009)

This trend reflects a long-standing trend, whereby direct public support for the production sectors of the economy has been discouraged, including by the international donor community. The recent scaling up of foreign aid inflows has been mainly absorbed by the social sectors, namely health and education. While this is important to address key constraints in the labour supply (e.g., skills and productivity), it can be argued that little has been done to enhance the demand for labour. The real value of ODA earmarked for economic infrastructure has remained relatively constant since 1990 (about \$10-\$15 billion in 2007 USD dollars), while the amount targeted to the production sectors (e.g., agriculture and industry) has actually declined (McKinley and Martins, 2010).<sup>32</sup>

Another dimension of fiscal policy relates to the impact of taxation on the prospects of structural transformation. It has been argued that in Ghana, tax reforms have not distinguished between employment-intensive sectors and low labour-absorption activities, possibly hurting output and employment (Aryeetey and Bahh-Boateng, 2007). In Mozambique, the statutory tax regime combines relatively high tax rates with a generous system of incentives (e.g., tax exemptions), thus influencing investment decisions and the allocation

<sup>30</sup> Brück and van den Broeck (2006) argue that Mozambique’s agricultural sector faces major gaps in investment in rural and agricultural development.

<sup>31</sup> ILO (2004) argued that, while forward linkages offer opportunities to create additional jobs (e.g., processing industries), these are not well developed and much of food crops are exported for processing and then imported as consumer goods.

<sup>32</sup> Indeed, the share of ODA allocated to the production sectors has declined sharply—from 36 percent (of total sector allocable ODA by DAC donors) in 1980 to 9 percent in 2009.

of resources.<sup>33</sup> This regime has created some important distortions in the economy, especially since it encourages capital-intensive industries.<sup>34</sup> Small entrepreneurs are often unable to benefit from tax incentives due to the sizeable fixed costs involved in the application process. Some have argued that the tax system could be significantly improved (to enhance competitiveness and productivity) by simultaneously reducing tax incentives as well as tax rates, without compromising government revenues (Nucifora and Silva, 2010). The 2007 Enterprise Survey reports that about 30.8 percent of firms identify tax rates as a major constraint to business, even if only 8.9 percent see it as the main obstacle. In Tanzania, further improvements could be achieved through better enforcement of under-taxed sectors—e.g., natural resources. The tax base remains narrow, and is significantly more dependent on indirect taxes—such as VAT, and customs and excise duties—than on direct taxes—such as income and corporate taxes.

In terms of the manufacturing sector, government policy is usually confined to indirect measures such as investments in infrastructure (e.g., transport and utilities), taxation, and business regulations. Direct government support to particular industries has generally fallen out of favour since the 1980s. Nonetheless, privatisation and macroeconomic stability have thus far failed to provide enough support to a sector that holds significant potential in terms of employment generation. In Ethiopia, the majority of the industries operating in the textile and apparel sector were privatised, which eventually led to increased domestic and foreign investment. However, the government also negotiated with banks to make credit more readily available, while the implementation of incentive mechanisms has enabled these industries to import inputs for export production (MoFED, 2007).

In terms of **financial policy**, we can assess the allocation of credit among economic sectors. In Ethiopia, the average share of outstanding loans and advances during 2002-05 by economic sector was: 34.6 percent for central government, 14.4 percent for industry, 13.7 percent for international trade, 8.7 percent for domestic trade, and 6 percent for agriculture (NBE, 2005a). This data includes both public and private banks, although over two-thirds of outstanding loans are with public banks—in particular, the Commercial Bank of Ethiopia. The data also suggests that private banks are much less likely to lend to agriculture (NBE, 2005b).

Evidence from Ghana suggests that credit is often targeted to the public sector and large (but low labour-intensive) enterprises in sectors such as mining and imports. Agriculture, small-scale manufacturing, agro-processing and many other informal enterprises with high employment generation potential are usually denied access to formal finance (Aryeetey and Baah-Boateng, 2007). The average distribution of bank credit to public and private institutions during the period 2000-2004 was as follows: 21.5 percent for manufacturing, 17.1 percent for commerce, 10.6 percent for trade, 9.9 percent for services, and 9.1 percent for agriculture (IMF, 2005:34).

In Mozambique, total investment levels have been sustained by FDI in ‘mega-projects’, although these might be already declining. Weak domestic investment is compounded by the fact that the major share of credit is channelled towards trade (42 percent), rather than agriculture (7 percent) or industry (17 percent). In fact, the share of trade in credit has more than doubled between 2000 and 2006, while the shares for agriculture and industry have declined significantly in this period.

In Tanzania, banks do not seem to provide adequate support for domestic initiatives, especially the agricultural sector and SMEs. While credit to the private sector registered a positive trend—from 4.6 percent of GDP in 2001 to 13.8 percent in 2007—it remains low when compared to other developing countries. Banks remain highly liquid and reluctant to expand credit, except to the most creditworthy borrowers. The sectoral distribution of loans in 2006 was: 18.3 percent for mining and manufacturing, 15.2 percent for trade, 9 percent for agricultural production, 7.9 percent for transport and communication, and 5 percent for building and construction (IMF, 2010:31).

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<sup>33</sup> For instance, a high rate of value added tax—17.5 per cent—has been levied to control the fiscal budget and reduce the government’s dependence on external finance—about 40 per cent (ILO, 2008).

<sup>34</sup> Large investment projects enjoy broad tax exemptions—e.g., the Mozal aluminium smelter, Sasol’s gas operations, Vale’s coal project and Kenmare Resources’ heavy sands project. The Mozambican government is not willing to renegotiate these tax conditions, since its growth strategy is based on attracting large FDI inflows in infrastructure and mega-projects (AfDB et al., 2011).

It thus seems that the majority of credit tends to flow to the services sector (or mining), rather than agriculture or light-manufacturing. This might have significant employment implications, since traditionally labour-intensive sectors are being relatively deprived of credit.

Table 24 provides further data on the share of commercial bank lending to agriculture, which confirms the low allocation towards the sector. In Ghana, the agriculture's share declined from just under 10 percent in 2000 to about 4 percent in 2007. In Mozambique, the fall was even more significant—from a high of 18 percent in 2001 to 6 percent in 2006. However, Tanzania's share of bank lending to agriculture increased in the early 2000s—to a peak of 17 percent in 2002—before dropping to 11 percent in 2007. Data for Ethiopia is likely to be particularly low, since the majority of lending to the sector is undertaken by public banks.<sup>35</sup>

Table 24: Share of Commercial Bank Lending to the Agricultural Sector (% total portfolio)

|            | 1995 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|------------|------|------|------|------|------|------|------|------|------|------|
| Ethiopia   | ..   | ..   | ..   | ..   | ..   | ..   | ..   | ..   | ..   | ..   |
| Ghana      | ..   | 9.7  | 9.6  | 9.4  | 9.5  | 7.7  | 6.7  | 5.4  | 4.4  | 4.3  |
| Mozambique | ..   | ..   | 17.9 | 16.0 | 12.4 | 10.7 | 8.7  | 6.4  | 9.4  | 8.1  |
| Tanzania   | 8.1  | 6.3  | 9.6  | 17.1 | 12.0 | 13.9 | 12.4 | 13.9 | 11.0 | 12.4 |

Source: Mhlanga (2010)

In addition to the lack of credit, production costs might also be a significant constraint to the expansion of agriculture and light-manufacturing. For instance, Aryeetey and Baah-Boateng (2007) have argued that Ghanaian producers struggle with high production costs—due to rising interest rates, increasing nominal wages, imported raw materials and the steadily rising cost of utilities—which undermine their ability to compete with foreign goods in both domestic and foreign markets. Table 25 reports the Global Competitiveness Index (GCI) rankings for the four countries—out of 139 economies surveyed. Despite the low overall rankings, Ghana has a particularly good ranking in financial market development (despite the high interest rates noted previously) and institutions. Ethiopia also does relatively well in terms of institutions. However, Tanzania and especially Mozambique do not have any 'pillar' ranked in the top-70 (i.e., the top half of the 'league table'). In relative terms, Mozambique seems to do better in the macroeconomic environment, while Ghana has better infrastructure and higher education and training. Education appears to be an important factor undermining Mozambique's competitiveness. Ethiopia and Tanzania score relatively well in terms of labour market efficiency. Interestingly, the countries that were less successful in translating strong economic growth into meaningful poverty reduction (i.e., Mozambique and Tanzania) score relatively well in terms of the macroeconomic environment, while Ethiopia and Ghana are better placed in terms of institutions, infrastructure, and higher education and training.

Table 25: Global Competitiveness Index (GCI) Rankings 2010-2011

|                 |                                  | Ethiopia | Ghana | Mozambique | Tanzania |
|-----------------|----------------------------------|----------|-------|------------|----------|
| Basic           | 1. Institutions                  | 59       | 67    | 99         | 83       |
| Requirements    | 2. Infrastructure                | 115      | 106   | 119        | 128      |
| (1-4)           | 3. Macroeconomic environment     | 127      | 136   | 104        | 115      |
|                 | 4. Health and primary education  | 119      | 122   | 133        | 113      |
| Efficiency      | 5. Higher education and training | 129      | 108   | 134        | 133      |
| Enhancers       | 6. Goods market efficiency       | 92       | 75    | 112        | 108      |
| (5-10)          | 7. Labour market efficiency      | 72       | 93    | 116        | 77       |
|                 | 8. Financial market development  | 121      | 60    | 116        | 90       |
|                 | 9. Technological readiness       | 133      | 117   | 113        | 131      |
|                 | 10. Market size                  | 79       | 83    | 113        | 81       |
| Innovation      | 11. Business sophistication      | 123      | 97    | 110        | 98       |
| Factors (11-12) | 12. Innovation                   | 105      | 99    | 84         | 86       |
|                 | Overall Ranking                  | 119      | 114   | 131        | 113      |

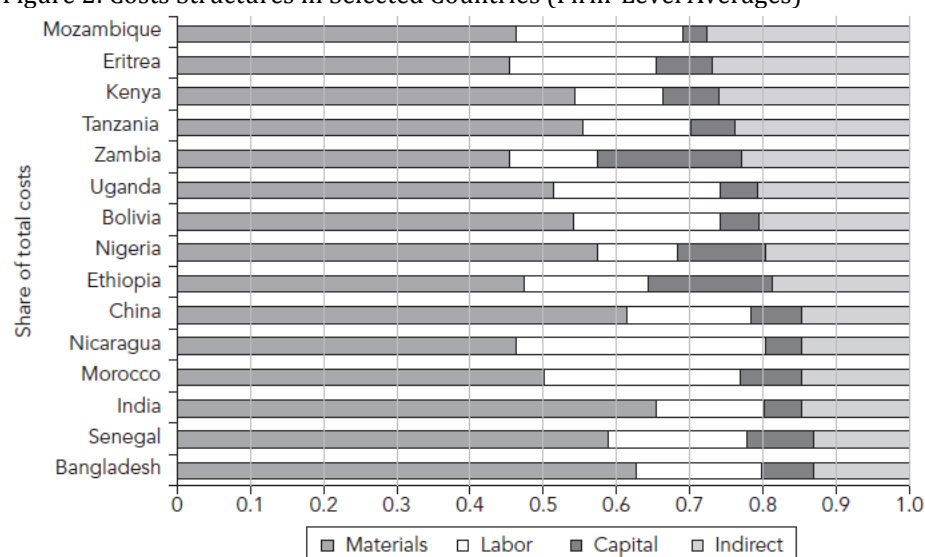
Source: World Economic Forum et al. (2011)

<sup>35</sup> However, we note that agro-industries can be quite important in the manufacturing sector in some African countries, and therefore we might be underestimating the support for the broader agricultural sector.

Despite the overall gloomy picture, there is some optimism with regard to Africa's potential to compete in the world economy. For instance, The Economist (2011b) suggests that Ethiopia can be a competitive economy due to three key factors: (i) in terms of wages, it is considered to be the most cost-effective country in Africa—with a manual worker earning one-third of the levels prevailing in China and India; (ii) it has relatively good and improving physical infrastructure (especially air transport); and (iii) it benefits from a conducive business environment. However, the World Bank (2007b) estimates that, while manufacturing wages in Ethiopia are about 37 percent of those in China, productivity is only 11 percent. This productivity differential is attributed to the lack of physical and human capital, market size and geography, and firm characteristic rather than associated with the 'investment climate'. Hence, investment in physical infrastructure and appropriate skills will be crucial to seize these opportunities.

To further investigate competitiveness in the four countries, one therefore needs to assess the level and structure of costs facing enterprises. What appears to emerge from several studies using firm-level data is that the Africa's competitiveness in manufacturing is not hindered by labour costs. These only represent a small share of total costs and tend to be considerably lower than in competitor countries.<sup>36</sup> Instead, the lack of competitiveness of African manufacturing firms seems to derive from high indirect costs, such as energy (World Bank, 2006). These are estimated to account for 20-30 percent of the total costs faced by African firms—significantly above the share of labour costs (Figure 2). Iarossi (2009) performs a benchmarking exercise to assess Africa's costs and competitiveness, and also concludes that indirect and invisible costs are relatively higher in Africa.<sup>37</sup>

Figure 2: Costs Structures in Selected Countries (Firm-Level Averages)



Source: World Bank (2006:211)

Finally, it could be argued that fierce external competition coupled with the absence of targeted government support has undermined the chances of nascent industries and forced many African countries into a 'commodity trap'. For instance, Aryeetey and Baah-Boateng (2007) suggest that trade liberalisation further exposed vulnerable Ghanaian manufacturing enterprises to external competition, thus contributing to the slow growth of manufacturing output and employment. As local firms struggled to compete in a liberalised trade environment, many of them collapsed, leading to job losses. They also argue that trade reforms have stimulated more 'buying and selling' in the economy at the cost of productive activities. This has contributed to a relocation of labour from vulnerable enterprises towards the 'traditional' services sector—as revealed in the increasing employment share of wholesale and retail trade. Mozambique provides another example of how domestic industries can succumb to international competition. Mozambique's large cashew nut industry

<sup>36</sup> For instance, a study of garment industries by Cadot and Nasir (2001) finds that Mozambique and Ghana are about half as productive as China, but that this differential is more than made up for by lower wages (World Bank, 2006).

<sup>37</sup> Invisible costs are defined as losses related to power outages, transport delays, and the broader business environment.

directly employed several thousand workers and had strong backward linkages, but collapsed after the liberalisation of the sector in the mid-1990s (e.g., raw cashew export tax reduction). McMillan et al. (2002) estimate the benefits of this reform at 0.1 percent of GDP, which were largely offset by the costs of unemployment in urban areas.

In conclusion, there seems to be limited political commitment to promote structural transformation through the adoption of suitable sector-specific policies. It seems clear that the current economic incentives and structures are not sufficient to promote meaningful structural change, and that public policies can play a crucial role in that regard. In particular, measures to improve the competitiveness of sectors with strong employment potential will be vital. These are likely to involve 'modern' agricultural and service activities, as well as (low-skill) manufacturing.

## **Business Environment**

We now investigate the business environment in more detail by analysing data from the World Bank's Enterprise Surveys and Doing Business. While the former are representative firm-level surveys covering issues such as access to finance, corruption, infrastructure and competition, the latter focuses on measuring the complexity of business regulations and the ease of doing business across countries—e.g., starting a business or registering property.<sup>38</sup>

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<sup>38</sup> [www.enterprisesurveys.org/Methodology/Enterprise-Surveys-versus-Doing-Business](http://www.enterprisesurveys.org/Methodology/Enterprise-Surveys-versus-Doing-Business)

Table 40 provides some information on the ease of doing business. It is often argued that burdensome regulations are a key constraint to private sector development. For instance, it has been suggested that, in Mozambique, diversification into light manufacturing and other labour intensive industries is hampered by high indirect costs—such as government regulations (Lledó and Garcia-Verdu, 2011). Moreover, the regulatory environment is seen as unfriendly to SMEs in Mozambique (Nucifora and Silva, 2010). We can therefore compare labour-related data for the four countries to investigate where there are important differences that may explain different employment outcomes.

In Mozambique, regulations affecting the hiring of workers appear to be stricter than in the other countries, although redundancy procedures do not seem more burdensome. In terms of costs, redundancy notice periods are higher in Ethiopia, but severance pay is higher in Ghana and Mozambique. The paragraphs below will clarify whether these differences constitute a significant hindrance to businesses.

Table 26 reports the main ‘business environment’ obstacles according to the managers enquired by the World Bank’s Enterprise Surveys. In Tanzania and Ghana, the biggest business constraint appears to be infrastructure—especially electricity—for about three-quarters of managers in Tanzania and nearly half of them in Ghana. In both cases, access to finance comes a distant second, especially in Tanzania. In Mozambique, the lack of access to finance and the practices of the informal sector account for the majority of managers’ concerns, while in Ethiopia the concerns also extend to access to land and tax rates. Since none of these countries has more than one survey, it is not possible to analyse trends over time. However, there is significant evidence suggesting that the business environment has been significantly improved in the four countries. For instance, better regulatory and institutional frameworks (e.g., improved business registration procedures and requirements) have contributed to strengthen investor confidence and growth in Ethiopia. Overall, the data broadly appears to support the view that poor infrastructure (e.g., electricity) and the lack of access to finance act as key constraints to business in sub-Saharan Africa. Over 80 percent of firms in Ghana and Tanzania identify electricity as a major constraint, while lack of finance is a major constraint for three-quarters of firms in Ghana, half in Mozambique, and over 40 percent in both Ethiopia and Tanzania.<sup>39</sup>

Table 26: Main Business Environment Obstacle (%)

|                                  | ETH<br>2006 | GHA<br>2007 | MOZ<br>2007 | TZA<br>2006 | SSA   | All   |
|----------------------------------|-------------|-------------|-------------|-------------|-------|-------|
| Access to finance                | 18.8        | 33.1        | 23.1        | 9.8         | 19.6  | 16.2  |
| Access to land                   | 16.6        | 3.8         | 5.2         | 2.6         | 5.0   | 3.2   |
| Business licensing and permits   | 0.5         | 0.3         | 1.6         | 0.5         | 2.3   | 3.0   |
| Corruption                       | 2.9         | 0.3         | 4.1         | 0.5         | 6.4   | 6.9   |
| Courts                           | 5.8         | 0.1         | 0.7         | 0.0         | 0.7   | 1.0   |
| Crime, theft and disorder        | 0.7         | 1.7         | 7.8         | 1.9         | 4.8   | 5.2   |
| Customs and trade regulations    | 2.7         | 0.8         | 4.2         | 0.3         | 3.3   | 3.3   |
| Electricity                      | 7.8         | 48.8        | 9.1         | 73.4        | 22.3  | 14.0  |
| Inadequately educated workforce  | 3.6         | 0.3         | 5.2         | 1.4         | 3.0   | 8.0   |
| Labour regulations               | 0.9         | 0.0         | 0.8         | 0.0         | 0.9   | 2.6   |
| Political instability            | 4.3         | 0.1         | 0.6         | 0.5         | 6.0   | 8.4   |
| Practices of the informal sector | 14.3        | 1.4         | 21.4        | 1.2         | 9.7   | 10.9  |
| Tax administration               | 5.4         | 1.5         | 1.4         | 0.7         | 3.1   | 3.2   |
| Tax rates                        | 13.9        | 6.3         | 8.9         | 4.0         | 8.5   | 10.8  |
| Transportation                   | 1.8         | 1.5         | 6.0         | 3.2         | 4.4   | 3.2   |
| Total                            | 100.0       | 100.0       | 100.0       | 100.0       | 100.0 | 100.0 |

Source: Enterprise Surveys

Table 27 provides more detailed information from Enterprise Surveys, with a particular focus on employment-related issues. Mozambique has a comparatively lower share of firms offering formal training, while in Ethiopia workers are not offered formal training. The percentage of unskilled work as a percentage of all production workers is higher in Ethiopia—about 40 percent—than the average for the other countries. Finally, the percentage of firms identifying an inadequately trained labour force as a major constraint—albeit

<sup>39</sup> In Ethiopia and Mozambique, less than a quarter of firms mention electricity as a major constraint, possibly due to recent improvements in hydropower.



not necessarily the main one—is relatively high for all countries except Ghana. Labour regulations do not appear to be a significant concern, even when compared to the average for sub-Saharan Africa.

Table 27: Enterprise Surveys on Workforce

|                                                              | ETH<br>2006 | GHA<br>2007 | MOZ<br>2007 | TZA<br>2006 | SSA  | All  |
|--------------------------------------------------------------|-------------|-------------|-------------|-------------|------|------|
| Firms offering formal training (%)                           | 38.2        | 33.0        | 22.1        | 36.5        | 29.5 | 35.4 |
| Workers offered formal training (%) <sup>†</sup>             | 0.0         | 55.0        | 63.3        | 55.6        | 50.4 | 46.9 |
| Unskilled workers (% of all production workers) <sup>†</sup> | 39.7        | 29.6        | 29.5        | 29.6        | 36.8 | 32.6 |
| Top manager's experience in the sector (years)               | 15.2        | 15.7        | 17.3        | 10.5        | 13.3 | 15.9 |
| Labour regulations (major constraint, %)                     | 4.0         | 1.7         | 6.0         | 4.8         | 8.7  | 11.8 |
| Inadequately educated workforce (major constraint, %)        | 23.0        | 4.5         | 18.8        | 19.7        | 22.6 | 27.4 |

<sup>†</sup> This indicator uses data from manufacturing firms only.

Source: World Bank (2012)

The business environment has improved considerably in many African countries, which in turn contributed to stronger economic performances. However, this does not necessarily translate into better employment and poverty reduction outcomes, since these depend on the quality and scale of private investments. Looking forward, it will be vital to target scarce public resources to alleviate the main constraints facing the private sector. According to most firm-level surveys, these are often related to economic infrastructure and access to finance. Meanwhile, labour costs and regulations do not seem to impose a significant burden on businesses, suggesting that these are not constraining firm expansion and therefore employment creation.

### 3.2. Labour Market Policies and Social Protection

Labour market and social protection policies can play an important role in enabling the poor to gain access to better employment opportunities and ensuring that the gains from the growth process are equitably distributed among the population. However, these policies require an adequate scale and coverage to be effective, as well as being adapted to specific contexts and circumstances. This section looks at key labour market and social protection policies, and investigates their relevance to employment and poverty outcomes.

Labour market policies usually comprise three main components: (i) employment protection legislation, which includes laws on minimum wage, procedural requirements for redundancies and dismissals, and employment contracts;<sup>40</sup> (ii) passive labour market policies, which offer temporary income security, such as unemployment insurance and severance pay; and (iii) active labour market policies, which are designed to support the unemployed and underemployed in making transitions to new jobs, and include direct employment generation schemes (e.g., public works programmes), skills development programmes, promotion of self-employment, job search assistance, and wage subsidies.

#### Employment Protection Legislation and Passive Labour Market Policies

In terms of **employment protection**, Ethiopia's labour law framework includes procedures and payments in the event of dismissal, such as notice requirements and severance pay. However, 'social partners' are weak, both in terms of membership and experience (ILO, 2005). The Confederation of Ethiopian Trade Unions (CETU) represents less than 1 percent of the total labour force. Unionisation is severely hampered by the informal nature of the economy. In fact, labour regulations are not seen as significant impediments for business—largely because these provisions are not usually enforced outside of the public sector—even if a fear of social sanctions may lead to labour hoarding (World Bank, 2007).

According to employers' surveys, labour regulations in Ghana do not seem to be a constraint to job creation. Labour regulations are relatively flexible compared to its neighbours, and the 2003 Labour Act has introduced more flexibility to the labour market (World Bank, 2009b). Mandatory social security charges are relatively low in Ghana, even if firms also pay additional non-wage benefits agreed through collective agreements. The share of unionised labour has fallen in the last 15 years, from 26 percent in 1990 to about 10

<sup>40</sup> EPL is sometimes classified as passive labour market policies.

percent in 2009—partly due to the decline in public sector jobs and the increase in informal sector employment. The minimum wage is fairly high in comparison to prevailing wages, especially those for the youth and informal workers (World Bank, 2009b). However, since over 80 percent of the workforce is engaged in informal activities, the minimum wage is seldom enforced.

Mozambique passed a new set of labour laws in 2007 to increase labour market flexibility, mainly by facilitating hiring and firing of workers and approving changes to the types of contracts (ILO, 2008). However, trade union membership covers only an approximate 5 percent of the labour force. The minimum wage is estimated to have been so eroded by inflation that it meets only half of an average family budget (ILO, 2008). An early version of the dismissal legislation gives more flexibility to SMEs—defined as firms with less than 100 workers—by allowing them to use fixed term contracts with a maximum duration of two years—for a period of up to 10 years.

In Tanzania, although the minimum wage legislation covers all workers in the private sector, the large informal economy means that many workers are not covered. Table 28 provides some statistics on minimum wages. The data suggest that Mozambique's minimum wage is relatively higher than the other three countries, and that these have been growing quite considerably in recent years. While this could be interpreted as a sign of labour market 'rigidity', it should be noted that this predominantly covers public sector workers—thus unlikely to be a key drag on employment adjustments.

Table 28: Minimum Wages

|            | Changes in minimum wages (2001-07) |                       |                      | Level of minimum wage (2007 or latest) |                       |                      |
|------------|------------------------------------|-----------------------|----------------------|----------------------------------------|-----------------------|----------------------|
|            | Real annual growth (%)             | MW/GDP per capita (%) | MW/average wages (%) | PPP (US\$)                             | MW/GDP per capita (%) | MW/average wages (%) |
| Ethiopia   | 3.6                                | -35.7                 | ..                   | 116                                    | 173.4                 | ..                   |
| Ghana      | 5.9                                | 8.3                   | ..                   | 115                                    | 96.7                  | ..                   |
| Mozambique | 8.5                                | 60.8                  | ..                   | 143                                    | 207.1                 | ..                   |
| Tanzania   | 3.2                                | -25.7                 | -6.7                 | 117                                    | 110.8                 | ..                   |

Source: ILO (2008)

Table 29 compiles information on employment and industrial relations laws from a study on labour regulation by Botero et al. (2003). Unfortunately, the study does not provide data for Ethiopia. Mozambique and Tanzania have a higher total index for employment laws than Ghana and the sub-sample mean, suggesting that their statutory systems provide (at least in principle) better protection for workers. In fact, Mozambique scores relatively high in all three dimensions: alternative employment contracts, conditions of employment, and job security. Ghana scores very low on alternative employment contracts and job security. In terms of industrial relations, Ghana has a high total index, while Mozambique's is also above the sub-sample average. Ghana does particularly well in terms of collective bargaining<sup>41</sup> and worker participation in management, but rather poorly in collective disputes. Mozambique, on the other hand, had a very high sub-index for collective disputes.

Table 29: Employment and Collective Relations Laws

|            | Employment laws                  |                          |              |             | Industrial (collective) relations laws |                                    |                     |             |
|------------|----------------------------------|--------------------------|--------------|-------------|----------------------------------------|------------------------------------|---------------------|-------------|
|            | Alternative employment contracts | Conditions of employment | Job security | Total index | Collective bargaining                  | Worker participation in management | Collective disputes | Total index |
| Ethiopia   | ..                               | ..                       | ..           | ..          | ..                                     | ..                                 | ..                  | ..          |
| Ghana      | 0.22                             | 0.75                     | 0.16         | 1.13        | 0.89                                   | 0.25                               | 0.35                | 1.49        |
| Mozambique | 0.72                             | 0.79                     | 0.71         | 2.23        | 0.44                                   | 0.00                               | 0.80                | 1.24        |
| Tanzania   | 0.58                             | 0.68                     | 0.50         | 1.76        | 0.11                                   | 0.25                               | 0.38                | 0.74        |
| Mean †     | 0.58                             | 0.69                     | 0.36         | 1.62        | 0.40                                   | 0.19                               | 0.52                | 1.11        |
| Median †   | 0.56                             | 0.73                     | 0.38         | 1.72        | 0.44                                   | 0.13                               | 0.56                | 1.17        |

<sup>41</sup> The ILO (2008) suggests that Ethiopia's collective bargaining coverage is higher than 70 per cent, while Ghana's and Tanzania's is somewhere between 15 and 50 per cent. This indicates the extent to which the terms of employment are regulated by collective agreements—measured by the number of employees covered by a collective agreement as a proportion of the total number of employees (i.e., wage and salary earners).

† Bottom GNP quartile of countries in a sample of 85 developed and developing countries.  
Source: Botero et al. (2003)

Overall, we observe that labour laws in the early 2000s provided relatively strong employment protection in Mozambique and to a lesser extent Tanzania. However, the high level of agricultural self-employment and informality in these countries also mean that coverage is very low, while there might also be a lack of enforcement. For instance, while labour unions in Ghana are relatively strong in the formal sector, it is estimated that informal employment represents about 88 percent of total employment. It is estimated that only 8 percent of agricultural sector workers are employed in the formal economy—mainly in commercial farms (ILO, 2008).

Table 30 provides data on employment-related social **security programmes**. All three countries have programmes that cover the risk of old age, disability and death, but do not provide unemployment benefits. Moreover, only Ghana covers the risk of sickness. Three countries score rather poorly in the social security laws index, significantly below the sub-sample mean. However, the sample of 85 countries includes both developed and developing countries, and the bottom GNP quartile also includes some middle-income countries. Therefore, we cannot conclude that these countries have underdeveloped social security systems when compared to countries at similar stages of development. Nevertheless, coverage is usually confined to public sector workers and to a certain extent (formal) private wage employment.

Table 30: Social Security System (Coverage and Benefits)

|            | Covers risk of old age, disability and death? | Old age, disability and death benefits | Covers risk of sickness? | Sickness and health benefits | Covers risk of unemployment? | Unemployment benefits | Social security laws index |
|------------|-----------------------------------------------|----------------------------------------|--------------------------|------------------------------|------------------------------|-----------------------|----------------------------|
| Ethiopia   | ..                                            | ..                                     | ..                       | ..                           | ..                           | ..                    | ..                         |
| Ghana      | Yes                                           | 0.00                                   | Yes                      | 0.69                         | No                           | 0.00                  | 0.69                       |
| Mozambique | Yes                                           | 0.26                                   | No                       | 0.00                         | No                           | 0.00                  | 0.26                       |
| Tanzania   | Yes                                           | 0.47                                   | No                       | 0.00                         | No                           | 0.00                  | 0.47                       |
| Mean †     | 0.96                                          | 0.42                                   | 0.54                     | 0.44                         | 0.27                         | 0.22                  | 1.08                       |
| Median †   | 1.00                                          | 0.49                                   | 1.00                     | 0.55                         | 0.00                         | 0.00                  | 0.98                       |

† Bottom GNP quartile of countries in a sample of 85 developed and developing countries.  
Source: Botero et al. (2003)

Table 31 complements the previous data by providing further information on statutory provision of all social security branches. Mozambique and Tanzania have five branches of social security covered by at least one programme, which confers them limited statutory provision. Ethiopia and Ghana, on the other hand, only have four branches covered by at least one programme: old age, invalidity, survivors and employment injury.

Table 31: Social Security Branches

|            | Branches covered by at least one programme | Social security branches covered by a statutory programme (Strict definition) | Existence of a statutory programme |           |         |            |           |                   |                   |              |
|------------|--------------------------------------------|-------------------------------------------------------------------------------|------------------------------------|-----------|---------|------------|-----------|-------------------|-------------------|--------------|
|            |                                            |                                                                               | Sickness                           | Maternity | Old age | Invalidity | Survivors | Family allowances | Employment injury | Unemployment |
| Ethiopia   | 4                                          | Very limited statutory provision (1 to 4)                                     | L                                  | L         | Y       | Y          | Y         | -                 | Y                 | -            |
| Ghana      | 4                                          | Very limited statutory provision (1 to 4)                                     | B                                  | -         | Y       | Y          | Y         | -                 | Y                 | -            |
| Mozambique | 5                                          | Limited statutory provision (5 to 6)                                          | Y                                  | Y         | Y       | Y          | Y         | -                 | -                 | -            |
| Tanzania   | 5                                          | Limited statutory provision (5 to 6)                                          | B                                  | Y         | Y       | Y          | Y         | -                 | Y                 | L            |

Notes: - none; Y one statutory programme at least; L limited provision (e.g., labour code only); B only benefit in kind (e.g., medical benefit).

Source: ILO (2010).

It is important to strike an appropriate balance between the need to enhance competitiveness and protect workers' rights—especially since employment outcomes have important implications for social cohesion and human dignity. While the impact of these policies on poverty could potentially be substantial, governments will have to choose the level of protection according to their current possibilities and needs.

## Active Labour Market Policies

Here we mainly focus on technical and vocational education and training (TVET) and public works programmes. Table 32 provides estimates of the relative importance of vocational training in total secondary education. The data suggests that Ethiopia has made a considerable effort to increase vocational teaching, while in Mozambique there has been a significant expansion of general secondary teaching.

Table 32: Secondary Education

|            | General Pupils<br>(thousands) |         | Vocational Pupils<br>(thousands) |       | Vocational Pupils<br>(% Total Secondary) |      |
|------------|-------------------------------|---------|----------------------------------|-------|------------------------------------------|------|
|            | 1999                          | 2006    | 1999                             | 2006  | 1999                                     | 2006 |
| Ethiopia   | 1,056.4                       | 2,869.0 | 3.4                              | 123.6 | 0.3                                      | 4.1  |
| Ghana      | 1,001.2                       | 1,422.6 | 22.9                             | 31.5  | 2.2                                      | 2.2  |
| Mozambique | 82.6                          | 341.7   | 20.6                             | 26.3  | 19.9                                     | 7.1  |
| Tanzania   | 247.6                         | 675.7   | 23.6                             | ..    | 8.7                                      | ..   |

Source: WDI (2011)

The Ethiopian government's main instrument to improve youth employability is through a formal TVET programme (World Bank, 2007). The programme was initiated in 2000/01 to cater for those students who have completed grade 10 and have the necessary aptitudes in various fields, but did not score the required grades to attend preparatory secondary education. The initiative offers training in several fields in both public and private institutions. It is believed that it will fulfil the country's requirement for mid-level trained human resources. The number of trainees increased from 38,176 to 105,850 during the period 2002-05 (MOFED, 2006). The agricultural TVET program aims to reduce (rural) youth unemployment by increasing the productivity of farmers and promote commercialisation (World Bank, 2007).

Ethiopia also has extensive experience with food-for-work schemes and, more recently, with broad-based cash-for-work schemes in rural areas (World Bank, 2007). For instance, the Employment Generation Scheme (EGS) was a large food-for-work programme implemented between 1997 and 2005. The EGS was conceived as a temporary employment scheme designed to combine relief efforts with development activities—such as soil and water conservation and construction of rural roads.<sup>42</sup> However, the EGS was criticised for failing to build sustainable assets in local communities, and thus not leading to significant transformations in production processes (Middlebrook, 2005). The EGS successor, the Productive Safety Net Programme (PSNP), is the largest social protection scheme in Africa—excluding South Africa's social grants schemes. The PSNP delivers social transfers to over 7 million people each year (about 11 percent of Ethiopia's population), either through public works activities (6.2 million) or as direct support for households that are labour-constrained (1 million). The three distinct objectives are: (i) to smooth food consumption in chronically food insecure households, by transferring food or cash during the 'hunger gap' months; (ii) to protect household assets, by avoiding damaging 'coping strategies' such as selling productive assets or taking on high-interest loans to buy food; (iii) to build community assets, by selecting public works activities that create infrastructure with developmental potential (e.g., feeder roads). The total cost is estimated at \$250-\$300 million per year, and is supported by several donors. Other recent schemes include the Voluntary Resettlement Programme (VRP).<sup>43</sup>

<sup>42</sup> [www.younglives.org.uk/files/policy-papers/impacts-of-social-protection-programmes-in-ethiopia-on-child-work-and-education](http://www.younglives.org.uk/files/policy-papers/impacts-of-social-protection-programmes-in-ethiopia-on-child-work-and-education)

<sup>43</sup> The VRP is a large-scale programme—also part of the Food Security Programme—that was launched in 2003 with the objective of relocating farming families to areas where land is more abundant, agricultural productivity potentially higher and agricultural risk lower.

TVET programmes and traditional apprenticeships play an important role in Ghana, often paving the way for wage and self-employment (World Bank, 2009a). While these initiatives have been growing with a view to addressing youth unemployment and underemployment, their effects have been quite disappointing, partly due to low quality of training and limited connection to the labour market—supply-driven nature of skill training (World Bank, 2009b; Aryeetey and Baah-Boateng, 2007). Nonetheless, some evidence suggests that the impact of formal and TVET education on the type of employment and earnings can be substantial, although the effects of apprenticeships appear to be much weaker (World Bank, 2009a). The majority of apprentices are self-employed in the informal sector.

Since 2001, the Alternative Employment Programme (AEP) has supported civil servants affected by the Public Sector Management Reform Program exercise to find new employment. Other government labour market initiatives mainly target the youth. For instance, the ‘Mass Cocoa Spraying Programme’ started in 2001 and led to the creation of about 60,000 jobs for unemployed youth in rural areas (Ould El Hadj and Diakhate, 2009). The National Youth Employment Program (NYEP), launched in 2006, is the major program directly addressing job creation. NYEP is a community-based public works programme that provides jobs for unemployed and underemployed youth (UNICEF, 2009). The programme aimed to employ about 500,000 young people between 2006 and 2009 (World Bank, 2009a). While it is too early to evaluate its impact, some concerns with the design of the programme include: (i) it primarily targets urban youth with secondary or higher education, therefore missing the poorest; (ii) the wage paid by NYEP is considerably high when compared to national minimum wage—potentially having a disincentive effect for youth job-seeking; and (iii) the consequent high cost of the programme. It has been argued that, for poverty reduction, rural public works are likely to be four or five times more cost-effective than the NYEP (World Bank, 2009a). Finally, a \$56 million Labour Intensive Public Works (LIPW) programme was launched in late 2011 as part of the Ghana Social Opportunities Project.<sup>44</sup> It provides access to employment and income-earning opportunities to targeted rural poor households—especially during the agricultural off-season and in response to external shocks—through the rehabilitation and maintenance of public or community productive infrastructure assets.

Mozambique supports TVET programmes to attract students who are unable to enter secondary education with a view to providing a skilled workforce for manufacturing industries. However, the results so far have been largely disappointing, partly due to poor teaching materials and negative popular perceptions about the value of TVET (AEO, 2011). The latter seems to justify the strong preference for general secondary training. While professional services (e.g., engineering, auditing, legal, and medical services) are in short supply and are thus expensive, many highly skilled Mozambicans are seeking better job opportunities and higher salaries abroad (Nucifora and Silva, 2010).

In Tanzania, business surveys usually report that a lack of adequately skilled workers is a major constraint to business. A small portion of potential job seekers (approximately 45,000) join technical training schools, but this is clearly insufficient to meet the demands for technicians in the country. Mashindano (2009) argues that the educational system is likely to increase income disparities and intensify poverty, since it favours the rich who can afford to give their children better education, and consequently higher-earning employment opportunities. Moreover, while urban graduates tend to enter wage employment, rural graduates migrate to towns and frequently become self-employed (Samji et al., 2009).

The main public works programme is a component of the Tanzania Social Action Fund (TASAF). While the programme has been traditionally limited in terms of coverage (about 20,000 employees per year), a major expansion is planned in order to reach 10 percent of the ‘basic needs’ poor households with available labour (about 180,000 households) by the end of the 5 year programme period.

Table 33 provides a tentative classification of labour market policies that summarises the discussion above. Vandenberg (2008) defines ‘employment security’ as the security of remaining with an employer, while ‘labour market security’ refers to the level of support provided for employment transitions. The latter is

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<sup>44</sup> The Ghana Social Opportunities Project has two main components: the Labour-Intensive Public Works (LIPW) and the Livelihood Empowerment Against Poverty Programme (LEAP)—ILO (2011).

usually associated with passive and active labour market policies. We usually observe that, as countries develop, they tend to make a transition from systems based on employment security to broader systems of labour market security.

Table 33: Classification of Labour Market Policies

|            | Overall Type of Security |               | Employment Protection Legislation (EPL) |      |     | Passive Labour Market Policies (PLMP) |      |     | Active Labour Market Policies (ALMP) |      |     |
|------------|--------------------------|---------------|-----------------------------------------|------|-----|---------------------------------------|------|-----|--------------------------------------|------|-----|
|            | Employment               | Labour Market | High                                    | Med. | Low | High                                  | Med. | Low | High                                 | Med. | Low |
| Ethiopia   |                          | X             |                                         |      | X   |                                       |      | X   |                                      | X    |     |
| Ghana      |                          | X             |                                         |      | X   |                                       |      | X   |                                      | X    |     |
| Mozambique | X                        |               |                                         | X    |     |                                       |      | X   |                                      |      | X   |
| Tanzania   | X                        |               |                                         | X    |     |                                       |      | X   |                                      |      | X   |

Note: This structure is used by Vandenberg (2008) to assess employment policies in six Asian countries.

Sources: Author's assessment

Mozambique and Tanzania seem to provide stronger employment security than labour market security, even if the level of compliance and enforcement of employment laws tends to be quite low—especially due to widespread informal employment. In fact, EPL may appear to be strong *de jure*, but it is often weak *de facto*. This may explain why there is such limited evidence that labour legislation acts as a constraint to employment creation (in firm-level surveys). Nonetheless, the poor coverage of passive and active labour market policies in these countries does not seem to warrant much security for labour market transitions. Moreover, Ethiopia and Ghana appear to have more ‘flexible’ employment legislation than Mozambique and Tanzania—thus providing less *de jure* employment protection—while their active labour market policies appear to be substantially stronger. For instance, Ethiopia has a very large public works programme (the PSNP) targeted at rural households, while Ghana appears to have a fairly developed TVET programme to complement general secondary education—albeit with weaknesses. It is therefore necessary to balance the need for labour market ‘flexibility’ with employment and income security, with a view to promoting ‘decent work’ and productive employment.

Overall, it is unclear whether labour market policies have played a significant role in shaping employment outcomes. In the particular case of active labour market policies, this might be due to their relatively small scale during the main period of analysis or due to its failure to build significant (physical and skill) assets. However, there are some positive signs emerging, as noted above.

## Social Protection

For the purpose of this paper, our definition of social protection does not include employment-related programmes that might arguably fall under the social protection sphere. Nonetheless, some of the statistics presented here may include programmes that are usually classified both as active labour market policies and as social protection, such as public works programmes.

Table 34 provides a regional comparison of social protection programmes.<sup>45</sup> We note that the coverage and beneficiary incidence of social protection programmes are quite low in sub-Saharan Africa, even when compared to South Asia—with the exception of social insurance. About 82 percent of households in the poorest quintile do not receive any type of transfer compared to 63 percent in South Asia. In fact, private transfers (remittances) have higher coverage than social protection programmes. Leakage rates are high, but do not appear to be substantially different from South Asia. Once again, this suggests a limited impact of

<sup>45</sup> Social insurance includes old age contributory pensions and social security / health insurance; labour market programmes include unemployment benefits and active labour market policies; social assistance / safety nets includes cash transfer programmes, social pensions, and in-kind food programmes.

current social protection programmes in Africa, although they hold considerable potential if coverage could be significantly expanded.

Table 34: World Bank Social Protection Atlas (Poorest 20 Percent)

|                           | Social Protection |               |                   |       | Remittances |
|---------------------------|-------------------|---------------|-------------------|-------|-------------|
|                           | Social Insurance  | Labour Market | Social Assistance | Total |             |
| Sub-Saharan Africa        |                   |               |                   |       |             |
| Coverage (%)              | 6.7               | ..            | 13.2              | 17.5  | 22.8        |
| Beneficiary incidence (%) | 11.2              | ..            | 20.7              | 17.6  | 19.0        |
| Leakage (%)               | 88.8              | ..            | 79.3              | 82.4  | 81.0        |
| South Asia                |                   |               |                   |       |             |
| Coverage (%)              | 3.5               | 1.3           | 33.2              | 36.6  | 4.1         |
| Beneficiary incidence (%) | 7.9               | 8.7           | 28.5              | 22.4  | 15.1        |
| Leakage (%)               | 92.1              | 91.3          | 71.5              | 77.6  | 84.9        |
| East Asia and Pacific     |                   |               |                   |       |             |
| Coverage (%)              | 25.8              | 0.4           | 63.3              | 68.1  | 30.9        |
| Beneficiary incidence (%) | 23.5              | 70.5          | 27.7              | 25.5  | 20.0        |
| Leakage (%)               | 76.5              | 29.5          | 72.3              | 74.5  | 80.0        |
| Latin America & Caribbean |                   |               |                   |       |             |
| Coverage (%)              | 17.6              | 3.4           | 51.9              | 60.5  | 11.7        |
| Beneficiary incidence (%) | 11.6              | 15.8          | 36.4              | 22.7  | 19.3        |
| Leakage (%)               | 88.4              | 84.2          | 63.6              | 77.3  | 80.7        |

Notes: Social insurance includes old age contributory pensions and social security / health insurance; labour market programmes include unemployment benefits and active labour market policies; social assistance / safety nets includes cash transfer programmes, social pensions, and in-kind food programmes. Coverage is the proportion of direct and indirect beneficiaries in the poorest 20 percent. Beneficiary incidence is that share of beneficiaries in the poorest 20 percent in relation to total beneficiaries. Leakage refers to the proportion of non-poor that receive the transfer.

Source: World Bank <http://go.worldbank.org/PG2N7P0Z80>

Table 35 provides estimates of the level of public expenditure on social protection as a percentage of GDP. Overall, the data suggests that public spending on social protection is very limited. The exception is Ethiopia, which spent about 6.5 percent of GDP on social protection programmes. McCord and Hagen-Zanker (2010) estimate that the level of public expenditure on social protection provision in 2007 was about \$2 per capita in Ethiopia and \$3 per capita in Mozambique. In Tanzania, spending was also about \$2 per capita or 0.15 percent of GDP. Both Tanzania and Mozambique seem to have low social protection spending as a share of GDP, even for African standards: Ethiopia allocates 0.7 percent of GDP, Malawi 0.4, Kenya 0.3, and Mozambique and Uganda 0.1 (Hagen-Zanker and McCord, 2011). Although the quality of the data is likely to be poor, it does suggest that social protection receives scarce funding.

Table 35: Public Social Protection Expenditure, excl. health benefit in kind (% GDP)

|            | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|------------|------|------|------|------|------|------|------|------|------|
| Ethiopia   | ..   | 1.3  | 6.5  | ..   | ..   | ..   | ..   | ..   | ..   |
| Ghana      | 1.5  | 1.6  | 0.9  | 0.9  | 1.9  | 1.1  | 1.1  | ..   | ..   |
| Mozambique | 0.2  | 0.3  | 0.4  | 0.6  | 0.4  | 0.4  | 0.7  | ..   | ..   |
| Tanzania   | 0.4  | 0.5  | 0.5  | 0.4  | 0.6  | 0.9  | 1.2  | 1.2  | ..   |

Source: ILO Social Security Department ([www.ilo.org/dyn/ilossi/ssimain.home?p\\_lang=en](http://www.ilo.org/dyn/ilossi/ssimain.home?p_lang=en) and [www.ilo.org/dyn/sesame/ifpses.socialdbexp](http://www.ilo.org/dyn/sesame/ifpses.socialdbexp))

We now describe a few social protection programmes in the four countries. In Ethiopia, the Food Security Programme (FSP) aims to reduce vulnerability—especially in rural areas—by supporting the 8.29 million ‘chronically’ food insecure population and improve the situation of 6.71 million facing ‘transitory’ food insecurity problems. The programme aims to improve food security through: (i) building household assets through on-farm activities; (ii) supporting voluntary resettlement to more productive areas (VRS); iii) a

safety net program that helps bridge food gaps while building community assets (PSNP); and (iv) introducing non-farm activities.

In Ghana, pensions only cover about 10 percent of the population, since they are mainly for public employees and formal private sector workers—thus excluding the informal sector workers and the unemployed. A broader social protection system has been developed in recent years to address poverty and risk of poverty for the most vulnerable (UNICEF, 2009; Al-Hassan and Poulton, 2009). The National Health Insurance Scheme (NHIS) was established in 2003 in order to address financial barriers that limit the access to health services (UNICEF, 2009). The NHIS provides access to basic healthcare services through mutual and private health insurance schemes. NHIS coverage has recently grown to 68 percent of the population, with only 31 percent of members paying a premium (WHO, 2010), thus significantly expanding access to health services by poor and disadvantaged social groups and making the scheme a model for other African countries. In terms of social assistance, the Education Capitation Grant was introduced in 2005 in order to improve enrolment and retention by providing schools with grants to cover tuition and other levies that were previously paid by households (UNICEF, 2009). A School Feeding Programme was introduced in 2004, with the same objectives by providing children with a daily meal at school (UNICEF, 2009). Finally, the Livelihood Empowerment Against Poverty (LEAP) (pilot) programme was initiated in 2008 to provide conditional cash transfers to extremely vulnerable households, including those with orphans and vulnerable children. It is a component of the Ghana Social Opportunities Project. The LEAP aims to reduce vulnerability and ensure adequate nutrition and access to basic social services. While the scheme still has limited coverage, it aims to reach 165,000 households in the next few years.

The social protection system in Mozambique has been organised in three levels: non-contributory basic, compulsory (contributory), and complementary social security. Basic social protection entails non-contributory transfers and other welfare services for the poorest households, elderly, disabled, those who are chronically ill, and households with orphans and vulnerable children (GESS, 2011). Its main programme is the Programa Subsidio de Alimentos (PSA), a national food subsidy programme covering approximately 250,000 elderly people living in extreme poverty. The government intends to scale up the programme to cover approximately 750,000 of the poorest households in Mozambique by 2015. The compulsory (or contributory) social security consists of social insurance for formal workers and public servants, including old-age pensions, cash sickness and maternity benefits, hospitalisation, cash death grants and allowances for burial expenses (GESS, 2011). The complementary social security adds to these benefits.

In Tanzania, social protection interventions are often fragmented and cover only a small proportion of the poor. The key constraints to extensive social protection coverage include: limited financial resources, poor coordination and the lack of clear policy and leadership.

Current labour market and social protection policies appear to be fairly weak and inefficient across African countries. However, they could potentially play an important role in promoting greater access to employment opportunities and reducing the vulnerability of the most disadvantaged groups of society. Therefore, it might be essential to rethink the financing and design of these programmes.

### 3.3. Summary of Evidence and Key Policy Debates

For the past decade, macroeconomic stability has been an essential ingredient underpinning the growth performance of many African countries. Fiscal deficits and inflation rates were dramatically reduced, while the business environment has significantly improved. These reforms have been strongly supported by the international donor community and served to attract substantial flows of foreign investment. However, the countries under analysis achieved very different poverty outcomes, suggesting that their success or failure in improving living standards may also lie with their specific growth patterns and dynamics.<sup>46</sup>

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<sup>46</sup> For instance, Brück and van den Broeck (2006) argue that, since high-dividend economic policy measures have already been undertaken in Mozambique, further pro-poor growth might be much harder to realise.



Our analysis suggests that, while macroeconomic stability remains an important policy objective, the current socio-economic challenges facing African countries require a rethink of the role and objectives of macroeconomic policy. For instance, several studies suggest that poverty reduction can be significantly accelerated if the pattern of growth is more employment-intensive. Islam (2004) provides cross-country empirical evidence that for growth to be pro-poor, it needs to be accompanied by employment growth with rising productivity. Khan (2007) reaches a similar conclusion by reviewing 16 UNDP-ILO country case studies on the role of employment in the growth-poverty nexus. While most macroeconomic policies tend to affect the economy as a whole, they can also be tailored to specific sectors and activities. For example, targeted fiscal decisions (on taxing and spending) can change economic incentives and thus promote growth-enhancing structural change. Financial policies can influence job creation by favouring the allocation of credit to employment-intensive sectors of the economy. Finally, capital controls can also affect the types of foreign investment (e.g. productive FDI versus short-term 'hot' flows).

Table 36 provides a summary of the analysis pertaining to the economic policy factors that may have played a role in affecting the growth-poverty nexus in the countries under scrutiny. The comparative study approach followed in this paper is particularly useful in trying to identify and isolate key distinctive features of economic policy in each of the countries. A number of salient factors seem to emerge, which we summarise below and link to key policy debates.

### *Investment*

While Ethiopia and Ghana considerably increased investment rates in the late 1990s and early 2000s, investment as a share of GDP appears to have stagnated in Mozambique. In Ethiopia, considerable public investments in infrastructure and education led to strong (pro-poor) economic growth and reduced inequality. In Ghana, it was private investment that stimulated economic growth, leading to poverty reduction in both rural and urban areas. Nonetheless, income inequality appears to have increased in Ghana and the rural-urban income gap remains very large. Mozambique's strategy was based on export-led growth, while investment levels have been mainly sustained by capital-intensive mega-projects with few linkages to the rest of the economy. In Tanzania, economic growth was supported by a mixture of stronger exports and investment, albeit linked to mining (mainly gold). Overall, the evidence supports the view that investment can be a key driver of poverty-reducing growth, while export-led growth based on capital-intensive activities or natural resource exploitation is likely to be less successful at raising the incomes of the poor.

### *Domestic Credit*

Investment is often constrained by the unavailability of affordable credit. The evidence suggests that the lack of access to finance remains a crucial impediment for businesses, therefore hindering the expansion of employment. Domestic credit to the private sector (as a share of GDP) remains considerably low in most countries. Even in Ethiopia, the country with the highest levels of domestic credit in the sample, the values are far from those typically observed in fast-growing Asian economies. Commercial banks are somewhat reluctant to lend to agriculture and manufacturing, preferring to channel resources to large enterprises engaged in services (e.g., trade) or exploitation of natural resources. High lending interest rates also deter important employment-generating investments. Large interest rates spreads are likely to be due to structural issues that limit competition—such as market concentration—since African banking systems are usually characterised by high liquidity and profit rates. Finally, the large informal sector is inherently disadvantaged in terms of access to finance.

### *Structural Transformation*

Structural policies are designed to promote 'structural change' through their impact on the allocation of economic resources. This usually entails a reallocation of labour from low productivity to more dynamic sectors (or activities), and is often perceived as a pre-requisite for sustainable economic development. In the context of African countries, structural change would require a move from subsistence agriculture to formal wage employment—typically in manufacturing, 'modern' services and innovative agricultural activities (UNCTAD, 2010). Perhaps surprisingly, McMillan and Rodrik (2011) uncover a perverse pattern of 'growth-

reducing structural change', whereby labour moves from higher productivity to lower (or negative) productivity sectors. African countries with a comparative advantage in primary products are shown to be particularly affected. This is likely to be due to labour shifting from agriculture to 'traditional' services, where jobs tend to be informal (thus precarious), low paid, and have little scope to generate significant productivity growth (UNCTAD, 2010). Thus, the key challenge is to reverse this trend by identifying an appropriate set of structural policies that benefits sectors with high employment and productivity growth potential.

The evidence thus tends to indicate that there has been limited growth-enhancing structural change in Africa. Even if in some cases, most notably Mozambique, the contribution of industry to GDP has increased significantly, this has not been accompanied by commensurate changes in the structure of employment. This seems to suggest that a growth pattern based on capital-intensive industrialisation is not likely to sustainably cater for the needs of a growing labour force. Moreover, a pattern of growth-reducing structural change—whereby labour moves from agriculture to lower productivity activities, usually in the urban informal services sector—can often be disguised by the strong growth of low labour-intensity sectors, such as mining.

However, there are some positive signs suggesting that light manufacturing can be a promising employment-generating sector, while industrial policy is gaining a new momentum in economic policy debates. Chang (2002), Rodrik (2004), UNCTAD (2006) and Lin (2010) have advocated for a more pro-active role for governments. Moreover, China's industrial upgrading and rising wages open up new opportunities for African countries. For instance, labour costs are generally found to be lower in African countries than in competing countries—e.g., China—while the macroeconomic and business environment has dramatically improved since the 1990s. This suggests that African countries can potentially compete in world markets if key structural (supply-side) barriers that hinder productivity growth are eased, such as infrastructural bottlenecks. Therefore, industrial policy (especially with regard to agro-industry and light manufacturing) remains the most viable option for many countries aspiring to promote structural change and move up in the global value chain (with higher value-added production). Success stories such as China, Korea, Vietnam and Mauritius suggest that governments can use a wide range of tools in order to nurture the development of key strategic sectors. Carson (2010) provides a useful survey of success stories, while Ocampo et al. (2009) suggest a number of sectoral strategies to support long-term structural transformation.

Even so, agricultural policy remains crucial to lift rural populations out of poverty.<sup>47</sup> Investments in rural infrastructure and technological development will raise agricultural productivity and potentially stimulate rural non-farm employment. Some activities within the services sector may also deserve attention, provided that they have potential for productivity growth (e.g. energy, infrastructure and telecommunications). Moreover, agriculture remains a vital sector in both tackling (rural) poverty and upgrading in the value-chain—e.g., agricultural processing.

Finally, managing the wealth created by natural resources will also be crucial for many countries in Africa, especially in terms of the opportunities these create to diversify the economy. For instance, UNDESA (2007) advocates that African countries should invest—and compete internationally—in the production of 'high unit value' primary agricultural products and manufactures, and that commodity booms could potentially finance these important investments.

### *Labour Market Policies and Social Protection*

The low levels of formal employment in African countries have sometimes been justified by the 'distortionary' effects of labour market policies and even 'disincentives' generated by social protection. This view has had a determinant influence on economic policy, with labour regulations and social security often seen as barriers to private investment (Berg and Kucera, 2008). Countries have thus been advised to reform labour market institutions in order to achieve greater 'flexibility', which would then stimulate employment creation. However, the existing evidence suggests that labour market 'flexibility'—both in terms of wages and working

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<sup>47</sup> Timmer and Akkus (2008) argue that agricultural productivity growth is a crucial driver of poverty reduction.

conditions—has failed to deliver better labour market outcomes (UNCTAD, 2010).<sup>48</sup> This suggests that policy reforms need to be tailored to local conditions and needs. Moreover, appropriate labour market institutions and regulations can play an important role in delivering better socio-economic outcomes and can actually improve market efficiency (Heintz, 2008).

Moreover, employment creation will only have a significant impact on poverty levels if the poor are able to access (better) employment opportunities. Therefore, it is crucial that economic policies are complemented by comprehensive social interventions—from health and education to social protection. While the current policy debate appears to be focused on how (rather than whether) to extend social protection systems (Chen, 2008), there are divisions on whether to support universal social protection (e.g. cash transfers) or link social protection to employment outcomes. In our view, public employment programmes could be effectively used to complement job creation in the private sector. In 2009, the signatories of the Global Jobs Pact recognised the role of direct employment creation by governments, namely through public works programmes and employment guarantee schemes (Lieuw-Kie-Song and Philip, 2010). While the former have often been associated with temporary shock relief, the latter tend to be long-term programmes.<sup>49</sup>

The benefits of public employment schemes may include: (i) positive (multiplier) effects on the demand for goods and service; (ii) contribute to setting minimum labour standards (e.g. wages and working conditions); (iii) self-selection; (iv) endogenous limits on fiscal spending, through (i); (v) moderating the economic cycle (through its stabilising effect during recessions); (vi) eroding the ability of firms to compete based on low wages and poor working conditions (UNCTAD, 2010). McCord and Slater (2009) review the experience of 167 public works programmes across Africa, and suggest that they are more suitable as a short-term safety net than as a long-term strategy to address chronic poverty and unemployment. Moreover, Lal et al. (2010) argue that employment guarantee schemes can be a useful complement to market-driven employment creation, and should therefore be part of long-term development strategies. However, the impacts of employment creation programmes tend to be highly context-specific (Devereux and Solomon, 2006).

Hence, governments may consider the use of a wide-range of policies—from a ‘minimum wage’ policy to social protection schemes and appropriate legislation—in order to ensure better working conditions and fair opportunities in the spirit of the ILO’s Decent Work Agenda.

However, the evidence from the four countries illustrates that the main weakness of most labour market policies relates to their limited coverage and, thus, impact. Since most policies tend to exclusively apply to the formal sector, the vast majority of workers and firms are not affected by these measures—at least in a direct way. Nonetheless, we identify two main policies that might be effective at targeting informal workers: direct employment generation programmes and technical and vocational education and training. Direct employment programmes—such as labour-intensive public works programs—can act as a social safety net by generating short-term employment and building assets (public goods such as rural feeder roads) in rural communities. However, despite their importance in smoothing consumption patterns and building resilience, there is scarce evidence that they sustainably contribute to higher employment outcomes. The same could be said of recent evaluations of TVET programmes.<sup>50</sup> Hence, we mainly see these as important complementary policies, while the main thrust for employment creation appears to lay with appropriate macroeconomic and structural policies.

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<sup>48</sup> Rodgers (2007) finds little evidence that greater flexibility leads to higher employment, while arguing that the notion of ‘flexibility’ and its impact are often oversimplified.

<sup>49</sup> Nonetheless, public works programmes are increasingly seen as part of long-term employment strategies.

<sup>50</sup> For instance, Johanson and Adams (2004) analyse the impact and effectiveness of TVET programmes in delivering productive employment and income-generating opportunities. They argue that training alone does not create jobs, due to its supply-driven nature.

Table 36: Summary on Policy Environment (late 1990s to mid-2000s)

|     | Macroeconomic                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Structural                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Labour Market                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Social Protection                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ETH | <ul style="list-style-type: none"> <li>• Fiscal prudence, leading to moderate fiscal deficits; strong revenue mobilisation efforts coupled with available (domestic and external) finance allowed for strong public investments in infrastructure and education; public expenditure with a strong pro-poor focus.</li> <li>• Comparatively slower average M2 growth but higher money-to-GDP ratio; low inflation; gradual depreciation; low bank lending interest rates and spreads; substantial domestic credit for private sector.</li> <li>• Deteriorating current account balance (due to strong increase in imports); diversification of exports (e.g., coffee relatively less important with increase in oil seeds); large increase in FDI.</li> </ul> | <ul style="list-style-type: none"> <li>• Ethiopia ranked 10<sup>th</sup> among 46 sub-Saharan countries in the ease of doing business (Ghana was 5<sup>th</sup>, Tanzania 14<sup>th</sup> and Mozambique 18<sup>th</sup>).</li> <li>• Fairly high (and increasing) public spending on agriculture, 'transport construction', and education; efforts to improve commercialisation of agriculture; horticulture and floriculture seen as having good employment generating potential.</li> </ul>                                                                                                                                   | <ul style="list-style-type: none"> <li>• Formal TVET initiated in 2000/1 with a view to improving youth employability—trainees increased from 38,176 (2001) to 105,805 (2004).</li> <li>• No unemployment benefits; severance pay (individual) and redundancy payment (collective) depends on tenure.</li> <li>• Labour regulations not seen as a major constraint; low unionisation; no statutory minimum wage, but some public and private entities set their own.</li> </ul>                                                                                                                                                                                                                                                                                                         | <ul style="list-style-type: none"> <li>• High SP expenditure (6.5% GDP), especially since 2002.</li> <li>• SP mainly labour-related; Productive Safety Net Programme (PSNP)—second largest SP programme in SSA—started in 2005, providing food/cash for work in rural areas (covering about 11% population); the PSNP was built upon a number of previous programmes, such as the Employment Generation Scheme (EGS).</li> <li>• Voluntary Resettlement Programme (mid-2000).</li> </ul> |
| GHA | <ul style="list-style-type: none"> <li>• Tight fiscal policy, focused on increasing public saving (2000-05); public investments mainly focused on rehabilitation of physical infrastructure.</li> <li>• Monetary policy focused on inflation control; high bank lending rates and spreads (limiting access to credit); very strong depreciation during 1999-03.</li> <li>• Exports dominated by gold and cocoa beans; strong foreign private investment in mining.</li> </ul>                                                                                                                                                                                                                                                                                | <ul style="list-style-type: none"> <li>• Economic strategy relies on private sector investment as the engine of growth. Structural policies focused on: (i) public sector reform; (ii) improving the enabling environment for the private sector; (iii) streamlining regulations and building capacity in the financial sector; and (iv) improving infrastructure (AEO, 2006).</li> <li>• Low expenditure on agriculture and infrastructure, but relatively high on education (IMF, 2005).</li> <li>• Credit tends to flow to mining sector and importers, rather than agriculture, agro-processing or manufacturing.</li> </ul> | <ul style="list-style-type: none"> <li>• TVET mainly supply driven, with limited impact on employability; 207,000 active apprentices, mainly in informal economy (60% self-employed, 15% unemployed), with low earnings.</li> <li>• Alternative Employment Programme (2001) helped civil servants find new jobs; Mass Cocoa Spraying Programme (2001) created 60,000 jobs for unemployed youth in rural areas.</li> <li>• No unemployment benefits, but high redundancy payments.</li> <li>• Fairly flexible labour regulations, not perceived as a major constraint to business; unionisation fell from 26% (1990) to 10% (2009); minimum wage fairly high, although low coverage means it does not constrain job creation; dismissal procedures fairly complex and costly.</li> </ul> | <ul style="list-style-type: none"> <li>• Medium SP expenditure (1.3% GDP).</li> <li>• Social protection mostly in the form of pensions for public and formal private sector workers (covering 10% of the population)</li> <li>• No labour-related SP programmes.</li> </ul>                                                                                                                                                                                                              |

|     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                 |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| MOZ | <ul style="list-style-type: none"> <li>• Tight fiscal policy, targeting low budget deficits (about 2%); increasing tax revenue but stagnating expenditure (especially investment) as a percentage of GDP.</li> <li>• Prudent monetary policy; high bank lending rates and spreads (about 20% and 8%, respectively); high rate of financial exclusion; strong depreciation until 2002, but fairly stable since then; banking sector heavily dollarized.</li> <li>• Exports concentrated in a few products (especially unwrought aluminium); relatively high FDI inflows, but mostly focused on capital intensive mega-projects.</li> </ul> | <ul style="list-style-type: none"> <li>• The Doing Business surveys place Mozambique among the best performers over the period 2005-2010—12th out of 174 in terms of improvements in the ease of doing business.</li> <li>• Relatively high public spending on education, but declining budget shares for infrastructure and agriculture.</li> <li>• Credit mostly for trade (42%), rather than agriculture (7%) or industry (16%).</li> <li>• High indirect costs hamper diversification into light manufacturing.</li> </ul> | <ul style="list-style-type: none"> <li>• Results with TVET is disappointing, partly due to insufficient/obsolete materials and negative popular perceptions; paradox of skills.</li> <li>• No unemployment benefits; redundancy pay fairly high.</li> <li>• Increasing labour market flexibility, even if regulations not seen as a major constraint for businesses; low unionisation (5% labour force).</li> </ul> | <ul style="list-style-type: none"> <li>• Low SP expenditure (0.4% GDP).</li> <li>• SP mainly related to civil service pensions and benefits;</li> <li>• Increasing importance of social assistance, e.g., National Food Subsidy Programme (PSA) covers about 250,000 elderly people living in extreme poverty</li> <li>• Few and small labour-related SP programmes.</li> </ul> |
| TZA | <ul style="list-style-type: none"> <li>• Low fiscal deficits (with low levels of revenue and expenditure) in early 2000s, with significant increases afterwards.</li> <li>• Lower money-to-GDP ratio; growing credit to private sector, but still fairly low (especially for SMEs); high bank lending rates deter investment, while low deposit rates discourage domestic saving; single digit inflation; strong depreciation until 2004, followed by appreciation.</li> <li>• Diversified exports (away from agricultural products); gold and tourism key exports.</li> </ul>                                                            | <ul style="list-style-type: none"> <li>• Performance of the manufacturing sector is largely attributed to the following structural reforms: privatisation, management contracts with experienced foreign investors, and investment incentives (AEO, 2006).</li> <li>• Low (but increasing) levels of public expenditure on agriculture; fairly high public spending on education and, to a certain extent, roads.</li> </ul>                                                                                                   | <ul style="list-style-type: none"> <li>• TVET falls short of demand for technicians.</li> <li>• No unemployment benefits; severance pay depends on tenure, but overall lower than Ethiopia.</li> <li>• Labour regulations not constraining; low unionisation; new minimum wages (2008) thought to be too high, but low coverage.</li> </ul>                                                                         | <ul style="list-style-type: none"> <li>• Low SP expenditure (0.6% GDP)</li> <li>• Very low coverage, mostly formal workers' pensions.</li> <li>• Some health-related schemes: National Health Insurance Fund (NHIF), Community Health Fund (CHF)</li> <li>• National Agriculture Input Voucher Scheme.</li> <li>• National Social Security Fund (NSSF),</li> </ul>              |

Source: Author's compilation

## 4. Policy Implications

Employment issues have often been treated in a narrow way, with an exclusive focus on one sector (e.g., formal manufacturing enterprises) or one set of policy instruments (e.g., labour market policies). However, a more comprehensive approach is required in order to better understand the drivers of employment creation and its role in reducing poverty. The comparative method used in this paper offers insights that go beyond the narrow remit of a single case study, while allowing more depth than a large cross-country study. This approach is appropriate for the current state of knowledge (and data availability) in the topic, enabling analysis of existing policy questions as well as the discovery of new lines of inquiry. Basing this study on the comparative experience of a few African countries has allowed us to focus on where knowledge is arguably weakest, but where the problems are in many ways the most acute and the gains from new research and new approaches correspondingly very high.

Our investigation supports the view that the relationship between economic growth and poverty reduction can be significantly improved if adequate attention is paid to employment outcomes. For instance, despite exhibiting stronger economic growth, Mozambique and Tanzania were unable to meaningfully reduce poverty. This was partly due to the fact that the key engines of growth were capital-intensive industries—heavy manufacturing and mining, respectively—which traditionally have few backward and forward linkages with the rest of the economy, have low productivity growth potential, and generate limited employment. To a certain extent, Ethiopia and Ghana have benefited from stronger domestic policies targeting employment-intensive sectors and a conducive external environment—namely, high agricultural commodity prices.

Overall, macroeconomic and structural policies appear to have been a crucial determinant of employment outcomes (e.g., agricultural employment and incomes), while labour market policies and social protection might have played a supportive role. Hence, African countries need to take a longer-term view in terms of macroeconomic policies, in order to tackle existing production capacity constraints, limited financing, and an uncertain external environment (Njuguna, 2008). A pro-employment macroeconomic policy will therefore require active fiscal policies focused on boosting investment, complemented by monetary and financial policies that support the medium-term objective of creating widespread productive employment (McKinley, 2009).

**Fiscal policies** need to prioritise public investments in economic and social infrastructure—with a view to increasing agricultural productivity and encourage other employment-intensive sectors—which in turn stimulate private investment and thus economic growth. The poverty reduction gains of this approach appear to be evident in Ethiopia. Moreover, social spending needs to be targeted at enhancing human capital and ensuring an equitable access to better economic opportunities. In order to create sufficient fiscal space for these investments, countries will need to enhance domestic resources mobilisation—by expanding the revenue base and deepening the financial system—and attract further external finance. Monetary policies should accommodate fiscal policies by ensuring low (real) interest rates, possibly by encouraging stronger competition in the banking sector, which stimulate domestic credit creation for the private sector. Moreover, an effective management of the exchange rate will promote currency stability and a competitive exchange rate to stimulate exports.<sup>51</sup> These measures are not incompatible with—but rather reinforce—the objective of maintaining a favourable macroeconomic and business environment.

However, the design and impact of macroeconomic policies on specific sectors of activity deserve particular attention. Economic policies need to be designed to promote **structural transformation** through their impact on the allocation of economic resources. In the context of the four countries here analysed, that means shifting labour away from subsistence agriculture towards innovative agricultural activities, light manufacturing, and ‘modern’ services (UNCTAD, 2010). The reallocation of labour from low-productivity to more dynamic sectors will be critical to stimulate productive employment and decent work. Public expenditures should be targeted to stimulate the development of sectors with strong employment generation potential and value added (e.g., agro-industry), while tax regimes could be designed to provide positive incentives for employment-intensive enterprises. Financial policies can also influence job creation by

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<sup>51</sup> Countries that targeted monetary aggregates and managed the exchange rate had more flexibility to deal with recent external shocks.

favouring the allocation of credit towards more productive investments in employment-intensive sectors of the economy. Public incentives to encourage financial institutions to direct credit to certain purposes (innovation) or certain sectors (those potentially competitive) can also be effective. Moreover, national development banks could be particularly effective at channelling resources towards strategic economic sectors that have high employment generation potential and support the diversification of the economy—as it has been the case of Brazil and China. Finally, a better management of the capital account (e.g., through sensible capital controls) could induce more productive and employment-rich foreign investments.

In terms of **sectoral priorities**, countries should seek to boost support for agriculture in order to raise agricultural productivity and incomes. This is particularly important since the livelihoods of the majority of the African population remain dependant on the sector. This may require direct measures—such as extension services and other incentives to facilitate the adoption of improved technologies—as well as indirect measures—such as increasing public investment in rural infrastructure and skills training. Moreover, pragmatic industrial policies will be vital to absorb a growing (urban) labour force. With China's upgrading in the value chain, many countries will be well positioned to seize this opportunity and attract low-skill employment-intensive manufacturing industries—see Dinh et al. (2012). Targeted public investments (e.g., in economic infrastructure) and improved access to credit can provide vital support for the development of such industries, especially for enterprises with high-productivity potential.

While macroeconomic and structural policies are critical to generate productive employment, **labour market policies** and **social protection** can play a vital supporting role by ensuring equitable access to these better employment opportunities—especially for the poor and other disadvantaged groups. While countries should strive to increase labour productivity, it is also important to create mechanisms that encourage an adequate distribution of productivity gains. This is because productivity gains are not always translated into higher real wages and better living conditions for the population. In order to promote a sustainable and inclusive growth pattern that leads to the creation of more and better jobs, policies and institutions must be adapted to each country's circumstances and needs.<sup>52</sup> Governments should aim to strike an appropriate balance between labour market flexibility and employment and income security (De Gobbi, 2006). Moreover, education and training programmes need to better endow the labour force with the skills and knowledge required by the economy—in order to minimise the skills mismatch—partly by establishing closer linkages between employers and the labour force.<sup>53</sup> Public works programmes are only at their early stages in Africa, but are showing some potential, especially as an important safety net.

Furthermore, the **international community** can support these domestic efforts by providing adequate financial resources, reforming regulatory frameworks, encouraging technical cooperation and supporting technological transfer. For instance, if foreign aid is to become a better catalyst for structural transformation, it needs to be targeted to the production sectors of the economy. Innovative financial instruments—such as public-private partnerships, partial-risk guarantees and weather insurance—can also be deployed to stimulate public and private investment. These could be targeted to vital socio-economic infrastructure and enterprises in employment-intensive sectors. A reform of international trade and investment regulations can also support structural change. The current rules and incentives hinder the ability of countries to escape the 'commodity trap' and upgrade in the value chain. For example, tariff escalation, non-tariff barriers and subsidies undermine products and sectors with significant potential such as light-manufacturing (Kozul-Wright, 2010). Finally, regional cooperation and integration can help countries overcome current constraints such as infrastructure bottlenecks, skill shortages, and market size.

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<sup>52</sup> For instance, De Gobbi (2007) argues that labour markets in developing countries require significantly different and appropriately adapted labour market policies and institutions.

<sup>53</sup> Demand-driven skills development programmes can break a 'vicious circle' of poor educational standards, poor productivity and low incomes (ILO, 2008).

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## Appendix

Table 37: Contribution to GDP by main Activity (%)

|                                      | Ethiopia   |       |       |       | Ghana    |       |       |        |
|--------------------------------------|------------|-------|-------|-------|----------|-------|-------|--------|
|                                      | 91-95      | 96-00 | 01-05 | 06-10 | 91-95    | 96-00 | 01-05 | 06-10  |
| Agriculture                          | 62.7       | 53.3  | 44.8  | 47.3  | 43.3     | 40.7  | 40.3  | (30.5) |
| Industry                             | 8.9        | 11.7  | 13.6  | 12.8  | 23.3     | 28.1  | 27.7  | (19.9) |
| Construction                         | 2.8        | 4.0   | 5.3   | 5.6   | 1.5      | 3.9   | 9.8   | (7.9)  |
| Gas, Electricity and Water           | 1.7        | 2.0   | 2.2   | 2.0   | 0.9      | 1.2   | 2.4   | (1.5)  |
| Manufacturing                        | 3.8        | 5.2   | 5.4   | 4.7   | 9.9      | 10.0  | 9.8   | (8.1)  |
| Mining and Quarrying                 | 0.6        | 0.5   | 0.6   | 0.4   | 4.3      | 3.3   | 5.2   | (2.4)  |
| Services, etc                        | 28.4       | 35.1  | 41.6  | 39.9  | 33.4     | 31.2  | 32.0  | (49.6) |
| Banking                              | 0.5        | 1.6   | 1.7   | 2.0   | ..       | ..    | ..    | ..     |
| Other Services                       | 3.1        | 4.4   | 5.5   | 4.8   | ..       | ..    | ..    | ..     |
| Ownership of Dwellings               | 6.3        | 6.3   | 8.4   | 8.0   | ..       | ..    | ..    | ..     |
| Public Administration and Defence    | 2.9        | 4.7   | 5.7   | 4.0   | ..       | ..    | ..    | ..     |
| Transport, Storage and Communication | 4.2        | 4.5   | 6.2   | 5.4   | ..       | ..    | ..    | ..     |
| Wholesale and Retail Trade           | 11.3       | 13.4  | 14.2  | 16.5  | ..       | ..    | ..    | ..     |
| Discrepancy                          | 0.0        | 0.0   | 0.0   | -0.8  | ..       | ..    | ..    | ..     |
|                                      | Mozambique |       |       |       | Tanzania |       |       |        |
|                                      | 91-95      | 96-00 | 01-05 | 06-10 | 91-95    | 96-00 | 01-05 | 06-10  |
| Agriculture                          | 36.0       | 30.7  | 26.5  | 29.9  | 47.3     | 39.2  | 32.6  | 29.4   |
| Industry                             | 14.8       | 20.6  | 25.6  | 24.6  | 15.7     | 17.4  | 21.6  | 23.6   |
| Construction                         | 4.6        | 7.8   | 4.5   | 3.2   | 4.8      | 5.1   | 7.7   | 8.7    |
| Gas, Electricity and Water           | 0.6        | 1.9   | 4.8   | 5.5   | 1.9      | 2.2   | 2.5   | 2.2    |
| Manufacturing                        | 9.5        | 10.8  | 15.5  | 14.4  | 7.8      | 8.8   | 8.8   | 9.0    |
| Mining and Quarrying                 | 0.2        | 0.3   | 0.7   | 1.5   | 1.1      | 1.4   | 2.5   | 3.7    |
| Services, etc                        | 49.2       | 48.7  | 47.9  | 45.5  | 37.1     | 43.3  | 45.8  | 47.0   |
| Banking                              | 4.9        | 3.2   | 4.0   | 4.6   | 1.5      | 1.2   | 0.8   | 0.7    |
| Other Services                       | 6.1        | 9.1   | 9.7   | 8.8   | 0.0      | 11.6  | 18.9  | 19.5   |
| Ownership of Dwellings               | 5.1        | 3.5   | 8.5   | 6.1   | 5.4      | 2.9   | 0.0   | 0.0    |
| Public Administration and Defence    | 4.6        | 3.1   | 4.1   | 4.0   | 9.2      | 8.1   | 8.0   | 8.9    |
| Transport, Storage and Communication | 9.8        | 9.5   | 10.7  | 9.8   | 5.6      | 5.7   | 5.2   | 5.1    |
| Wholesale and Retail Trade           | 20.4       | 22.2  | 13.4  | 14.5  | 15.3     | 13.8  | 12.9  | 12.9   |
| Discrepancy                          | -1.7       | -1.9  | -2.5  | -2.3  | 0.0      | 0.0   | 0.0   | 0.0    |

Notes: Data for 'industry' in Ghana does not add up: no 'construction' and 'gas, electricity and water' for 1993-98. No data for utilities in Ghana 2005. No data on 'other services' for Tanzania 1990-97, and 'ownership of dwellings' 1998-2010. The composition of 'Industry' may vary according to sources (e.g., Construction and Utilities sometimes under 'Services').

Source: Calculated from ADI (2011)

Table 38: Employment-Population Ratio and Participation Rate, ages 15-24 (1990-2010)

|            | Employment-Population Ratio (avg.) |       |       |       | Labour Participation Rate (avg.) |       |       |       |
|------------|------------------------------------|-------|-------|-------|----------------------------------|-------|-------|-------|
|            | 91-95                              | 96-00 | 01-05 | 06-08 | 91-95                            | 96-00 | 01-05 | 06-09 |
| Ethiopia   | 65.3                               | 68.6  | 71.6  | 73.2  | 78.9                             | 78.9  | 79.2  | 78.5  |
| Ghana      | 41.3                               | 44.2  | 42.3  | 39.9  | 49.0                             | 52.4  | 52.9  | 51.3  |
| Mozambique | 67.3                               | 67.1  | 66.1  | 65.7  | 75.0                             | 73.9  | 73.2  | 72.6  |
| Tanzania   | 78.0                               | 76.4  | 72.7  | 69.8  | 82.7                             | 82.3  | 81.8  | 81.5  |

Source: Calculated from ADI (2011)

Table 39: Fiscal Accounts (% GDP)

|                          | Ethiopia   |      |      |      |      | Ghana    |      |      |      |       |
|--------------------------|------------|------|------|------|------|----------|------|------|------|-------|
|                          | 2001       | 2002 | 2006 | 2007 | 2008 | 2001     | 2002 | 2006 | 2007 | 2008  |
| Total revenue and grants | 19.5       | 19.3 | 18.9 | 17.1 | 16.0 | 25.0     | 19.3 | 27.8 | 32.8 | 33.0  |
| Tax revenue              | 11.2       | 11.9 | 11.0 | 10.1 | 9.6  | 17.2     | 15.7 | 20.2 | 24.1 | 25.6  |
| Grants                   | 4.0        | 3.6  | 3.7  | 4.4  | 4.0  | 6.9      | 3.1  | 5.5  | 6.2  | 4.8   |
| Other revenues           | 0.1        | ..   | 4.2  | ..   | ..   | 0.9      | ..   | 2.0  | ..   | ..    |
| Total expenditure        | 23.4       | 25.1 | 22.8 | 20.7 | 18.9 | 32.7     | 26.1 | 34.9 | 41.5 | 47.0  |
| Current expenditure      | 15.8       | 15.9 | 11.8 | 9.4  | 9.1  | 19.9     | 20.0 | 22.3 | 26.8 | 30.8  |
| Wages and salaries       | 5.5        | 5.7  | 6.2  | 5.4  | 5.3  | 6.1      | 8.5  | 9.9  | 10.3 | 11.7  |
| Goods and services       | 5.9        | 6.2  | 3.8  | 2.6  | 2.7  | 1.8      | 3.0  | 3.7  | 4.1  | 3.8   |
| Interest                 | 1.6        | 1.5  | 0.8  | 0.7  | 0.5  | 7.8      | 6.1  | 3.4  | 3.2  | 4.0   |
| Capital expenditure      | 7.6        | 9.2  | 10.9 | 10.7 | 9.7  | 12.8     | 6.1  | 12.6 | 11.9 | 14.6  |
| Primary balance          | -2.3       | -4.3 | -3.1 | -2.9 | -2.5 | 0.2      | -0.6 | -3.7 | -5.5 | -10.0 |
| Overall balance          | -3.9       | -5.8 | -3.9 | -3.6 | -2.9 | -7.7     | -6.8 | -7.1 | -8.7 | -14.0 |
|                          | Mozambique |      |      |      |      | Tanzania |      |      |      |       |
|                          | 2001       | 2002 | 2006 | 2007 | 2008 | 2001     | 2002 | 2006 | 2007 | 2008  |
| Total revenue and grants | 26.3       | 22.1 | 25.6 | 25.0 | 25.3 | 14.2     | 14.6 | 17.9 | 19.1 | 22.8  |
| Tax revenue              | 11.0       | 10.7 | 12.9 | 14.1 | 15.4 | 9.6      | 9.6  | 11.5 | 13.0 | 14.7  |
| Grants                   | 13.8       | 10.0 | 10.6 | 9.0  | 9.4  | 3.4      | 3.9  | 5.4  | 5.0  | 6.9   |
| Other revenues           | 1.4        | 1.4  | 2.0  | 1.8  | 0.5  | ..       | ..   | ..   | ..   | ..    |
| Total expenditure        | 32.4       | 29.1 | 27.2 | 27.3 | 28.0 | 15.1     | 15.0 | 21.3 | 23.0 | 22.8  |
| Current expenditure      | 13.7       | 13.5 | 14.4 | 15.3 | 15.7 | 11.8     | 11.5 | 15.7 | 16.1 | 14.9  |
| Wages and salaries       | 6.5        | 6.2  | 7.2  | 7.7  | 8.0  | 3.6      | 3.5  | 3.9  | 5.0  | 5.0   |
| Goods and services       | 3.2        | 2.8  | 3.5  | 3.2  | 3.3  | 6.8      | 6.7  | 10.5 | 10.0 | 8.7   |
| Interest                 | 0.6        | 1.3  | 0.8  | 0.6  | 0.5  | 1.5      | 1.2  | 1.3  | 1.1  | 1.2   |
| Capital expenditure      | 15.5       | 12.1 | 11.8 | 11.2 | 11.5 | 3.3      | 3.5  | 5.6  | 6.9  | 7.9   |
| Primary balance          | -5.5       | -5.7 | -0.9 | -1.8 | -2.1 | 0.5      | 0.8  | -2.1 | -2.8 | 1.2   |
| Overall balance          | -6.2       | -7.0 | -1.6 | -2.4 | -2.7 | -1.0     | -0.4 | -3.4 | -3.9 | 0.0   |

Note: The primary balance excludes interest payments. Interest payments partly reduced due to debt relief initiatives.  
Source: AfDB et al. (2012)

Table 40: Ease of Doing Business

|                          |                                                                  | ETH                   | GHA                 | MOZ                 | TZA                 |
|--------------------------|------------------------------------------------------------------|-----------------------|---------------------|---------------------|---------------------|
| Difficulty of Hiring     | Fixed-term contracts prohibited for permanent tasks?             | Yes                   | No                  | Yes                 | Yes                 |
|                          | Maximum length of a single fixed-term contract (months)          | No limit <sup>1</sup> | No limit            | 24                  | 0 <sup>7</sup>      |
|                          | Maximum length of fixed-term contracts, incl. renewals (months)  | No limit              | No limit            | 72                  | 0                   |
|                          | Minimum wage for a 19-y.o. worker or an apprentice (US\$/month)  | 0.0                   | 27.6                | 80.5                | 58.9                |
|                          | Ratio of minimum wage to value added per worker                  | 0.00                  | 0.15                | 1.16                | 0.70                |
| Rigidity of Hours        | Standard workday in manufacturing (hours)                        | 8                     | 8                   | 8                   | 9                   |
|                          | Minimum daily rest required by law (hours)                       | 14                    | 12                  | n/a                 | 12                  |
|                          | Maximum overtime limit in normal circumstances (hours)           | 2 <sup>2</sup>        | 4                   | note <sup>5</sup>   | 3 <sup>8</sup>      |
|                          | Maximum overtime limit in exceptional circumstances (hours)      | 2 <sup>2</sup>        | n/a                 | No limit            | 3 <sup>8</sup>      |
|                          | Premium for overtime work (% of hourly pay)                      | Varies <sup>3</sup>   | Varies <sup>4</sup> | Varies <sup>6</sup> | Varies <sup>9</sup> |
|                          | 50-hour workweek allowed for 2 months a year in case of SIP?     | Yes                   | Yes                 | Yes                 | Yes                 |
|                          | Maximum working days per week                                    | 6.0                   | 5.0                 | 6.0                 | 6.0                 |
|                          | Premium for night work (% of hourly pay) in case of CO           | 0%                    | 0%                  | 0%                  | 5%                  |
|                          | Premium for work on weekly rest day (% hourly pay) in case of CO | 0%                    | 0%                  | 100%                | 100%                |
|                          | Major restrictions on night work in case of CO?                  | No                    | No                  | No                  | No                  |
|                          | Major restrictions on weekly holiday in case of CO?              | No                    | No                  | Yes                 | No                  |
|                          | Paid annual leave (in working days):                             |                       |                     |                     |                     |
|                          | For a worker with 9 months of tenure                             | 14.0                  | 15.0                | 9.0                 | 20.0                |
|                          | For a worker with 1 year of tenure                               | 14.0                  | 15.0                | 12.0                | 20.0                |
|                          | For a worker with 5 years of tenure                              | 18.0                  | 15.0                | 30.0                | 20.0                |
|                          | For a worker with 10 years of tenure                             | 23.0                  | 15.0                | 22.0                | 20.0                |
|                          | For a worker with 20 years of tenure                             | 33.0                  | 15.0                | 22.0                | 20.0                |
|                          | Average for workers with 1, 5 and 10 years of tenure             | 18.3                  | 15.0                | 21.3                | 20.0                |
| Difficulty of Redundancy | Dismissal due to redundancy allowed by law?                      | Yes                   | Yes                 | Yes                 | Yes                 |
|                          | Third-party notification if 1 worker is dismissed?               | No                    | Yes                 | Yes                 | Yes                 |
|                          | Third-party approval if 1 worker is dismissed?                   | No                    | Yes                 | No                  | Yes                 |
|                          | Third-party notification if 9 workers are dismissed?             | Yes                   | Yes                 | Yes                 | Yes                 |
|                          | Third-party approval if 9 workers are dismissed?                 | No                    | Yes                 | No                  | Yes                 |
|                          | Retraining or reassignment obligation before redundancy?         | Yes                   | No                  | No                  | No                  |
|                          | Priority rules for redundancies?                                 | Yes                   | No                  | No                  | No                  |
|                          | Priority rules for reemployment?                                 | No                    | No                  | No                  | No                  |
| Redundancy Costs         | Notice period for redundancy dismissal (in salary weeks):        |                       |                     |                     |                     |
|                          | For a worker with 9 months of tenure                             | 4.3                   | 2.0                 | 4.3                 | 4.0                 |
|                          | For a worker with 1 year of tenure                               | 8.7                   | 2.0                 | 4.3                 | 4.0                 |
|                          | For a worker with 5 years of tenure                              | 8.7                   | 4.3                 | 4.3                 | 4.0                 |
|                          | For a worker with 10 years of tenure                             | 13.0                  | 4.3                 | 4.3                 | 4.0                 |
|                          | For a worker with 20 years of tenure                             | 13.0                  | 4.3                 | 4.3                 | 4.0                 |
|                          | Average for workers with 1, 5 and 10 years of tenure             | 10.1                  | 3.6                 | 4.3                 | 4.0                 |
|                          | Severance pay for redundancy dismissal (in salary weeks):        |                       |                     |                     |                     |
|                          | For a worker with 9 months of tenure                             | 3.2                   | 6.5                 | 13.0                | 0.0                 |
|                          | For a worker with 1 year of tenure                               | 4.3                   | 8.7                 | 13.0                | 1.0                 |
|                          | For a worker with 5 years of tenure                              | 10.0                  | 43.3                | 32.5                | 5.0                 |
|                          | For a worker with 10 years of tenure                             | 17.1                  | 86.7                | 65.0                | 10.0                |
|                          | For a worker with 20 years of tenure                             | 31.4                  | 173.3               | 130.0               | 10.0                |
|                          | Average for workers with 1, 5 and 10 years of tenure             | 10.5                  | 46.2                | 36.8                | 5.3                 |

Note: SIP seasonal increase in production, CO continuous operations.

<sup>1</sup> There are two exceptions: In the case of temporary placement of a worker who has suddenly and permanently vacated from a post and in the case of temporary placement of a worker to fill a vacant position in the period between the study of the organizational structure and its implementation, duration shall not exceed 45 consecutive days.

<sup>2</sup> The employee can agree to work 2 hrs/day; 20 hrs/month; 100 hrs/year. The worker cannot be required to work overtime.

<sup>3</sup> 25% between 06:00 and 22:00; 50% night work (22:00 to 06:00); 100% weekly rest days; 150% public holidays

<sup>4</sup> 50% on a weekday, 100% on weekends and holidays

<sup>5</sup> 96 hours/3 months; 8/week; 200/year

<sup>6</sup> 50% for overtime work until 8pm and 100% from 8pm to the beginning of the working period of the following

<sup>7</sup> Not allowed at all for "our worker" (however, no limit for professionals and managerial cadres)

<sup>8</sup> Maximum 3 hours/day (12 hours/day of standard hours + overtime); 50 hours per 4-week period. A prior agreement is needed, saying that the employer can require the overtime.

<sup>9</sup> 50% normal overtime, 55% night overtime, 100% premium for weekly rest days and holidays regardless of whether overtime or not.

Source: Doing Business