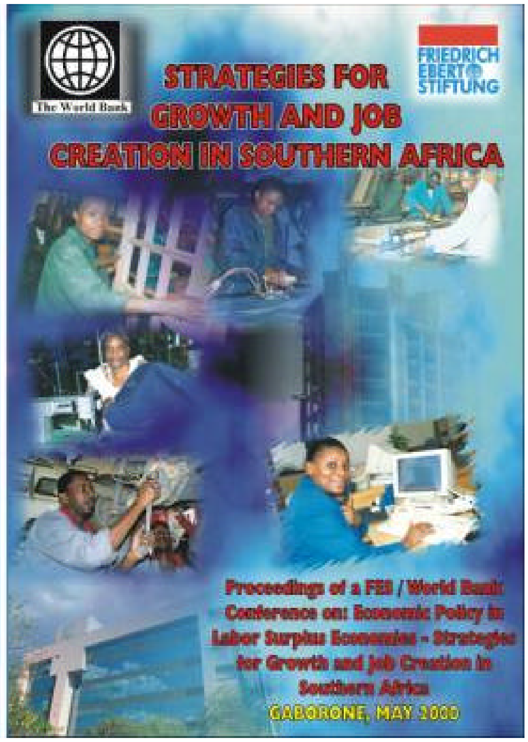
The joint Fredrich Ebert Stiftung / Worldbank conference achieved a broad consensus on the challenges facing the region:

* Wage employment growth in the region has been weak, and in some countries, wage employment levels are lower now than they were in 1980s;
* Although some countries such as Botswana and Mauritius have reached high levels of economic growth, all countries experience unacceptably high levels of unemployment, the effects of which have so far been largely mitigated by a rapid growth in the informal sector, and the extended family system;
* In some countries, bad governance is clearly frustrating economic progress and discouraging investment;
* The main economic impact of AIDS has yet to be felt, but there is no doubt that the pandemic will negatively impact upon productivity, growth and investment; and
* Although the countries of the region have a common interest in regional co-operation to combat some of their problems, the integration of labor markets is unlikely to be politically acceptable for the foreseeable future.

In order to meet these challenges, conference participants urged that

* Governments should give greater emphasis to budgetary management;
* Women should be provided with better access to education and economic opportunities;
* Education and training should be better adapted to the needs of the workplace;
* Regional cooperation in combating common problems should be improved; and
* The World Bank should be more inclined to listen, consult and engage in dialogue and a plan of action with potential and actual beneficiaries in the region.



ECONOMIC POLICY IN LABOR SURPLUS ECONOMIES - STRATEGIES FOR GROWTH AND JOB CREATION IN SOUTHERN AFRICA

Report on the Proceedings of a Southern African Conference Gaborone, May 3 -5, 2000

The World Bank
Friedrich Ebert Stiftung

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PREFACE

The countries of Southern Africa will face tremendous challenges of social development over the next decades. One of these will be the question of employment. The availability and stability of long-term employment opportunities remains the single best system for social security and individual lifetime risk management. Yet despite wide agreement with regard to the key importance of employment patterns to social development, controversy still persists as to how to actually create productive and stable formal-sector jobs. This challenge seems even the more difficult in a globalizing world economy characterized by financial volatility and increasing competitiveness among nations.

In view of this background, the Friedrich-Ebert-Stiftung and the World Bank decided to hold a joint conference addressing the role of employment policies in economic and social development. Renowned regional experts were invited to a two-day conference entitled "Economic Policy in Labor Surplus Economies – Strategies for Growth and Job Creation in Southern Africa." The meeting was held in Gaborone, Botswana, in May 2000. This publication presents the main contributions to the conference and a comprehensive summary of the proceedings.

The situation in Southern Africa is of special interest for this debate, because of the highly diverse historical, political and economic backgrounds of the countries in the region. The region is full of contrasts of success stories and rather gloomy failures in social development, not to mention the exceptional role of South Africa. However, the individual futures of the countries will to no small degree be linked to the extent of their successful regional cooperation. From the outset, the organizers of the conference therefore decided to include a specific focus on the role of the Southern African Development Community (SADC).

The articles in this book address the most important topics of the debate on employment policies in developing countries: the structure of labor markets; employment and social protection; the effect of liberalization on employment outcomes; and the interplay of economic growth and job creation. Additionally, the reader will find a case study of lessons learned in Tanzania, and a perspective of regional integration. The discussions during the conference showed the participants' strong agreement on the importance of the institutional framework in which economic policy takes place. The inclusion of stakeholders in policy creation (see the article by Gelb and Tidrick) for example, may be one key factor in job creation strategies. We are still far away, though, from a clear-cut, easily replicable solution for problems of unemployment that may be applied throughout the region.

On a rather tragic sidenote, it needs to be mentioned that a frank discussion of HIV/AIDS and its consequences for the labor market can not be avoided in this context. The extent of this disease in the region has become so overburdening that every discussion of any social policy will have to take it into account. Unfortunately, the horrible impact of this disease tends to be too easily forgotten outside the region.

In closing, the organizers wish to thank again all the conference participants and especially the panelists and authors of the following articles. We hope that this publication on employment policies in the context of social and economic development will stir further debate and dialogue in the region.

Dr. Manfred Bardeleben Alan Gelb

Friedrich-Ebert-Stiftung **The World Bank**

July 2000

OPENING SPEECHES

OPENING ADDRESS

Mr. Baledzi Gaolathe, M.P.,
Minister of Finance and Development Planning,
Botswana

It's a great pleasure for me to have been invited to officiate at the opening session of the Regional Conference on "Economic Policy in Labour Surplus Economies".

Let me welcome you all to this Conference, especially those of you who have come from outside Botswana. This Conference takes place against the backdrop of continued employment problems in many developing countries, including Botswana, where unemployment remains persistently high, currently at 19.6 percent. I wish, therefore, to thank the sponsors of the conference, namely, the World Bank and Friedrich Ebert Stiftung for this initiative, and for choosing Botswana as the venue for this important conference.

Among the factors of production, it is generally accepted that labour is the only factor that developing countries have in abundance. Thus, given a certain amount of capital available to a country, as well as the technology, the level of the gross domestic product attainable depends on the amount and quality of labour available to the economy, which is a function of factors such as attitudes and values, skills, and the health and nutrition of the work force.

It was once thought that developing countries could solve unemployment problems solely through economic growth, in particular, through industrialisation as a major supplement to agriculture. This strategy was based on a number of assumptions. First, it assumed a high elasticity of employment to the growth of value-added in industrial sectors. Unfortunately, industrial sectors in developing countries have been characterised by low elasticity of employment. Second, it was assumed that indirect jobs would be created through forward and backward linkages of the industrial sector with other sectors of the economy. This assumption also turned out to be too optimistic as the capacity to process domestically produced primary commodities has been limited. Third, the strategy was frustrated by shortage of skilled labour force, which has continued to be a major constraint to employment growth in many developing countries.

The inadequacy of the industrialisation policies based on these assumptions prompted many developing countries to review their employment creation strategies. There is now general consensus that economic growth is a necessary, but not a sufficient condition for significant or meaningful employment creation. Botswana is a case in point in this regard. Following the discovery and subsequent exploitation of diamonds in the seventies and eighties, the economy grew rapidly, at an average of 10 percent per annum over the past two decades. However, unemployment remained stubbornly high as most of the growth came from mining, which is a very capital intensive operation. It is against this background that Economic Diversification is being pursued as a major goal in our successive National Development Plans, with a view to creating employment in diversified economic activities.

There are many policies that countries can adopt to achieve a balanced growth, which is necessary for job creation. In Botswana, the private sector is expected to take the lead in economic growth and diversification. Most government policies and strategies are aimed at promoting private sector productive activities, which in turn should generate employment opportunities. The policies, which aim at providing an enabling environment for increased role of the private sector in Botswana's economic development and growth, include the provision of physical and social infrastructure by government, policies for macroeconomic stability, liberalised economy with no exchange controls, low corporate tax, and grants under the Financial Assistance Policy (FAP).

Another policy initiative is the recently introduced Small, Medium and Micro Enterprises (SMME) policy under which small, medium and micro enterprises are assisted with subsidies or loans to start or expand business. All these financial incentives are aimed at creating more job opportunities in the private sector. Other programmes aimed at creating employment opportunities for Botswana outside government are the localisation policy, reservation of selected business activities for citizens, Central Tender Board preferences in favour of citizen companies, Citizen Contractors Fund, Local Procurement Programme and the recently approved Privatisation Policy. Government has also opened its consultative doors to the private sector at large in recognition of its role in development. In this regard a High Level Consultative Council chaired by the President has been established since 1998 as a forum for open discussion between the private sector and the government on policy matters and issues affecting participation of the private sector in the economy.

The services sector has been identified as one of the sectors with great potential to become an additional engine of growth and contributor to economic diversification and employment creation. In recognition of this, FAP was extended to cover the tourism activities in 1995. Government will continue to promote tourism growth on a sustainable basis by inter alia shifting the mix of tourists away from campers towards permanent accommodation, increasing returns from the tourism sub sector to the communities living in the tourism areas, and by ensuring that tourism activities are carried out in an ecologically sustainable way. In order to achieve these objectives, a comprehensive tourism development plan is being prepared. Botswana continues to experience growth in the financial sector as evidenced by increase in the number of financial institutions, and the existence of a small but vibrant stock market.

Efforts towards establishment of Botswana as an International Financial Services Centre (IFSC) are also beginning to bear fruits. These developments which are a sequel to economic growth, and the deregulation of the financial services sector are expected to create additional job opportunities for Botswana in the medium to long term.

The privatisation policy, which was adopted recently by Parliament, is expected to guide the privatisation of the public enterprises, with a view to improving economic efficiency. The Public Procurement System is also being reformed with a view, inter alia, to improve the management of public tendering and enhance competition. We believe that generally, the provision of goods and services can be achieved more effectively and efficiently by the private sector, hence our efforts towards promoting its development and growth. Indeed, as I have already stated, we believe, it is through the successful promotion of the private sector that our development objectives of sustainable diversification and employment creation can be fully realised.

I have already alluded to some of the factors that determine the productivity of labour, which include availability of relevant skills. In many of the labour surplus economies, the problem of unemployment is usually structural, where jobs available do not match the skills. This is certainly the case in Botswana where most of the 19.6 percent unemployed are relatively young people with low educational qualifications and no skills. With the employment mix becoming more skill intensive in both the private and Government sectors, it means that each year more skilled workers are required relative to unskilled workers. As a result the problem of the unemployment increases.

The Government of Botswana has invested and will continue to invest heavily in education and training to address the problem of lack of skills. In addition to infrastructural development, Government provides virtually free education starting from basic education to tertiary and vocational training. The revised National Policy on Education of 1994 calls for the vocationalisation of the school curriculum in order to address the shortages of skilled technicians and artisans as well as for self employment. A Construction Industry Trust Fund (CITF) has also been established to provide crash courses on plumbing, brick laying, tiling, plastering, welding, etc. in order to address the shortage of artisans. It is hoped that these efforts will ease the shortage of skilled labour force and at the same time contribute to employment creation.

The current wave of regional integration and globalisation poses a serious challenge for Southern African governments in terms of training and development of their work force. Globalisation is characterised by fierce competition among countries for factors of production, including labour. It is therefore imperative that training, especially in the relevant, technical, scientific, and information technology fields, be accorded a high priority if our work force is to participate in the global economy on equal footing. Unskilled labour is likely to lose out in the process of globalisation unless corrective measures are put in place timeously. The Southern African Development Community (SADC) should, through its Human Resource Development Sector, take the lead in ensuring a co-ordinated approach to training and development in the region.

In conclusion, I would like to express the hope that this Conference will recommend strategies that our countries can adopt to overcome the stubborn unemployment problem effectively and in the process eradicate or significantly reduce poverty.

OPENING REMARKS

Dr. Prega Ramsamy
Acting SADC Executive Secretary

I was asked to make a statement as part of the official opening ceremony. I am most grateful to the organisers for this kind gesture. I will not keep our guest of honour, waiting by giving you a long speech. Instead, I will make very brief remarks. Moreover, I will not go into the theories of growth. I will leave that to the various researchers and scholars. With a few minutes that I have been allocated, I want to take this opportunity to talk about the economic and financial conditions in the SADC region.

Let me stress that the SADC vision aims at eradicating poverty from the face of our region. Member states want to reduce poverty from the current 40 percent of population to half by the year 2012. So far SADC has been disappointed that inspite of the sound macroeconomic policies, economic growth although positive, has not been able to have a dent in poverty.

We have great expectations about the SADC free trade area which will be launched on September 1st, 2000. This will go a long way in promoting intra-SADC Trade, which itself must increase from the current 20-22 percent of world trade to 35 percent by the year 2002.

With 190 million people, combined GNP of US$186 billion, and vast tracks of idle but arable land, SADC has enormous economic potential.

Our success has been reflected in the fact that in for many years, Botswana, Mauritius, and Namibia have been very strong economic performers with economic growth rates of just under 10 percent. This gave a good example to all other nine SADC states. Moreover, inflation in member states is in single digit figures. Where inflation is in double digits, the World Bank would tell you that the on going economic programmes sponsored by both World Bank and the International Monetary Fund (IMF) are showing signs of success and it will not be too long in the future before inflation is in single digits in all member states.

Coming back to the issue of economic growth, the region has been recording positive growth rates, which peaked at 4.2 percent in 1996. Growth in 1999 amounted to 0.9 percent. Growth that year should have been stronger. Instead, we experienced a serious downturn as some countries experienced severe drought while others experienced floods. In 1998, financial and economic conditions in this region were severely weakened as a result of the contagion effects of the world financial crises -- notably the East Asia financial crisis.

However, in 1999, the region economy showed strong resilience by reversing the deleterious effects of the Asian Crisis. South Africa, the biggest and most influential economy recovered to register growth of just over 1 percent from negative 0.9 percent. As a result, the economy of the whole region rebounded to register positive growth of 1.7 percent. The lessons we learn from these developments is that the vibrancy of the SADC Economies and their deep rooted fundamentals offers the greatest chance for this region to develop and reduce poverty.

At present, the financial and economic conditions in the SADC region are quite robust. However, SADC economies do not have sufficient financial resources of their own to be able to fulfill the SADC programme of action. As a result, in spite of sound economic policies in member states, poverty has escalated rather than abated.

The biggest constraint on development in SADC is the lack of adequate domestic savings to finance investment and growth.

SADC needs to do something about raising domestic savings to levels that can sustain investment outlays. The dilemma is that this is currently difficult to achieve. In the short run, the region will continue to depend on foreign resource flows in the form of foreign direct investment and official development assistance. The problem however is, that foreign resources tend to be conditional.

Even with the most carefully designed economic reform programme, the issue of conditionality, the design of the programme itself, and its implementation cause reforming member states to hit very deep potholes which puncture all the tyres of the reform vehicle and halt the orderly movement towards economic growth and macroeconomic stability.

Even as we are meeting here tonight there are member states, which have endured the pain of structural adjustment and economic reform. If you ask them how they feel about that, they give you one word – frustration. Member states believe that it is not uncommon for goal posts to be moved just before the member states take aim at the goal. Look at Zambia, Malawi and Tanzania. To-date they have not accessed the highly indebted poor countries initiative (HIPC) in spite of more than five years of severe belt-tightening and expenditure reform. Consequently, social sectors have suffered as a result of budgetary compressions.

On average, SADC economies would have to grow by 6.2 percent or more in order to successfully fight poverty. We estimate that saving and investment ratios would have to rise to 45 percent to realize 6.2 percent growth . This was supported by a recent study by the ECA.

Until the recent floods in Mozambique, South Africa, Botswana and Zimbabwe and to a lesser extent Zambia and Namibia, the economic outlook in SADC for the year 2000 was really rather bright, according to the Economist Intelligence Unit of the U.K. Three of our member states, Mozambique (11%), Botswana (9%), and Namibia were among the top five countries whose economies were expected to register strong and faster growth. South Africa, the biggest economy was expected to grow about 4 percent in 2000. Even with its current difficulties Angola was projected to register growth in excess of five percent. Even in the smaller states at least some moderate growth was projected. The challenge therefore for SADC is to accelerate the pace of economic growth to have a dent in poverty.

WELCOMING ADDRESS

Michael Meier
FES Resident Representative, Botswana

It is indeed a privilege and honor for me to welcome and host you at this opening dinner of the regional conference on ”Economic Policies in Labor Surplus Economies - Strategies for Growth and Job Creation in Southern Africa”. As most of you already know, the conference is jointly organized by the Friedrich Ebert Foundation and the World Bank. I also wish to acknowledge the support of the Government of Botswana in putting together this conference.

This esteemed gathering of personalities includes representatives of governments, private enterprises, labor movements, academia and research institutions of eight SADC countries, namely Botswana, Malawi, Mozambique, Namibia, South Africa, Tanzania, Zambia and Zimbabwe. The Friedrich Ebert Foundation is represented by colleagues from New York, Germany, Zimbabwe, and South Africa. The World Bank on the other hand is represented by nine officials from the region as well as from the World Bank Head Office in Washington.

The Friedrich Ebert Stiftung is a non-governmental, non-profit organization committed to the principles and basic values of social democracy and the labor movement. The Foundation was established in 1925 as a political legacy of Germany’s first democratically elected President, Friedrich Ebert, who died that year.

As part of our mission for a common future in a world of peace, prosperity and sustainability, FES is trying :

- to consolidate democracy by involving as many social groups as possible,
- to promote economic reforms and a policy of social justice and

- to establish a set of common fundamental values for the developmental values for the development of society.

The Friedrich Ebert Foundation began to collaborate with Botswana in 1974. FES was initially involved in programmes to promote rural industry, adult political education and trade union education. Since 1993, programmes have focused on Parliament, political decentralisation, local economic development, trade unions, research, gender, media, small and medium business associations, regional issues, and human rights.

The current work of the Foundation in Botswana focuses upon the following areas:

- Co-operation with Parliament
- Support of the Decentralisation Process
- Civil Society Dialogue
- Promotion of Economic Development
- Trade Union Collaboration
- Regional Integration

As you can see from our project lines, labor and regional cooperation play a key role in the daily work of the Foundation.

SUMMARY OF THE PROCEEDINGS

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PANEL 1:
STRUCTURE AND DYNAMICS OF LABOUR MARKETS IN SOUTHERN AFRICA

In this opening panel, participants were invited to assess the current employment situation in Southern Africa. What are the quantitative and qualitative parameters of labour markets in the region, and what are the recent trends of change? What structural constraints persist and how do they affect policy implementation (for example, labour mobility, flexibilities of wages and working hours, etc.)? What are the different dimensions of labour market policies that need to be addressed (overall growth, in/exclusion of marginalised groups, function of employment in poverty eradication)?.

Chair:
Fackson Shamenda - President, International Confederation of Free Trade Unions

Presentation:
Andrew Dabalen - Economist, Human Development Sector, World Bank

Response:
Tania van Meelis - Editor, South African Labour Bulletin

Andrew Dabalen presented an overview of labour markets in Southern Africa. He quoted from recent studies of labour markets in sub-Saharan Africa which have revealed three characteristics of employment patterns in the region:

- Wage employment growth has been very weak. In many countries, wage employment levels in the 1990s were lower than in the 1980s;
- Informal sector and self-employment is growing, although much of this growth is accounted for by small one or two person enterprises which have little or no capacity to expand their labour force;
- As unemployment levels have risen, the duration of periods of unemployment has grown. The unemployed generally share two characteristics: they are young, and they are relatively more educated.

Data on labour market institutions in the region is generally weak in that:

- Whilst most countries have minimum wages legislation, little is known about the effect of such legislation on unemployment;
- There is evidence in some countries that employment protection laws have encouraged employers to invest in capital rather than to hire more workers;
- Reliable data on the extent of unionisation in many of the countries is lacking, and it is difficult to assess the effect of factors such as the extent of union membership and the impact of centralised bargaining upon wage levels;
- There is also little data on the effect of active labour programmes (such as the effect of training and apprenticeship schemes, and of credit schemes upon self employment).

The structural problems facing labour markets in the region suggest that six issues should be addressed by policy makers with regard to labour market policy:

(i) There must be a commitment to macro- and micro-policies in order to achieve high quality growth;
(ii) The level and quality of skills must be improved;
(iii) There must be a commitment to labour market flexibility;
(iv) The comparatively low participation of women and youth in productive activities is wasteful and an obstacle to poverty reduction;
(v) The high prevalence of HIV/AIDS; and
(vi) The declining return on education and the widening urban-rural wage gap.

Tania van Meelis responded by providing further information about unionisation in Southern Africa:

- Legal barriers to the existence of trade unions remain in many countries. In Botswana, for example, union officials by law cannot be employed on a full-time basis, it is difficult to register new trade unions and unregistered trade unions are unable to operate. In practise, collective bargaining rights are limited and few employers recognise unions. The ILO Conventions that were ratified by Botswana in 1997 have yet to be implemented by labour legislation. In Mauritius, a group of seven workers can form a trade union, which has led to a proliferation of unions of over 300 trade unions and a fragmentation of the labour movement. In Tanzania, the federation of trade unions is not recognised and is regarded as illegal. In Lesotho public service employees are prohibited from joining trade unions;

- Overall density levels of trade union membership in Southern Africa is estimated at 42% of formal sector employment, but there are wide disparities between individual countries: in Lesotho there is a 6% unionisation rate, in Malawi 14%, in Swaziland 44%, in Mozambique 42%, in South Africa 56% and Zambia is the highest at 60%. By international standards, these are comparatively high unionisation rates: for example France is 9%, Japan is 24%, Germany is 32%;
- The character of the labour movement also varies within the region: independent unions co-exist with trade unions semi-controlled by government, and unions which have been incorporated into the administration of government or into a specific political party;
- Wage bargaining is relatively weak in the Southern African region. In Botswana and Zambia, wages are generally higher in the public sector but many of the 23 registered collective agreements in Botswana are out of date. In Zambia there is a trend towards decentralised bargaining, so industry level bargaining is increasingly being replaced by plant level bargaining. In Namibia, collective bargaining remains at a formative stage and is confined to manufacturing and mining. In Malawi, employers often refuse to negotiate recognition and collective agreements with labour, and there is no real collective bargaining in Malawi, Lesotho or Mozambique. The one exception in the region to this trend is South Africa where there is quite strong centralised bargaining;
- In spite of the comparatively high levels of unionisation in the region, the trade union movement has gained little political influence over the development of economic and labour legislation;

In South Africa, whilst the figures quoted by Andrew Dabalen on union wage premiums indicate that there is a differentiation between unionised and non-unionised workers, the greatest differentiation is still based on race. If you are a white worker, regardless of whether you are unionised, you are likely to be paid more money than if you are a black worker.

Contributions from other conference participants focused mainly upon the characteristics of the labour market and of the trade union movement in the region. It was observed that:

- The degree of trade unionisation in Namibia was greater than had been suggested: especially in the fishing, the public services and the transport industries;
- Some participants questioned the finding that unemployment levels tended to be higher amongst the better educated. In many countries, it was claimed that there was little unemployment amongst secondary and tertiary graduates;
- Although the potential for poverty alleviation and employment growth in the informal sector is emphasised, people tend to resort to such activity as a last resort. Some participants questioned whether informal sector activity should be used as a substitute for employment creation

PANEL 2:
NATIONAL POLICIES FOR INVESTMENT, GROWTH AND JOB CREATION: THE ROLE OF THE STATE

Participants in the second panel were invited to consider questions such as: What degree of interventionism in the economy will yield the best results for employment creation? In which way should the state get involved (for example, as enabler, provider, activator)? Which fields of governance have an especially effective impact on economic development (human resource development, strengthening of institutions such as markets or the judicial system, macro-economic framework, etc.)? To what extent do privatisation efforts affect national employment policies?

Chair:
Felix Schmidt, FES Resident Representative, Zimbabwe

Presentation:
Willbald Maro, Director, Economic Research Bureau, University of Dar es Salaam, Tanzania

Response:
Arvil Van Adams, Sector Manager Human Development, World Bank

Willbald Maro reviewed the policies for investment, growth and job creation pursued in Tanzania. He noted that fundamental changes were initiated in the mid 1980s when the process of structural adjustment began, and the Economic Recovery Programme (ERP) was introduced. Specific macro-economic policy measures have focused on exchange rate adjustment, reforms in foreign exchange allocation, trade policy, fiscal and monetary policy, and interest rates. Some of the objectives of the ERP, such as economic growth, have been achieved to a satisfactory level. The annual increase in GDP has averaged 3.5%, against a population growth rate of 2.8% per annum. A more enabling environment for private investment has been created by the promotion of direct investment and the privatisation of parastatals. Privatisation has also caused a reduction of employed labour, and some local labour has been displaced by more skilled foreign labour.

Willbald Maro also explained how principles of good governance could impact on sustainable economic development. There is a need for government to integrate all objectives of development related to the economy, society and environment. Good institutional and administrative arrangements bring peace, security and stability, which are the cornerstones for sustainable development.

Arvil Van Adams considered some of the objectives justifying state intervention in the economy:

(i) *To remedy market failure*, which occurs when markets do not perform their task of allocating resources efficiently, such as in the provision of basic education;

(ii) *To strengthen the role of the market place*, such as by removing market distortions when for example prices do not accurately reflect the scarcity of goods or services;

(iii) *To achieve distributional equity*, which is a social welfare function;

(iv) *To promote transparency in policy and good governance*. In furtherance of this objective, the state provides a legal system and engages in crime prevention policies;

(v) *To manage risk in the labour market*. In Africa, social insurance in the form of unemployment or disability insurance is generally lacking. African countries have traditionally relied upon traditional safety nets such as the extended family, the community and the tribe. However, we might usefully consider to what extent the state should or can strengthen these traditional safety nets.

Contributions from the floor included discussion of the role of the World Bank in assisting states as they attempt to encourage job creation. Although it was criticised as having created a new colonialism in Africa, representatives of the Bank stressed that an important role of the Bank was to provide education and information about how other developing countries are run, and which strategies are sustainable. Ultimately, the Bank’s programmes and solutions are not created in Washington. Although Washington may be looking at the bottom line, it is the economies of other developing countries and the people that function in these economies that provide solutions to economic problems.

PANEL 3:
TRADE LIBERALISATION AND EMPLOYMENT: THE INTERNATIONAL DIMENSION

Countries face increasing limitations on their policy-making capabilities due to globalised investment and production patterns. To what degree is the international structure of liberalised trade affecting policy making in the region? Through which reactive or proactive measures may the countries in the region respond to this challenge? If globalisation poses threats and opportunities for Southern Africa, how can it be ensured that the economic policies will serve beneficial to the people and not harm long-term progress? How can the quest for international competitiveness in global markets be combined with creating 'good jobs', meaning stable, productive and non-exploitative employment?

***Chair**:*
Cephas G. Msipa, Minister of State, Zimbabwe

***Presentation**:*
Mohammed El Toukhy, Head, Department of Economics, University of Namibia

***Response**:*
Gene Tidrick, Lead Specialist, Economic Management and Social Policy, World Bank

Mohammed El Toukhy summarised some of the arguments contained in his paper. When most less developed countries achieved independence, and especially during the 1970's, these countries pursued interventionist economic policies in an attempt to break the vicious circle of poverty and under development in a relatively short time. These countries had relatively easy access to foreign resources and managed to do relatively well in terms of economic growth. However, their situation quickly deteriorated and in the 1980s, they were required to reorientate their economic policies by implementing economic reform programmes developed mainly by the IMF and the World Bank. These programmes placed much emphasis upon privatisation and de-regulation of their domestic economies. The aim of such structural reform policies is to increase efficiency, productivity, and to expand trade, rather than to create employment. However, it must be questioned whether this approach is suitable for developing countries where unemployment and poverty are the most persistent and problematic challenges faced by governments. From labour's perspective, in order to increase productivity and competitiveness, we have two options: one is to reduce the labour force, and the other is to increase productivity. Reducing the labour force might seem to be an attractive approach but if we consider the situation of less developed countries, where real wages are already low, and where poverty and unemployment are very persistent, such an approach will contradict the main objective, which is to overcome poverty and achieve social integration. The more suitable option for less developed countries, is therefore to increase productivity and achieve economic growth with production. The success of this strategy depends upon three factors: capital accumulation, labour and advances in production technology. Therefore, what is required is the suitable combination of policies to boost capital accumulation, empower people, diversify productive capacity and enhance competitiveness. When considering this option, we have to understand that increasing productivity, efficiency and development are long term issues.

We also need to reinforce the implementation of reform: we need good governance, we need industrialisation and we need human resource development. With this comes the issue of training and education, especially technical education. We also need to improve infrastructure. Another related issue is social protection. Whilst structural reform is needed to achieve sustainable economic development, we need social protection for those who are poor and most likely to be affected by such an adjustment. A final and compelling need is immediate debt relief, rather than relief tomorrow or at some indeterminate time in the future. Also, developing countries have a need for a better trade environment. Developed countries must open their economies to admit exports from less developed countries and there must be a fair treatment on trade issues.

Gene Tidrick responded to Mohammed El Toukhy's paper and stated that he agreed with almost all of the conclusions. However, there are also a few issues that need elaboration or qualification:

- Economic reform policies and the process of globalisation have led to a tremendous growth of output and employment in many countries: the most well known examples are in Asia, but Mauritius is also in this category. It is in fact this success, which has led industrialised countries to fear job losses through competition from developing countries. The key question is, if others can do it, why not Africa? One has to ask whether Africa is different in ways that mean that globalisation is more of a threat than an opportunity. Many African economies are reliant on natural resource intensive products rather than on labour intensive products, which means that Africa is not well placed to benefit from the expansion of manufactured exports. This has very serious implications for employment creation, because mining typically is not a very labour intensive activity. Nevertheless, the view of the World Bank is that Africa can become competitive and can benefit from integration into the world economy, but there remain a number of issues about how this can be done and there are important questions of pace and sequencing which have been raised. For example, the question of whether it is a good idea in the area of trade liberalisation to liberalise imports. Is this necessary in order to promote exports?

- The paper in parts is critical of direct foreign investment. It mentions that investors are interested in a quick buck and that they take out much more than they put in. But it is also argued that Southern Africa does not receive its fair share in foreign investment, and that only the more successful countries do. However, we must acknowledge that investors are interested in making money and in taking out more than they put in, that's why they invest. The question is what else do they bring to the economy in terms of jobs, technology and human resource development. There is the famous comment that the only thing worse than being exploited by multinational corporations is not being exploited by multinational corporations. The point is that there are gains to be had from foreign investment but the terms on which you attract foreign investment are very important: there is a real danger of a race to the bottom in terms of offering incentives to foreign investors. This can become particularly important in the context of regional integration: if you form a free trade area with free trade and access to all the markets within the area, there will be a strong incentive for countries to compete for foreign investment which will than have access to the whole market.

When discussion was opened to the floor, the following themes were explored:

(i) Globalisation

It was suggested that the entire world feels very threatened by the process of globalisation. The insecurity that it engenders affects not only Africa, but also Asia, which has just come through a severe crisis. The industrialised countries also fear that they are going to lose jobs and face declining wages. It is also important to recognise that the process of globalisation is not an entirely new process: in many ways there was much more international trade and investment at the end the 19th century. Globalisation has also been the force and the opportunity which has lifted vast numbers of people up and out of poverty in Asia. It is furthermore a process which no-one is controlling since there is not a world government and every individual country will therefore have to come to terms with it;

(ii) Structural adjustment programmes

It is important not to be ideological about such programmes, and not to have a 'one size fits all' programme of structural adjustment. The details and sequencing are very important. Korea, for example did not encourage foreign investment until very late in its industrialisation process. China decided in the mid 1980s not to open up to foreign investment in the domestic automobile industry because to do so in a protected industry was to invite foreign exchange to go out of the country;

(iii)Entrepreneurship

It was argued that the ultimate aim is not just to create income increases and jobs in the region, but also to develop local entrepreneurs where that option is available. However, difficult questions of non-discrimination arise when countries give preference to local businesses in order to support domestic entrepreneurship; and

(iv) Local processing of raw materials

It was argued that developing countries ought to be engaged in processing their own raw materials (the example of Malawi and tobacco was given). However, there are frequently good economic reasons why this is not done: for example, cigarettes are typically blended and a country cannot simply take its raw material and expect to reach a standard that will sell in another market.

PANEL 4:
SUPPORTING GROWTH AND JOB CREATION: WHAT ROLE FOR THE WORLD BANK?

The World Bank is playing a crucial role in social policy definition in developing countries, not only through its requirements for austerity programmes and conditionalities, but also through its intellectual leadership in the development discourse. This influence leaves an important imprint on the formulation of actual policy in recipient countries. To what extent is the World Bank shaping national policies? How can it get involved in social policies without running the risk of having its actions perceived as a threat to socially vulnerable groups? How can national idiosyncrasies better be incorporated in World Bank program creation and implementation?

***Chair**:*
Rose Lugembe, Permanent Secretary, Ministry of Labour and Youth Development, Tanzania

Presentation:
Alan Gelb, Chief Economist, Africa Region, World Bank; and Gene Tidrick, Lead Specialist, Economic Management and Social Policy, World Bank.

Response:
Stephen Friedman, Director, Center for Policy Studies, South Africa

Gene Tidrick explained the main theme of the paper prepared by himself and Alan Gelb, which is that Africa's performance in growth and job creation has been very disappointing. By and large the causation is low growth, which leads to poor job and wage performance. A poor business environment results in low competitiveness and low investment. It yields low growth and hence - particularly in the face of a growing labour force - low wages and low job growth. In other words the problem is not that wages are too high, but that wages are too low. Employment growth is prevented by an inefficient and even hostile business environment. The overall framework is that outward growth is essential for job growth. Generally speaking, in the developing world on average, the relationship between outward growth and job growth is that for every 10% increase in outward growth there is a 5% increase in employment.

Gene Tidrick presented two case studies of Mauritius and South Africa in order to illustrate some of the themes in the paper. The case of Mauritius is particularly interesting because in 1960 Mauritius was totally dependent on sugar, was already densely populated and running out of cultivatable land. Manufacturing prospects were bleak, since the island was a long way distance from potential markets and it had no experience in manufacturing. Since then Mauritius has had one of the highest rates of growth in sub-Saharan Africa and one of the highest in the world. In a 25 year period, per capita income quadrupled. The main elements of policy were adherence to good macro and structural fundamentals, a conservative fiscal policy, competitive exchange rates, limited price distortions. During the 1980’s Mauritius had structural adjustment programmes. Mauritius obtained a couple of loans from the World Bank and several loans from the I.M.F. It is also interesting to note that after Mauritius no longer needed the Bank or the I.M.F., it continued with the same policies. However, it now owned the policies, which is extremely important for their success.

The second important policy strategy was the focus on competitiveness and doing what was necessary to maintain international competitiveness - in particular, by setting up the export processing zones. Mauritius also gave carefully crafted tax concessions, it introduced a controversial lower minimum wage for women in order to encourage and increase unemployment without disturbing the largely male employment in the sugar sector and it followed a policy of wage restraint. Finally, Mauritius pursued a programme of equity and social justice, with the result that inequality declined by about 35% between 1960 and the 1990’s. When this programme was implemented, care was taken to ensure that growth of output or employment was not impeded.

The experience of Mauritius may be of relevance to South Africa where wage inequality today is even higher than that of Mauritius in 1960. The wages of whites are five times those of black Africans. Some of this difference is due to education levels. The unemployment rate for African males in a 1993 survey was ten times as high as the unemployment rate for white African males, 33.6% versus 3.6%. Growth was even slower than in the rest of Africa and whilst South Africa’s growth rate has begun to pick up a little, it is still under 3% on average. Business surveys suggest that labour relations and wages may affect competitiveness in South Africa. Labour relations and wage issues are cited in business surveys as the most important factor affecting competitiveness along with crime and insecurity. It is the only Southern African country in which labour issues may be a significant determinant for competitiveness. This means that labour market issues may affect employment growth indirectly as well by reducing investment and outward growth.

Alan Gelb reviewed several themes of the paper written jointly with Gene Tidrick, and emphasised the following general findings:

- Those countries in Africa that have better economic management have also had peace. Peaceful countries have grown more rapidly than others;
- Data on the distributional impact of growth is generally lacking, and there is a lot that we don't know about the impact of growth on personal incomes and living standards. Very few household surveys have been conducted in Africa; those that have been undertaken are often not comparable over time. Those countries on which we do have data suggest that growth does in fact trickle down reasonably well although by no means can this be considered a complete solution;
- Capital flight is a major problem in Africa. It often seems that the major problem is to attract investment by nationals rather than foreign investment;
- When structural adjustment programmes are viewed from the perspective of labour, there are many areas of complimentarity between the programmes and the interest of labour. For example, labour does not benefit from an economy with high rates of inflation, variable rates of inflation and great uncertainty. Labour also does not benefit from an economy where public accounts are not well kept, where public institutions don't function well and where safety nets are not working. But there are two areas where there is tension. The first is the tension between the short run and the long run: some of the mechanisms which have been put in place to try and stabilise countries have undoubtedly led to job losses including in the public sector and also in parts of the private sector. It inevitably takes a certain amount of time for those job loses to be picked up. Secondly, the programmes have distributional implications and the processes of liberalisation and structural reforms have certainly shifted income between different groups, which have sometimes been to the disadvantage of labour.

Stephen Friedman agreed with many of the conclusions presented in the paper, and made two additional comments regarding the role of the World Bank:

(i) The Bank has often suffered from a presentational problem. The recipes are not necessarily wrong, but they are presented in a way that is virtually guaranteed to elicit resistance. In order to be more effective, the Bank needs to take account of the cultural contexts within which it is operating; and

(ii) The Bank has a strong propensity not to take politics seriously. When the authors of the paper note that potential investors consider many African countries to have a hostile business environment, about 90% of the problem is political and only 10% technical.

Comments from the floor echoed these two concerns. Additional points made by participants were that:

- Most World Bank investment has gone into government programmes rather than into communities;
- There is a real danger of African countries becoming dependent upon programmes of finance and advice supplied by the developed world. Where are the African solutions to African problems?
- No one argued that the World Bank should be closed. The problem is that the dialogue between the Bank and Africa is not two-sided.

PANEL 5:
EMPLOYMENT AND SOCIAL PROTECTION

Employment is not an end in itself. It is not only necessary as income provision for immediate needs, earnings from it must also serve to provide protection for times of hardship, for workers and their dependents. What concepts are feasible in developing countries to assist people in their risk management approaches? How could the burden of protection against risk be divided among different stakeholders in a society?

Chair:
Bernadette Artivor, Under Secretary, President's Economic Advisory Council, Namibia

***Presentation**:*
Trina Haque, Economist, Human Development Sector, World Bank

Response:
Godfrey Kanyenze, Chief Economist, Zimbabwe Congress of Trade Unions

Trina Haque explained that low-income countries confront a major dilemma in improving social protection for the poor. A social protection strategy for countries in Sub-Saharan Africa must not only provide more extensive and effective social protection for the poor, but also do so in a way that is consistent with, and indeed strengthens, the long-term growth potential of the country.

The strategy proposed in this paper is relevant to poor households generally: many of the risks faced by informal sector workers and their households are shared in common with other groups of the poor, such as the risk of contracting AIDS and suffering from its economic and social burden, the impact of price increases, lack of access to savings or pensions for old age, lack of access to health services, and so on. Against this background, the paper takes a broad view of risk and vulnerability. It analyses the major public policy dilemmas faced by policy makers in the region trying to extend more effective social protection to the poorest households in their countries.

The paper proposes a social protection strategy which takes account of the informal risk management strategies of poor households themselves. The multiple sources and magnitude of vulnerability of the poor imply that a solution cannot be delivered through any one type of instrument alone. The operational solution is to learn from the poor themselves and try to build a strategic web of interventions. The guiding principles of the strategy are to:

- *Focus on the most compelling risks.* The risks which are likely to have the most severe impact on the poor's well being include catastrophic or severe community-wide risks that can overwhelm informal insurance mechanisms (such as a harsh flood or drought), and catastrophic personal shocks that lead to prolonged income losses or bulky expenditures (such as the death of an adult income earning family member);
- *Combine different types of instruments drawn from multiple sectors to reduce, mitigate or cope with the most severe risks faced by the poor.* For example, there is a need for a policy framework that enables broad, labour-intensive growth. Different types of policies matter for the poorest of the poor. The reform of inheritance and property laws is vital to reduce the vulnerability of women to family break-up and loss of access to productive assets such as land;
- *Build partnerships in finance and delivery.* There is a need to initiate or strengthen private-public partnerships of various kinds in the co-financing and delivery of social protection services, building on the comparative advantage of actors;
- *Open opportunities for productive household behaviour where possible.* Investing in social protection of the poor may be regarded an investment and not merely consumption. This feature can be strengthened through the design of safety nets or income transfer programmes;
- *Develop a dynamic, long-term perspective.* Needs and capacities change over time. The system should be able to anticipate some changes and be prepared for others.

Godfrey Kanyenze complemented Trina Haque for having made a comprehensive presentation on a very difficult area. He added that:

- The relevant line ministry responsible for developing a social protection strategy is often weak;
- Implementation of social protection is poor because governments often cut this area of their budget;

- It is essential to ensure co-operation of the banks and financial institutions in implementation of a social protection strategy. All too often such institutions compound the problems;
- Within the region, the major problem is that wages are too low rather than that they are too high. Low wages reduce demand for goods and encourage economic stagnation; and
- Governments should focus more on primary education rather than higher education if they are concerned about poverty alleviation.

Contributions from participants emphasised:

(i) *The role of women in dealing with social risks in Africa*
Since women are expected to bear the burden of coping with household and other disasters, social protection strategies should target women;

(ii) *The need to protect expenditure designated for social protection*
The World Bank has to acknowledge the need for social protection, both when designing different types of instruments, and as part of its dialogue with governments in discussing the implementation of structural adjustment programmes; and

(iii) *How best to finance social protection programmes*
This is one of the areas that the World Bank has highlighted for further work. Various forms of finance are available such as pensions, payroll taxes and forms of deficit funding. A priority for the Bank is to develop appropriate concepts of sustainable finance.

PANEL 6:
REGIONAL INTEGRATION AND ITS IMPLICATION FOR THE SOUTHERN AFRICAN LABOUR MARKET

The regional dimension is taking on a role of special importance for policy making. Pressures due to global competitiveness might be dealt with differently in a regional than in a national context. How can regional policy coordination improve national employment outcomes? How should the institutional role of a regional organisation be defined? How can the national stakeholders constructively influence coordination through the Southern African Development Community (SADC)?

Chair:
Ben Turok, Member of Parliament, ANC, South Africa

Presentation:
Felix Kani, Chief Economist, Southern African Development Community

Response:
Pamela Cox, Country Director Southern Africa, World Bank and Happy Siphambe, Economist, University of Botswana

Felix Kani summarised some of the themes contained in the SADC paper. He explained that SADC regards the integrated development of the region as a priority. Despite the vast disparities in the levels of development and structural features of the 14 SADC member countries, all could potentially benefit significantly from regional integration and co-operation. The most important asset of SADC for eventually bringing about effective integration is the unquestionable commitment of member States to create a large, economically viable and unified Southern African region. A further decisive factor in facilitating integration is the development of a relatively homogeneous macro-policy framework within the region. Almost all Member States have embraced democracy as the best political system for ensuring good governance. The management of Member States' economies according to market forces has also been accepted as a general principle. These factors have brought about an important supportive regional environment for the integration process.

SADC is organised on the basis of 19 sectors. Each sector is coordinated and supervised by a Member State. Except for the DRC and Seychelles which are the newest members, all other Member States are in-charge of at least one sector. To date, more has been achieved in some sectors than in others. Dr Kani proceeded next to present a brief synopsis of the status of regional integration in the various sectors, as outlined in the SADC paper.

The current challenge for SADC is to bring about accelerated economic growth to create jobs, reduce unemployment and uplift people's living standards. Although regional integration will enhance cross-border production processes and the movement of capital and labour, it will in some instances create problems. Given the average population growth rate of 3.5%, the labour force has been growing fast and with only modest economic growth of the regional economy, unemployment has risen. It is clear that more needs to be done to create jobs. Formal employment appears to have stagnated or even declined. Regional integration will bring economic restructuring. There will be job losses as firms adjust to a new economic and political environment. The expectation of course is that sooner rather than later, the conducive environment created by regional integration will become the engine to give fresh impetus to economic growth.

The challenge for SADC is how as a regional organisation it can bring about accelerated economic growth, create more jobs and reduce poverty so that its peoples can lead higher quality lives. How can the surpluses in some SADC countries best be transferred to balance deficits in other SADC countries? What is the scope for intra-SADC investment? What needs to be done to realise this? These are some of the questions that need further research.

Pamela Cox referred to the experiences of various regional groupings from around the world in order to illustrate some of the benefits that can flow from a regional approach:

(i) Regional cooperation can bring a lot of growth and efficiency benefits to countries, particularly poor countries;
(ii) Regional cooperation creates special opportunities and challenges;
(iii) Regional cooperation is not something that is done by a regional body such as SADC or the EU Commission, it is done by the civil societies and the governments of the countries;
(iv) Regional cooperation creates larger markets and resultant production opportunities;

(v) Regional cooperation brings efficiencies in terms of harmonising customs regulations across countries, cooperation in power pooling, the development of transport corridors, the development of common standards in engineering, informational activities, and so on. All these developments reduce the operating costs of organisations operating within the regional market;

(vi) Regional cooperation can assist in developing more effective approaches to combat common problems such as AIDS and natural disasters.

Happy Siphambe emphasised that the regional dimension is taking on a role of specific importance for policy making, mainly because of globalisation. As a process, globalisation can provide immense opportunities to accelerate development, particularly in terms of access to the world market, finance and technology. However, the integrated world economy that is often associated with globalisation has not emerged. What has emerged is a degree of fractured globalisation, with trade concentrated in regional blocks, and SADC countries should therefore place a high priority on trying to generate dynamism with neighbouring countries.

To date, the pace and depth of development across SADC has been very uneven. Some countries have done far better than others in terms of growth. A common factor is that the labour markets of Southern Africa are characterised by high rates of unemployment and shrinking demand for labour. The labour markets of the region are nevertheless quite differentiated from country to country. The richer countries have tended to pay higher wages/salaries to address skill deficits. Botswana has, for instance, drawn upon expatriate labour including medical staff, university lecturers and skilled artisans from neighbouring states. The same might be true of South Africa. In most countries, the entry of skilled labour is generally permitted, but most governments have a hard-line approach towards the entry of unskilled labour. The consequence is that supplier countries have complained about the exodus of their expensively trained skilled professionals. This has the potential of becoming an “externality problem” which may lead to under investment in education and training by supplier countries. There is therefore a need for policy coordination. There is also a risk of xenophobic feelings among the recipient countries (for instance the “makwerekwere” way of referring to aliens as a way of showing your hatred for them) which is already happening in South Africa and Botswana with regard to Zimbabweans and Zambians.

The implications of these trends are that:

- The free movement of labour requires the same level of development among member states. SADC should guide nations towards attaining this uniformity;
- There are a number of constraints to development in Africa that policy reform alone cannot rectify. One such area is that of institutions. It is pleasing that the World Bank and the IMF have learned the lesson that understanding our institutions is probably more important than 'getting the prices right';
- Lastly, a long-term vision is necessary. The long-term economic integration of the community will necessitate political and social integration. The inherited legacies of labour migration, dualistic labour markets and uneven growth and development as well as current problems relating to growth and high unemployment can only be comprehensively tackled within the framework of regional co-operation and integration.

Contributions from participants included discussion of three themes:

(i) *Regional labour markets*
Integrating labour markets is one of the most difficult issues that confront regional cooperation. The potential migration of labour becomes a considerable problem where there are large income and industrialisation imbalances between neighbouring countries. This creates considerable political tension. A common labour policy can be developed within the region, but this does not solve the problem;

(ii) *How should labour interact with regional organisations?*
It was emphasised that regional cooperation is effected by civil societies, rather than by the regional body. There is clearly considerable scope for regional collaboration between labour organisations; and

(iii) *Regional integration takes a long time to develop*
The EU did not start out as a common or integrated market. It started in 1958 as a group of nations cooperating on a common market for essential industries, such as energy and heavy manufacturing. In 1958 there was no European Parliament: such institutions are not

conceivable unless there is a common vision and mutual confidence has been developed between the neighbouring states.

PLENARY SESSION:
POLICY PROPOSALS FOR GROWTH AND JOB CREATION

In this concluding plenary session, participants were invited to discuss the findings of the previous sessions and to formulate policy proposals. Where possible, participants were requested to identify priorities for the guidance of policy makers.

***Chair**:*
Prega Ramsamy, Acting Executive Secretary of the Southern African Development Community.

***Panelists**:*
Jonathan Chileshe - Chairman National Economic Advisory Council, Zambia

Alan Gelb - Chief Economist, Africa Region, World Bank

Fackson Shamenda - President, International Confederation of Free Trade Unions

Calle Schlettwein - Permanent Secretary, Ministry of Labour, Namibia

Jonathan Chileshe emphasised that policies will not work unless the three partners - government, civil society and NGOs (including the donor community) are able to work together in implementation of policy. Such policies will not be effectively implemented unless all three partners have ownership of the policies.

Alan Gelb suggested that part of the solution to the economic and unemployment problems of the region may be found if one studies those countries elsewhere in the world which have succeeded in creating jobs, to discover how they have accomplished this, to understand what kinds of jobs have been created, and what kind of skill upgrading has been necessary. We should not take too narrow a view of this issue:

- it is not just a question of formal sector employment - participants have discussed the need to recognise the importance of small and informal businesses because the formal sector will not absorb the very rapid growth in the labour force.

- problems of employment and wages do not stand on their own. In most cases, they are part of a broader problem, associated with slow growth and low investment, and we need to understand the causes of this and what can be done.
- the recognition that it is a broader problem increases the importance of having effective fora, which will usually be tripartite with representation of government, business and labour - and also to undertake dialogue with financial organisations such as the World Bank. We will not succeed if we are all pulling in different directions. We therefore need to establish a broad common view of the objectives.

Fackson Shamenda emphasised that:

- The dignity of a human being starts at the work place. Every human being is entitled to productive employment. Throughout the world the trade union movement is of fundamental importance in achieving the goals of full employment, social development, and social justice;
- In Africa, the major concern is poverty relief. In much of the rest of the world, there is concern over access to the Internet, but in Africa the concern is access to food and other basic commodities;
- In many countries of the region, human resource development is haphazard poorly coordinated. Different ministries are responsible for different aspects of human resource development, with no overall strategy and weak implementation of policy; and
- Our governments need to learn that it is important to invest in labour, and the Ministry of Labour therefore should become a key ministry in each country.

Calle Schlettwein commented that the conference has been more successful in identifying problems than in suggesting solutions for them. This is perhaps not surprising, given that the rich countries of the world have themselves also not been successful in dealing with their own problems of unemployment and poverty alleviation. The World Bank should move away from being a banker that is primarily concerned with making sure that borrowed money is returned. World Bank policies should be people centered not money centered. Governments also need to reaffirm their commitment to poverty alleviation.

When the discussion was opened to the floor, three themes dominated:

- The potential impact of the AIDS pandemic on the labour market and economies of the region;
- The extent to which the various countries in the region share common economic problems; and
- The significance of politics and good governance.

AIDS

There was general agreement that the impact of AIDS on employment had not been given sufficient attention in the Conference. In Botswana for example, 25% of the country's economically active population is estimated to be HIV positive, and the situation is probably not very different elsewhere in the region. The following views were expressed:

- In some countries, AIDS has already increased the number of orphans by five (compared to previous levels) and such infants will stand a reduced chance of securing education and skills, which will affect their employment prospects;
- Productivity, which is already low in most countries, will decline considerably. As workers have to spend more time in addressing the problems of their families, they become less productive at work;
- Investment in education has been lost, and will yield decreasing returns in the future. Skilled workers will be particularly affected, because the incidence of HIV infection amongst the better educated is considered to be higher than amongst the less well educated. There is evidence in Botswana, for example, that students have been entering university with a low incidence of HIV infection and leaving university with a high incidence of infection;
- A negative effect on growth. Studies have shown that if there is an HIV incidence of 25%, overall employment is diminished each year by 1 percent;
- AIDS will impact on foreign investment. Investors will be cautious about investing in a region where AIDS is so prevalent;
- In dealing with the scourge of AIDS, the region cannot learn from solutions developed in other parts of the world because the problem is not so great elsewhere. Some participants argued that because countries

cannot afford to waste scarce resources such as scholarships and advanced training opportunities, the issue of AIDS testing may have to be faced and actions taken that would not be considered acceptable in, for example, Europe or North America. Others emphasised that solutions must be found which did not involve discrimination against those who are HIV positive or suffering from AIDS.

Although the problem of AIDS was frequently discussed during the two-days-conference, there was general agreement that the impact of AIDS on employment had not been given sufficient attention.

Comparisons between the Economies of the Region

There was much discussion of the difficulty in drawing general conclusions about the problems and solutions faced by the countries in the region. The countries in Southern Africa are quite different in many ways. They have different institutions, histories and levels of economic development and systems of labour relations. For example, Botswana and Mauritius have achieved high levels of economic growth, in other countries such as Angola and Zimbabwe, the economy has virtually collapsed, and elsewhere there is slow growth. Botswana's economic problems and constraints are clearly very different to those of most other countries in the region: what may be immediately applicable to Botswana is not applicable elsewhere. We may therefore have to focus upon specific single country solutions rather than universal strategies.

Nevertheless, in almost all of the countries there are some strikingly similar economic outcomes:

- High growth in working age populations;
- Rapid urbanisation;
- Slow (and in some cases, negative) formal job creation;
- High levels of unemployment (in Botswana, although there has been rapid growth, there is also high unemployment).

Politics and Good Governance

There was general agreement that the role of politics in encouraging economic growth is underplayed:

- In some countries of the region, bad governance is clearly frustrating economic progress, creating social disruption, and discouraging investment;
- It is also clear that poverty and high levels of illiteracy are bad for democracy;
- There was discussion about some as yet unresolved paradoxes regarding politics and poverty reduction in the region. The countries of Southern Africa are now mostly democratic and have elections which are won by the most popular parties. However, governments are generally not much concerned with poverty alleviation programmes. Logic tells us that poverty alleviation should be a major issue in domestic political debate, but this seems not to be the case.

The implication of these issues on World Bank programmes was discussed at length. Some participants argued that the World Bank is already engaged in politics when making investment decisions, and should be more forthcoming on this issue. Representatives of the Bank emphasised that by its charter the Bank is prohibited from taking politics explicitly into account when designing programmes or making decisions. This means that the Bank does not take the type of political system into account in such decision making. Nevertheless, the Bank does judge political systems and types of government structure according to their effectiveness. In this respect, the Bank is very different from the European Union, for example, which may apply very explicit political criteria as well as economic management criteria

Further Issues

Other issues discussed in the plenary session were:

- *Regional integration*
  Integration has been very slow in Africa. In Southern Africa, integration involves difficult political issues regarding the labour market and labour migration;

- *Budgetary Management*
  Greater emphasis upon budgetary management is needed. The World Bank should work with governments to ensure that budgets are properly formulated, properly implemented and properly audited. Amongst other things, responsible budgetary management will increase the resources available for education and health which directly impact upon the labour market.
- *Gender*
  Studies suggest that those African countries which have achieved higher levels of economic growth have also provided women with greater access to inputs and to education. In Africa overall, only one in four poor rural females even attend primary school, let alone finish primary school. The World Bank is seeking to liberate the productive power of African women who supply most of the labour in most African countries.
- *Training*
  Although there was general recognition that training is an important issue, some paradoxes were apparent. The World Bank is concerned that in some countries the unemployed tend to be those who are more educated. It is therefore very important that training is better adapted to the needs of the workplace.

Conclusions

The Conference had presented a much-needed opportunity to exchange a wide range of views. Participants generally agreed that the World Bank should be more inclined to listen, consult and engage in dialogue with beneficiaries in the region. In the past, the World Bank has tended to come to Africa with preconceived ideas - beneficiaries were often frustrated that a proper dialogue did not occur. The Conference welcomed the prospect that there will now be a shift in strategy, and that the World Bank will be more inclined to support programmes developed within the countries of the region.

These points were also accepted by the World Bank representatives, who explained that the Bank was already attempting to ensure greater dialogue and more consultations in its work. On behalf of the Bank, it was also emphasised that such consultation should take place within a framework of good governance and the rule of law, and a framework within which all groups are represented.

One of the Bank's objectives therefore is to ensure that programmes strengthen the processes of accountability and consultation within the beneficiary countries. So therefore whilst it is important that governments consult with the World Bank, they should also consult with their own people.

From the perspective of the World Bank, this process is seen as an issue of decentralisation - of bringing systems closer to beneficiaries. The Bank has developed some Community Action Programmes which are consistent with this aim. This trend is seen as useful but it is not a panacea. There are further issues which need to be considered:

- It is necessary to ensure that within the beneficiary communities, the resources are received by those who most need them;
- What is the most appropriate mechanism for distributing scarce resources within these communities?
- There is a danger of developing a parallel structure outside of the government. A general aim of the Bank is to strengthen government capacity rather than reduce government capacity.

CONFERENCE PAPERS

THE STRUCTURE OF LABOR MARKETS IN SOUTHERN AFRICA

Andrew Dabalen
The World Bank, Washington DC

Part I: Introduction

One telling symptom of the sluggish economic performance by many Sub-Saharan African (SSA) countries in the 1980s entailed declining living standard for the majority of African workers. In the attempt to reverse worsening social conditions, several countries adopted economic reforms with the purpose of stimulating economic growth because sustained growth was expected to increase incomes and reduce poverty through growth in wage employment.

There is credible evidence showing that many reforming countries have recorded positive economic growth in the 1990s (See Gelb and Tidrick, this volume). However, for others, persistent growth has been elusive partly because reforms have been inconsistent. A consequence of poor growth has been poor employment outcomes. Naturally, adjustments in labor demand and supply will follow any expansion or contraction of output. When fluctuations in output are frequent, the depth of the adjustment in the labor market would depend on the size of output changes, the skill composition of the labor force and existing labor market institutions. If an economy contracts, demand side responses will lead to adjustments in wages and earnings and occasionally employment. On the supply side if many workers become discouraged, participation rates may fall. However, if previous non-participants enter the market to supplement decreasing household income resources, this "added worker" effect will lead to increased participation.

Supply side adjustments can also take place through migration, a phenomenon which is mostly evident through rural-urban migration and migration into South Africa for some Southern African countries. Moreover, adjustments in demand and supply will have important implications for specific sectors of the economy. Displacements in the formal sector will change the employment and earnings in the informal sector if a majority of the displaced formal sector workers move into the informal sector. The earnings of private sector workers could also be affected by retrenchment of public sector workers if many affected public sector workers seek opportunities in the private sector.

So changes in the growth of the economy lead to labor market adjustments along several dimensions, including open unemployment, underemployment, wages and earnings, labor force participation, migration and "informalization". The extent of these adjustments in turn will be affected by labor market policies and institutions and the structure of the economy.

This paper offers an overview of labor markets in Southern Africa. In part II, a brief description of common features of labor markets in Sub-Saharan Africa (SSA) is presented. Parts III and IV turn attention to Southern Africa Development Community (SADC). Part III presents some quantitative information on labor market structure, while part IV gives a summary of what is known about labor market institutions in the region. Part V highlights structural issues that will demand attention in efforts to create employment. Part VI contains concluding statements.

Part II: Employment Outcomes in Sub-Saharan Africa

Recent studies of labor markets in SSA reveal three stylized facts about employment patterns in the region.

- *Stagnant wage employment.* Both manufacturing and economy-wide wage employment growth remained poor. For many countries wage employment levels in 1990s were lower than the 1980s, and not all the decline is explained by public sector employment reforms. In Cote d'Ivoire, total and private sector wage employment fell by 15 and 28 percent respectively between 1980 and 1989, while for 14 SSA countries, average annual wage employment growth was a mere 2.3 percent between 1975 and 1990 (Vandemoortele (1991b), Mazumdar (1994)).

However, though employment levels are not rising, on-going re-allocation of workers across sub-sectors, especially in the manufacturing sector, points to wide variations in experience. The evidence can be seen from a recent survey of enterprise development among several African countries conducted by the World Bank's Regional Program on Enterprise Development (RPED) in collaboration with Canadian and a number of European governments. Table 1 shows the dynamics of manufacturing sector employment in three non-SADC countries in the survey. The evidence shows that even in a country such as Cameroon where overall employment growth decreased, changes in employment remained the same or increased in wood and textiles respectively.

- *Increasing informal (self-) employment.* Estimates of the size of the informal sector vary from country to country, but there is little disagreement that over time it has been growing in all countries. For example, in Kenya self-employment grew at 8 percent per year between 1980 and 1985, while wage employment grew at 3.5 percent per annum (House, Ikiara, and McCormick (1990)) so that by the end of 1994, about 35 percent of workers claimed to be self-employed (Dabalen (2000b)). In Ethiopia the fraction of self-employed among urban workers grew from 18 percent in 1994 to 22 percent in 1997 (Krishnan, Selassie and Dercon (1998)).

Though the growth rates are impressive, it is also widely acknowledged that much of the growth is driven by small, one- to two-person entrants which have very little capacity to absorb a heterogeneous group of labor market participants. A study by Mead (1994) reported that only 25 percent of one- to four- person firms ever added an additional worker, while Lanot and Muller (1997) discovered that over 75 percent of all informal sector firms in Cameroon were one-person firms, and those that had workers relied almost exclusively on unpaid family workers or apprentices.

In recent years, the number of women entrants has increased, a development which has been explained as a household's strategic response to declining wages of male heads of households. As an example, in Ethiopia, while the proportion of self-employed men in the urban labor force remained at 19 percent between 1994 and 1997, the proportion of women increased from 16 to 27 percent (Krishnan, Selassie and Dercon (1998)).

- *Rising unemployment trends and the growing duration of unemployment.* Median urban unemployment rates are around 20 percent and the rates have risen to 30 percent in Ethiopia as is evident from the third column of Table 2. Notice that in the case of Ethiopia where data for two decades are available, urban unemployment rates have increased. The openly unemployed populations have two things in common. First, they are young. In many countries, 50 to 60 percent of the unemployed are 15 to 29 years old, and youth to adult unemployment ratios have doubled (see column 4 of Table 2). Second, the unemployed are relatively more educated. Unemployment rates among those with secondary or more education are either the same or higher than those with primary or no education. Moreover, the length of time in which individuals stay unemployed is growing longer.

Part III: Labor Markets in the SADC Region

The discussion in this section will rely on quantitative information obtained from household surveys for a number of countries in the region. There are two shortcomings of the evidence. The first is that lack of multiple surveys for a typical member country preclude detailed discussion of the dynamic developments in the region's labor markets. The second is that the region is very diverse and the quantitative information does not exhaust qualitative dimensions of work in the region. Despite the shortcomings the evidence presented here highlights shared problems of the labor market around which policy dialogue can take place.

Before discussing the characteristics of participants, it is worth noting that SADC countries have very young populations. Table 3 shows that about 40 percent (and in a number of cases, close to 50 percent) of the population in the countries listed are 15 years of age or younger. Such a young population presents opportunities and challenges, not least of which is that in the present it leads to a high dependency ratio which in turn lowers savings and future growth. Conversely, such a young population could be the source of future growth, especially if its skills improve through education.

Characteristics of participants

For clarity, an individual is said to be a labor market participant if one of two conditions is met. Either he/she has a job or he/she is unemployed but is available for work or is actively looking for it. By definition, full time students are excluded. Table 3 shows labor force participation rates within each country. The information in Table 3 reveals two "facts" regarding participation in Southern Africa. First, there is substantial variation in participation across countries, ranging from about 80 percent in Tanzania and South Africa to about 63 percent in Botswana and Zimbabwe. Second, on average, more men than women participate. The difference in participation by gender is highest in Malawi and lowest in Zambia.

Table 4 explores the characteristics of participants further by looking at their age composition. In general, the proportion of the youngest workers (or those between 15 and 24 years of age) among participants is comparable to the proportion of the oldest age group, but is significantly less than the most active age group --- that is, workers between 25 and 40 years of age.

In Zambia, where some changes over time can be observed, there is a dramatic reduction of oldest workers (those between 41 and 64 years) among participants and an equally large increase by the young. The exception to the overall pattern is South Africa, where the participation rate of the younger group is smaller than the other two age categories. For Zimbabwe, the rates depict the proportion of participants relative to the sample population of all individuals in that age category. Therefore, in Zimbabwe, the youngest age group (15 to 24 years) is only half as likely as the other two age groups to participate.

The low participation rates of young participants may be due to the fact that many individuals in this age category may still be devoting time to education, which is a status that is excluded from the definition of participant in this study. However, the rates in Zimbabwe are instructive in that, even when we compare participation within age categories, only 37 percent of the young who are not in school participate. A similar definition of participation in Botswana showed that only 39 percent of the young participated in the labor force (Kelly (1999)).

Education levels are often used to convey reasonable information about the skill levels of the workforce. Table 5 contains the distribution of education levels of participants. Not surprisingly, only about 2 percent of the participants claim to have obtained tertiary education, except South Africa. The fraction of participants with secondary education does not exceed 20 percent in many member countries, except in Swaziland and South Africa where over 35 percent of the workers have secondary education. However, the majority of workers, or nearly half the participants have obtained basic education. Since the household surveys used to obtain these statistics are representative, it is fair to say that the distribution of education of the participants reflects the distribution of education in the population. The numbers for Zimbabwe show the proportion of individuals with a given level of education (say primary in column two) who participate in the labor market. Surprisingly, the lowest participants are individuals with secondary education, where only half reportedly participate.

To summarize, participation rates vary from a low of 60 to a high of 80 percent. In two countries where we have data for more than a single period, participation rates tend to be declining. Furthermore, slightly more men than women participate. Finally, we find that individuals between 15 and 24 years of age and those with secondary education participate less than older or non-secondary educated individuals respectively.

Distribution of workers (where do participants work?)

Where do these participants work? Table 6 reveals three crucial observations. First, the wage sector, which is defined as the sum of private and public sector employment, absorbs only 15 percent of the work force in many countries of the region, except in Swaziland, South Africa and Zimbabwe. In these three cases, wage employment absorbs about one-third of the labor force. There is more diversity in SADC region than in the rest of SSA when comparing the share of public and private sector wage employment. As can be seen from Table 6, the public sector employed almost twice as many workers as the private sector in Tanzania and Zambia in 1993, although the situation appears to have been reversed in Zambia by 1998. In contrast, almost two-thirds (64 percent) of all regular wage employees in South Africa work in the private sector.

Second, self-employment absorbs a large proportion of the work force and judging from the trends in Zambia, its share is growing. If unpaid family workers are counted as part of the self-employed, then even in an economy such as Zimbabwe’s with a significant private sector, non-agricultural self-employment is second only to agriculture (see Table 6) as a source of employment. Finally, seemingly modest unemployment rates conceal other serious unemployment problems for two reasons. The first is that a large number of workers, especially in the rural areas or in self-employment are believed to be underemployed in the sense that they desire to work more hours than they actually do. In South Africa, where wage employment in the private sector is substantial, 8 percent of the labor force participants can be considered underemployed in 1993. The second reason is that open unemployment rates for the whole population mask pockets of high unemployment for specific groups or areas, such as urban centers.

Characteristics of the unemployed

The evidence for unequal unemployment rates between urban and rural areas is best illustrated in Zambia where in 1993, average unemployment was only half the rate in urban areas as shown in Table 7. It is also evidently true that the unemployed are predominantly young. Table 8 shows the distribution of unemployment across age groups. In a number of countries the young are twice as likely to be unemployed as the next highest unemployed group (those between 25 and 40 years). The youngest workers comprise nearly half of all the unemployed in Malawi, Swaziland and Tanzania. Often these rates are higher than the share of this age category in the labor force. As an example, in Botswana, although 15 to 24 year olds are 29 percent of the participants, they are 44 percent of the unemployed compared to 25 to 44 year olds who are 53 percent of participants but 41 percent of the unemployed. Finally, the unemployed are relatively more educated. In particular, many of the unemployed have secondary education. As evidence in Table 5 had shown, secondary educated individuals tend to have lower participation rates. This is made worse by the fact that even those who participate are disproportionately unemployed in nearly all the countries as evident in Table 9. The rates indicate simple percentage calculations of the individuals between 15 and 64 who are not full time students but did not have a job even though they were available for work. In this definition those engaged primarily with domestic chores such as housewives are excluded. With the exception of Malawi and Tanzania, those with secondary education have significantly higher unemployment rates than those with basic education relative to their proportions in the labor force.

The manufacturing sector

The information contained in Table 10 comes from RPED surveys. Although the diversity of manufacturing and country experiences are evident, on the whole the sector did not experience robust growth.

Manufacturing employment growth in Zimbabwe, which can be considered the best case among the three, was a pitiful 1 percent per year. In Zambia, there was a significant downsizing.

The quantitative evidence from the household surveys lead to the following conclusions regarding aspects of labor markets in the SADC region.

- *The modern wage sector is small and stagnant.* The evidence from employment status classification contained in Table 6, shows that the formal wage sector of a typical member country absorbs about 15 percent of the labor force. Other studies confirm that the slow growth of the sector has been going on for some time. Total wage employment fell by 5.2 percent in Zambia between 1980 and 1989 (Kmietowicz, 1995). In Tanzania, private sector wage employment fell by 20 percent between 1979 and 1984 (Vandemoortele, 1991). However, Mauritius, South Africa, Swaziland and Zimbabwe are exceptions in that they have relatively larger shares of workers in formal wage employment. But even among these cases with relatively larger formal sectors, employment growth has been slow and difficult (Fallon, 1992; Hofmeyr, 1996).

- *More workers are entering the informal sector.* Mostly because of the poor performance of the formal wage sector, especially the private sector, many workers are entering the informal sector. The pattern of employment status in SADC in the 1990s shows that in a number of countries, the informal sector absorbed as many workers as the private and public sectors combined. In a study that included four SADC countries (Botswana, Malawi, Swaziland and Zimbabwe), Mead (1994) found that only 20 to 30 percent of all new jobs came from firms employing 10 or more employees. The poor performance of the manufacturing sector evident in Table 10 and the growing role of the informal sector has heightened fears of income insecurity among workers and reversals in efforts to industrialize.

- *Growing numbers of urban unemployed..* Although the unemployment figures in Table 6 appear modest, further exploration of the unemployed sample reveal that they are concentrated in urban areas and they are also young and educated.

- *Transition from unemployment to employment is taking longer.* The evidence from Botswana shows that about 27 percent of the unemployed have been without work for more than 2 years, and the rates are the same for men or women. In urban areas, almost 30 percent of the unemployed are without a job for more than 2 years. The same problem is faced by 32 percent of the unemployed in one of the most productive age groups –those between 25 and 34 years (Kelly (1999)).

Part IV: Labor Market Institutions

Institutions and policies can affect labor market adjustments in important ways. Among the institutions and policies that are considered important are minimum wage laws, wage determination process, employment protection laws, active labor market programs and social insurance programs.

- *Minimum wages.* Most countries in the region have minimum wages in their statutes. However, little is known about their effect on employment. A study of Ghana's minimum wage shows that at the aggregate level , that is when using national employment figures, employment elasticity of the minimum wage is –0.12 or –0.17 for private and public sector employment respectively. This suggests that a 10 percent increase in the minimum wage reduces private and public sector employment by 1.2 and 1.7 percent respectively. However, when firm level data is used, the employment response to an increase in the minimum wage is much larger. A one percent increase in minimum wage reduced employment by 3 percent, which is huge (Jones (1998)). In general, it is important to remember that these laws have a narrow coverage since they apply to a few big private firms and the public sector. Moreover, they are typically very costly to enforce.

- *Employment protection laws.* The most well-known form of employment protection in the region was the Zimbabwe employment protection law introduced in 1980 which required employers to obtain official permission to retrench or lay off workers. Although such laws are enacted to prevent unemployment, quite the opposite may happen. A study by Fallon and Lucas (1991) show that Zimbabwe's 1980 Employment Act reduced employment by 25 percent at the same time that an investment boom in the economy occurred--- that is, entrepreneurs simply invested in capital rather than hire more workers.

- *Wage determination process.* The extent of unionization in many of the countries is not known, although it is speculated that coverage expanded in the 1980s. At present, union density in the formal sector of a typical member country is believed to be about 42 percent (Tanya van Meelis). Therefore, it is common for a majority of the firms in the established formal sector, unionized workers, and the government to enter into some centralized bargaining process. But, there is scarce information regarding details of these arrangements and their impact on employment.

If little is known about rates of unionization, even less is known about the impact of unions on wage levels. Careful studies on the role of unions in wage determination to date have been done only for South Africa, which also happens to have the largest proportion of unionized workers in the region. In these studies (Dabalen, 2000a; Schultz and Mwabu, 1998; Butcher and Rouse, 2000) we learn three things: (a) On average, wages to union members are about 20 percent higher than wages of non-union workers, although the study by Schultz and Mwabu (1998) estimate the union wage premium to rise as high as 60 percent ; (b) Most of the benefits are realized by low-skilled union workers; (c) Little is known about how (and whether or not) these relatively higher union wages affect employment outcomes. In their analysis Schultz and Mwabu (1998) find a significant impact of union premium on employment. They argue that a 50 percent reduction in the union premium (from a premium of 60 to 30 percent) for Black union workers will increase the employment of Black youth (defined as 16—29 years old) by 2 percent. But Butcher and Rouse (2000) raise doubt as to the feasibility that unions can be responsible for such high unemployment rates in the country, because in principle even if it is accepted that union wages are high by international standards (they are comparable to the US union premiums), the small fraction of the workers covered by industrial councils (about 10--16 percent of the labor force) does not preclude the possibility that employment creation problems lie elsewhere. One possibility is that industrial council practices that extend union wages to non-participants may create monopsony-like characteristics of the labor market at the industry level which would lead to lower wages and employment than would be the case under a competitive environment.

- *Active Labor Market Programs.* Few countries have extensive public works programs, which are known to have decreased unemployment among vulnerable groups in other parts of the developing world. Fewer still conduct on-going re-training programs for workers. However, it must be noted that apprenticeships in the informal sector and private training within firms do take place, although their scope is unknown. The extent of credit schemes to encourage entrepreneurship and self-employment targeted at some groups (women, youth, graduates) is also limited. In addition, few services exist to provide unemployed workers with information regarding job opportunities in the market.

- *Income support.* In general, social protection of workers takes place informally. Except in South Africa, unemployment insurance is non-existent in many of the region's member countries. Pensions are available for only a small group of workers in the formal sector and in many countries, bad macro-economic policies of the past which led to unstable prices have tended to erode the value of the pension for retirees.

Part V: Issues in Employment Creation

The quantitative evidence presented for a sample of countries in Southern Africa suggest that labor force participation rates by gender, age and education levels vary significantly across members in the region. Overall participation rates range from 80 percent (South Africa and Tanzania) to 60 percent (Zambia). The distribution of employment across sectors also differs between countries. Mauritius, South Africa and Zimbabwe have comparatively larger formal sectors than the other member countries. There are equally important differences in the effectiveness of labor market institutions and polices, especially with regard to determination of wages.

Nonetheless, there are a number of regularities which point to structural constraints facing labor markets in the region. Such constraints manifest themselves in the persistently poor wage employment growth. The weak performance of the formal sector has contributed to the growing problem of open unemployment, especially in the urban areas, although rural unemployment rates in the SADC regions are also high. It has also driven many labor market entrants into the informal sector. Furthermore, the time it takes to obtain a first job is taking longer. We also find that particular groups such as women and the young have lower labor market participation rates.

Looking to the future, the structural problems point to six crucial issues that must be of concern to the policy makers with regard to labor market policy:

- *Commitment to macro- and micro-policies to achieve high quality growth.* It will be difficult to achieve employment growth without output growth. The experience in many parts of the world, (example of Mauritius in SADC stands out) shows that wage employment generated from broad-based labor-intensive growth has been a powerful force to stem and reduce poverty. In that sense, every effort must be made to promote sustained economic growth. Although the list of policies to achieve high quality growth vary (and are discussed extensively in another paper (Gelb and Tidrick)), one issue that is relevant here is the improvement of skills within the populations of the member countries.

- *Improve the level and quality of skills.* If skilled manpower is necessary for successful manufacturing sector, the low levels of secondary and tertiary access in many member countries would lead to high returns to those possessing these skills, but higher firm costs (via higher wages), and reduced competitiveness of the sector (Bigsten et al., 1998). Inadequate skills would also lead to poor productivity and hence poor growth prospects in the economy more generally. Viewed in this light, the persistence of high levels of unemployed secondary educated individuals not only constitute a significant waste of resources, but it also brings to the surface some disincentives in the regional economies that are unrelated to labor markets such as business risk, inadequate infrastructure, and poor legal institutions.

- *Labor market institutions and flexibility.* Existing evidence is not strong enough to attribute low employment growth to rigidities in the labor market. The main reason is that minimum and premium wages to union workers have such low coverage that they could hardly account for the high unemployment rates. On balance, the labor markets of the member countries seem to have adjusted in the same manner that competitive markets are expected to adjust. The problems of employment growth therefore lie elsewhere --- in particular, low growth. That said, a commitment to labor market flexibility as a way of pursuing efficiency in the allocation of labor resources should be pursued as a matter of policy because flexible markets benefit the majority of workers and the economy. The case of South Africa is interesting in this light because of the confusion regarding the role that industrial councils play (ICs). If labor markets are not competitive, then relatively high union wages will have negative effects on employment. However, if the role of ICs is to standardize wages in such a way as to create monopsony-like labor markets within industrial sectors, then not only employment but wages are lower than under competitive conditions. If the latter conditions prevail, promoting competition within industrial sectors, rather than among workers, will lead to increased employment and wages (Butcher and Rouse(2000)).

- *Labor supply of women and youth.* Across member countries, women and young have lower labor supply than other labor market entrants. But even among these groups, disparities arise based on skill levels and household's fertility choices in the case of women. Existing research from around the world shows that household's fertility preferences and traditional roles that require women to devote more time to child care responsibilities act to lower the labor supply of married women or those who are single with children. Furthermore, gender discrimination in the formal labor market, although not empirically shown to be widespread in Africa, cannot be ruled out. Although important factors limiting the success of the young in securing jobs are less well known, those that are likely to fail are also likely to be those without quality or adequate skills. Whatever the underlying reasons for low participation rates of women and youth, exclusion of such a large fraction of a country's population from participating in productive activities is wasteful and in the long run an obstacle to poverty reduction. This is because, women and youth are more likely to rely on labor instead of other productive assets (land, real estate, etc.) for income, and would benefit most from robust employment growth.

- *AIDS and labor supply constraints.* At present and in the medium term, the main reason for low employment growth is inadequate demand for labor. However, in the future, unless effective remedies are sought, a significant labor supply problem may arise because of the high prevalence of HIV/AIDS in the member countries. There are two potential labor supply constraints posed by HIV/AIDS. First, a reduction in life expectancy associated with the disease means that a typical worker will supply fewer years of work in the future. Related to this point is the fact that those infected may spend many years under care during which they would be unable to work, thus increasing the number of years they and their care-takers would be unavailable to work. Second, to the extent that the disease infects some specific segments of the population – for instance, more educated professional groups--- it reduces, effectively, available supply of high quality workers. Future supply of quality workers will also be reduced because reduced life expectancy from AIDS will discourage individuals from undertaking time-costly investments, such as education. This happens because returns to education are decreased since life time earnings calculated for working years---years between time of completing education and mortality--- will be lower. Taken together, these effects of HIV/AIDS will be detrimental because output growth will decrease substantially and efforts to generate employment and growth will be made more difficult.

- *Declining returns to education and widening urban-rural wage gap.* Independent of the effects of HIV/AIDS on returns to education, on-going studies covering a number of African countries show declining trends in returns to skills, measured as level of education attained. Wage premiums to post-primary educated individuals have decreased relative to the wages of primary educated individuals in Cote d'Ivoire, Ghana, Kenya and Zambia in the 1990s. Another troubling trend is the widening wage gap between rural and urban residents in favor of the latter. Although we have not talked much about wages here due to scarcity of reliable data, there is an emerging consensus that in the midst of these developments, average wages have also fallen in Africa. Declining average and rural (relative to urban) wages and poor returns to skills have been the source of much hardship to African households, and only policies that shift incentive regimes to enable broad-based growth appear to offer greater promise.

Part VI: Conclusion

The structural problems of high unemployment, low productivity of labor, and exclusion of certain groups from labor market participation impose a heavy burden on the economies of the SADC region. The obvious cost is forgone national wealth. What this paper has argued is that, these are not problems that can be attributed to the operations of the labor markets in the region. In other words, existing institutions and policies are not known to severely constrain labor mobility or labor market adjustment to output shocks in a way that produces open unemployment, poor allocation of skills and discrimination of women and youth. Rather, these problems stem from distortions in unstable macro-economic conditions, poor incentives to entrepreneurs, high business risks, and poor investment in public goods. Therefore, their solution also will come from how well policy makers commit to solving these non-labor market problems. In particular, it is important to (a) create an environment that is conducive to broad-based labor-intensive growth, (b) improve levels and quality of skills in the population, and (c) invest in public goods to reduce social externalities—for instance, health information against the threat of HIV/AIDS.

Table 1: *Employment Growth Rates in Manufacturing*

Sector	Cameroon 1992 – 1995	Ghana 1991 – 1995	Kenya 1990 – 1994
Food	-20	39	
Wood	16	-6	
Furniture		12	
Textiles	0	7	
Garments	N/A	N/A	
Metals	-18	12	
All firms	-14	16	12,5

Notes: Kenyan data was computed by year and not by sector. Results from RPED Studies.

Source: For Cameroon, see CETAI and EESEC, 1996; for Ghana, see Teal, 1997; for Kenya, see Bigsten et al, 1995.

Table 2: *Unemployment Rates in Selected African Countries*

Country	Year of data	Unemployment Rate (urban)	Youth to Adult Unemployment ratio
Cote d'Ivoire	1985	20	2,1
Ethiopia	1981	23	3,6
	1994	39	
	1997	30	
Kenya	1986	16,2	**4,5**
Mali	1992	12,7	
Nigeria	1985	9,7	2,9
Senegal	1985	17,3	
	1990	17,2	
Sierra Leone	1988	14,8	

Source: Vandemoortele (1991) and Krishnan et al. (1998) for Ethiopia (1994,1997).

***Table 3:** Labor Force Participation Rates by Gender (percent)*

Country	Year of data	Share of Labor force		Overall	Fraction
		Female	Male	Participation rate	(<=15 years)
Botswana	1995	48,7	51,3	62,8	43,2
Malawi	1990	34,5	65,5	69	48
South Africa	1995	47,6	52,4	79	--
Swaziland	1995	46,3	53,6	77	44,6
Tanzania	1993	46,4	53,6	83,3	47,1
Zambia	1998	47,2	52,8	49,2	46,4
Zimbabwe	1995	44,5	55,5	63,3	46,2

Notes: Labor force participation is defined as proportion of adults between ages 15 and 64 who were either employed or unemployed but seeking work or were available for work.

Source: National household surveys.

Table 4: *Age Composition of Participants (percent)*

Country	Year of Data	15—24	25—40	41—64
Botswana	1995	25,8	53,4	20,8
Malawi	1990	25,3	46	28,7
South Africa	1995	17,7	51	31,3
	1993	19,1	37,2	33,7
Swaziland	1995	28,1	44,7	27,2
Tanzania	1993	29,6	45,5	24,8
Zambia	1998	44,8	36,9	18,3
	1993	32	38,9	29,1
Participation rate by age				
Zimbabwe*	1995	36,9	74,8	86,6

Notes: Labor Force participation is defined as proportion of adults between ages 15 and 64 who were either employed or were unemployed but seeking work or were available for work.

***:** Zimbabwe figures are not comparable to other countries because there are proportions in each age category that are active, rather than proportions of all active who are in a specific age category

Source: National household surveys.

Table 5: *Education Levels of Participants (percent)*

	Year	No education	Primary	Secondary	Tertiary
Malawi	1990	29,8	49,8	14,9	2,5
South Africa	1995	10,3	36,6	41,4	10,6
	1993	14,4	41,8	35,4	7,7
Swaziland	1995	12,5	40,8	39,9	1,8
Tanzania	1993	17,8	68	10	--
Zambia	1998	--	24,2	16,7	2,8
	1993	14	52,8	23	2
Participation rate by education level					
Zimbabwe *	1995	81,4	69,5	49,6	72,9

Note: Labor force participation is defined as proportion of adults between ages 15 and 64 who were either employed or were unemployed but seeking work or were available for work.

***:** Zimbabwe figures are not comparable to other countries because they are participation rate by educational level, rather than education level of participants.

Table 6: *Employment Status Trends (percent)*

		Wage employment		Self employed		Unpaid Family			
Country	**Year**	**Public**	**Private**	**Primary**	**Other**	**Worker**	**Unemployed**	**House work**	**Retired, Old, Disabled**
Malawi	1990	23.8(*)		28,9	3,5	5,8	6,6	29	0,5
South Africa	1993	8	23,7	12,2	0,7	--	43,8	2,4	11,5
Swaziland	1995	33.7(*)	--	--	12,5	9,2	17,9	13,7	7,9
Tanzania	1993	9	5,5	43,8	14	1,3	7,2	14,4	3,2
Zambia	1998	6,6	9	28,8	53,1	28,5	6,5	17,8	1,3
	1993	10,3	5,4		38,5	26,3	9,1	8,5	1,67
Zimbabwe	1995	32.5(*)		20,9	5,36	11,6	4,6	13,5	0,32

Note: Natural resource refers to proportions who work on their farms or are involved in fishing or forestry. House work refers to individuals engaged in domestic chores. The proportions were calculated for individuals with 15 or more years. Public includes wage employees in government or parastatal corporations, while private refers to wage employees in private sector. Self-employed includes those engaged in non-farm economic activities with or without employees. (*) includes all wage workers (private and public). Underemployment rate (those working but less than 35 hours) is about 8 percent in South Africa. Wage employment includes public Underemployment rate (those working but less than 35 hours) is about 8 percent in South Africa. Wage employment includes public and private sector employees.

Source: National household surveys.

Table 7: *Urban—Rural Unemployment Rates (percent)*

Country	Year of data	Urban	Rural
Botswana	1995	21.5(*)	
Malawi	1990	5,2	5,8
South Africa	1995	21,1	28,6
	1993	27,6	25,7
Swaziland	1995	25,7	19,6
Tanzania	1993		
Zambia	1998	25,2	7,1
	1993	19	6
Zimbabwe	1995	9,5	0,73

Note: Unemployment rate for Botswana is the total (urban and rural) unemployment rate, and was reported in Kelly (1999). All other rates calculated by author from survey data.

***Table 8:** Unemployment by Age Group (percent)*

Country	Year	15—24	25--40	41—64
Botswana	1995	43,7	40,6	15,7
Malawi	1990	50,7	29,9	19,3
South Africa	1995	30,4	48,5	21
	1993	24,8	41,9	33,2
Swaziland	1995	52,6	39,1	8,3
Tanzania	1993	78,9	16,6	4,4
Zambia	1998	44,6	37	18,4
	1993	44,4	42,2	19,1
Zimbabwe	1995	8,57	3,03	0,83

Note: Unemployed includes individuals between 15 and 64 years old who have no work but are available for work whether they are actively looking for work or not. The numbers in parenthesis are the rates when those in domestic chores are included in the definition of the unemployed. Rates for Botswana were obtained from data contained in Kelly (1999). All other rates from survey data.

Table 9: *Unemployment by education level (percent)*

Country	Year	No education	Primary	Secondary	Tertiary
Botswana	1995	31,2	28,6	37,2	2,9
Malawi	1990	31,9	50,7	13,2	0
South Africa	1995	12,1	43	41,5	2,1
	1993	17,6	48,4	31,3	2,2
Swaziland	1995	10,9	42,9	42,1	0,4
Tanzania	1993	7,9	72,1	17,9	--
Zambia	1998	0	42,2	37,8	17,4
	1993	7,9	49,1	41	0,4
Zimbabwe	1995	0,34	1,9	8,57	1,26
					4,19

Note: Unemployed includes individuals between 15 and 64 years old who have no work but are available for work whether they are actively looking for work or not. The numbers in parenthesis are the rates when those who claim to be engaged completely in domestic chores are included in the ranks of the unemployed. The number in the lower row for Zimbabwe shows ratio of diploma-holding secondary school graduates among the unemployed. Rates for Botswana were obtained from data in Kelly (1999). Other data are from national household surveys.

Table 10: *Employment Growth Rates in Manufacturing*

Manufacturing Sector	**Tanzania 1993--1996**	**Zambia 1993—1996**	**Zimbabwe 1991--1994**
Food	8	-10,8	-0,6
Wood	5	-21	26,4
Textiles	-6	41,4	3,3
Garments			10,3
Metal	-3	-18,8	-14,1
All firms	2,9	-56,6	3,5

Source: *For Tanzania, see Blanc, 1997; for Zimbabwe, see Gunning and Pomp, 1995. Zambia figures calculated by author.*

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NATIONAL POLICIES FOR INVESTMENT, GROWTH AND JOB CREATION; THE ROLE OF THE STATE: THE CASE OF TANZANIA

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1 Introduction

1.1 A Brief Background to the Macro-economic Policy

The fundamental changes that took place in government policies affecting the national economy in general have their origin in the mid 1980s when the process of structural adjustments was initiated. In 1984 measures to liberalize import trade were taken while the Economic Recovery Programme (ERP) was introduced in 1986. This programme introduced, for example, the exchange rate adjustment and reforms in foreign exchange allocation, trade policy, fiscal and monetary policies as well as interest rates. Real increases in producer prices for export crops were made. It was also the beginning of reforms in the agriculture sector.

The main objectives of the ERP were to:

- Increase output of food and export crops
- Rehabilitate physical infrastructure in support of directly productive activities
- Increase capacity utilization in industry
- Restore internal and external balance of payments following prudent fiscal, monetary and trade policies.

The latest developments in the reform process are reflected in the Rolling Plan and Forward Budget (RPFB) of 1997/98-1999/2000 which basically addresses institutional reforms. The major policy objectives in the RPFB are:

- Attaining real economic growth rate of about 4.5% a year
- A reduction of the rate of inflation to below 10%

- A reduction of dependence on balance of payments financing
- Ensuring adequate foreign reserve level equivalent to at least three months of imports.
- Reducing the role of the public sector in directly productive sectors and encouraging private sector involvement.

1.2 An Overall Performance of the Economy

The above objectives and the ensuing changes have resulted into some improvements in the performance of the economy. For example, the aggregate supply of goods and services as measured by gross domestic product (GDP) at constant 1992 prices, attained a growth rate of 4.0 percent in 1998 compared to 3.3 percent recorded in the previous year. Given the annual population growth rate of 2.8 percent, real per capita income in Tanzania Mainland grow at a higher rate of 1.2 percent in 1998, compared with a rate of 0.5 percent recorded in 1997. Hence, the GDP growth rate of 4.0 percent attained during 1998 was above the targeted growth of 3.5 percent for the period (BOT, 1999).

The agricultural rector has the largest share in the GDP but it grew at a low rate of 1.9 percent in 1998, compared with 2.4 percent in 1997. This decline was attributed to unfavourable weather condition in 1998 cause by El Nino and persistent drought in the 1998/99 seasons.

The manufacturing sector, on the other hand, continued to grow fast due to increases in both local and foreign investments. The industrial sector recorded a growth rate of 8.0 percent during 1998 compared with 5.0 percent during 1997. The mining sector recorded a significant growth of 27.4 percent during 1998 compared with 17.1 percent recorded in 1997. This was due to increased investments in the mining sector. The headline inflation, as measured by the percentage change in the National Consumer Price Index (NCPI) declined from a high level of 35.9 percent in 1990 to only 7.0 percent by November 1999. (BOT, 2000) This has dropped further to 6.2 percent by February, 2000. It is the lowest inflation rate ever recorded over the past 20 years. These are but a few examples of positive responses emanating from economic reforms at the macro-level.

1.3 Areas for Discussion

After the introduction in part 1, the paper tries to discuss the National Policy on Investment in part 2. Part discusses the fields of governance that have effective impact on economic development. Part 4 of the paper discusses the privatisation efforts and the national employment policy. The paper ends up with some concluding remarks and some recommendations in part 5.

2 National Policy on Investment

2.1 The Policy Environment

The liberalization policies and the institutional reforms have created an enabling environment for private investment. The government has withdrawn from running business. Its role remains that of a policy coordinator and regulator. The government encourages the establishment and expansion of the private sector. This means the government is becoming increasingly aware that the private sector is the engine of economic development and sustainability.

The Tanzanian government has, therefore, privatized and continues to privatise its parastatal institutions through the Parastatal Sector Reform Commission (PSRC). The government also implements a revised policy on investment and has formulated regulatory measures in the financial and trade sectors to complement the current investment policy measures. Tanzania has an abundance of natural resource wealth that offers tremendous investment opportunities for investors. These include an excellent geographical location; (six land locked countries which have access to Tanzania ports), ample arable land, excellent tourist attractions (Ngorongoro, Serengeti, Kilimanjaro and the spicy Islands of Zanzibar), natural resources, a sizeable domestic and sub-regional market, a wide local material supply base, inexpensive labour, political stability and a suitable market policy orientation.

The priority sectors for the purposes of investment promotion include:

Agriculture including livestock; air aviation; commercial buildings and development and micro-finance banks; export oriented projects; geographical special development area (i.e. the Mtwara Development Corridor); Human resources development; manufacturing; natural resources including fisheries; rehabilitation and expansion; tourism and tour operations; radio and television broadcasting.

Mining is another potential sector. There are huge amounts of untapped minerals which include diamonds, gold, coal, iron ore, gypsum, kaolin, nickel, phosphates, Tanzanites, a variety of other gemstones and other minerals. There are, therefore, unlimited opportunities for investors. Foreign investor may do it alone or enter into joint venture with similar local interest in Tanzania.

In an effort to further improve the investment climate in Tanzania, the Government decided recently to review the Tanzania Investment Promotion Policy of February 1990. The New Investment Policy was approved by the Government in October 1996.

The New Policy underlines the following:

- Maximum mobilization and utilization of domestic capacity including cooperation with other developing countries as well as industrialised countries
- Maximum promotion of exports of goods and services to enhance the development of a dynamic and competitive export sector. The encouragement of inflows of external resources to complement national efforts
- Encouragement and facilitation of the adoption of new technologies in activities that especially have a direct bearing on productivity, quality and increased competitiveness
- Enhancement of transparent legal framework that facilitates the promotion and protection of all investments
- Deregulation of the investment approval process
- Re-defines the role of the private sector and puts it into a more central role
- Creates a balance between administrative controls and market forces as a means of allocating resources
- Rededicates the nation's adherence to Rule of Law and good governance.
- Re-emphasize political pluralism to enhance democracy

2.2 The Creation of the Tanzania Investment Centre (TIC)

a) Objective:

The main objective of creating the Tanzania Investment Centre (TIC) is to act as a *One Stop Agency* of the Government of Tanzania established under the Tanzania Investment Act, No. 26 of 1997 to promote, co-ordinate and facilitate investment into Tanzania.

The Centre deals with all enterprises whose minimum capital investment is not less than US $ 300,000 if foreign owned or US $ 100,000 if locally owned. Enterprises engaged in Mining, and Petroleum, shall follow the approval process contained in their respective laws. But the Centre shall assist all investors to obtain permits, authorisation etc. required by other laws to set up and operate investment in Tanzania.

b) Functions of TIC:

Among the functions of the Centre are:

- To initiate and support measures that will enhance the investment climate in the country for both local and foreign investors
- To collect, collate, analyze and disseminate information about investment opportunities and sources of investment capital, and advise investors upon request on the availability, choice or suitability of partners in joint-venture projects
- To identify investment sites, estates or land together with associated facilities of any sites, estates or land for the purposes of investors and investments in general
- To assist all investors, including those who are not bound by the provisions of the Tanzania Investment Act, 1997, to obtain all necessary permits, licenses, approvals, consents, authorizations, registrations and other matters required by law for a person to set up and operate an investment; and to enable certificates issued by the Centre to be fully effective
- To provide, develop, construct, alter, adapt, maintain and administer investment sites, estates or land together with associated facilities of those sites, estates, land and subject to relevant laws, the creation and management of export processing zones.
- To provide and disseminate up-to-date information on benefits or incentives available to investors

- To carry out and support local investment promotion activities which are necessary in encouraging and facilitating increased local investments, including entrepreneurial development programmes

c) Tanzania Investment Centre as a One Stop Centre

The Centre is the focal point for all investors and performs all liaison work for the investor from inquiries right up to project start-up. All government departments and agencies are required by law to cooperate fully with TIC in facilitating investors.

d) Certificates of Incentives and Registration of Investors

Investors in new, rehabilitation/expansion of existing enterprises and equity investment, are required to provide the following information.

- The name and address for the proposed business enterprise, its legal form, its bankers the name and address of each director or partner and the name, address, nationality and shareholding of each shareholder
- The qualifications, experience and other relevant particulars of the project management
- The nature of the proposed business activity and the proposed location where that activity is to he carried on
- The proposed capital structure or the amount of investment and the projected growth over the next five years
- How the investment will he financed
- Evidence of sufficient capital available for investment
- An undertaking that the project shall he implemented as indicated in the projections of the project
- A statement of audited accounts for the three years proceeding rehabilitation & expansion of the enterprises
- Constitution of the enterprise or partnership agreement for equity investments
- Amount of equity investment made

e) Assistance in Establishment of Enterprises

The Centre shall assist investors to incorporate or register enterprises by undertaking the following:

- Incorporation or registration of enterprises
- The filing of Tax Forms

- Completing investment registration and Immigration Forms
- Facilitating obtaining by investors of the necessary licenses, approvals, facilities or services

Where the relevant papers submitted to the Centre are in order, the Centre shall complete processing the application within fourteen working days.

In addition to the above, the government provides an enabling environment for the following:

a) Investment Guarantees and Settlement of Disputes

Investments in Tanzania are guaranteed against nationalisation and expropriation. Tanzania is a member of both the International Centre for the Settlement of Investment Disputes and Multilateral Investment Guarantee Agency (MIGA). Any disputes arising between the Government and investors shall be settled amicably through negotiations or may be submitted for arbitration before the above international organs.

b) Transfer of Capital and Profits

Regulations permit unconditional transferability through any authorized bank in freely convertible currency of net profits, repayment of foreign loans, royalties, fees, charges in respect of foreign technology, remittance of proceeds and payment of emoluments and other benefits to foreign employees working in Tanzania.

c) Obtaining Creditors from domestic sources by foreign investors

Any foreign business operating in Tanzania may obtain credit from domestic financial institutions up to the limits established by the Bank of Tanzania.

d) Transfer of Technology Agreements

There are not restrictions in enterprises entering into technology transfers. But every Agreement for transfer of technology must be registered with the Centre (TIC) as soon as concluded.

e) Investment Benefits and Incentives

Tanzania offers a well balanced package of incentives to investors who have chosen Tanzania as their investment destination. These incentives have been devised to:

- Compensate and reward investors for their entrepreneurship
- Match the changing needs of the country'
- Channel investments in the direction most needed for economic development
- Ensure growth with social equity

Tax incentives for holders of Certificates of Incentives issued by Tanzania Investment Centre and other approved investors Table 1:

Table 1: *Tax Incentives issued by TIC:*

A) Lead Sectors (in %)

	Corpo-ration Tax	Custom Duty on Capital Goods	Sales Tax on Capital Goods	Capital Allowance Deduction in the Years of Income	With-holding Tax on Dividends	With-holding Tax on Interest
Mining Infrastructure e.g. Road Construction Bridges, Railways, Airports, Generation of Electricity Telecommunications, Water Services, Back up Services to Mining Sector and the like.	30	0	0	100	10	0
Export Processing Zone	-	0	0	100	0	0

f) *Example of Lead Sectors*

Mining

Although the first mineral discoveries in Tanzania can be traced back to the period of the German colonial rule: formal and systematic geological mining activities were started in 1926. The period between 1926 and 1960 and immediately after independence of Tanganyika up to 1967, saw the private sector playing a leading role in the development of the mineral sector. As such the Government played the role of regulation, monitoring, promotion and facilitation of the private sector. The proclamation of the Arusha Declaration saw a complete turnaround with the public sector taking a leading role. As a result, the Government assumed a development role with emphasis on self reliance and the necessity to develop our natural resources, including the mineral wealth.

The second half of the 1980s saw dramatic changes worldwide both politically and economically. Macro-economic restructuring in most developing countries led to reactivation of mineral exploration activities. Further to this, the global technological advances and cost competitiveness in mineral production development, the globalization of finance and investment and the global competition for investment resources led most countries, including Tanzania: choosing more liberal economic policies.

In 1989, the Government liberalized mineral trading as a way of tapping lost revenues as a result of the parallel market. This had immediate impact on the minerals sector such that by 1992 the sector recorded the highest growth rate of 24.0 and mineral export earnings rose from US $ 15.8 million in 1989 to US $ 53.2 million in 1992. Liberalization of mineral trading was followed in which identified mining as a priority investment area. The Act put in place a conducive environment for investment in the mining and other economic sectors in the country. As a result, between 1990 and 1996 a total of 450 mineral rights licenses were issued to local and foreign investors for mineral exploration and mining with an estimated total expenditure of US $ 80.0 million. Business under this sector is administered under the Mining Act. 1979.

Table 2: *Priority Areas (in %)*

	Corpo-ration Tax	Custom Duty on Capital Goods	Sales Tax on Capital Goods	Capital Allowance Deduction in the Years of Income	With-holding Tax on Dividends	With-holding Tax on Interest
Agriculture including Livestock	30	5	0	100		0
Air Aviation	30	5	0	100		0
Commercial Buildings	30	5	0	100	10	0
Commercial, Development and Microfinance Banks	30	5	0	100	10	0
Export oriented Projects	30	5	0	100	10	0
Geographical special Development Areas	30	5	0	100	10	0
Human Resources Development	30	5	0	100	10	0
Manufacturing	30	5	0	100	10	0
Natural Resources including Fisheries	30	5	0	100	10	0
Rehabilitation and Expansion	30	5	0	100	10	0
Tourism & Tour Operators	35	5	0	100	10	0
Transport	30	5	0	100	10	0
Radio and Television Broadcasting	30	5	0	100	10	

Source: Tanzania Investment Centre, Dar es Salaam, 2000.

Over and above the normal incentive package shown above, the investment law allows for enhanced incentives in case of investments that are of strategic importance or are of significant impact on the economy.

g) Investment Progress since 1990.

Table 3 shows the projects established through investments between 1990 and March 2000 in Tanzania. In this ten year period a number of both local and foreign investment has taken place. This is a reflection of continued liberalization policy over the period. It can be observed from the Table that overall about 47% of the total investments are by the local investors. This ratio has, however, been exaggerated by the relatively high percentage of local community projects (67%), although they are very few in terms of numbers.

Most of the employment is generated in Industry and Construction sectors. They together from about half of the employment (49%). These projects have created about 256 thousand job opportunities.

h) Impediments in Business Operating Environment

Despite the government's intervention in creating conducive investment climate, there is yet a lot to be done so as to attract more investments to the country. There are still some problems, which impede the business-operating environment. These include:

1. Aggressive and harassing attitude of the Tanzania Revenue Authority (TRA)
2. Non-transparent rules and regulations both in the business registration and normal business operating process.
3. Inefficient, possibly non-existent commercial court system which would effectively serve as a recourse for the corrupt parastatal practices.
4. Conflict between incentives provided by TIC and TRAs interpretation of tax laws.
5. Too many tiers of government involvement in administering the business operating environment (National, regional and local municipalities)
6. Civil service hostility due mainly to lack of understanding about the operations of the market driven economy

Table 3: *Investment Progress in Tanzania 1990-March, 2000:*

Sector	New Projects	On-going Projects	Local Projects	Local as % of Tot. Proj.	Foreign Projects	Public Projects	Total Projects	Employ-ment	Total Value (Tshs Mill.)	% Employ ment
Agric & Livstk	63	51	31	27.19	33	50	114	39,281	244,067	5.14
Natural Resources	72	19	40	43.96	21	30	91	23,860	336,258	7.09
Tourism	166	53	100	45.66	44	75	219	20,862	270,761	5.71
Industry	536	175	379	53.31	131	201	711	107,428	1,188,001	25.03
Fuel/Minerals	62	8	24	34.29	14	32	70	8,600	407,376	8.58
Construction	70	12	41	50.00	20	21	82	7,982	1,139,391	24.01
Transport	56	27	37	44.58	13	33	83	6,386	116,111	2.45
Services	60	16	36	47.37	17	23	76	8,638	105,754	2.23
Information Technology	2	1	1	33.33	1	1	3	31	428	0.01
Financial Institutions	27	1	6	21.43	10	12	28	1,212	341,963	7.21
Communication	11	1	3	25.00	2	7	12	1,200	458,647	9.66
Energy	1	0	0	0.00	0	1	1	90	97,800	2.06
Community Development	4	2	4	66.67	1	1	6	223	39,346	0.83
Total	1130	366	702	46.93	307	487	1496	225,793	4,745,903	100.00

Source: Tanzania Investment Centre, Dar es Salaam, 2000.

7. Bureaucracy, bribery and corruption as a consequence of the above problems.
8. Problem of acquisition of land
9. Inadequate and high cost of infrastructure e.g. energy transport, telecommunication etc.
10. Lack of entrepreneurial capacity particularly as Small and Medium Enterprise (SME) level.
11. Insufficient micro-financing
12. Purchasing power of local Tanzanians
13. Disproportionate geographical project location; etc.

Most of the above problems affect negatively the Foreign Direct Investment. This calls, therefore, for the government intervention so as to increase the level and speed of both local and foreign investment in various sectors of the economy and raise the economic development of the country.

3 Fields of Governance and their Impact on Sustainable Economic Development

According to Barry-Dalal and Stephen Clayton Bass (2000), the concept of sustainable development appears to have emerged during debate in the early 1970s. This follows a range of key publications drawing attention to man's over-exploitation of environment, which adds to constraints to development objectives.

Two strands of debate about economic development were distinguished by Barbier (1987). One strand focuses on basic needs with emphasis on helping the poor, while the other one stresses on the opinion that real development is impossible without consideration of the environment and without taking into account local social and cultural values and enabling stakeholder participation.

The first actual attempt to define sustainable development appears to arise from the statement by the World Conservation Strategy (IUCN/WWF/UNEP, 1980) which emphasizes that *"for development to be sustainable, it must take account of social and ecological factors, as well as economic one; the living and non-living resource base; and of the long-term as well as the short-term advantages and disadvantages of alternative action"*. Even this definition by the world conservation strategy has been frequently critiqued for being concerned mainly with ecological sustainability rather than sustainable development *per-se*. Hence Balal-Clayton et. al stress that the widely quoted definition is that given by the World Commission on Environment and Development (WCED, 1987), which is also known as the Brundtland Commission: *"Economic and Social Development that meets the needs of the current generation without undermining the ability of future generations to meet their own needs"*. The interpretation of this statement entails the following: (Balal-Clayton et.al, op.cit. p.8).

A commitment to meet the needs of present and future generations has various implications. "Meeting the needs of the present" means satisfying:

- Economic Needs*:* including access to assets providing an adequate livelihood or productive economic activity; also economic security when unemployed, ill, disabled or otherwise unable to secure a livelihood.
- Social, cultural and health needs: including a shelter which is healthy, safe, affordable and secure, within a neighbourhood with provision of piped water, drainage, transport, health care, education and child development, and protection from environmental hazards.
- Political Needs: including freedom to participate in national and local polities and in decisions regarding management and development of one's home and neighbourhood, with a broader framework which ensures respect for civil and political and implementation of environmental legislation.

At the same time, meeting such needs" without compromising the ability of future generations to meet their own needs implies:

- Minimizing use of waste of non-renewable resources: including minimising the consumption of fossil fuels and substituting with renewable sources where feasible. Also, minimizing the waste of scarce mineral resources (reduce use, re-use, recycle, reclaim).
- Sustainable use of renewable resources*:* including using freshwater, soils and forests in ways that ensure a natural rate of recharge.
- Keeping within the absorptive capacity of local and global sinks of wastes: including the capacity of rivers to break-down biodegradable wastes as well as the capacity of global environmental systems, such as climate, to absorb greenhouse gases.

This definition is still contentious as far as professional consensus is concerned. Banuri (1999) notes that *"there is considerable professional disagreement about this definition, mostly on how to put the idea of sustainable development into operation, but also to do with question of definition and on its claims to synthesis".*

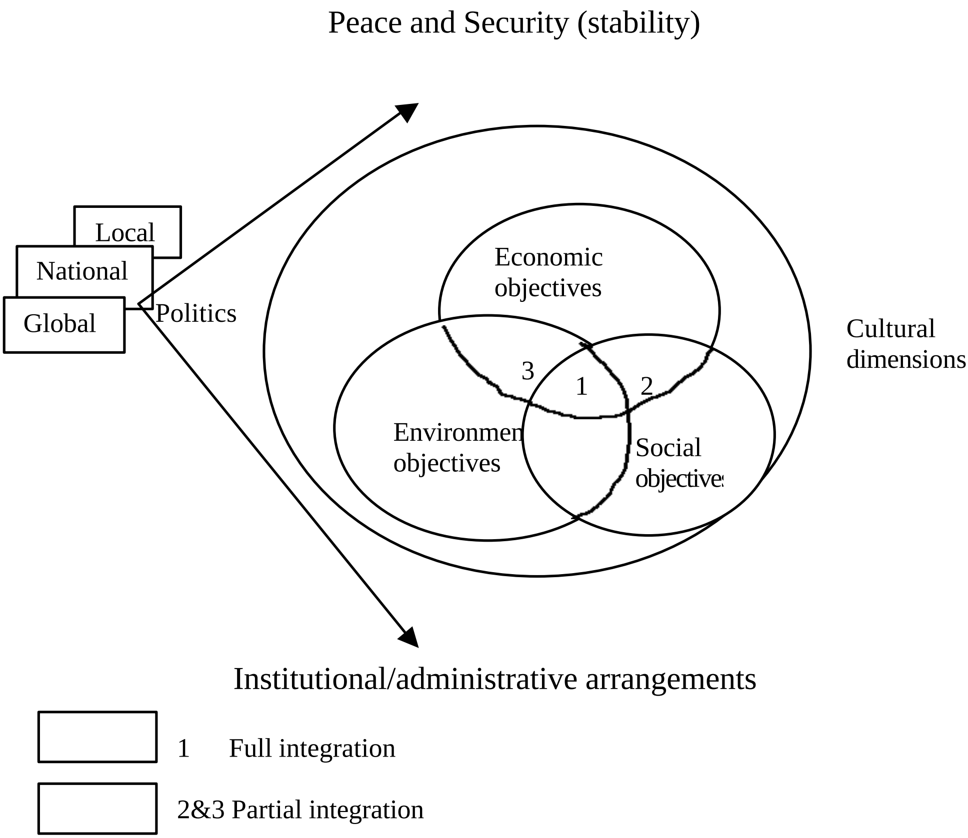
Again Balal-Clayton et.al (op.cit p. 9) emphasizes on the point that sustainable development is perhaps best seen as *aspirational goal* that is now endorsed by governments, business and civil society. The authors quote IIED (1999) which states that *"Rather than focusing on economic growth in isolation, sustainable development requires the integration of the social, economic and environment dimensions in cooperate and public decision making, within a governance framework that ensures full participation and accountability".*

There are, therefore, three pillars to sustainable development:

- Economy: The creation of wealth and livelihoods
- Society: The elimination of poverty and improvement of quality of life;
- Environment: The enhancement of natural resources for future generations
  (Balal-Clayton, op.cit. p. 9).

The relationship between these pillars is illustrated in Fig. 1 (see next page)

Figure 1: *The Systems of Sustainable Development*



Note: Sustainable development will entail integration of objectives where possible; and making trade-offs between objectives where integration is not possible.

Source: Adapted from Dalal-Clayton et al. March 2000 p. 10.

The figure illustrates that sustainable development will entail integration of three objectives where possible and making hard choices and negotiating trade-offs between objectives where full integration is not possible. These negotiations will be greatly influenced by factors such as peace and security, prevailing economic interests, political systems, institutional arrangements and cultural norms. Achieving these objectives is essentially a task of transforming governance in the public sector, private sector and society more broadly to achieve a more balanced and integrated approach to development. This ensures that it is defined to meet the respect of particular needs and circumstances of individual countries, society and culture (Balal-Clayton, op.cit pp. 9-11).

The Tanzanian state as enable, provider and activator should intervene and enforce the integration of the three components of sustainable development. The poor and declining economic performance, lack of transparency and accountability in the management of state affairs are the outcome of poor governance and hence unsustainable development (Jinadu, L.A. 2000).

A democratic governance is generally more likely to enhance socio-economic and cultural performance than say an authoritarian government. This is because of the opportunities expected to be created, through good governance by allowing participation in economic and political processes, legislative and judicial rights to ensure accountability and transparency. With the above in place, job creation opportunities and employment will be enhanced.

Human Capital Development

The development of human capital is an integral component of sustained economic growth and poverty reduction (ADB, 1998, pp110-115). It is very important to invest in human capital because of both the direct and indirect benefits to the economy through improved productivity of labour, health and nutrition. Improved education, for example, equips people with increased literacy and numeracy that directly improves their productivity in terms of rate of return to labour. The indirect effects are the changes of attitude towards work and society as a whole.

Improvement in health and nutrition contributes directly to the welfare of the people by reducing sickness and child mortality thereby increasing life expectancy and indirectly improving labour productivity. However, human capital investment can have real meaning if other forms of investment are considered. The two fronts, i.e. both human and physical capital investments have to be undertaken simultaneously. The present policy of stimulating economic growth through wider acceptance and involvement of private investment has to go hand in hand with increasing investment in human capital through provision of education, health nutrition and other social services.

Accumulation of physical capital through increasing rate of investment is required to generate more employment opportunities for people to increase their income and improve their quality of life. At the same time the building up of human capital is essential to equip people with the necessary skills and abilities they would need to take advantage of employment opportunities generated by increases in the stock of physical capital.

The government of Tanzania takes cognizance of the above and has endeavoured to formulate a "Public Service Management and Employment Policy" which reiterates on Human resource Planning. The planning envisages to cover: recruitment, promotion, training and development (URT, 1998). The policy itself is, however, still in draft form.

4 Privatisation Efforts and the National Employment Policy

4.1 Privatisation Process

The privatisation of Parastatals in Tanzania as part of the ongoing liberalization process of the economy has also led to the privatisation of the labour market. The privatized parastatals have led to cut down of local employment i.e. employment of "selected" mostly foreign labour. This in view of the fact that the classical labour market theory suggest that, as in the market for any particular commodity, the interaction of labour demand and supply determines the quantity of labor sold (amount of labour employed) at its price (wage rate) (Patrick, W; 1998).

Unemployment undermines the strength of a society because it brings with it misery for individuals, poverty for families, devastation for whole communities, and above all it undermines the strength of the national economy. Therefore, the government has to be wary of the following:

- youths who can't find an entry point to the workforce

- middle aged workers whose jobs are disappearing due to structural adjustment or technological charge
- workers moving in and out of the casual job market without security or prospects for future advancement; and,
- neglect people living in remote communities.

All these, people need government's assistance to obtain worthwhile employment and a better out look for the future. There is undoubtedly no "quick fix" or single solution to the problem of unemployment. Many of the factors impacting on unemployment are within the government and the private sector. Nevertheless, a reduction in unemployment is pivotal to the government's commitment to foster a good quality life for all Tanzanians. Hence the government should endeavor to pursue a number of priority goals concurrently that may lead to:

- creation of more jobs for Tanzanians
- raising the economic capacity of the regions and the country as a whole
- enhancing safer and more supportive communities
- training and skilling of Tanzania workers
- ensuring better quality of life
- valuing the environment
- establishing strong government leadership (that is void of corruption) and good governance.

Therefore, secure employment brings economic independence, better health, greater self-esteem, more harmonious family relationship, less threat of crime and improved future prospects.

The track record on privatisation shows the following trends:

- some 295 out of 359 firms (about 82 percent) have been privatised since 1993.
- Of the 395 firms earmarked for privatisation, 120 (30.4 percent) are within the manufacturing sector.
- Of the 120 manufacturing firms earmarked for privatisation 60 (50 percent) have already been privatised
- Manufacturing is the most straightforward type of privatisation.
- Agriculture firms are the most difficult to privatise due to unadjusted Land Act.

Out of the 120 manufacturing firms earmarked for privatisation, 50 are already in the process and there is almost no interest in another 10. These are mainly metal related industries, as well as capital good and intermediate good industries. There is seemingly no sustainable demand for these projects.

The 82 percent privatisation means a reduction in the number of formally employed labour. This can be translated into an increased unemployment in the formal sector. Some of this unemployed labour must have entered into the informal sector. According to the National Informal Sector survey, the informal sector employment is growing at an average annual rate of about 2.4 percent.

4.2 National Employment Policy

It is estimated that in 1998 there were 13.9 mill people aged between 10 years and above who constituted the labour force in the country (URT, Economic Survey, 1999). Among these 6.9 million were males (49.6 percent) and 7 million were funds (50.4 percent). Over half of the labour force was under 30 years of age and over 80 percent were living in the rural areas.

It is also estimated that about 87 percent of the labor force was employed and about 80 percent was employed in agricultural sector, mainly small farmers. The remaining 20 percent are in the civil service, the remaining parastatals and other formal and informal sectors. Table 4 outlines the employment structure in 1998 by Sector.

Table 4: *Employment Structure by Sector (1998)*

Sector	No. employed (mill.)	%
Agriculture	9.674	80.0
Civil Service, Formal & Informal Sector	2.419	20.0
Total	12.093	100.0

Source: URT: Economic Survey 1998, op.cit.

By 1998, Tanzania's population was estimated to be 31 million people of whom 49 percent were males and 51 percent females. These estimates are based on the population census of 1988 with an average population growth rate of 2.8 percent per annum.

The government of Tanzania, continued with the implementation of the National Population Policy of 1992 that takes into account the various economic, political, social and environmental events and changes that have occurred since that period.

The government also began to implement the 4th Five Year Country Population and Development Programme (1977-2001) in collaboration with the United Nations Population Fund (UNFPA) after reviewing the National Population Policy of 1998.

The Population and Development Programme are divided into three sub-programmes.

a) A sub-programme that aims at integrating population issues in development plans
b) A sub-programme that aims at reducing maternal and children mortality by promoting the reproductive health and child survival activities
c) A sub-programme that has a bearing an advocacy activity to promote the implementation of the programme and the policy as a whole.

Employment in the civil service remained frozen in 1999 except under special permit from the central establishment. Employment in the central and local governments declined by 3.6 percent, i.e. from 270,629 in December 1997 to 263,186 in December 1998. During this period, 3184 civil servants were removed from the payroll as "ghost workers", 517 were retrenched, majority of whom were from the agriculture sector. However, by April, 2000 there were 282,123 civil servants, an increase of about 7.2 percent since December 1998. It means special permits must have been obtained to employ more staff in various sectors of the economy. In 1991/92 there were about 335,000 civil servants on the payroll. Hence between 1991/92 and April 2000, about 52,877 (about 16 percent) are out of work due to retrenchment but also due to resignations, retirements and/or deaths. Table 4 shows the trend of retrenchment between 1996 and April 2000.

The table shows that there were more male retrenched than women. Males constituted about 66 percent while women about 35% over the 5 year period. The Tables shows also that during this period about 26,352 workers have lost their employment. The government currently spends about 34.4 percent of its budget on salaries for civil servants. However, the questions we raise here are twofold:

a) What has the government due to the retrenchees in terms of providing with some means to cope with life especially through self employment and social security?
b) What has the government done to the remaining labour force in terms of increased wages and incentives which may entice labour to increase labour productivity and reduce corruption? Implementation of the two aspects would bring more meaning to the National Employment Policy than it is at present.

Table 5: *Number of Employment Retrenched by the Government from 1996 to April 2000.*

Year	Sex	No. of Retrenchees	Total	%
1996	F	3,189		28.2
	M	8,121	11,310	71.8
1997	F	3,685		38.2
	M	5,973	9,658	61.8
1998	F	150		27.0
	F	406	556	73.0
1999	F	2,063		42.7
	M	2,765	4,828	57.3
2000	F	87		35.4
	M	159	246	64.6
Total	F	9,087		34.5
	M	17,265	26,352	65.5

Source: Civil Service Commission, Dar es Salaam.

The retrenchment of the civil service follows the government's Public Service Reform Programme whose overall purpose is to "support the attainment of a high rate of economic growth and ensure that quality public services within priority sectors conforms to public expectations for value, satisfaction, and relevance by end of 2011". (URT, PSRP 2000-2004).

Therefore, the main objective of the programme is to improve accountability, transparency and resource management for service delivery. It is expected that the public service will be more efficient in service delivery and run effectively the government's economic and social programmes on a continuous and sustainable basis. We are of the opinion that this objective can be achieved only if the above factors are adequately dealt with.

The Importance of adequate Labour Force

As stated before, labour force determines the economic development of a country. This is also true for Tanzania. Table 6 tries to relate the total number of labour force and GDP between 1990 and 1998.

Table 6: *Total Number of Labour Force and GDP Growth (1990-98) (Million)*

Year	Labour Force	GDP at 1990 prices (Tshs)
1990	10.21	890,693
1991	10.53	878,056
1992	10.89	909,029
1993	11.58	946,919
1994	11.94	975,842
1995	12.31	1,281,904
1996	12.69	1,598,993
1997	13.48	1,998,348
1998	13.90	2,364,399
AAGR	3.0	13.6

AAGR: Average Annual Growth Rate

Source: URT, Economic Survey 1998, op.cit.

In relating only these two variables, other things remaining equal, we observe a highly significant relationship. The correlation coefficient of 0.923 is obtained (Table 7).

Table 7: *Correlation between GDP and Labour Force (1990-98)*

		Labour Force (Million)	GDP
Labour Force (million)	Person Correlation	1.000	.923**
	Sig. (2-tailed)	.	.000
	N	9	9
GDP	Person Correlation	.923**	1.000
		.000	.
		9	9

** Correlation is significant at the 0.01 level (2-tailed).

5 Concluding Remarks and Recommendations

5.1 Conclusion

The paper has tried to briefly review the economy of Tanzania after liberalization. The macro-economic policy measures on exchange rate adjustment, reforms in foreign exchange allocation, trade policy, fiscal and monetary policy, interest rates etc have led to the growth of the economy in general. The GDP has attained an average growth rate of 4.0% in 1988 compared to 3.3% in 1997 and the targeted growth of 3.5%, against a population growth rate of 2.8% per annum.

Some of the objectives of the Economic Recovery Programme (ERP) have been achieved to a satisfactory level. The liberalization policies have also created an enabling environment for private investment by inviting direct investment and the privatisation of parastatals. The privatisation of public firms has also caused a reduction of employed labour force due to the fact that the new firms follow almost strictly the low of labour supply and demand so as to attain reasonable profits. It is also true that some local labour has been displaced by foreign labour to safeguard certain interests.

The government has gone a long way to attract foreign investment by, for example, reviewing the old investment policy and forming a new policy that is more attractive to investors. The formation of Tanzania Investment Centre, as one Stop Centre, is yet another action that the government has taken to attract investors. There are still some problems, which the government has to deal with in order to avoid any misunderstandings between the government itself and the investors. These measures would also entice more Foreign Direct Investments into the country.

Good governance has a big impact on sustainable economic development. Economic development means increased opportunities for employment. What is required is for the government to be able to integrate all objectives of development related to the economy, society and environment. Good institutional/administrative arrangements bring peace, security and stability, which are the cornerstones for sustainable development.

The privatization efforts may have brought increased unemployment that undermines the strength of our society. Misery for individuals and poverty for families are some of the outcomes of unemployment. So the government has to address issues of creating more jobs for Tanzanians, raising the economic capacity of especially the peripheral regions, training and increasing work-skills of the labour force, ensuring better quality of life etc.

The National Employment policy has been amended and it is still on a drawing board. Once it is passed by the Parliament it will, hopefully address the question of the rentrenched workers and of those who have remained in office.

Finally the paper has tried to show the importance of labour force in the growth of our economy. The two are highly associated in a positive sense.

5.2 Recommendations

Broad Recommendations

a) The economic restructuring process should continue since it has shown some improvements at the macro-level. The government should, however, ensure that these positive results are also observable at the micro-level.

b) Efforts to attract both local and foreign investments should continue especially in the areas of improving the willingness and/or preparedness to invest. This will certainly increase employment opportunities but the government should not turn a blind eye to the plight of the local labour-force.

Specific Recommendations

a) The government should support the forthcoming Labour Force Survey so as to equip itself with the real situation in the country in terms of supply and demand for labour in various sectors of the economy.

b) Measures should be taken to uphold good governance that has an important bearing on peace, security and sustainable development. This can be obtained through increased efforts to fully or even partially integrating the economic, social and environmental objectives of national development.

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TRADE LIBERALIZATION, EMPLOYMENT AND POVERTY EFFECTS IN DEVELOPING COUNTRIES

Mohammed M. El Toukhy

1 Introduction

When developing countries became independent, planning and pursuing interventionistic economic policies were seen as the approach to break the vicious circle of poverty and underdevelopment within a relatively short period. Under the era of planning, they had adopted a system of rules and regulations which aimed at encouraging the public sector to take the lead in their economies and to have a guided growth of the private sector. Under this system, strict trade regulations were adopted to discourage imports and to protect local industries. However, many of them had easy access to foreign resources and borrowed heavily particularly during the 1970s and they managed to do well, in terms of growth. The situation, however, quickly deteriorated and the 1980s have been disastrous for most of them. There was a growing deficit in the balance of payments as a consequence of pursuing aggressive trade policies, deterioration in terms of trade and considerable increase in debt service. The situation was at its worst when they had virtually lost their economic and financial credibility. Whatever the causes, the generality of the economic crisis since the early 1980s implies that previous development policies were not sustainable.

To put their economies back on their rails, developing countries have initiated during the 1980s, a reorientation of economic policies particularly in the form of economic reform programmes developed mainly by the IMF and the World Bank where much emphasis have been on privatization and deregulation of their domestic economies. The basic purposes of the new economic policies are to correct internal and external imbalances, to encourage private and foreign investment and to globalize and integrate their economies with the world economy. The new reform policy thus has two components. The first one is aimed to correct macro-economic imbalances, through economic stabilization programmes. The second aims at creating a more competitive and efficient economic environment, known as structural adjustment programme *(for more details, see: Smith and Spooner, 1992).*

It is the objective of the present paper to analyze the likely consequences of the new economic policy and globalization on employment and poverty in

developing countries. In section two the theoretical base of the impact of new economic reforms policy and globalization on employment is examined. Section three deals with the experienced consequences, and examines the possible effects of globalization on employment and poverty in developing countries. Finally, some policy recommendations.

2 Reform Policy, Globalization and Employment Implications: A Theoretical Base

Under the new economic reform policy and globalization, the emphasis is mainly on increasing efficiency, productivity and production as well as expansion in trade rather than employment. It is argued that this model of economic reform borrowed from the western capitalist economies starts with the basic assumption that the economy has full employment. Thus what is needed is redistribution of such employment in those areas of production which promise higher production and productivity *(Mahajan, 1997, P.281)*. However, to what extent could such an approach be suitable for developing countries where unemployment and poverty are the most persistent and unchallengeable problems? In this respect, the following arguments can be raised:

- Higher productivity could largely result from changing the existing mode of production and adopting new technology. Given the nature of technology and direction of its growth it would be simplistic to believe that future industrialization will help solving the problem of unemployment in developing economies *(Singh, 1997, P.294)*. As a result of new technology, the mode of production will have to be more capital-intensive and labour saving and it would be more biased in favour of skilled labour.

- Technology transfer which will take place mostly along with the multinational corporations will be highly sophisticated and capital intensive and which may not lead to employment generation in the economy. The new economic policy by its programme of technological up gradation and imports has led to decline in employment elasticities *(See: Kaur and Bawa, 1997, P.238)*. Another study shows that re-engineering of company's production can typically result in a 40% reduction in jobs *(See: Anthuvan, 1997, P.204)*.

- Foreign investors are more interested in making a quick buck by investing in low priority consumer industries rather than in essential sectors which can create large employment opportunities such as power, transport, fertilizer, etc. *(Mahajan, 1997, P. 282)*.

- Multinational corporations are taking advantage of both low wages and state-of-the-art technology without sharing any of the productivity gains with their workers. For example, between 1975 and 1984 output per worker in electronics firms located in Mexico grew from 63% to 83% of US productivity levels for that industry. Over the same period wages paid to Mexican electronics workers fell from 24% to 15% of US levels. *(Blecker and Briggs, 1992, P.37)*.

- Increasing economic efficiency and cost reduction might require early retirement of some of the workers. To suggest that adequate compensation paid in a lump sum to a prematurely retired worker from the public sector would put him in a still better position as he could start his own independent business, is full of several pitfalls *(Mahajan, 19979, P.283):*

  a) Lacking entrepreneurial and marketing skills, it would be quite difficult for most of these workers to set up their own independent business.

  b) With several social and family commitment, it is very likely that a good part of this lump sum compensation is spent to meet these obligations. There is no surprise therefore that soon the whole of this amount disappears and the worker is again back to square one.

Cuts in public investment may impact negatively on private sector investment. Public investment in infrastructure for example, will crowed in private investment. The reduction of public expenditure on social sector and eliminating subsidies on food and production will directly affect the poor and working class.

It is argued that the effects of devaluation on poverty and income distribution will depend on the specific characteristics of the country in question. If the production of the exportable were in the hands of self-employed small scale farmers, devaluation might improve income distribution. On the other hand, if the production of the importables is capitalistic and relatively capital intensive, the increase in the profit rate would imply a deterioration in income distribution *(Demery and Addison, 1987).* Such effects will also depend on the consumption propensities of different groups. If the export crop is also the staple food (as for example rice in Thailand and beef in Argentine), the real incomes of the poor are likely to fall disproportionately, since food figures prominently in their consumption basket. But if tradable goods are mainly manufactured, and the staple food non-traded, the reverse could apply. The poverty effects of expenditure switching policy would depend on the extent of poverty in the tradable and non-tradable sectors.

On the other hand, economic reform policies could positively affect the level of employment. Economic liberalization and removing prices distortions are expected to increase resource allocation efficiency and then increasing production. It can also be expected that financial liberalization would increase savings and capital formation. Since developing countries are labour endowed, it can be argued that trade liberalization would lead to restructuring production towards labour-intensive goods and adopting labour-intensive techniques specially capital becomes relatively expensive.

3 Globalization: Employment and Poverty Effects

Globalization refers to widening and deepening of international trade, finance, information, and culture in a single integrated world market. One of the earliest and perhaps the most important effects of globalization are the economic reform programmes of the World Bank and the International Monetary Fund (IMF). These programmes are meant to lead to economic growth and to improve the country's competitiveness. It is however, argued that reform policies adopted to globalize Latin American economies for the sake of efficiency and competitiveness did not only fail to raise exports, be most important goal, but also caused the GNP to fall by 9.5% between 1980-84 and open unemployment went up from 7% to 11%. The situation was even worse in Chile, Columbia, Peru and Venezuela where unemployment rates jumped by 50 to 100% and ranged between 14 and

20% of the total labour force *(Hoeven, 1987)*. In India, the empirical evidence shows that the rate of growth of employment in the manufacturing sector has been lower in the post-liberalization period, 1985/6 - 1989/90, than during the pre-liberalization period, 1970/1-1975/6. But segregated analysis between the public and private sector employment indicates that the downward trend of employment was much sharper in the private sector than in the public sector. Moreover, during the intensive phase of liberalization, 1985/6 - 1989/90, the growth rate of employment became negative. The new economic policy has brought about serious maladjustment in the pattern of production of the manufacturing sector which indicates higher growth rate of output accompanied by a relatively much small growth rate of employment and in the private sector, with a negative growth rate of employment *(Somra, 1997, P.310)*.

Lee argues that the problems of unemployment, underemployment and poverty in developing countries remain severe. The majority of the labour force in most developing countries remains trapped in low productivity employment in the rural and informal sectors which offer little relief from poverty. A closely related challenge is that of preventing a potential aggravation of the polarization between the winners and losers from the process of globalization. There are some indications that in several countries there has been a widening of wage and income differentials, carrying the danger of social disintegration and unrest *(Lee, 1997, P.19)*.

It is argued that globalization is leading to the creation of a single labour market, thus pushing down wages and standards in industrialized countries, as companies transfer operations to developing countries with lower wages and standards. It is also argued that another impact of a single labour market is the weakening of the negotiating position of labour in these countries, contributing to the erosion of working conditions and to job uncertainty *(Lee, 1997)*.

However, the creation of a single labour market should not affect employment in industrialized countries. Available evidence suggests that both trade and investment flows have been minor explanatory factors behind the rise in unemployment and wage inequality in them. For example, in 1994, the share of manufactured imports from low wage economies was only 3.8% of the GDP of the OEDC Countries. Similarly the share of manufacturing employment in total employment was only 21%

in the United States and of this, employment in labour-intensive manufacturing was at most a quarter. Also, the magnitude of foreign direct investment flows to low-wage economies, remains no more than 0.5% of GDP in industrialized countries and it is also unclear how much of this investment represents a displacement of investment that would otherwise have taken place in the home country *(Lee, 1997, P.13).*

On the other hand, empirical evidence shows that although there has been an increased flow of foreign direct investment to developing countries - U$9.5 billion in 1987, U$23 billion in 1991 and U$25 billion in 1992 - this does not reflect the true picture. During 1980-86, net profits of foreign companies outflow from developing countries averaged U$9-10 billion annually, and in 1989-92, it averaged U$10-11 billion. For the period 1980-92 total net outflow of dividends from developing countries was U$122 billion. During 1980-86, profit outflow exceeded new investments by U$15.5 billion *(See: Anthurvan, 1997, P.206).*

The imbalance is also evident in the distribution of finance with most foreign direct investment going to industrial countries. Developing countries with more than 70% of the world population, get about one third of global foreign direct investment while developed countries with less than 30% of the world's population get about two thirds. On the other hand the foreign direct investment going to developing countries is highly concentrated in a few developing countries in Latin America and Asia. In 1992, Sub-Saharan Africa received only % of total foreign direct investment flows to developing countries *(World Bank, 1993).* Since investment flows are often tied up with transfers of technology, this means that many countries specially in sub-Saharan Africa are being left out of technological advances.

Northern owned multinationals dominate the control over the international trade, transport and distribution of goods, including commodities exported by developing countries. This means that developing countries have to pay large amounts for services such as insurance, package freight, etc., on their exports and imports. These countries therefore receive only 10.15% of the final retail price of their commodities *(Anthuvan, 1997, P.205).*

As a result of greater efficiency, trade expansion, and higher return on capital, the world income is expected to increase annually from U$195 billion in the case of partial liberalization to U$477 billion in the case of complete liberalization *(Goldin and Van der Mensbrugghe, 1992, P.14).* Of the estimated annual gain of U$195 billion from the partial liberalization by the year 2002, U$104 billion are estimated to accrue to developed countries and U$91 billion to the developing countries. This is hardly an equitable distribution. Also while there are regions which lose from globalization, the overall gains outweigh the losses. However, the losses will be concentrated in a group of countries that can lest afford them. It is estimated that the least developed countries stand to loose up to U$600 million a year, and sub-Saharan Africa U$1.2 billion *(UNDP, 1997, P.82).* These estimations have disturbing implications for poverty and human welfare. The losses will weaken the ability of these countries to sustain their social and economic development. Although the estimations are uncertain and incomplete, they should give rise to critical rethinking about the distribution aspects of globalization of trade and of different compensation mechanisms to assist those that are not yet in a position to reap the benefits and ensure that they gain from globalization.

It is also argued that even when globalization reaches poor countries, it often arrives on very unfavourable terms. Since the early 1970s, the least developed countries have suffered a cumulative decline of 50% in their terms of trade. For developing countries as a group the cumulative terms of trade losses amounted to U$290 billion between 1980 and 1991 (UNDP, 1997, P84).

Poor countries also suffer unfavourable terms of finance. Between 1980 and 1987 for sub-Saharan Africa's losses due to the relatively high international interest rate and the falling terms of trade, increased steady from a level of 1.3 % of GDP in 1980 to 9.6% of GDP in 1987. Had the terms of trade not changed and had the level of interest remained at previous levels sub-Saharan Africa would ceteris paribus have had a considerable current account surplus from 1984 onwards *(Tarp, 1993, P23)*. Furthermore, sub-Saharan African countries transfer to Northern creditors four times what they spend on the health of their people *(UNDP, 1997, P.84)*. Without doubt, these two factors create economic difficulties for the least developed countries. They seriously depleting their limited stock of foreign exchange and limiting their ability to engage in international trade on more equitable terms.

The General Agreement on Trade in Services (GATS) offers some potential benefit for developing countries since these services are relatively labour intensive. However, the potential and level of competitiveness of these countries could be limited by their inadequate infrastructural, technological and managerial capacities *(Ashikoya, 1996, P163).*

4 Some Policy Recommendations

Based on the above discussion, it can be concluded that new economic reform policies and the process of globalization have resulted in growth of unemployment or what can be called jobless growth. However, this era of globalization has shown a strong link between growth and competitiveness. Since job creation depends on the level and structure of growth, there are only two options for meeting the challenge of raising competitiveness from a labour point of view. These two options are: to reducing the cost of manpower or enhancing its productivity.

Cheap labour may seem to be an attractive option. However, is not appropriate for developing countries because real wages are already low and the majority of them suffer from persistent poverty. Also this option is contradictory to the objective of overcoming poverty and achieving greater social integration.

It is thus clear that to overcome or at least alleviate the problems of unemployment and poverty in developing countries, the best option is to achieve and sustain economic growth with increasingly productive jobs. This will depend on the accumulation of physical and human capital, labour, and advances in production technology (total factor productivity). Although views differ on the relative importance of these factors, for most developing countries conventional growth accounting studies show that the accumulation of factors, especially physical capital, has accounted for the greater part of output growth. Recent estimates suggest that during the period 1960-92 roughly 60 to 70% of growth in per capita incomes were due to increases in physical capital per worker, while education contributed about 15 to 20%, and total factor productivity accounted for the remainder *(IMF, 1997, P.80/1)*. Therefore developing countries need the right combination of policies to boosting capital accumulation, strengthening and diversifying their productive capacity, empowering their people and creating and enhancing their competitiveness. The following could be said to be some essential requirements for developing countries to meet the challenges of globalization and enhance its positive effects on employment and poverty *(See El Toukhy, 1998, P.483-9).*

i. *Macroeconomic Stability:* Despite recent progress, effort need to be redoubled to reduce inflation and reduce fiscal and current deficits and concentrate on the quality of expenditure. Macroeconomic stability promotes confidence and encourages domestic and foreign investment and enhances resource allocation efficiency.

ii. *Structural Reform:* In addition to maintaining economic stability, LDC need to reinforce the implementation of structural policies. These include further reforms in the areas of public sector activity, financial and trade sectors. It is important also to ensure that public services are provided in a reliable and cost-efficient manner. Trade reform should improve economic efficiency by creating a transparent and neutral system of incentive that eliminates anti export bias, direct impediments to trade, and economic distortions caused by the trade regime. Trade reform may also include other measures to ensure equal treatment of domestic and imported goods, and absence of domestic price and marketing controls.

Financial-sector reforms are essential for the mobilisation of savings and their efficient allocation among competing investment projects. It has been shown that there is a stable and positive correlation between growth and indicators of financial development and also between the initial level of financial sector maturity and subsequent growth *(Levine, 1996).*

Public sector reform is of crucial importance, given the growing recognition of the role that can be played by the private sector in economic development. However, public and private sectors have important complementary roles to play in the economy. The private sector provides the engine of investment and the growth in productivity, while the public sector provides a liberalized regulatory framework, physical infrastructure and an educated workforce. The low productivity of high cost of state-owned enterprise illustrated the desirability of effective privatization. By strengthening the private sector and achieving greater efficiency by abolishing public sector monopolies in production and marketing, foreign capital and technology would be attracted.

iii. *Good Governance, Economic Security and Democratization of the Economy:* Improved governance is vital to ensure the rule of law, prevent corruption and enhance efficiency and accountability. This means reducing the scope of distorinary rent-seeking activities, eliminating wasteful and unproductive uses of public funds and providing the necessary domestic security. There is need for a comprehensive reform of civil services, aimed at reducing their size and enhancing their efficiency *(IMF, 1997:88).*

Economic security involves removing the sense of uncertainty related to economic decision- making in most developing countries. This requires the creation of a strong national capacity for policy formulation, implementation, and monitoring. Moreover, the transparency, predictability, and impartiality of the regulatory and legal system must be guaranteed. This includes the respect of private property rights and the enforcement of commercial contracts. It also involves the elimination of arbitrariness, special privileges, and ad hoc exemptions *(Ouattara, May 1997:5).*

Democratization of the economy requires the governments to encourage the participation of all segments of civil society in economic policy debates and to see the broad support of the population for the adjustment efforts. Governments need to pursue a more active information policy, explaining the short-term costs and the long term benefits of policy options *(Ouattara, May 1997:5).*

iv. *Industrialization:* It is widely accepted that an industrialization process, characterized by and expansion of the manufacturing sector is necessary for an economy to achieve its long term objectives of securing a high standard of living, solving problems of unemployment and poverty, and economic diversification.

To develop and expand its weak industrial sector, LDCs have to use its strength in natural resource. A strategic starting point is to carry out the processing of raw materials, agricultural and mineral products. In addition, the development of infrastructure and skills and the recognition of the role women in industry are essential.

v. *The promotion of Small Scale Industries:* One of the most frequent arguments for the promotion of small and medium-sized industries are based on the fact that they are more labour-intensive than large firms. Whether small scale industries represent an efficient mechanism for job creation, depends mainly on the level of their economic efficiency *(Page, 1984:129-30)*. Evidence suggests that small scale industries make better use of scarce factors of production than large ones *(Osei, Nuakoh, Tutu and Sowa, 1993:55)*. It is tempting to conclude that to reduce poverty and create employment opportunities, small scale industries should be given special encouragement.

vi. *The development of the Agricultural Sector:* Two of the main causes of widespread poverty in LDCs are the low level of food production relative to population, the inadequate utilisation of a large labour force, and low productivity. It is necessary to develop agriculture to absorb the under-utilized labour and to increase the production of food. Such development could be achieved by a redirection of investment in infrastructure in favour of rural areas, improving access to land, credits and markets. Agriculture provides food and raw materials for industrial processing, and creates the domestic demand necessary to stimulate industrial production.

vii. *The Development of Human Resources:* The course and content of the transformation process is dependent on the development of human resources. The creativity and ability of the people will be the real factor in what LDCs can achieve. It is essential to focus on the development, mobilization and efficient utilization of the people, the most abundant resources in LDCs.

It has been found that the initial level of education, especially at the primary level, is an important determinant of subsequent growth (IMF, 1997:89). Higher education has been found to have a relatively strong impact on growth, and public spending on education as a share of GDP has been found to be strongly and positively related to growth. These findings suggest that the quality of education is important. It is essential to ensure access to education and health services for the whole population. Education brings about the infrastructure of economic, social, political and cultural transformation. It gives a person a sense of responsibility, resourcefulness, initiative and all other qualities, which make a man dynamic. It is viewed as a process of improving in socially acceptable ways by producing desirable changes in human behaviour *(Singh, 1997, P.96)*. Although rapid growth of population increases the labour force and raises the output capacity of an economy, cross country analyses have shown that population growth has a negative effect on the growth of per capita income and have undermined efforts to increase the average levels of education and health *(IMF. 1997:89)*. This points to the importance of family planning.

Gender equality is essential for empowering women and eradicating poverty in Africa. Women often do not have the right to cultivate the land, and earn their living mainly by selling their labour. They work long hours for few wages. They often have limited access to credit and other modern inputs. Data on education show disparity between the educational attainments of females compared to that of male. The link between women's educational level, and the quality of child care and reduction of fertility rates, is well established and has clear implications for a population and human resources policy *(Uma Lele and Nyoko, 1994:7)*. Against this background, it is crucial to end discrimination against women in all aspects of health and education, ensure equal rights and access to land, credit and job opportunities and end violence against women. A creative commitment to gender equality will strengthen every area of action to reduce poverty. Woman can bring new energy, new insights and a new basis for organization *(UNDP, 1997, P.7)*.

viii. *Developing Research and Infrastructure:* Another requirement to build a broader base for production is to develop scientific research. The importance of agricultural research in maintaining competitiveness is illustrated by the performance of Malaysia in the palm industry. In 1961-63 Malaysia and Indonesia together accounted for just 17 per cent of world palm oil production, compared to about 75 per cent for Africa. By 1992-93 Malaysia's share had risen to 51 per cent while that of Indonesia rise to 24 per cent and Africa's share fell to 14 per cent *(World Bank, 1996:53)*. The stagnation of African production has been due in large part to the destruction and abandonment of palm grove processing mills during the Nigerian civil war (Nigeria and Zaire account for most of the African production). The high production in

Malaysia and Indonesia is due mainly to high rates of investment in the sector and research efforts resulting in the development of planting material and techniques well suited to the climates of both countries.

Cotton production in Francophone Africa experienced a sharp growth as a result of the activities of research, technical assistance, and consultant services that aimed at enhancing productivity.

Transport and communication services are generally critical inputs in the production of most other goods and services. Lowering the overall cost of transport and communications leads to lower total production costs. This can promote both international competitiveness and economic integration by stimulating the exploitation of comparative advantage accruing from the position of technical know-how, the realization of scale economies and the advantages of geographical location. Good transport and communication systems have become critical to competitiveness not

ix. *Social Protection.* This implies a strong need to be very sensitive to the social costs of economic reforms such as transitional job losses and the impact of price and regulatory reforms on the basic needs of the poor. These considerations may well require adjustment to the pace and sequencing of reforms, even at some sacrifice of efficiency *(Lee, 1997)*. In short, economic reform is essential for higher rates of economic growth and employment creation but it must be accompanied by strong social policies.

x. *The highly indebted poor countries* need debt relief now not at some indeterminate point in the future. Such relief would require special measures to convert debt reduction into poverty reduction.

xi. *Finally:* There is a need for a fairer institutional environment for global trade. There is need to treat the exports of developing countries on an equal basis with those of industrial countries *(UNDP, 1997:92)*.

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GROWTH AND JOB CREATION IN AFRICA

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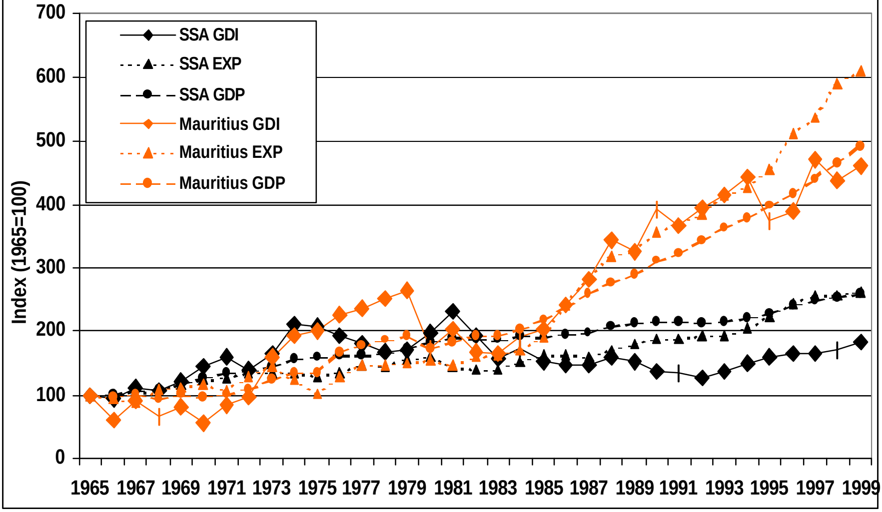
Mauritius: From Hard Case to Success Story

In 1961 the eminent British economist (and subsequent Nobel prize winner), James Meade, wrote: "It is going to be a great achievement if Mauritius can find productive employment for its greatly increased working population without a serious reduction in the existing standard of living." (Meade 1961) At that time, Mauritius was heavily dependent on a single crop (sugar), was already densely populated and running out of cultivable land, and population growth had accelerated to 3% per annum. The country faced the certain prospect of a 50% increase in the number of people seeking jobs in the coming 15 years as the population already born began to enter the labor force. Industrialization seemed to be the only solution, but Mauritius had little experience in manufacturing, a tiny domestic market (600,000 people), and was remote from Europe and other high-income markets. All these problems were compounded by a potentially explosive mixture of economic inequality and ethnic diversity. If not quite a basket case, Mauritius was certainly seen as a hard case with bleak development prospects.

Forty years on, Mauritius is one of the big success stories of development with the highest standard of living (GNP per capita of $3,730) of any SADC member, apart from Seychelles. Growth has been high for an extended period. (See Figure 1) GNP grew at 5.2% per annum from 1965-1996; between 1970 and 1996 per capita income quadrupled. The structure of the economy has changed dramatically. Manufactured exports increased from 27% of exports of all goods in 1980 to 68% in 1996. Tourism arrivals, which were negligible in 1970, rose to 487,000 in 1996, and tourism earnings were nearly 80% as large as manufactured exports. Changes in the labor market were equally dramatic. Despite a doubling of the labor force between 1965 and 1996, Mauritius has moved from labor surplus to labor scarcity. Employment in export processing zones (EPZs) went from zero in 1970 to 80,000 in 1996, and industrial employment rose from 9% of the total to 35%. In the decade from 1983-93, total jobs grew by 150%, unemployment declined from 20% to 2%, and real wages of daily workers rose 60%. Mauritius is now in the happy position of needing to reduce employment in sugar and the public sector in order to permit expansion of more dynamic sectors. Finally, rounding off the list of accomplishments in the past 40 years, income inequality has fallen steadily. The most commonly used measure of inequality, the Gini coefficient[1], has fallen from .5 in 1960 to .42 in 1975 and .35 in 1990 – a 30% decrease in inequality.

Figure 1: GDP, Exports and Investment of Mauritius and SSA. 1965-1999



Mauritius carried out this transformation under a democratic system with a strong trade union movement. The country skillfully exploited the few advantages it had. Sugar exports enjoyed access to the EU market at favorable and stable prices. An export tax captured some of this windfall and was used to expand social services and public infrastructure investment. Mauritius also took advantage of preferential EU access for manufactures to develop EPZs through tax concessions and a

[1] The Gini coefficient ranges from zero (complete equality) to one (complete inequality).

(controversial) lower minimum wage for women which was designed to expand total employment while protecting higher wage levels in existing industries. And Mauritius took advantage of sand and sea to build a successful tourist industry despite locational disadvantages.

The most important ingredients of success, however, were maintenance of social stability and political peace and the pursuit of a set of policies conducive to long-term growth and job creation. The thrust of policy remained consistent even with changes of government. The main elements of the Mauritian approach were:

- *Sound macroeconomic fundamentals.* Mauritius has followed fairly orthodox macroeconomic policies: conservative fiscal policy, competitive exchange rates, and limited price distortions. These policies were carried out with support from structural adjustment programs from the IMF and World Bank when necessary (mainly in the 1980s to counter shocks), but the same policies have been carried out independently as well when balance of payments support was not needed.[2]

- *Emphasis on competitiveness.* Mauritius used a wide variety of instruments, including duty-free access to imported inputs, tax concessions, special wage regimes, as well as exchange rate changes, to ensure competitiveness of its exports. At the same time, protection for domestic industries has only gradually been reduced. In this respect, Mauritius has been more like Japan, Taiwan, China and Korea in pursuing a mixed regime of macro fundamentals and targeted interventions, than like Hong Kong or Singapore which followed free trade. However, Mauritius, in common with all the successful high-performing Asian economies, has consistently promoted export competitiveness.

[2] Mauritius has always held its own view of the appropriate macro and structural policy framework, and structural adjustment programs typically involved compromises with the Bank and the Fund. As one Finance Minister reported in 1983, "After arduous negotiations, the IMF and the World Bank have finally accepted our proposal for a more gradual adjustment programme, that makes provision for growth and employment creation". (Gulhati and Nallari 1990). The lesson is not who was right or who was wrong, but that Mauritius was committed to sound policies and carried them out whether or not the Bank and Fund were involved.

- *Attention to equity and social justice.* Mauritius has consistently sought ways to improve the distribution of income without impeding growth of output or employment. In essence the strategy has been a social compact involving wage restraint, differentiation of conditions in individual industry labor markets, and redistribution through progressive taxation, which funded a "social wage" of pensions, food subsidies, and social services. This system has delinked the efficiency function of wages (historically implying low wages to encourage competitiveness and job growth) from the distributional outcome, thus permitting income inequality to decline in a rapidly growing economy.

Mauritius has by no means solved its problems once and for all. Recently unemployment has risen to 6%. The longer-term objective must be to make the transition to a high-skills, high-wage economy in order to sustain rising standards of living. This will entail, among other things, reforms in education and the pension and welfare systems. Some of the policies and institutions which worked well in a labor-surplus economy are under review.

Importance of Growth and Competitiveness

The experience of Mauritius offers hope that even difficult cases can succeed. It also shows how critical competitiveness and output growth are for long-term job creation. This is consistent with experience around the world. Economic growth is historically associated with employment growth and with changes in the structure of output and employment.

The logic behind this is straightforward. In an economy with large reserves of unemployed or underemployed labor, or a rapidly-growing labor force, growth of output in the formal sector will normally lead to employment growth as well. Several factors can attenuate the link between output and employment growth:

- There may be excess employment in the modern sector so that output will initially grow without adding more labor – there may even be labor shedding;
- Productivity of labor may grow autonomously due to the introduction of new technology or work methods;
- The composition of output may shift toward sectors which use less labor; or

- Wage increases may lead to labor-saving production methods.

All of the factors listed above reduce employment growth for a given increase in output, but employment can grow faster than output if growth is concentrated in more labor-intensive sectors or if wages are declining. The discussion above also assumes that labor is in surplus. As labor becomes scarce, output growth will tend to raise wages as well as, or instead of, employment. This is what began to happen in Mauritius by the end of the 1980s.

How important empirically is output growth for job creation? How important are wage levels? Are there any features of African labor markets which would lead to different outcomes than expected elsewhere?

Output and employment

Data limitations in developing countries, especially Africa, make it difficult to answer these questions. In industrial countries the employment elasticity with respect to output (the ratio of employment growth to output growth) has gradually declined from 0.5 during 1870-1913 to 0.2 during 1973-79 (Maddison 1982). In other words each 10% increase in output generated 5% growth in employment during the former period, but only 2% during the latter. Most available studies for developing countries over the period 1960-90 estimate the elasticity with respect to output at around 0.5 (Grilli and Zanalda 1999), similar to the elasticity in industrial countries at an earlier stage of industrialization. However, there are big deviations for individual countries and very few African countries are in the sample.[3]

[3]Grilli and Zanalda's own estimate for 34 developing countries during the 1980s was statistically insignificant for the sample as a whole. Although they were able to make statistically significant estimates for sub-groups of slow and fast-growing economies, the estimated elasticity for the fast-growing group was low (0.14 vs. 0.59 for the slow-growing group) and the equation had low explanatory power. The estimates are questionable because they do not take account of wage or labor supply variables which may create much of the observed variation. A study of formal sector employment in African manufacturing (Mazumdar 1994) also found very low elasticities with respect to output. These have been criticized on methodological grounds by Weeks (1996)

Wages and employment.

Wage increases can drive a wedge between output growth and employment growth, as firms will try to reduce labor costs to remain competitive. Estimates of the elasticity of employment growth with respect to wages are generally in the range of -0.3 to -0.7 (Mazumdar 1994 and Fallon and Lucas 1998). The implication is that, in a growing economy, an increase in real wages of 10% will reduce employment growth by 3 to 7% compared to what it would have been if wages had remained constant. It is important to note the limitations of such estimates and to qualify what the wage elasticity does *not* mean:

- It does not necessarily mean that a 10% decrease in real wages will lead to 3 to 7% increase in the existing stock of employment. The scope for substituting capital and labor is limited for production methods already in place. The elasticity estimates apply mainly to incremental changes.
- Adjustment to wage changes takes time. Responsiveness to change is higher in the long run.
- Output growth greater than employment growth is another way of saying there has been an increase in the productivity of labor. It can be difficult to determine cause and effect. If wages increase because of negotiated changes in work practices which raise productivity, the implications are different than if, say, wage increases lead to mechanization and job losses.
- The estimates treat labor as homogeneous. If skilled labor is scarce, skilled wages may be bid up as output expands, leading to an increase in average wages. The observed lag in employment compared to output, however, will have been caused by wages adjusting to a shortage in supply.

Despite the practical difficulties of sorting out cause and effect[4], there is clearly some trade-off between wage increases and employment increases. Indeed, in one of the main sources of formal employment in Africa – the public sector – there is a one-to-one trade-off. For any given level of public

[4] Similar issues arise in the relationship between output and employment: output growth generates employment, but an increase in the labor supply also increases output.

expenditure a 10% increase in wages implies a 10% decrease in employment (the wage elasticity is -1.0).

Other labor market rules may also affect job opportunities. In a comparative study of India and Zimbabwe, Fallon and Lucas (1991) found that in periods with severe restrictions on dismissal of workers, firms were more reluctant to hire workers. The impact on employment was equivalent to a wage increase of 25%.

Special features of African labor markets.

African labor markets are distinct in a number of ways. Some of the concepts commonly applied to industrialized countries can be misleading if applied to Africa. And because the data base on African wages and employment (or output, for that matter) is so poor, it is difficult to analyze all of the implications of these differences.

The share of the labor force in full-time formal sector employment (the norm in industrialized countries) is small, ranging in Southern Africa from 13% in Malawi to 32% in Zimbabwe (Weeks 1996). (The special case of South Africa is discussed later.) The informal sector, including smallholder agriculture, accounts for a large share of the labor force. Parts of the informal sector may be highly productive, providing jobs or livelihoods for large and growing numbers of people, whereas other parts may be a "sponge" absorbing growing numbers of people who cannot find formal sector jobs. Most workers in the informal sector, both urban and rural, have multiple sources of income. Moreover, households may have some members in the formal sector and others in the informal, and many households will have a foot in both the urban and rural sectors. This means that it is best to think in terms of households when discussing welfare or behavior, and to think in terms of livelihoods rather than jobs.[5]

Unemployment often has a different meaning in African countries than it has in Europe. Many workers in the informal sector, as well as the openly unemployed, would prefer a formal sector job. The unemployed may also

[5] One implication is that land reform should not necessarily be restricted to holding sizes which are large enough to fully support a family at a target level of income. Subdivision into smaller plots which provide partial livelihoods for a larger number of households may be the most effective way to raise incomes of the poor – especially since productivity per hectare is normally greater for smallholdings.

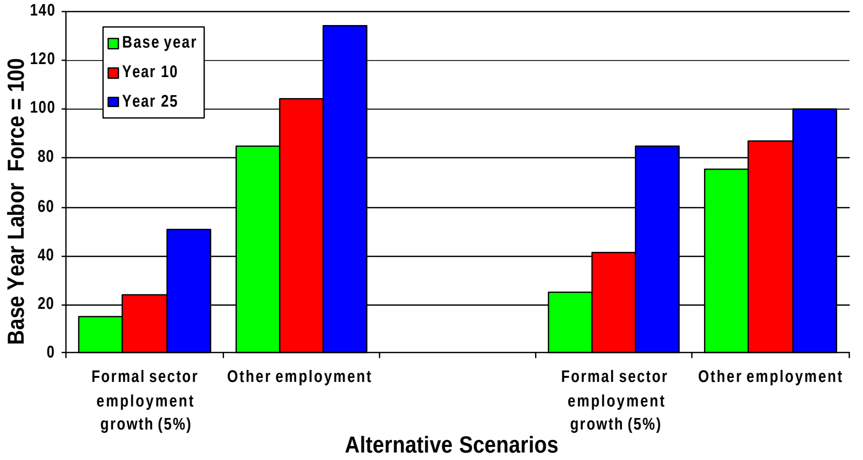
be better off than some of the working poor because open unemployment can only exist when people have some means of support. This is consistent with one of the "stylized facts" of African labor markets -- that unemployment rates tend to be higher for more educated workers.

None of this means that unemployment or growth of formal sector employment is irrelevant. The ideal remains for most people to have a secure, full-time job at a decent wage by the standards of society. But the share of such jobs is small in most African economies, and the "employment problem" has a much broader context than the formal sector. Figure 2 highlights some unpleasant labor force arithmetic. Suppose that in a typical African economy in which formal sector employment is 15% of the total and the labor force is growing at 2.5% per annum, output growth in the formal sector is 10%, and the elasticity of employment with respect to output is 0.5. Then formal sector employment would grow at 5% -- comparable to the high-performing Asian economies in the 1970s.[6] After 10 years the number of formal sector workers would have more than doubled, but the residual labor force outside the formal sector would have continued to grow. This remains true even after 25 years of sustained formal employment sector growth at 5%, and it is even true if the original share of the formal sector is 25% rather than 15%.

Formal sector employment growth is essential for ultimate structural transformation of African economies, but for a long time to come, the informal sector, including smallholder agriculture, will have the absorb the bulk of a growing labor force. Historically, the informal sector has not been the solution to the employment problem in poor countries, but employment policy has to be as concerned with increasing growth, productivity, and income-earning opportunities in the informal sector (and slowing the long-term growth of population), as with formal sector growth.

[6] Employment growth in Thailand was 6.1% per annum from 1973-80, 4.3% in Singapore from 1976-83, and 4.2% in Korea from 1970-80 (Grilli and Zanalda 1999). The 150% increase in Mauritius from 1983-93 was equivalent to an extraordinary growth of 9.6% per annum.

Figure 2: Impact of Formal Sector Employment Growth



Overview of African Economic Performance.

Employment in the formal sector of most African economies has grown only slowly -- or stagnated or declined -- and wages have also stagnated or declined (Dabalen 2000). The main reason for this disappointing outcome has been slow output growth. With output stagnant and the labor force growing rapidly, it is not surprising that employment stagnated and wages declined in many countries. Wage elasticities are low and falling wages have even less impact on the existing stock of employment. When output growth has recovered, employment growth has often lagged or employment has even fallen as both firms and governments retrenched workers to try to establish a sustainable level of employment. This should, however, provide a basis for a more competitive economy for faster growth of both output and employment in future.

Africa’s economic performance since the early 1970s has been poor, both relative to its potential and relative to that of other regions. On average, GDP/head was 3% lower in 1997 than in 1970 (figure 3). Private consumption per head fared even worse, being 11% lower in 1997 than in 1970. Part of the reason for the greater fall has been losses from worsened terms of trade for primary exports. While there have been wide differences in long-term performance between countries, only a few, notably Botswana and Mauritius, have seen growth at the level characteristic of more dynamic regions. In line with slow overall performance, Africa has seen losses in its share of world trade in all major traditional export product lines (except energy, where it has emerged as a considerable exporter) and has been slow to diversify into more dynamic manufacture and service sectors.

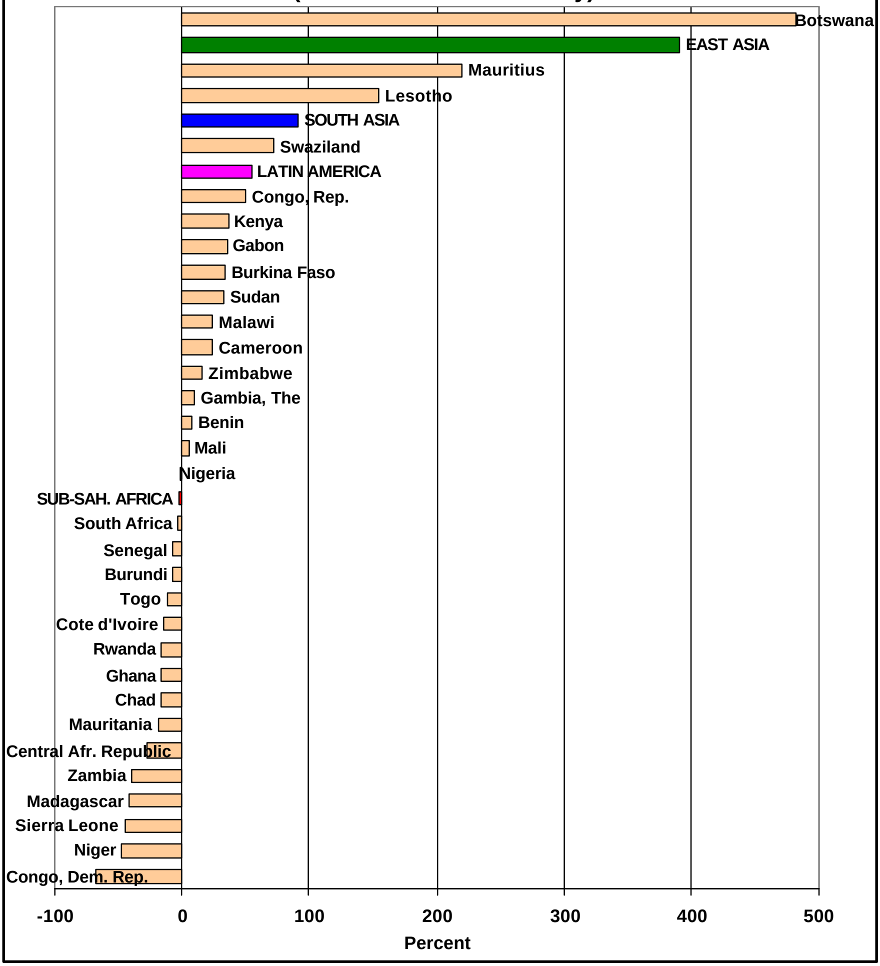
Africa's long-term crisis of stagnant employment and falling wage levels is not, therefore, simply a problem of labor markets or the formal economy, but is part of a much broader picture of poor economic performance and stagnant or declining incomes.

Figure 3 GDP Growth by Region and Countries

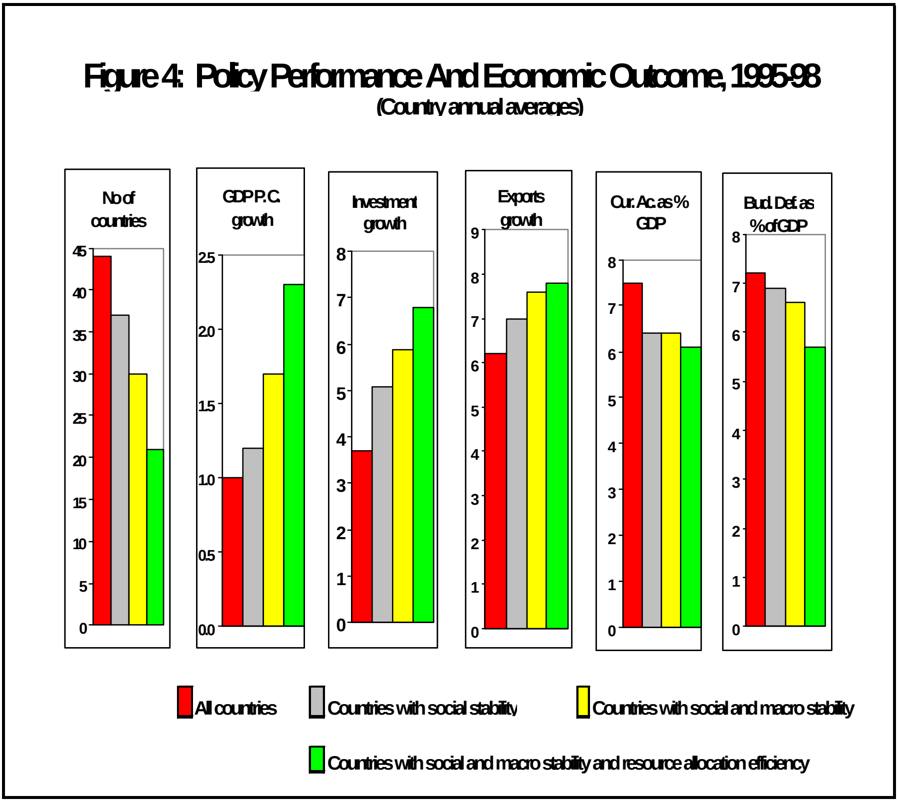
Growth has been more favorable since 1995 (figure 1) For a typical country it has averaged some 4%, slightly exceeding average population increase of 2.8%, although the lower growth of South Africa and Nigeria, the two largest economies, pulls down the total for the region. Exports have grown almost twice as fast as GDP, so that Africa has begun to recover lost trade share. Ratios of savings and investment to GDP, though still low, increased by some 3% of GDP in the more stable and better managed countries.

Current projections envisage an average growth rate to continue at about 4% in the first few years of the new century. Though far better than performance since 1973, this needs to be put into perspective. Growth at 5% is needed simply to prevent an increase in the numbers of the poor, assuming constant income distribution. The region's share of the world's absolutely poor has risen from 25% to 30% over the 1990s – almost half of Africa's population lives on the average equivalent of $0.65 (1987 purchasing power parity) a day. About 80% of this number is rural, but urban poverty is also prevalent and, in a potentially explosive trend, is growing fast with rapid urbanization. Much of the population lacks the capabilities, including health and education status, to contribute to the growth of the economy as well as to benefit from it. And Africa remains characterized by wide inequalities, in incomes, in assets, and in access to key services. In a typical country, the poorest 20% of the population disposes of only some 4% of GDP.

Figure 3: Change in GDP Per Capita 1970 to 1997
(in constant local currency)



Better economic management has been instrumental in improving Africa's performance since 1995. The reforms – often controversial – implemented by many countries usually have focused on three elements: macroeconomic stabilization, an opening to trade and markets, and increased space for private sector activities. Reforms have been subject to reversals and are incomplete. Moreover, their sequencing, such as the timing of financial sector liberalization relative to achieving sustainable budget deficits, has sometimes been open to question. But where reforms have been sustained – and where they have been underpinned by civil peace – countries have typically enjoyed higher growth of output, investment and exports (figure 4).



Data are not adequate to assess whether income inequality has improved or worsened over the last decade. But in those cases where countries have launched a sustained growth process (Ghana, Uganda) available data indicate that this has been fairly broad-based and that it has led to a declining incidence of poverty. Conversely, in countries where growth has been low or negative, so that overall consumption per head has fallen

(Zimbabwe, Nigeria) poverty has risen. In some cases, reforms may have benefited some sectors and negatively affected others, creating changes in the distribution of income between groups, in particular, in rural versus urban areas.

The task facing African countries will be to build on the platform enabled by these reforms, in a way that strengthens growth processes, creates employment and lays a better foundation for equity. Moreover, Africa faces a competitive global economy, and one with increasingly accelerated technological change.

Obstacles to Growth and Competitiveness in Africa.

Africa's slow growth has been the subject of many studies. These have proposed a wide variety of explanations, including poor governance and policies that have discouraged savings and investment and spurred capital flight, geography (many landlocked countries and a low concentration of population at the coast), poor health (the burden of disease in Africa is at least twice as high as in any other region), and violence and conflict. Conflict, crime and violence exact a heavy toll on African economies. One fifth of the population lives in countries severely disrupted by conflict. Crime has been cited as the number one concern by business surveys in South Africa; in one recent poll in Gauteng, only one in ten firms have not experienced serious problems in this area. Estimates for South Africa have suggested a loss of some 6% of GDP annually from crime and violence, a figure comparable to those found by other studies for Latin American countries.

Table 1 compares Sub-Saharan Africa (excluding South Africa) with other developing regions (Latin America, East Asia and the Pacific and South Asia) in a number of growth-related areas.

- *Demography and Skills.* Africa has been slow to effect a demographic transition. Population growth and age-dependency ratios are far higher than elsewhere, increasing the difficulty of boosting savings rates. Mean years of schooling are lower than in other regions. Less-well educated adult workers are therefore supporting higher numbers of children than in other regions.

- *Investment, Savings and Capital Flight.* Capital stock per worker is far lower than in other regions, half that in South Asia and a fraction of the levels in Latin America and East Asia. Savings rates are also lower, even after the 3% increase in the second part of the 1990s. "Genuine domestic savings", which take into account environmental depletion, are estimated at close to zero for Africa, far below those in other regions. At the same time, estimates of capital flight from Africa in the early 1990s placed this at almost 40% of domestic private assets, by far the greatest ratio of any region – and this despite formal capital controls in all countries.

The factors making for slow growth in Africa are clearly far wider than those related to labor markets. According to some views, following the period of reforms, the main obstacles to investment and employment creation are now the high costs of doing business in Africa and the high risks perceived by potential investors. Comparative data provide support for both propositions.

Table 1 *- Growth-Related Factors for Africa and Other Regions*

Demography and Skills		Latin America	East Asia and Pacific	South Asia	Sub-Saharan Africa excluding S. Africa
Demography	Population Growth Rate 1997 %	1.6	1.2	1.8	2.9
	Urban Population Growth 1997 %	2.2	3.7	3.3	4.9
	Age Dependency Ratio 1977	0.6	0.5	0.7	0.9
Skills	Mean Years of Schooling	5.2	6.2	3.4	2.4
Investment, Savings and Capital Flight					
Capital Stock	Capital Stock per Worker $	17,424	9,711	2,429	1,069
	Investment Efficiency (incremental output-capital ratio) 1970-97	14	23	23	10
Savings	Gross Domestic Savings/GDP 1997 %	24	38	20	16
	Genuine Domestic Savings 1997 %	12	27	7	3
	Capital Flight to Private Wealth 1990 %	10	6	3	39

Source: Can Africa Claim the 21st Century? World Bank and Others, 2000, forthcoming, Tables 1.1; 1.2; 1.3

Costs.

Table 2 compares GDP converted into dollars on the basis of purchasing power parity (PPP) and using market-based exchange rates. The ratio of PPP to market-based GDP is typically higher for countries at lower levels of income. This relationship holds when comparing Latin America, East Asia and South Asia. But it breaks down for Africa (excluding South Africa) -- despite the fact that this region is poorer than South Asia, prices and costs are considerably higher, resulting in lower real incomes and lower competitiveness.

***Table 2** – Comparative Ratios: PPP Relative to Market-Based GDP Africa and Other Regions*

Region	Latin America	East Asia and Pacific	South Asia	Sub-Saharan Africa excluding S. Africa
GDP at Market Rates 1997 $	3,940	970	380	315
GDP at PPP 1997 $	6,730	3,170	1,590	1,045
Ratio of PPP to Market-Based GDP, 1997	1.71	3.27	4.18	3.32

Source: Can Africa Claim the 21st Century? World Bank and Others, 2000, forthcoming, Tables 1.1; 1.2; 1.3

From business surveys, many factors emerge as important in boosting the cost of doing business. They include poor infrastructure services -- the average waiting time to get a landline telephone averages 3.5 years in Africa. International calls and Internet access are the costliest in the world, with calls across Africa 50-100 times as high as across North America. Internal transport costs are two to three times world levels. Net freight and insurance is far higher in Africa, relative to the value of goods, than elsewhere. Air transport costs are far higher than in other regions, particularly when the sector is reserved for a state monopoly. Power outages compel firms to purchase their own backup generators, which can represent one third of capital investments. They also include crime and corruption (cited as a factor raising costs by many firms), a heavy overlay of regulation, high tariffs on imported inputs and long administrative delays at borders. In Southern Africa, for example, 10-hour delays for trucks are common, while in West Africa unofficial roadblocks and bribes raise the cost of road transport by at least a third. Smaller firms, in particular, are more likely to cite financial services as a constraint.

Risks.

According to international risk ratings, African countries are seen as considerably riskier than those in other regions (table 3). By and large,

***Table 3**:Euromoney Risk Rankings for 116 Developing Countries (Rank among 116 developing countries: higher rank = more risk)*

	1.1 Euromoney Rank										
	Sep. 92	Mar. 93	Mar. 94	Mar. 95	Mar. 96	Mar. 97	Sep. 97	Sep. 98	Mar. 99	Sep. 99	Mar. 00
Latin America	49	45	39	45	47	47	45	38	41	41	45
East Asia	35	32	34	33	34	35	35	42	40	38	44
South Asia	34	38	36	33	30	39	43	60	49	50	50
Sub Saharan Africa	68	69	75	74	78	77	80	79	81	81	76
Mauritius	23	25	71	38	22	10	6	45	7	5	8
South Africa	9	9	8	7	12	9	10	17	17	16	12
Botswana	15	14	19	10	17	18	28	24	22	21	23
Malawi	49	52	91	72	62	76	79	87	81	78	64
Zimbabwe	20	31	38	23	30	53	51	58	58	59	66
Tanzania	89	91	87	80	79	90	71	72	93	93	67
Zambia	99	87	93	84	68	104	96	71	95	94	87
Namibia	57	59	80	89	95	71	70	34	99	104	92
Mozambique	114	110	104	100	102	100	95	76	98	101	94
Average	**53**	**53**	**66**	**56**	**54**	**59**	**56**	**54**	**63**	**63**	**57**

their average riskiness has not decreased over the last 8 years—while some countries, such as Mauritius, have improved in the ratings, others, such as Zimbabwe have fallen precipitously from previously strong positions.

Against these formidable obstacles to investment, labor market rigidities are not cited as a prime barrier to competitiveness in most African countries. There are exceptions. Business surveys conducted in 1996 showed labor market regulations as a prime constraint as seen by businesses in South Africa. This was confirmed by surveys conducted in 1999 in Gauteng, which suggest that firms feel severely constrained by labor regulations, in particular, those that make it difficult to adjust the labor force flexibly to cope with changes in demand. It is also clear that firms have been adopting strategies for dealing with this problem in many ways, including mechanization, sub-contracting and hiring temporary workers. But these bode ill for formal employment creation and extended investments in training for new entrants, unless ways can be found to increase labor market flexibility.

But South Africa is an exception rather than the rule. Studies of wages and productivity in garment industries in a number of African countries and comparators concluded that, while African productivity levels may have been lower, this was more than offset by lower wages (Biggs et al, 1996). Indeed, direct labor costs are a moderate share of overall production costs for manufacturing in most African countries (Table 4). Averaging across seven countries and four manufacturing sectors, intermediates and raw materials accounted for 65% of total costs, while wages accounted for 21%. The remainder included power, communications and sundry expenses. Wages accounted for only 43% of value added, not a high figure for the industries involved.

This is not to say that African wages are too low -- indeed, given a progressive opening of markets and trade, higher labor costs with no offsetting changes elsewhere could render firms in these sectors uncompetitive. But the data show how sensitive is the margin available for labor costs relative to factors that influence the transaction costs of the firms, including those that affect the cost of purchased inputs, whether raw materials or intermediates, or of services such as power or telecommunications. For example, consider reforms that enabled firms to

***Table 4:** Cost Structures in four Manufacturing Sectors*

	Cameroon	Cote d'Ivoire	Ghana	Kenya	Tanzania	Zambia	Zimbabwe	**Average**
Raw material	0.611	0.661	0.657	0.674	0.616	0.643	0.677	**0.646**
Wages	0.210	0.222	0.220	0.182	0.214	0.207	0.238	**0.214**
Electricity	0.052	0.037	0.028	0.037	0.064	0.040	0.024	**0.040**
Fuel	0.060	0.045	0.062	0.050	0.064	0.052	0.024	**0.050**
Telephone	0.020	0.011	0.006	0.019	0.015	0.025	0.008	**0.016**
Advertisement	0.009	0.008	0.009	0.007	0.013	0.008	0.011	**0.009**
Number of firms surveyed	381	235	152	279	207	318	303	**1876**
Ratios: Total Costs/Sales	*0.807*	*0.727*	*0.868*	*0.822*	*0.840*	*0.822*	*0.775*	***0.803***
Wages/Total Sales	*0.167*	*0.162*	*0.191*	*0.150*	*0.183*	*0.170*	*0.186*	***0.172***
Value Added/ Sales	*0.440*	*0.475*	*0.346*	*0.355*	*0.360*	*0.378*	*0.424*	***0.397***
Wages/Value Added	*0.383*	*0.338*	*0.551*	*0.420*	*0.520*	*0.448*	*0.432*	***0.431***

***Source:** RPED Industrial Sector Survey, World Bank.*

acquire purchased materials 10% more cheaply. Holding costs and profits constant, these would permit a rise in the margin available for labor by about one third. Conversely, policies that raised the costs of purchased inputs by 10% would reduce the margin for labor costs by 30%. That is, if they did not have the effect of driving the firm totally out of business.

By and large, therefore (and with some exceptions), the problem with African labor markets is not that they are too inflexible and with wages that are too high for employment creation. <u>The problem in many countries is that both wages and employment are too low, in the sense that employment</u>

generation is severely constrained by an inadequate, or sometimes a hostile, business environment. By raising risks, this reduces investment and encourages capital flight. By raising costs, whether of transactions or infrastructure services, it squeezes the potential margin available to employ, pay and train employees. Without reforms that address these more general issues, attempts to stimulate employment or protect jobs and living standards through labor market measures cannot succeed on any broad basis.

The Special Case of South Africa

South Africa is different from most other African economies[7] in two important ways: the legacy of discrimination and inequality left by apartheid, and the fact that South Africa has a large formal sector based on mining, manufacturing, and modern services.

Inequality in South Africa is even higher than in Mauritius 40 years ago (Gini coefficient of .63 compared to .50 in Mauritius in 1960). The South African Living Standards and Development Survey in late 1993 showed that, on average, wages of Whites were five times those of Africans. While some of this was due to differences in education and skill, even after standardizing for relevant factors, which determine earnings, among the least-skilled groups, average earnings of Whites were 118% higher than those of Africans. There was also a huge disparity in unemployment rates by race: 33.6% of African males were unemployed compared to only 3.6% of White males.

Formal sector employment is about 50% of the South African labor force. Formal employment is quite highly unionized (35% of formal employment in 1995) by developing country standards. Informal sector employment (casual labor and self-employment in agriculture and other activities) is around 15% of the labor force – much lower than in most other African countries. Unemployment is a serious problem. Depending on the definition used, it ranged in 1993 from 12.3% to 29.8%. The ILO (Standing, Sender, and Weeks 1996) estimated the unemployment rate at around 20% using a narrow definition, which defines unemployment as not working but actively seeking work. By 1997 unemployment had risen to 37.4%, using a broad definition, which includes discouraged workers.

[7] This section is based mainly on Fallon and Lucas (1998).

Formal sector employment growth has been too slow to absorb a labor force growing at over 2.5% Employment growth peaked in the 1960s at an annual rate of 2.9%, and has declined steadily since then. Annual formal sector employment growth was 1.9% in the 1970s, 0.7% in the 1980s, and has been negative in the 1990s. This is mainly due to two factors: output has been growing too slowly and has been biased toward capital-intensive sectors, and rising wages have depressed labor demand (Figure 5). The GDP growth rate has fallen steadily since the 1960s and has been below the median growth rate for Sub-Saharan Africa in recent years (Figure 5a). Since 1980, annual GDP growth has averaged only 1.2%.

Average wages have continued to increase despite growing unemployment. Since estimated employment elasticity with respect to wages is -0.7[8], this has had an appreciable impact on employment growth. Average real wages grew differently for different groups. White wages remained largely stationary, formal sector African wages increased, and informal sector wages decreased. If formal sector wages had remained constant in real terms as they did for relatively skilled Whites, Black formal employment would have grown at 1.48% per year from 1970-94 instead of the actual 0.9% per year actually achieved. Black employment would then have been around 13.3% higher than it actually was at the end of the period, and Black unemployment rates would have been around 6 percentage points lower. Even so, it is important to note that wage increases under this counterfactual scenario account for only about one-fourth of the rise in unemployment. Low growth (and other factors) must account for the remaining three-fourths.

Wage increases and labor relations may, however, also have had an indirect effect on employment growth by lowering investment and growth The ratio of investment to GDP has fallen from an average of around 27% from 1975-85 to around 17% in recent years (7 of the 10 percentage point fall came from private investment). Businesses in South Africa rate labor costs and labor restrictions (mainly the latter) as the main constraint on growth, followed by crime and insecurity. South Africa is the only country in the

[8] This is the estimate of Fallon and Lucas (1998). Bowles and Heintz (1996) produced a higher estimate, but subsequently modified their results to an estimated range of -0.5 to –1.0 (Standing, Sender, and Weeks 1996), also consistent with the Fallon and Lucas estimate.

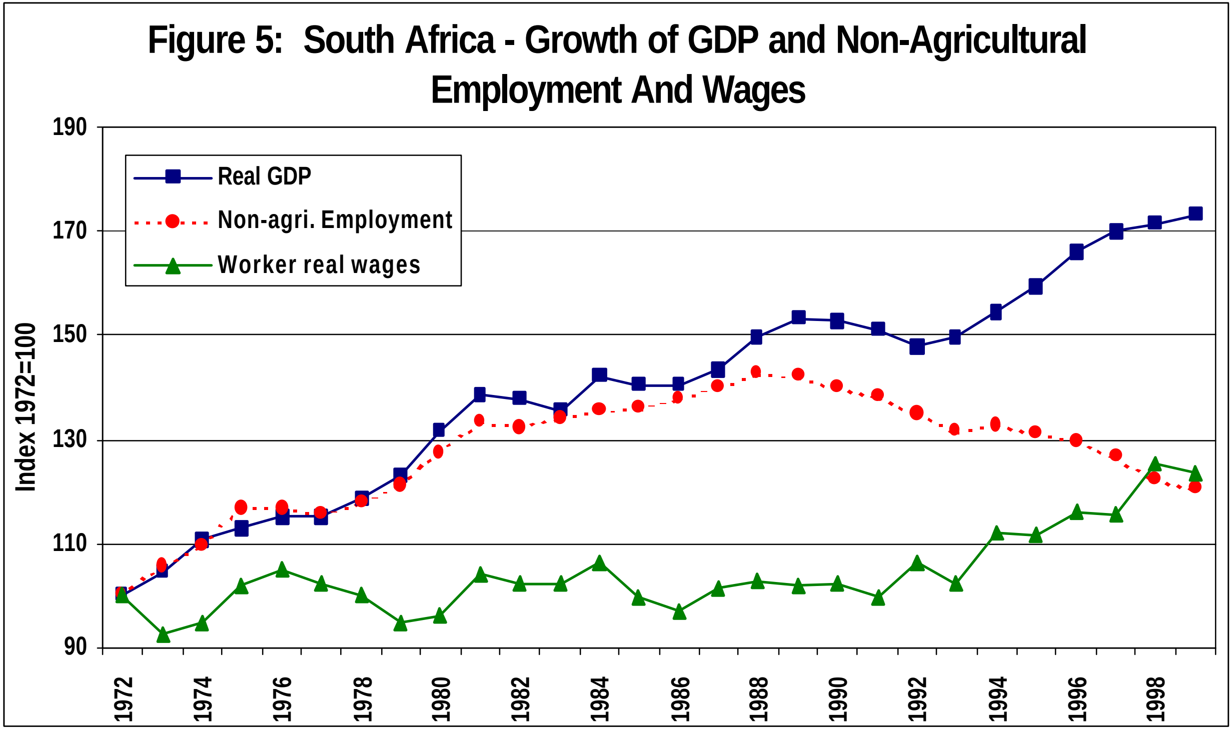


Figure 5: South Africa - Growth of GDP and Non-Agricultural Employment And Wages
Real GDP
Non-agri. Employment
Worker real wages
Index 1972=100
190
170
150
130
110
90
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998

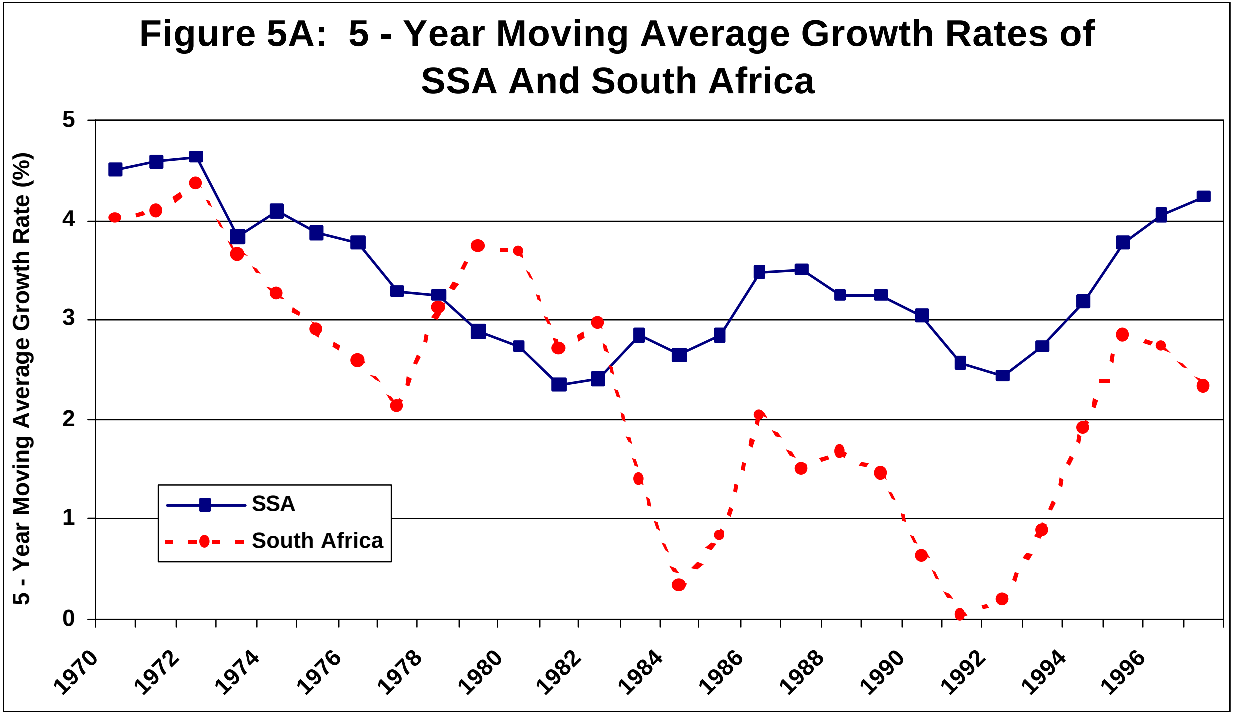


Figure 5A: 5 - Year Moving Average Growth Rates of
SSA And South Africa
5 - Year Moving Average Growth Rate (%)
0
1
2
3
4
5
SSA
South Africa
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996

sub region in which labor regulations and wage issues are perceived as a serious constraint.

What should South Africa's job growth strategy be? Some steps should be relatively uncontroversial: investing in high-quality education and training to reduce racial inequality and increase the supply of skilled labor which has acted as a constraint on growth; improving credit and other support for the informal sector so that it can play a role more commensurate with its importance in other countries; and accelerating South Africa's market-based land reform program. The more critical elements of a job growth strategy will be more difficult and contentious. These include policies to reduce inequality, raise output growth, and restrain wage growth. South Africa's problems are similar to those faced by Mauritius. Perhaps some of the Mauritian approaches to solving its problems could work in South Africa as well: separating the efficiency and distributional aspects of wages; opening up opportunities for new employment growth while protecting existing workers; and focusing policy consistently on the need to improve international competitiveness. During the transition to majority rule, South Africa developed a tradition of negotiation based on recognition of mutual interdependence, which has carried over into the approach to labor relations (Friedman 1997). This offers the possibility for a social compact among business, labor, and government, which could both increase growth and employment, and reduce inequality.

Structural Adjustment and Job Creation.

Considering this background, how should Structural Adjustment Programs (SAPs) be viewed from a labor market perspective? Some SAPs have included significant components that deal directly with labor issues, notably the level of public employment and the determination of the public wage bill, but most have not emphasized labor market and employment issues directly. Their main areas can be considered in three groups:

- macroeconomic stabilization,
- trade and exchange rate liberalization and an opening to markets,
- structural reforms, including privatization, measures to deregulate and cut barriers to the entry of new firms, banking reforms, and public sector reforms. The latter have included budget reforms and

transparency, and the allocation of resources to priority economic and social sectors, as well as reforms of the public service itself.

Although most of their impact on employment and wage levels comes through indirect mechanisms, SAPs have often been criticized from a labor perspective as having an adverse impact. The relationship is clearly a complex one, because, as noted above, labor trends cannot be viewed in isolation from the overall trends, in growth, investment, productivity, trade and other areas of the economy. At the same time, formal employment is usually a modest part of overall employment in African countries, and a substantial component is in the public sector. This means that, in addition to labor's general interest in good economic performance, there will be specific interests as well.

Stabilization.

Cross-country evidence is clear, that high inflation and unsustainable budget deficits are bad for growth; that they hurt labor incomes as well, and worsen the lot of the poor. Many of Africa's countries are highly dependent on concessional assistance. Stabilization does not aim to reduce levels of assistance to poor countries; indeed, programs often try to secure additional funding to support countries undertaking stabilization programs. Rather, they seek to bring spending into line with the availability of resources on a sustainable basis. In the short-term this may be a painful process, and it can lead to job losses, both in the public and the private sectors. In the longer-run, however, there is no alternative if growth and employment creation are to progress.

Stabilization programs usually encompass more than demand management. Conditionality often includes measures to raise public expenditures on key sectors such as health and education. It may also include improvements in budget management more generally—at present, relatively few African countries have effective mechanisms to track the execution of the budget or to perform timely audits, which can be reported to parliaments and the public. Out of a sample of 22 countries in one study, only five countries delivered timely reports and in only two cases were these widely publicized to encourage scrutiny of budgets by civil society. Only one (South Africa) was judged to have a fully effective Supreme Audit Institution. Governments may therefore blame shortfalls in public spending on stabilization programs, while at the same time tracking studies show that large shares of public spending budgeted for education, health, and other sectors that both employ large numbers and deliver essential services to the population are deviated from their intended use.

There is no gain for labor from such a situation. Broadly, therefore, the

tension between its interests and stabilization measures is one between the shorter and the longer run costs and benefits of reforms.

Trade, Exchange and Market Liberalization.

Africa's lost share in world trade since the start of the 1970s is equivalent to some $70 billion a year or 20% of the region's GDP. Without reversing this trend of global marginalization, it is difficult to see how growth can accelerate in the region. Except for South Africa, economies are very small, raising the costs of investment for local markets and rendering import-substitution an ineffectual and costly policy. The median African country is equivalent, in terms of GDP, to a modest town of some 60,000 in a rich country.

Opening up economies to trade, both among themselves and with the world economy, is therefore an essential feature for the growth process. Trade and exchange restrictions have been substantially reduced in most African countries. But the region still lags the degree of openness found in many parts of the world, in part because public revenues are heavily dependent on tariff revenues. Over half of these tariff revenues typically come from taxes levied on capital goods and intermediate inputs, creating a bias against exporting. In some African countries, the implicit tax on exporting and potentially-exporting sectors has been estimated at up to 30%, not counting the additional costs imposed by slow customs clearance, deficient infrastructure services, etc.

Critics of trade liberalization have argued that exports may not be labor-intensive, that lower tariffs may not be necessary to promote exports, and that African countries simply lack the capabilities to compete on world markets, requiring an extended period of protection in order to become competitive. In some cases there are valid arguments to underlie such points. When exports are strongly mineral-based, for example (especially in capital-intensive sectors such as oil), they cannot be relied on for direct employment creation on a large scale. It is not strictly necessary to adopt a liberal import regime to encourage exports: Mauritius, for example, sustained considerable protection of its domestic economy even as it encouraged export growth and diversification. Hasty dismantling of protective barriers can hurt import competing sectors by not offering sufficient time for them to adapt to increased competition.

There are, however, also arguments on the other side. By limiting African exports to sectors heavily dependent on natural resources, protection and high transactions costs have greatly constrained the growth of new, potentially labor-using, sectors. Examples such as Ghana, where exports have begun to diversify rapidly across a wide range of processed and manufacturing sectors and helped to decrease rates of poverty in urban areas, shows that countries can respond positively to reforms which, in the early years, were seen as potentially “deindustrializing”. African countries have also not generally been successful in implementing Mauritian-style compensation to encourage exporting, in part because governments have not felt accountable to business for the efficient and timely implementation of drawbacks and other compensating mechanisms. As a result, trade policies have been one of many factors that have constrained exporting and growth.

Liberalization often has redistributional effects. In some cases, reforms have shifted incomes between labor and other factors, to the detriment of the former: Zimbabwe appears to have been such a case, where returns to land (and the rural sector) rose relative to industrial wages. Some reforms may shift income between different categories of labor. One example is the decision to liberalize cashew nut exports from Mozambique; this may have placed processing industries under stress but has meant a considerable increase in prices and earnings for large numbers of poor farmers and has probably on balance been pro-poor.

In practice, reforms often approach trade liberalization is a more pragmatic manner than is often assumed by their critics. This can be seen in the wide variety of trade regimes now in force across African countries – not an entirely healthy development however, because of the complications it causes for regional integration. Given that the fiscal constraint limits the possibility of rapidly phasing out trade taxes, it is especially important, from the perspective of employment creation and export promotion, to get compensating mechanisms working effectively as well as to sustain competitive exchange rates

Structural Reforms.

Structural reforms cover a wide range of areas, some of which may involve tradeoffs between losses of employment in specific firms or sectors and lowering costs and facilitating the entry of new firms in others. Ports and railways are two sub-sectors where reforms designed to improve performance and introduce new technology often tend to displace existing jobs. Many SAPs include a range of regulatory changes to facilitate the entry of new firms. Even when they impact adversely on established firms, such changes are in labor's long-run interest.

However, tradeoffs are not inevitable – some reforms can both improve performance and increase employment in the sector. In information and telecommunications, for example, rapid growth of business with new technology and a far wider range of services means that employment is liable to grow rather than contract with an opening-up of the sector. But the direct effects are only part of the story. Trade flows and the location of economic activities are highly sensitive to transport costs. Firms now rate access to information as one of the main determinants of their decision on where to locate investment. Without progress on such fronts, Africa's prospects for attracting and retaining savings and investment are limited.

Structural reforms will only contribute to growth if they are properly designed, sequenced and implemented. Some reforms have failed on one or more of these criteria. For example, financial sector liberalization has sometimes been effected prior to bringing fiscal deficits down to sustainable levels – the outcome has been increasing domestic debt, higher real interest rates, and increased macroeconomic uncertainty that has inhibited investment. In this case, the indirect effect on growth, incomes, job creation and wage levels will probably be negative.

Overall, therefore, the impact of adjustment programs can be considered as a combination of a range of effects:

- short versus long-run, and
- direct effects on specific groups versus indirect or overall effects working through broader investment and growth processes.

Successful programs would be expected to have favorable long-run and overall effects. But this does not mean the absence of tensions, either as between the short and long run, or between the interests of specific groups and those of the overall economy.

Conclusion

Job creation in Africa depends, above all, on raising the rate of economic growth. While there is no simple formula for raising growth rates, the universal elements seem to be: creating political peace and social stability; getting the macro and structural policy fundamentals right; and doing whatever is necessary to raise competitiveness. In most African countries, labor market issues are secondary: low wages are a consequence rather than a cause of poor competitiveness and slow growth. In others, such as South Africa, labor market and wage policies are more salient for economic growth and job creation. Raising competitiveness, investment, and growth may depend on finding ways to restrain or lower wage costs while reducing inequalities through indirect means. In all countries, it is important for unions, business, and labor to take a long-term view. The key is to promote competitiveness and generate long-term growth of employment, not protect particular jobs.

Paper prepared for a joint conference of the World Bank and the Friedrich Ebert Foundation on “Economic Policy in Labor Surplus Economies – Strategies for Growth and Job Creation in Southern Africa,” Gaborone, Botswana, May 3-5, 2000. The views are those of the authors and not necessarily those of the World Bank.

SOCIAL PROTECTION, LABOR MARKETS AND THE POOR IN AFRICA

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1 Conceptual Framework

1.1 Introduction and Objectives

Very poor households have little or no assets to protect themselves against severe declines in their well-being, yet are dynamic risk managers. Informal risk management strategies such as pulling children out of school, foregoing health care or reducing food consumption are often costly for the poor themselves in terms of long-term human capital declines. Their adoption by the poor despite these dynamic costs confirms the importance to the poor of managing risk, as well as the lack of effective alternative social protection mechanisms accessible to them.

Low-income countries confront a major dilemma in improving social protection for the poor. Needs are high yet there are major trade-offs between alternative uses of scarce public funds, limited implementation capacity and so on. A social protection strategy for countries in Sub-Saharan Africa thus must not only provide more extensive and effective social protection for the poor themselves, but also do so in a way that is consistent with, and indeed, strengthens the long-term growth potential of the country.

This paper takes a broad view of risk and vulnerability and analyzes the major public policy dilemmas policy makers in the region face in extending more effective social protection to the poorest households in their countries. It proposes an operational approach to reduce the vulnerability of the poor within a viable macroeconomic framework in Africa.

1.2 Wage Labor and Vulnerability

Given the focus of this conference, it is important to clarify at the outset that we will be talking about the vulnerability of poor households broadly, which includes but goes beyond households who rely on wage labor as the primary source of income. Workers' households often constitute a highly vulnerable group within the income distribution of the country (Box 1). Given the structure of livelihood strategies in many parts of Africa,

Box 1. Changes in Employment and Poverty in Urban Zimbabwe in the 1990s

Government, parastatal and formal private sector employment lost importance as an employment source in urban areas in the 1990s. All indices of poverty more than doubled for these groups between 1990/91 and 1995/96 (see poverty prevalence table below). Due to wage stagnation and other factors in the 1990s, employment in a favorable sector is no longer associated with a guaranteed exit from poverty. The source of the increase in urban poverty needs further investigation, but it is clear that urban labor markets are not generating the types of employment necessary to support the vulnerable urban population. The informal sector share of total employment almost doubled in this period but households headed by an informal sector employee are most likely to be poor in urban areas.

Poverty Prevalence by Employment Type of Household Head, urban

	1990/91	**1995/96**	**% Change**
Govt. employee	1.9	6.4	233.8
Parastatal	2.5	13.6	442.8
Cooperative	0.0	7.2	NA
Formal private sector	5.3	12.1	128.9
Informal private sector	12.5	26.2	110.1
All others	13.5	21.2	57.2

Source: Alwang and Ersado, draft, March 2000

moreover, not only the immediate household, but also members of the extended family may depend on remittances from a worker in the formal wage sector. Labor market risk – i.e., the risk of not being able to find a job, job security, low-return informalization, stagnating real wages, and so on – are of direct concern to workers.

Yet many of the risks faced by formal sector workers and their households are shared in common with other groups of the poor, such as the risk of contracting AIDS and suffering from its economic and social burden, impact of price increases, lack of access to savings or pensions for old-age, lack of access to health services, insurance against episodes of unemployment, etc. Furthermore, some instruments which can reduce the vulnerability of workers can also reduce the vulnerability of smallholder households or farm tenant households, for example through free primary education or free health care. And finally, each society will weigh the social protection needs of wage labor in the context of the social protection needs of other vulnerable groups as it constructs it designs and finds resources for its social protection strategy. Given these various linkages, the paper will look at risk and vulnerability broadly, but with special reference to labor markets where possible.

1.3 Basic Relationships in Social Risk Management: Poverty, Vulnerability, Risks and Assets

The conceptual framework adopted as the basis of the paper and the proposed strategy is that of *social risk management*. In this framework the approach to social protection is a multi-sectoral one rather than a narrow sectoral one since the poor are generally affected by many sources of risk cumulatively or simultaneously. Given the multiple sources of risk and the resource constraints under which public policy choices are made, the framework suggests that reducing vulnerability requires use of broad policies, broad investments and "traditional" social protection instruments.

Poverty and vulnerability. The starting point of the discussion is the mutually re-inforcing relationship between poverty and vulnerability. Vulnerability refers to the ability to manage risk, i.e., the ability to prevent major declines in living standards or major variability in consumption. Reduced vulnerability refers to an improved ability of the household to protect itself against welfare loss. Reduced vulnerability could also refer to the strengthened ability of the household to bear risk, i.e., to trade higher risk for higher returns. Poverty can be a source of vulnerability, while cumulative vulnerability to economic downturns can be a source of deepening or permanent poverty.

The relationship between poverty and vulnerability is mediated by the nature and severity of risks and the assets available to the household for use as insurance against the risk or in coping with the shock.

Poverty and risk. While poverty refers to incomes and consumption below an agreed threshold, risk is a *relative* concept referring to the probability of variability or collapse in consumption. Risks can affect an individual household in a community (e.g. disability of the primary income earner in a household) or they can be community-wide or covariate (e.g. hyperinflation, pest infestation or war), simultaneously affecting entire networks of households. Sometimes they can be largely anticipated (e.g. old age, seasonal shortfalls).

The importance of assets. Vulnerability is not just a function of the severity of a shock but also of the quantity and quality of mechanisms to which the household has access to stabilize consumption. Most of these mechanisms rely on assets such as social relationships or social capital, information, human, physical and financial capital.

1.4 Costs for the Poor and for Society – the "Why" of Risk Management

While the poor may be able to recover from the impact of smaller shocks (e.g. a day of illness), they are generally not able to prevent their consumption from falling due to prolonged, repeated or severe shocks. Moreover, there may be dynamic costs and social inequities embedded in the informal insurance mechanism itself that mean that the poor are able to protect themselves in the short-term but *at a high, long-term loss of well-being.* For example, in the face of a sudden price rise in traded mealie meal, the urban poor – who are usually net purchasers of food – may have no choice but to reduce food, education or health expenditures. This can lead to permanent losses in nutrition (stunting), below-potential early childhood development, school dropouts or lower educational outcomes. Consequently, households—and in particular, children—may suffer permanent human capital loss whose ultimate cost is the perpetuation of poverty across generations.

Inadequate social protection can also mean reduced potential for growth since *c*ontinued impoverishment, reduced human capital investments and de-accumulation of assets or poverty traps limit the ability of the poor to participate in growth.

Finally, there may be negative externalities to society for weak social protection. For example, poor households often see children as a means of social security for old age. Promotion of alternative, credible programs for savings may allow households to reduce fertility and decrease the demand for social services.

1.5 Social Protection: A Working Definition

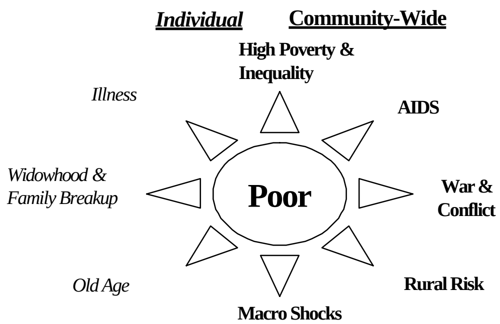
In light of the above discussion, we may define social protection as *interventions that assist poor individuals, households and communities to reduce vulnerability by managing risks better*. In this framework, by reducing the costs to the poor and to society, social protection is regarded as *investment* and not "welfare" or "relief".

2 Assessing Risk and Vulnerability In African Economies

2.1 Major Sources of Risk in Africa

The major *co-variate or community risks* and *idiosyncratic or personal risks* facing the poor in Africa are found in Figure 2.1. In the context of the current paper, we focus on a few of these.

Figure 2.1 Main Sources of Risk in Africa



Community-wide sources of risk (selected)

High levels of poverty and inequality**.** Analysis of the relationship between growth and poverty reduction in several African countries demonstrates that these countries are not likely to achieve the rates (or equitable patterns) of economic growth in the medium-term that are necessary to reduce absolute numbers of the poor (Table 2.1). *The implication is that there will continue to be large numbers of the poor in Africa into the foreseeable future.*

Can we conceive of a safety net program which brings average incomes of the poor up to the poverty line? Available analysis suggests that in low income countries, the extent of the poverty gap is so large that the large-scale income redistribution necessary to guarantee a minimum level of con-sumption for the poor, will be fiscally un-sustainable (Table 2.2). On the other hand, the scope for asset redistribution may be higher than income re-distribution even in low-income coun-tries. And in some *middle-income African econo-mies* with high income and asset inequality (e.g. possibly in South Africa,

Table 2.1 Minimum and Actual National Income Growth Rates

Country	Minimal[1]	Actual (1981-91)
Tanzania	6.5	3.3
Kenya	5.2	3.5
Uganda	5.5	2.3
Malawi	5.8	4.0
Zimbabwe	5.3	2.5

[1]Minimum growth rates in GNP needed to prevent an increase in the numbers of the poor under a distributionally neutral growth scenario, assuming a population growth rate of 2.5% per year.
Source: Smith and Subbarao (WB, forthcoming)

Table 2.2 Fiscal/Cost of closing the poverty gap in illustrative numbers[1]

Country/Year	GNP Per capita (1995) US$	Fiscal cost as % of GDP	Remarks
Niger, 1993	200	2.4	PL=food poverty line
Madagascar, 93-94	225	9-11	PL:food poverty line

1/ Only the cost of transfer; not inclusive of administrative and incentive costs.

Source: Smith and Subbarao (WB, forthcoming)

Namibia, Botswana, Swaziland), both income and asset redistribution programs may be more viable.

Macroeconomic reforms and the labor market. Towards the end of the 1980s, many countries in Africa embarked on a process of macroeconomic reforms in order to reverse negative growth and initiate a new incentive regime that would reduce the structural impediments to economic efficiency and deepen the growth process. Growth rates began to rise in the 1990s in a number of these countries. However, some of the expected benefits to workers and households from renewed growth, such as higher employment growth and higher real wages were not widespread.

First, wages rose in some countries which engaged in consistent reforms. In Ghana and Uganda, which both had a good track record of structural reforms, it is found that growth in wages during a four-year period has been high (World Bank, 2000b). In Uganda, the average wage rose by 45 percent, while in Ghana, wages almost doubled. Moreover, the gains benefited most of the workers. Meanwhile, in Zambia it is found that poor macroeconomic management precipitated high inflation and derailed any gains that could have been achieved as a result of the structural reforms.

Second, for the last 15 years, aggregate formal sector wage employment has remained stagnant. In Zambia, the 1990 wage employment levels were actually lower than the 1980 levels and very little recovery was evident late into the 1990s (World Bank, 2000b). Further, in Zambia there was a marginal increase of 2.3 percent in overall manufacturing employment for the period between 1980 and 1989. The situation has not been helped by public sector reforms since job losses in this sector through retrenchment have not been offset by employment growth in the private formal sector. In the initial stages of reform, it is possible for output expansion to coexist with low employment growth if the sector had redundant or excess workers. Low-skilled workers tend to be at risk under environments of poor employment growth because their skills will be least in demand.

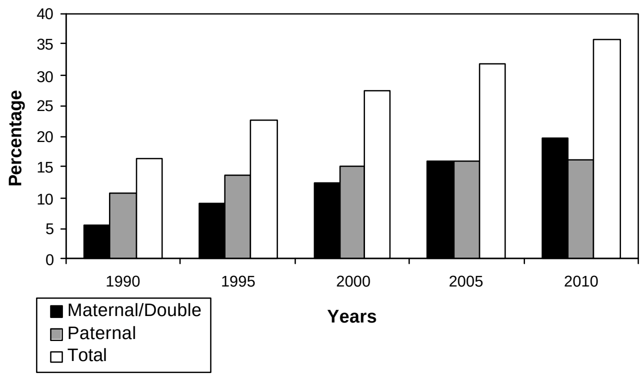
Third, stagnant or declining formal wage employment in the context of a rapidly expanding labor force has led to the emergence of a significant self-employment or informal sector. Size estimates for the informal sector range from 60 percent to 11 percent of the labor force in various African countries, while employment generation rates are claimed to be between 8 and 30 percent per annum. Despite wide divergences in estimates, it is commonly accepted that most of the growth is composed of small, one-person entrants seeking temporary unemployment insurance or supplementing household income, which explains observed increase in the number of women in recent years.

Fourth, in several countries, youth to adult unemployment ratios have more than doubled. Furthermore, unemployment rates among those with a secondary or more education are either the same or higher than those with primary or no education. These characteristics of the unemployed – youthfulness and more education – are true whether for women or men only. Finally, urban unemployment durations have grown longer and can no longer be considered just transitory.

AIDS and children in extremely difficult circumstances – unprecedented and potentially overwhelming. UNAIDS estimates that AIDS deaths may have left 10.6 million orphans in Africa as of 1999 (UNAIDS 1999). These numbers will continue to compound (due to cumulative adult deaths from past infections) even if the rate of new adult infection levels off. This phenomenon is expected to create unprecedented strain on traditional household and community coping structures. The numbers of orphans are expected to increase at least until 2010.

The vulnerability of children in extremely difficult circumstances due to

Figure 2.2 Zimbabwe: Estimates of Orphans from All Causes as a Percentage of Children Under 15



Source: Children on the Brink, 1999

AIDS, war, conflict, economic stagnation and other causes represent an enormous actual and potential loss for the future of Africa.

<u>The prevention of irreversible human capital loss of children in extremely difficult circumstances is thus a major area of concern for social protection in Africa.</u>

Idiosyncratic or individual risk (selected)

*Illness and disability***.** Apart from illnesses such as AIDS which can overwhelm communities, idiosyncratic health risk can also lead to severe welfare and income losses for individual households. This can be through cumulative, high-frequency non-catastrophic episodes (e.g. repeated loss of wage incomes for a day or two at a time) as well as low-frequency catastrophic episodes (e.g. permanent disability).

Widowhood and family break-up. A death in the family, especially that of the male head, can have severe consequences for the ability of the remaining members of the household to maintain access to productive assets. Apart from the direct loss in incomes (and costs of burial, treatment if any, etc.), customary laws in most African countries require a re-alignment of property rights of the affected household. Most commonly, women often have to observe strict (and restrictive) social norms in order to maintain claims of support or use-rights to land, cattle or other assets from her husband's or son's family. Yet these rights are not transferable, nor would they necessarily hold constant if she decided to move to an urban area.

*Old age***.** In much of Africa, poverty assessments have shown that rural households headed by elderly men and women are amongst the poorest. Such a pattern can be particularly true when elderly people do not have children who can either provide labor to cultivate the land or provide informal transfers or remittances to support their parents. In the current environment in AIDS-epidemic countries, elderly-headed households must also often take on the care of young children. These households can be particularly vulnerable if they were already poor prior to taking in the children since they often operate without the middle generation of productive breadwinners.

Some form of social pension for the elderly poor is warranted in the African context as a matter of equity, as a means to ease the burden of care on low-income young adults and as a means of strengthening the care of orphans and other children in distress, who will be the next productive generation of their families and countries.

All of these risks are not necessarily of equal significance to each country, and there may be gaps and debate; but this type of risk assessment may be undertaken for individual countries in order to develop a country-specific approach.

3 Key Dilemmas in Social Protection in Africa

Policymakers engaged in social debate face some major dilemmas in constructing a social protection strategy in the context of major constraints.

3.1 Households are active risk managers but the net impact is low

African households, poor and non-poor, are far from passive in confronting risk (see matrix drawn from Morduch 1998, with examples

African Poor Are Dynamic Risk Managers

	Prevention, Mitigation	**Coping**
Rely on Self	▪ Diversify crops (Malawi) ▪ Earn non-farm income and migrate (Kenya)	▪ Sell cattle (Zimbabwe) ▪ Take children out of school (Swaziland)
Rely on Group (reciprocal)	▪ Join labor-sharing clubs (Togo) ▪ Join burial societies (many)	▪ Foster children (Uganda) ▪ Exchange gifts (many)

added).

Unfortunately, despite the diversity, frequency and importance of informal insurance mechanisms to the poor in Africa, their net impact in reducing vulnerability of the poor is weak. Private or informal insurance operating in a highly constrained context is far from being full insurance for the poor. The direct and perverse, dynamic costs of informal insurance to the poor can be very high and the protection provided very low – especially during covariate shocks when they are needed most yet the capacity of the community at large is undermined. Qualitative evidence is also accumulating that these mechanisms are increasingly under strain.

3.2 Large numbers of the poor and scarce public resources means that the scope for direct redistribution is limited

Despite very limited resources, governments in Africa have financed expenditures, e.g. safety nets, whose main—often only—justification has been that they will protect the poor from declines in living standards due to severe shocks or prolonged economic decline. The affordable scale of such public safety net programs in low-income countries remains an open question given that per capita GDP is generally very low.

Box 3.1 Affordability and opportunity cost: a dilemma for Malawi

A transfer program costing $ 30 million/year represents (approximately):

- transfer of 4 months minimum food requirement to poorest 15 % of population
- 3% of GDP
- 20% of recurrent spending
- 10% of annual aid flows
- annual salaries of 40,000 primary school teachers
- double the current budget of the Ministry of Health
- five times what is expected to be spent on road maintenance this year

Source: Malawi Safety Nets Strategy, World Bank, 2000c, forthcoming

Public resource allocation necessarily involves competing demands from different sectors. The difficulties facing policy makers can be observed from the Malawian example in Box 3.1. This type of dilemma is not unique to Malawi but to all low-income economies where needs are highest and available resources are lowest.

The question of affordability of safety nets in low-income countries should not, however, be one where a sharp distinction is made between "relief" or "unproductive" safety nets and "investment" or "productive"

Box 3.2 Targeting transfers to the poorest of the poor

Consider a transfer program that can allocate one percent of GNP to social protection, a figure in keeping with the benchmark advocated to protect the vulnerable in Latin America from the consequences of the economic crises of the late 1980s. If this is transferred costlessly and equally to all individuals defined as below the poverty line in Zimbabwe, then each of the poor would receive $0.85 a month, which would provide the recipient with an increase of income less than 5% of their average consumption. Using the same 1% of GNP, but targeting the ultra-poor would provide a transfer of nearly 11% of income for the poorest.

Source: Zimbabwe Social Protection Country Case-Study, World Bank, 2000d, forthcoming

alternative uses of funds. In fact, given the dynamic and often hidden, long-term nature of costs of inadequate consumption smoothing, the choice between well-targeted and timely safety nets and pro-poor alternative investment choices may often be seen as being between alternative instruments of risk-management, all of which are productive in nature. In this view, well-designed safety net programs may be regarded as current investments which increase future productivity of the poor, the productivity gains often forth-coming across generations. Subbarao (1997) emphasizes this point by arguing that an effective publicly funded safety net may be seen as a long-term investment in pro-poor growth. Moreover, safety nets themselves need to use administrative, community or self-targeting efficiently in order to be well-targeted to the most vulnerable (Box 3.2), leveraged to address the most important uninsured risks faced by the poorest, focus on preventing irreversible human capital losses and involve cost-sharing with communities themselves where possible.

Untargeted types of transfer programs, such as generalized consumer subsidies, are likely to have been costly. Governments have sometimes introduced price controls on basic consumer goods (e.g., maize meal, bread, fuel) on the argument that this serves to protect the consumption levels of the poor. Yet the poverty incidence of these subsidies is questionable. The subsidies were typically universal for a good, and the subsidy was not designed to disproportionately benefit the poor either through geographic targeting (e.g. in shops located in high-density peri-urban areas), or targeting of inferior goods (such as yellow maize) which the non-poor would consume less of, etc. They are also fiscally significant. For example, it is estimated that Malawi spent about USD 19.5 million on maize subsidies in 1998/99 alone (Malawi Safety Nets Strategy, 1999). This amount is equivalent to more than 1.5 percent of Malawi's GDP. There is no good survey data on the poverty incidence of the subsidy but, in any case, the poor did not get preferential access to the subsidized maize.

3.3 Subsidized micro-credit programs have had varied success in reaching the poor, while micro-savings programs are neglected

In contrast to the emphasis on micro-credit in African micro-finance programs, efforts to mobilize micro-savings seem to be weak. Yet <u>access to financial savings mechanisms</u> can play an extremely important role as a risk management instrument for the poor. In practice, however, formal bank savings accounts often involve high transactions costs for the poor in terms of documentation required or travel to distant bank branches. Rutherford et al have shown that <u>mechanisms which promote financial savings at low transaction costs to the poor—with or without informal credit—are strongly preferred by the poor and even by the poorest.</u> Extremely poor people in both urban and rural areas are found to seek out such mechanisms even if there are high current financial costs attached to participation. This is evidenced in Africa by the multiple, informal indigenous savings institutions (tontins, burial clubs, ROSCAs) and the poor's willingness to pay a high price for this type of service.

<u>Public interventions that promote credible and accessible savings mechanisms for the poor may be easier to manage than subsidized micro-credit and much more effective as a way to raise incomes and reduce risks for the poor and the poorest in Africa.</u>

3.4 *Formal public and private sector pension and social security systems operate in most countries but are targeted to small, better-off segments of the society*

Formal sector social security and pensions systems operate in several countries in Africa and share common problems. They are typically in very poor financial standing, if not virtually bankrupt. This state of things is related to mismanagement, shrinking or stagnant formal sector employee size supporting large pay-outs by the system, costly defined-benefits systems, etc.

These formal sector insurance programs tend to cover small segments of the population (e.g. in Zimbabwe about 25 percent of the total labor force is included), reflecting the relative size of public and formal private sector employment as a share of the total population. These institutions are not accessible to the poorer workers in the informal sector. Even for the population that is covered by such formal sector systems, the huge mismatch between the level of benefits and the implicit debt of future pay-outs to beneficiaries, suggests that they do not constitute a credible insurance mechanism for public or private sector employees in their old age.

3.5 *Partnerships between community structures, local governments, private sector and central governments are needed but weak*

In terms of *delivery* of social protection programs in Africa, partnerships are very important, especially given the information and administrative capacity constraints faced by the public sector. One important means of drawing on community information and administrative capacities is to promote decentralized decision-making at the appropriate level and implementation of publicly financed social protection mechanisms. Such structures do, however, need local accountability and proper incentives – including a hard budget constraint – to reach their potential. Moreover, Inman and Rubenfeld (1997) note that decentralization may achieve efficiency, but it is not necessarily the best system to guarantee rights defined in a constitution or national legal code.

In the last decade or so, several publicly-financed programs have taken off which share the common characteristic of promoting community-led development. Social investment funds (SIFs), operate in about 15 African countries, with an explicit demand-driven approach and focus on small community development projects. Though SIFs have been rather successful in stimulating local development, they did not have a clear strategy for supporting the risk coping systems of the poor. Moreover, SIFs have just recently started being concerned with the sustainability of the activities they stimulate and with the need for establishing or strengthening more permanent local institutions which can take over the SIF's mandate.

3.6 Direct social protection interventions are not strategic but crisis-driven

A final but common feature of publicly-financed direct social protection interventions in Africa is that they are mostly reactive and crisis-oriented. Mobilization of resources and institutional capacities typically occur on an ad-hoc basis once a major community-wide shock - such as drought or devaluation - has already taken place. The reactive approach has two major drawbacks: *first*, the required start-up time may mean that the public response is not timely, and hence is less effective; *second*, in the face of social crises, the relative “voice” or mobilization capacity of different groups tends to determine resource allocation and outcomes.

The lack of systematic information on risk and vulnerability, or debate, combined with a crisis mentality, has promoted a social protection approach which is non-strategic and not “owned” widely. This undermines the principle of social solidarity and trust which is essential to the development of a comprehensive social protection strategy which openly weighs the trade-offs involved in terms of extent or depth of reaching different target groups within limited means.

3.7 World Bank has supported social protection objectives but needs to engage in broader and more pro-active dialogue

The Bank's approach to social protection in Africa has been evolving.

<u>Need to mainstream issues of risk, vulnerability and social insurance.</u> Debate within the Country Teams on social protection issues has tended to focus on narrowly defined instruments such as safety nets or social funds. Although poverty reduction itself is seen as requiring a coordinated, multi-sector approach, the assessment and reduction of risk and vulnerability has been largely seen as a sectoral effort to be carried out by the Social Protection or Social Development Families. In contrast, we propose here that the issue of reducing or mitigating risk be built into the agenda of all sectors given the multiple sources of vulnerability of the poor and the impact that inefficient risk management has on the returns from all types of investment.

<u>Crisis-driven approach.</u> More often than not these discussions are driven by crises rather than long-term strategy, similar to Government approaches noted above. As a consequence, there appears to be more emphasis on risk coping rather than risk reduction.

Box 3.3 The WB Approach to SP in Africa ?

Some Successes	***But Could do Better***
• **Many Social Funds**	• **Need Focus on Sustainability, Building Capacity of Local Govts.** • **Need to Reach Critically Vulnerable**
• **Many PERs done**	• **Could Include SP Expenditures Which Are Often Large**
• **Protected Public Social Expenditures During Fiscal Crises**	• **What About More Focus on Demand-Side & On Effective Delivery?**
• **Many Poverty Assessments Completed**	• **Could Be More Action-Oriented** • **Focus More on Vulnerability** • **Could Foster Debate to Build Consensus on Priorities**

Some successes, but could do better. The World Bank has pursued many different instruments that have succeeded in improved protection of the poor in the face of social crisis or economic declines. Yet there is much room for improvement (Box 3.3). For example, the Bank has actively supported the protection and increase of social sector public spending (and improved equity and efficiency within social spending) in the context of fiscal crisis or structural adjustment programs. While maintaining this important supply-side dimension of social risk management, the Bank needs to pay greater attention to demand side issues such as declines in purchasing power that can nonetheless undermine the poor's ability to afford social services.

4 Towards a Social Protection Strategy in Africa: Making Social Protection for the Poorest Effective and Affordable

The poorest households in Africa face multiple sources of severe risk. These sources of risk, despite the poor's own attempts at self-protection in a highly constrained environment, leave them vulnerable to perverse coping and irreversible losses of human capital. The multiple sources and magnitude of vulnerability of the poor implies that a solution cannot be delivered through any one type of instrument alone. The operational solution is to learn from the poor themselves and try to build a strategic web of interventions.

4.1 Some guiding principles

In formulating a country social protection strategy, policy makers may keep some basic principles in mind.

Focus on most compelling risks. In the proposed social risk management approach to social protection, policy makers and development institutions will need to identify the most severe risks that the poorest households in a country or region face. Few risks pose common levels of devastation across different countries, or stay constant over time. Disciplined risk analysis and open debate on the trade-offs encourages country-specific social protection strategy.

The following broad categories of risk are likely to have the most severe impact on the poor's well-being:

i. catastrophic or severe community-wide risks that can overwhelm informal insurance mechanisms (e.g. a harsh flood or drought);

ii. catastrophic personal shocks that lead to prolonged income losses or bulky expenditures (e.g. death of an adult income earning family member);

iii. informal risk-coping mechanisms which re-inforce social inequities between and within households (e.g. household coping through taking children out of school); and

iv. short-term household investment choices which impose long-term dynamic costs on the poor (e.g. persistent choice of low-yielding seed varieties, or as in iii)).

v. While a social protection strategy may typically wish to address a combination of objectives, there are inevitable trade-offs involved given limited public resources. It is these trade-offs which need to be identified, debated nationally and resolved in the process of building social solidarity.

Take account of the informal risk management strategies of poor households. The approach asks policy makers and practitioners to take account of how the risks are mitigated, especially the costs and benefits of the informal household risk management behaviors discussed earlier. Doing so allows maximum impact of scarce public resources in reducing the vulnerability of the poor.

In this it is important to distinguish between protection accessible to the most vulnerable—especially the socially excluded—versus other groups of the poor.

It is also important to keep in mind that the returns and costs of household risk mitigating behavior are often evidenced in the *longer* rather than the shorter run.

Moving from such an assessment to public action, it is proposed that public intervention be strategic by supplementing or strengthening those household strategies that are effective.

By the same token, strategic public intervention should displace household means of coping which have high costs or perverse impact for the poor.

Combine different types of instruments. A strategic approach to social protection is needed which combines instruments drawn from multiple sectors to reduce, mitigate or cope with the most severe risks faced by the poor. Typically, social protection instruments will be located in multiple sectors:

i. A policy framework that enables broad, labor-intensive growth is perhaps the most important risk reducing social protection initiative.

ii. Broad public investments in basic education, health or infrastructure are essential for risk reduction, mitigation. This includes, for example, protecting basic services during fiscal crises.

i. Social insurance accessible to the poorest households (risk mitigation, e.g. credible financial savings products with low transaction costs for the hard-core poor, weather-based index insurance from smallholder farmers, health insurance);

ii. Targeted social trampoline and safety net investments (risk coping, mitigation, e.g. school fee waivers for needy children, public works-based safety nets, social pension for the elderly poor);

iii. Improved information systems (e.g. famine early warning systems (FEWS), market price information dissemination systems, community enumeration of children in extremely difficult circumstances); and

iv. Pro-active institutions (risk reduction, e.g. rainy-day funds and disaster preparedness plans at central/local levels, social funds, community-responsive local authorities).

v. The combination of instruments which will have maximum impact in reducing the vulnerability of the poor will vary from country to country and evolve as the growth prospects, needs, implementation capacities and political economy of the country changes.

Build partnerships in finance and delivery. Given the implementation and financing capacity constraints of the public sector, there is a need to initiate or strengthen private-public partnerships of various kinds in the co-financing and delivery of social protection services, building on the comparative advantage of actors.

i. It is worth re-inforcing the point made above that public resources should crowd-in rather than displace community efforts where communities are already engaged in coping or risk mitigating behavior and these are not perverse or exclusionary (risk mitigation, e.g. community care of orphans).

ii. In institutional terms, this integrated approach implies the need for implementation partners well beyond the traditional social protection "enclaves" within government (or multilateral institutions). Clearly mandated and funded inter-sectoral committees, such as disaster preparedness committees, should also operate on an ongoing basis.

Open opportunities for productive household behavior where possible. We have already mentioned that investing in the social protection of the poor may be regarded an investment and not consumption alone. This feature can be strengthened through the design of safety nets or income transfer programs.

i. Even a social pension to the elderly poor who often give care for their orphan grandchildren or who rely on transfers from their children, who are also poor, could be regarded as a social trampoline rather than a pure hand-out. Design of safety nets should assess the scope for using productivity-enhancing transfer programs rather than assuming that they will not reach the critically vulnerable.

ii. Pure transfers may be called for in many other cases, e.g. the severly disabled, where society deems that the individual is entitled to assistance without any reciprocal behavior.

*Need dynamic, long-term perspective***.** Poverty and vulnerability in Africa are not going to be significantly reduced in the short term given the expected economic growth rates and impact of AIDS. It is important to conceive of a country's social protection needs in a forward-looking dynamic context, and in phases, rather than as a crisis management initiative alone.

i. Public information, debate, analysis and consultation must be brought center-stage in policy formulation if this shift towards pro-activity and elasticity is to occur.

ii. It will be important to ensure open debate on the impact of different shocks on different groups, trade-offs between reaching different vulnerable groups, between different instruments, between the short and the long-term, etc. Such debate should be a *sine qua non* of structural adjustment policy design, implementation and monitoring.

4.2 Operational priorities

In terms of priority areas of intervention in operationalizing the new approach to social protection, there is no standard recipe. Indirect and direct social protection measures need to be debated and combined in specific country contexts. In light of the key dilemmas outlined in the preceding section, however, the following areas may be considered as high priority for the attention of policymakers in Africa concerned with developing cost-effective and sustainable social protection strategies.

Social risk management advocacy and analysis: SP as integrating initiative. Social risk management may be seen as an integrating initiative across the human development sectors and other sectors as well. By reducing some risks and strengthening the poor's ability to bear risk, the returns to public investments in education or health or the ability of the poor to participate in growth can be increased.

- Carrying out a country social protection assessment can be an excellent way of initiating debate in the country of the social protection priorities and trade-offs in the country in a non-crisis driven context.
- Labor unions and Ministries of Labor could be lead advocates for conducting such an assessment and using all available dialogue channels to place household risk management as a core issue on the development agenda.

- The Poverty Reduction Strategy Papers (PRSP) and Highly Indebted Poor Countries (HIPC) initiative offer excellent opportunities to focus on the vulnerability dimension. Analysis is needed on the scale and poverty incidence of public spending on social safety nets, generalized consumer and producer subsidies and revenue losses due to different shocks. Identification of the scope for efficiency gains from reform of safety net programmatic spending—which, as has been shown, can be large—would strengthen the HIPC and PRSP work ongoing in the Region.

- The scope of analysis on labor markets needs to be deepened. In particular, changes in the impact of macroeconomic, labor market regulatory and demographic changes on the structure of employment, unemployment, earnings in specific countries needs to be assessed to better inform the policy dialogue.

- Urban vulnerability continues to constitute an area where relatively less is known about impact of economic shocks, access to and effectiveness of informal insurance, how things are changing and so on. Given the strong rural-urban linkages through both remittances and migration, understanding the changing dimensions of urban poverty and vulnerability needs to be a priority for African economies.

Maintaining a consistent macroeconomic and policy framework. High, labor-intensive and consistent economic growth is essential to expand opportunities for increasing incomes and enabling more effective household risk management for the poor in Africa. A stable macro and regulatory environment conducive to growth are thus important social protection instruments.

- While some countries in Africa have demonstrated a history of policy reversals and weak fiscal discipline, others have been committed to enforcing reforms. Collier (1997) and others have argued that the structural adjustment support should be linked to policy reforms in a small number of sectors where the country has already demonstrated its commitment by enacting reforms.

- Supply-side measures are vital which protect public spending on basic education and health service levels utilized by the poor. Such measures are particularly important in times of fiscal or other national crisis.

- Buyer-seller networks involving formal sector and informal sector firms (and farms) have been shown elsewhere to promote dissemination of market information, skills and financing. The state can promote such schemes at small fiscal cost through strategic tax incentives. This type of relationship can help poorer households engaged in production to overcome information constraints and to engage in diversified economic activity.

AIDS prevention and mitigation. A comprehensive response which prioritizes prevention but also supports care and coping is essential in Southern and Eastern Africa where the epidemic is mature.

- AIDS interventions need to be mainstreamed – i.e., built into the design of all sector capacity assessments, public investment programs, community investment programs etc. The critical aspect will be to for social leaders to promote an openness in responding to the disease.
- Children in extremely difficult circumstances (constituted largely of orphans but also others) must be at the forefront of national social protection interventions.

Children in Extremely Difficult Circumstances (CEDCs): need comprehensive response. It is clear that a comprehensive response is called for in these circumstances, combining policy and direct interventions. Yet the actual response on the ground is often partial given limitations of information and administrative capacity, structural constraints (e.g. resistance to legal change), funding, and so on.

- The area of child protection is one where much community initiative exists in Africa and many indigenous models of community-based assistance are operational. Many of these operate on a very small scale. The best of these offer policymakers opportunities to: a) learn from, adapt locally and pilot replication elsewhere; b) support the experienced or committed community leaders who can train other communities to start similar programs; and c) "let a thousand flowers bloom" and use public funds to co-finance the community effort in order to extend the web of protection for children within an affordable fiscal framework.

- Finally, since the issue of child protection and child labor involve many different actors nationally and internationally, work is underway to examine the possibility of establishing a Global Children's Initiative Fund (GCIF) with major bilateral and multilateral partner institutions.

Targeted social trampolines and safety nets: preventing irreversible losses. The last resort measures of coping most available to the poorest households mean that it is they who are the most likely to be withdrawing from using basic human development services and need additional incentive—i.e., in addition to sustained public investments in improving quality and coverage of services—to maintain household access to, and investments in, human development.

- This additional incentive to prevent dynamic, irreversible losses to the poor can be provided via direct transfers of resources to the households or via fee waivers and subsidies which amount to the same thing in effect.

- From the point of view of improving the impact of public funding as well as avoiding dependency, the design of a public safety net should take particular care to avoid displacing informal risk reduction mechanisms. Sometimes, however, the introduction of a public transfer can crowd out private transfers, *but the leakage still be tolerated as a cost for widening the coverage of the safety net to hitherto uncovered poor*. This point is illustrated in the context of the South African government's decision in 1993 to extend a basic social pension to elderly black South Africans on terms similar to those available to elderly whites with no private pensions (Case and Deaton 1998). This led to some private transfers to the recipients being reduced, but the program has ended up extending protection to a very large number of hitherto unprotected black poor. Moreover, the displaced transfers tended to return to younger households, many of whom were also poor.

New generation of Social Investment Funds: promoting mutual accountability in local governance. The recent generation of SIFs in

Africa have moved from a focus on construction of community infrastructure in poorer regions, to an explicit focus on strengthening both partners of an accountable local governance system – i.e., communities and local authorities. As such, the new SIFs are instruments which can further community driven development as a way to better provide and sustain services to the poor.

- Governments will need to systematically examine whether SIFs in individual countries are indeed strengthening both local governments and communities, or communities alone.

- Stronger and more community-responsive local governments will enable SIFs to eventually hand-over their responsibilities to the empowered urban and rural council authorities. Performance criteria will need to be devised to assess the readiness of local governments to take on their new roles through a graduation process which builds in financial management capacity-building and monitoring on the one hand, while not holding resources for community initiated activities hostage to the performance of local governments per se.

Public financing framework for direct social protection. Typically between 1 and 2 percent of GDP has been allocated in the wealthier countries of Africa (e.g. South Africa) and in Latin America. The thinking is at a very early stage, however, on how, when or how much public funding for direct social protection (transfers and insurance) should be raised in the context of the low-income economies of Africa.

- It appears that <u>multiple avenues</u> must be explored but questions abound: when is deficit-financing for this purpose suitable, when to rely on an earmarked and pre-paid fund, when to rely on donor funding? what are desirable combinations of financing instruments, under what conditions? For example, a HIPC debt swap initiative could be designed to focus on restructuring of the direct social protection programs. This would require the necessary public expenditure analysis as well as country commitment to a long-term strategic approach to social protection.

- One key public financing mechanism to explore is the possibility of a pre-paid social protection fund through earmarked payroll taxes or general revenue. Three important aspects to ensure are that it is earmarked, pre-paid and multi-risk. Earmarking from general revenue or specific sales tax may be preferable than a payroll tax in most African countries with very low formal sector employment. A pre-paid fund may more effectively expand and contract outlays in response to need induced by community-wide shocks, more than would a budget line item. This is because the demand for targeted public social protection funds will be counter-cyclical for community-wide shocks – i.e., the need will be highest when the economy is at its weakest. A social protection fund geared to respond to multiple sources of risk is preferable to different funds that are earmarked for different purposes such as prevention of child labor or drought relief. This would encourage strategic choices and administrative savings.

- Even though the pension funds are usually under-financed and have high implicit debts, they do accumulate large amounts of funds through payroll taxes or contributions. Hence financial reform of these systems can be important from both social protection and financial management points of view.

- Finally, even in – or perhaps especially in – a low-income country setting, there needs to be some amount of cost sharing with communities and households. As such, public resources should crowd-in rather than displace community efforts where communities are already engaged in risk management behavior which are neither perverse nor exclusionary (e.g. community-based care of orphans).

Promotion of financial savings mechanisms. As shown above, assisting the poor in both urban and rural areas to build financial savings can be a highly effective social protection mechanism. Public policy needs to ensure the credibility and low transactions costs of financial savings mechanisms through a transparent regulatory framework, better integration of regional or enclave economies and stable inflation.

- Particularly important is to reduce fundamental macroeconomic risk, especially price and exchange rate volatility.

- To prevent confidence in financial savings forms being undermined, prudent financial regulations are important. Without assurance that the value of financial savings will be protected and that the household can withdraw it for high impact purposes, the poor will not be persuaded to utilize financial savings instruments and will continue to opt out.

- Simple mechanisms like post office savings plans may be low-cost alternatives to extending formal savings bank branches.

4.3 Conclusion

There is both need and scope to transform the vicious cycle of risk, vulnerability and poverty traps in Africa into a virtuous circle of risk reduction and poverty reduction. It is argued here that there are growth-enhancing *and* welfare effects of this approach to social protection, in the short *and* long term and a better chance of reaching the poorest *and* the poor within limited resources.

The nature of the strategy proposed here is exploratory rather than prescriptive. Each country will need to tailor and customize the strategy to its own political economy objectives.

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REGIONAL INTEGRATION IN THE SOUTHERN AFRICA DEVELOPMENT COMMUNITY AND IMPLICATIONS FOR THE LABOUR MARKET IN SADC

Dr. Felix C Kani
SADC, Gaborone

1 Introduction

The Southern Africa regional integration programme dates back to the 1980 Lagos Plan of Action, which outlined Africa development needs and strategies. It envisaged the creation of an African Economic Community by the year 2000. At that early stage there was a growing realisation that Africa would continue to be marginalised in international politics and economics unless something was done to reverse the situation. The Lagos Plan however proved to be too general in content. Consequently, most African countries signed the Abuja Treaty. In understanding regional integration in Africa, the Abuja Treaty of 3rd June 1991 is the starting point.

Under the Abuja Treaty, the African Economic Community was established to constitute an integral part of the OAU. The African continent was demarcated into five regions of which SADC is one. All the five regional economic groupings on the continent are regarded as building blocks towards the formation of an African Economic community.

At last year's Ordinary Session of the Heads of State or Government some serious concerns were expressed with regard to the long period for creation of the African Economic Community as envisaged by the Abuja Treaty. Globalisation was the wind that was blowing everywhere and that Africa yet again faced a real threat of further marginalisation. This led to the Extra-ordinary OAU Summit in Sirte Libya in July, 1999.

The Summit came up with a declaration now known as the Sirte Declaration. Under this declaration the period for realising the African Economic Community was drastically cut reflecting the concerns globalisation. In addition, the Sirte declaration envisages the formation of an African Parliament during the year 2000. All these factors have given fresh impetus to the regional integration process. It is now incumbent upon each of the five regional economic groupings to ensure that it plays its part in this regard.

Within the SADC Region, integrated development of the region as a whole is a priority. Despite the vast disparities in the levels of development and structural features of the 14 SADC member countries, all could potentially benefit significantly from regional integration and co-operation. The promotion of economic growth and development is of paramount importance as the economies of African countries are interdependent.

The most important asset of SADC for eventually bringing about effective integration is the unquestionable commitment of member States to create a large, economically viable and unified Southern African Region. A relatively homogenous macro-policy framework in the Region represents another important decisive factor in facilitating the region's integration. Almost all member States have embraced democracy as the best political system of ensuring good governance. The management of Member States' economies according to market forces has been accepted as a general principle. This has brought about an important supportive global environment for the integration process.

2 Regional Integration in SADC

SADC regional integration process has been facilitated by legal instruments called protocols. For information, SADC is organised on the basis of 19 sectors. Each sector is coordinated and supervised by a Member State. Except for the DRC and Seychelles which are the newest members, all other Member States are in-charge of at least one sector. The SADC Regional Integration process is quite advanced by continental standards. We have achieved more in some sectors than in others. Below is a quick synopsis of the status of regional integration in SADC. We need to understand this if we are to talk about implications of regional integration on the labour market in SADC.

Trade

The Trade area is one of the most important pillars of SADC's integration. Even before entry into force of the Trade Protocol, SADC was already experiencing increasing intra-SADC trade from 15 percent in 1995 to the estimated 22 percent in 1997. It is also estimated that 70 percent of goods (in value) traded within SADC attract less than 10 percent tariffs, leaving only 30 percent of the goods at tariffs above 10 percent.

Negotiations on tariff reductions are at an advanced stage. The SADC Trade Protocol has now been ratified and is in force from the 25th of January this year. On the 1st of September this year the SADC Free Trade Area will be launched. The creation of a Free Trade Area will bring to the region, increased benefits not only in terms of intra-regional trade, but also in terms of attracting foreign direct investment.

Energy

The Energy Protocol entered into force on 17 April 1998. Central to this Protocol is the need for a co-ordinated approach to energy strategy formulation and planning in the region, with a view to promote the harmonious development of national energy policies and matters of common interest for the balanced and equitable development of energy resources throughout the region.

The electricity sub-sector is the most advanced in terms of its contribution to regional integration. Regional co-operation in electricity, is regarded as one of the key prime movers for the economic and social development of the SADC region. The need to supply cheap and reliable energy, to meet the region's growing energy demands, was the key factor that nudged regional co-operation in the area of electric power. The plan to set up the Southern African Power Pool (SAPP) at regional level is dated back to 1984 although it only began its operations in 1996. Building on the spirit of SADC, Member States agreed to strengthen regional co-operation in order to co-ordinate and co-operate in the planning and operations of electric power systems. The idea behind this was to rationalise the use of existing systems, to optimise water resources utilisation, to minimise investments as well as production and operating costs, to minimise losses in generation and transmission systems, thus improving the reliability and safety of the respective systems.

Benefits arising from the creation of SAPP are already evident. Utilities in the region are already co-operating in the joint planning of projects and studies, including the joint sharing of knowledge in areas such as technology and statistics. There has been an acceleration in inter-utility training of personnel in disciplines such as management, finance, technology and system operation. In addition, specialist expertise is now being shared between signatories of the SAPP.

Moreover, substantial resources are being saved through the postponement or shelving of investments that would have otherwise been made by individual utilities. The interconnection of electricity grids is a significant step towards a unified regional market, allowing producers to reap substantial benefits by drawing on other member States surpluses. At the same time, low production costs will also increase the competitiveness of regional producers and can therefore play an important role in increasing intra and extra regional trade, and attracting foreign investment.

SAPP will benefit consumers directly through lower prices for their domestic electricity requirements, and indirectly through lower prices of regional products for which electricity represents an input. Thus, SAPP stands as a classical example of the benefits of integration which member States have successfully taken advantage of.

Finance and Investment

In the Finance and Investment Sector, a number of policy changes and economic reforms have moved the region to deeper integration. The region is implementing economic policies that are meant to maintain macro-economic stability, low rates of inflation and low budget deficits.

Most of the member States are implementing indirect monetary policies and have liberalised exchange controls quite substantially. All Member states have liberalised their current accounts. Controls remain on the capital account in the majority of Member States except for Botswana, Malawi, Mauritius and Zambia who have no exchange controls anymore. For those countries still having exchange controls on the capital account, higher limits for regional cross border capital remittance than the to the rest of the world have been introduced. For example South African investors can remit up to R250 million for regional investment while for the rest of the world the limit is R50 million. Due to this higher limit for SADC, the region has experienced an increase in intra-SADC investments.

Following up on this, the Central Banks in the region have developed a network in information technology, which enables them to exchange information instantly and they have an interactive website. The Central Banks are also in the process of introducing electronic payments and settlement systems in the region. SADC Central Banks are already sharing training facilities in their effort to enhance capacity in central banking and bank supervision. The South African Reserve Bank Training institute and the Tanzania Central Bank Training Centre are providing the much needed facilities for training.

The Stock Exchanges in the region are also being networked and are harmonising policies, legislation and regulatory frameworks to allow cross listing in the region. Listing requirements have already been harmonised and more activity is expected on the region's Stock Exchanges. There is also an initiative by the Stock Exchanges to introduce automated trading systems into all SADC exchanges. This would improve transparency, liquidity, security, price formation and reduce the cost of trading, thus making SADC markets more attractive to local and international investors.

With regard to investment, the SADC Investment promotion Agencies are working on the establishment of a network for exchange of information with the objective of promoting the whole region as viable investment destination. The development finance institutions are at the same time trying to find ways of mobilising regional resources for co-financing investments in the region.

Food Agriculture and Natural Resources Sector

This Sector remains the backbone of most economies in the region with 70 – 80 percent of the region's population and labour force still dependent on agriculture for subsistence, employment and income. As the region proceeds with industrialisation, agriculture is crucial in providing raw material and purchasing power, which facilitates this transformation. The issues of increasing production and productivity as well as intra-regional trade are important. More recently, the issues receiving increasing attention include, emphasis on household food security and regional food security based on trade instead of national food self-sufficiency; promotion of long term sustainability rather than emphasising output; encouraging private sector and individual participation rather than government; and promotion of diversification particularly in semi-arid areas.

The “Regional Early Warning System” has made significant progress in the collection and analysis of information, and the compilation of regular national and regional food security bulletins. The “Remote Sensing” component of it has strengthened the regional capabilities in the area of remote sensing for early warning and food security.

Mining

The Mining Protocol which, was signed in September 1997, provides for the harmonisation of national and regional policies, strategies and programmes related to the development and exploitation of mineral resources in the SADC region. The ultimate objective is to promote the interdependence and integration of the region’s mining policies for the accelerated development and growth of the sector with a view to achieving competitiveness and increasing SADC’s share in international mineral markets.

The SADC Mining Sector continues to be the backbone of the economies of most of the member States contributing about 60% of the foreign exchange earnings and 10% of GDP. The major minerals SADC supplies to the world’s mineral markets include asbestos, chromite, coal, cobalt, copper, diamond, gold, nickel, the platinum group of metals and zinc. The sector is in the process of organising an investment forum which is scheduled to take place in December 1999. An earlier forum organised in 1994, was a great success and attracted close to 150 potential investors from Europe and North America

The major challenge facing the region is to investigate ways and means of adding value to the regions minerals in order to enhance competitiveness, increase SADC’s share in international mineral markets and hence maximise foreign exchange returns. In this regard, the sector is due to undertake, with financial assistance from the SADC Secretariat, and Analysis of Opportunities for Value Addition to Minerals.

Transport

The Transport, Communications and Meteorology Protocol entered into force on 6th July 1998. The SADC Member States have taken up the challenge to develop and provide an efficient cost effective and well-integrated transport and communications network that will facilitate the smooth flow of goods, persons and information across borders. For example all relevant stakeholders are being encouraged to establish Corridor Planning Committees (CPCs), in order to improve operational efficiency.

SADC's major achievement has been on the building and rehabilitation of roads to link Member States. The Projects that have recently been completed include the Trans-Kalahari and Trans-Caprivi highways. The routes have started to make an impact on cross border travel on people, goods and services. However, still more interconnections need to be established, including links to Angola with Zambia by road and the rehabilitation of the road link between Angola and Namibia.

The transformation of the traditional transport corridors into Spatial Development Corridors represents a landmark achievement for SADC's long term development. These Development Corridors like Maputo, Walvis Bay, Tazara, Nacala and Lobomba, can generate sustainable economic growth to the presently underdeveloped areas of the region.

Railways in the SADC region are mostly operated on a corridor basis and networks are fairly in good condition and interconnected. Very important projects are being implemented, including track condition assessment and stabilisation, rolling stock management information systems, joint marketing and operational improvement, standardisation and training of personnel. Member States are looking to the private sector to provide the needed investment for the railway system rehabilitation and concession arrangements are being pursued or investigated.

The Telecommunications sub-sector has undertaken the upgrading and linking of the SADC Member States through a network of terrestrial and satellite systems. This has facilitated direct routing of telecommunications traffic between Member States. In addition, regional coordination and cooperation is being strengthened through the transformation of the Southern African Telecommunications Association (SATA) into an industry association and the formation of the Telecommunications Regulators Association of Southern Africa (TRASA).

Air transport infrastructure is nearly adequate at present, and is in the process of being improved. Institutional reform is well underway in the sub-sector, and a regional integrated air traffic safety is under development. Entry into the air transport services market is in the early stages of liberalisation.

Water

The Protocol on Shared Watercourse Systems, came into force on 28 September 1998. The signing of the Protocol in 1995 and the establishment of a new SADC Sector on Water in 1996, represent a clear recognition by SADC of the importance of water and the need for an integrated approach to the development and management of water resources in the region.

It has been recognised that given the increasing competition for the use of these trans-boundary waters, the absence of balanced cross-boundary and cross-sectoral integration of water use, riparian countries may easily get into conflicts. A daunting challenge for the region is to ensure equitable utilisation of the scarce water resources, not only between member States, but also between communities in individual countries and the various contestants such as agriculture, energy, industry, the environment and people, especially the poor segments of our societies.

The Protocol on Shared Watercourse Systems sets out rights and obligations of member States in respect of the shared waters. Water Resources Technical Experts, assisted by Legal Advisors have been working hard on reaching consensus on amendments to the Protocol to ensure that each contestant to this common resource gets a fair share, in terms of quantity and quality. It is heartening to note that consensus has now been reached.

Private Sector Co-operation

Following economic reforms that have taken place in the region, the private sector is now regarded as the engine to drive the development process in this region. Currently, SADC Secretariat is working with two private sector organisations recently launched namely, the Association of the SADC National Chambers of Commerce and Industry and the Southern

African Enterprise Network as well as national Apex Chambers of Commerce and Industry. All these private sector organisations seek to increase their participation in the regional economic process in Southern Africa to encourage a faster and more practical move towards a unified Southern African regional market.

Participation of Stakeholders

Participation of stakeholders in the integration process is critical for ensuring that the regional populace is in tune with the aims and objectives of regional integration so that they can contribute positively to the process. Each Member State has to steadily promote the participation of stakeholders including labour and the private sector in SADC initiatives and activities. This is the best way to effectively disseminate information about the integration agenda to those who make integration happen in every day life and everyday economic activity. SADC should position itself, more than in the past, as a facilitator that enables its citizens to reap the benefits of regional cooperation and integration. In recent years stakeholders have begun to take part in the activities of SADC but more participation and policy and programme formulation is required in order to ensure that the programmes we are implementing directly address the needs at grass root level.

Information Technology

Information technology remains critical to our regional integration process. SADC should facilitate information sharing through technology. SADC should also provide electronic communication tools to facilitate collaboration among Member States and the international community at large. As long as regional infrastructure is poor the region will not benefit from information technology.

Technological change has been incredibly fast the world over. SADC will therefore, take full advantage of the opportunities and challenges that arise as a result of enhanced information technology infrastructure.

Statistics

There has been considerable progress made in the harmonisation of regional statistics through the SADC Statistics Committee. In particular, progress has been registered on the harmonisation of the national account statistics, census and the cost of living (inflation) statistics.

This does not augur well, the more so that the true picture is known. Information dissemination preferably through the Internet and Intranet has been given priority notwithstanding statistical development. Demographic and social indicators should also be given priority since they explain the characteristics of a population and achievements in human development.

3 Implications for the Labour Market.

In view of our long list of regional integration activities, what insights can we draw with regard to the state of Labour Markets in SADC?

It is quite clear from our discussion above that Regional integration activities provided significant potential for job creation. As can be seen from the Table below, the SADC Region was able to reap the benefits of regional integration through positive real economic growth rates.

Table1: Real GDP Growth Rates (%) in SADC

	1981-1990	**1995**	**1996**	**1997**	**1998**
Angola	2.1	11.2	12.1	5.9	1.7
Botswana	16.9	3.1	7.0	6.9	8.3
DRC	0.7	1.6	0.9	(6.4)	(3.5)
Lesotho	3.9	8.9	12.7	3.5	(5.8)
Malawi	2.2	10.0	12.0	5.3	6.2
Mauritius	4.9	5.6	6.0	5.2	5.6
Mozambique	0.1	1.4	6.4	6.0	11.6
Namibia	(0.6)	3.6	2.1	2.4	2.6
Seychelles	3.6	(0.6)	1.5	7.9	3.0
South Africa	1.5	2.9	3.1	1.7	0.1
Swaziland	6.6	2.7	3.9	3.8	2.5
Tanzania	3.3	3.6	4.2	3.3	4.0
Zambia	1.0	(2.3)	6.5	3.5	(1.8)
Zimbabwe	4.2	(1.1)	7.0	2.0	1.6
SADC					
Sub Sahara	…	**3.1**	**4.1**	**2.2**	**1.7**
Africa	2.3	4.1	5.4	3.9	2.9
Africa	2.5	3.1	5.8	3.1	3.4
Advanced Countries	2.4	2.5	2.5	2.9	2.9

To understand the impact of growth on the labour markets, let us look at the trends in the SADC labour markets.

Table 2: *Population (Selected Countries)*

Country	**1994**	**1998**
Botswana	1,424.636	1,571,728
Malawi	10,032,600	11,243,400
Mauritius	1,112,607	1,147,706
Namibia	1,545,848	1,749,953
South Africa	38,630,500	42,130,500
Swaziland	879,081	931,747
Zambia	8,799,000	10,171,000

Source: SADC Employment and Labour Sectoral Reports

It is evident that SADC has a fast population growth rate. Estimates suggest 3.5 percent annually. The rapid growth of population is putting enormous pressures on the national as well as regional resources such that the gains from regional integration are being dissipated.

In spite of the impressive economic growth rates 40 percent of the SADC population of 186 million, still live in conditions of abject poverty. This is party explained by this rapid growth in mouths to feed.

Another way of looking at this is to examine the trends in the labour force.

Table 3*: Labour Force (Selected Countries)*

Country	**1994**	**1998**
Botswana	439,933	623,385
Malawi	652,612	700,588
Mauritius	475,800	505,500
Namibia	358, 848	546,052
Swaziland	108,624	112,744
Zambia	3,194, 000	4,712, 257

Source: SADC Employment and Labour Sectoral Reports

It is clear that there is a close association between population growth and the growth of the labour force. This is natural. However, the implication of this growing labour force is that unemployment can intensify unless measures are taken to create jobs. Regional integration activities appear to provide the best vehicle for attaining that objective.

The challenge for SADC has been how to bring about accelerated economic growth to create jobs, reduce un-employment and uplift people's living standards.

Although regional integration has enhanced the cross-border production processes and the movement of capital and labour, it has in some instances created problems. Given the average population growth rate of 3.5 percent labour force has been growing fast and given only modest economic growth of the regional economy, unemployment has risen. Unfortunately, figures on un-employment are never easy to come by. We can instead, look at it from the perspective of formal employment.

Table 4: *SADC Employment Levels (Selected Countries)*

Country	**1994**	**1998**
Botswana	230,614	226,001
Mauritius	454,800	475,700
Namibia	350, 280	356,849
Swaziland	109,624	112,000
Zambia	496,000	465,017
Zimbabwe	1,263,300	1,323,700

Source: SADC Employment and Labour Sectoral Reports

It is again clear that more needs to be done to create jobs. Formal employment appears to have stagnated or even declined. In addition to the factors that we have already alluded to already, we need perhaps to bring the element of adjustment costs.

In any new programme there are always costs associated with say, economic restructuring. Regional integration is no exception there is bound to be job losses as firms adjust to new economic and political environment. The expectation of course is that sooner rather than later, the enabling environment created by regional integration becomes the engine to give fresh impetus to, and the resumption of economic growth.

The challenge for SADC is how as a regional organisation it can bring about accelerated economic growth, create more jobs and reduced poverty so that its peoples can lead higher quality life. How can the surpluses and wealth in some SADC countries best be transferred to balance for the deficits in other SADC countries? Is there scope for intra-SADC investment? What needs to be done to realise this? These are some of the questions that need further research.

4 Concluding Remarks

There is no doubt that whatever SADC has achieved since its transformation from a Co-ordinating Conference to a Development Community, came as a result of tremendous sacrifice for Member States. As indicated in this report, SADC is in the right path.

Poverty reduction should continue to be a top priority for SADC. It is particularly so in view of the fact that 40 per cent of the SADC population lives in abject poverty. The challenge is enormous, but SADC can meet it given the political will that exists and the abundant human and natural resources available. Progress in poverty reduction will only come about through sustained and broad based economic growth, complemented by efficient provisions of social services such as education, health care, clean water, sanitation and nutrition.

If SADC is to make a dent in poverty and create gainful employment, there is need for the region to grow on average by more than 6.2 percent per annum. This has been clearly demonstrated in a recent study by the ECA. At this early stage of SADC integration process commendable success have been achieved. The impact on job creation and the labour markets will be realised only in the long term. SADC is only 8 years old.

LIST OF ABBREVIATIONS

APPENDIX

Economic Policy in Labor Surplus Economies – Strategies for Growth and Job Creation in Southern Africa

A Conference Jointly Organized by

The World Bank

and the

Friedrich Ebert Stiftung

at the Grand Palm Hotel, Gaborone, Botswana
3rd - 5th May 2000

The creation of long-term employment opportunities remains a persisting key challenge for development policies. The availability and stability of jobs in turn has important implications for social policy, especially with regards to systems of social security and individual life-time risk management. This two-day conference is designed to bring together experts from the development and labor communities to exchange views on how to facilitate the growth of 'good jobs' in an increasingly volatile environment of economic globalization and the role that regional economic cooperation may play in this process.

Day One

3rd May 2000

7:00 p.m. **WELCOME ADDRESS**

- **Hon. Baledzi Gaolathe ,**Minister of Finance and Development Planning of the Republic of Botswana
- **Dr. P. Ramsamy,** Acting Executive Secretary SADC
- **Alan Gelb**, Chief Economist, Africa Region, The World Bank
- **Michael Meier**, Resident Representative for Botswana, Friedrich Ebert Foundation

Dinner will be served.

Day Two

4th May 2000

from 8.15 a.m **Registration**

8.45- 9.00 a.m. **Introduction by Manfred Bardeleben (FES New York) and Neeta Sirur, World Bank Institute**

9:00- 10:30 a.m. **PANEL I: STRUCTURE AND DYNAMICS OF LABOR MARKETS IN SOUTHERN AFRICA**

This panel should serve as a sort of 'assessment' of the current employment situation in Southern Africa. What are the quantitative and qualitative parameters of labor markets in the region, and what are the recent trends of change? What structural constraints persist and how do they affect policy implementation (e.g. labor mobility, flexibilities of wages and working hours, etc.)? What are the different dimensions of labor market policies that need to be addressed (overall growth, *in/exclusion of marginalized groups, function of employment in poverty eradication)?*

Presentation: **Andrew Dabalen**
Economist, Human Development Sector, World Bank

Response: **Tania van Meelis**
Editor, South African Labor Bulletin, RSA

Chair: **Fackson Shamenda**
President ICFTU

10:30 - 10:45 a.m. *Coffee Break*

10:45 - 12:15 p.m. **Panel II: NATIONAL POLICIES FOR INVESTMENT, GROWTH AND JOB CREATION: THE ROLE OF THE STATE**

What degree of interventionism in the economy will yield the best results for employment creation? In which way should the state get involved (state as enabler, provider, activator)? Which fields of governance have an especially effective impact on economic development (human resource development, strengthening of institutions such as markets or the judicial system, macro-economic framework, etc.)? To what extent do privatization efforts affect national employment policies?

Presentation: **Dr. Wilbald Maro**
Director, Research Bureau – USDM, Tanzania

Response: **Arvil Van Adams**
Sector Manager Human Development, World Bank

Chair: **Dr. Felix Schmidt**
FES Resident Representative, Zimbabwe

12:30 - 1:45 p.m. **LUNCHEON**

2:00 - 4:00 p.m. **Panel III: TRADE LIBERALIZATION AND EMPLOYMENT: THE INTERNATIONAL DIMENSION**

Countries face increasing limitations on their policy-making capabilities due to globalized investment and production patterns. To what degree is the international structure of liberalized trade affecting policy making in the region? Through which reactive or proactive measures may the countries in the region respond to this challenge? If globalization poses threats and opportunities for Southern Africa, how can it be ensured that the economic policies will serve beneficial to the people and not harm long-term progress? How can the quest for international competitiveness in global markets be combined with creating 'good jobs', meaning stable, productive and non-exploitative employment?

Presentation: **Prof. Mohammed El Toukhy**
Head of Department of Economics, University of Namibia

Response: **Gene Tidrick**
Lead Specialist, Economic Management and Social Policy

Chair: **The Honarable Cephas G. Msipa**
Minister of State, Zimbabwe

4:15 - 5:45 p.m. **PANEL IV: SUPPORTING GROWTH AND JOB CREATION: WHAT ROLE FOR THE WORLD BANK?**

The World Bank is playing a crucial role in social policy definition in developing countries, not only through its requirements for austerity programmes and conditionalities, but also through its intellectual leadership in the development *discourse. This influence leaves an important imprint on the formulation of actual policy in recipient countries. To what extent is the World Bank shaping national policies? How can it get involved in social policies without running the risk of having its actions perceived as a threat to socially vulnerable groups? How can national idiosyncrasies better be incorporated in World Bank program creation and implementation?*

Presentation :**Alan Gelb**
Chief Economist, Africa Region, The World Bank
Gene Tidrick
Lead Specialist, Econ. Management and Social Policy, The World Bank

Response: **Stephen Friedman**
Director, Center for Policy Studies, RSA

Chair: **Rose Lugembe**
Permanent Secretary, Ministry of Labor and Youth Dev., Tanzania

Day Three

5th May, 2000

9:00 - 10:30 a.m. **Panel V: EMPLOYMENT AND SOCIAL PROTECTION**

Employment is not an end in itself. It is not only necessary as income provision for immediate needs, earnings from it must also serve to provide protection for times of hardship, for workers and their dependants. What concepts are feasible in developing countries to assist people in their risk management approaches? How could the burden of protection against risk be divided among different stakeholders in a society?

Presentation: **Trina Haque**

Economist, Human Development Sector, The World Bank

Response: **Dr. Godfrey Kanyenze**
Chief Economist, Zimbabwe Congress of Trade Unions

Chair: **Bernadette Artivor**
Under Secretary, President's Economic Advisory Council, Namibia

10:30 - 10:45 a.m. *Coffee Break*

10:45 - 12:15 p.m. **Panel VI: REGIONAL INTEGRATION AND ITS IMPLICATION FOR THE SOUTHERN AFRICAN LABOR MARKET**

The regional dimension is taking on a role of special importance for policy making. Pressures due to global competitiveness might be dealt with differently in a regional than in a national context. How can regional policy coordination improve national employment outcomes? How should the institutional role of a regional organization be defined? How can the national stakeholders constructively influence coordination through SADC?

Presentation: **Dr. Kani**
Chief Economist SADC

Response: **Pamela Cox**
Country Director Southern Africa, World Bank and
Dr. H K. Siphambe
Economist, University of Botswana

Chair: **Prof. Ben Turok**
MP ANC, R.S.A.

12:15 - 1:45 p.m. **LUNCHEON**

2:00 - 4:00 p.m. *Concluding Plenary:*

<u>POLICY PROPOSALS FOR GROWTH AND JOB CREATION</u>

Introductory Statements: **Dr. Jonathan H. Chileshe**
Chairman National Economic Advisory Council, Zambia
Alan Gelb
Chief Economist Africa Region, World Bank
Fackson Shamenda
President ICFTU
Calle Schlettwein
Permanent Secretary, Ministry of Labor, Namibia

Chair: **Dr. P. Ramsamy**
Acting Executive Secretary SADC

All participants are asked to discuss the findings of the previous sessions in this plenary session. Brief opening statements of four to six conference participants will reflect progress in the conference by identifying common ground and areas, which invite further investigation.

The discussion will concentrate on the feasibility of concrete policy proposals. Priorities for policy making should be identified.

7.00 p.m. <u>CLOSING OF THE CONFERENCE</u>

Closing ceremony at the invitation of H.E. Mr. Festus Mogae, President of Botswana

Closing address by H.E. Mr. ***Festus Mogae****,* ***President of Botswana***

Closing remarks by the Organizers:

Pamela Cox, Country Director Southern Africa, World Bank

Hubert Schillinger, Desk Officer Southern Africa and Trade Unions, FES Bonn

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