

# Structural change – critical for poverty reduction in Africa

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## KEY FINDINGS

- Economic growth has had a negative effect on unemployment and poverty reduction in Africa.
- The transition from low- to middle income requires within sector increases in productivity and a shift of labour resources from low productivity agriculture to high productivity manufacturing.
- Structural change in Africa's labour market has not been sufficient to achieve poverty reduction.

Donors have focused much attention on African development but have mostly failed to assist the region in making the transition from low value added agricultural activities to more sophisticated and productive manufacturing alternatives. In order to rectify this, an ambitious new approach to aid in Africa is needed, with a focus on three key objectives:

1. Assisting African workers to acquire the skills needed in higher added-value industries.
2. Supporting firms seeking the necessary funding and managerial expertise to develop their activities.
3. Helping governments develop industrial clusters and attract foreign direct investment (FDI).

## Unequal growth pushes African workers towards informal economy

One of the most pervasive problems in Africa is the size of the informal economy and its effect on unemployment. At 6.4 per cent, official unemployment figures suggest a relatively low level of unemployment, but the main driver seems to be the large informal sector. The economic landscape is complex and varied, but the available data shows that countries with larger informal economies tend to have lower levels of unemployment. This suggests that a large level of the work-force is employed in informal activities, with precarious working conditions, low wages, no benefits and little job security. This leads to, despite low levels of unemployment, poverty across Africa remaining a problem.

Counter-intuitively, the impact of economic growth on employment seems to have been negative. Those countries that experienced the least growth were more apt at generating well-paying jobs than their faster growing neighbours. This suggests that growth has come from industries that are not employment intensive and workers are thus pushed towards the informal sectors.



Lumber yard factory, Ghana. © Curt Carnemark / World Bank

## Lack of structural change limits poverty reduction in Africa

Poverty reduction is linked to the interaction of two fundamental forces in the labour market.

1. Productivity gains across all sectors improving wages
2. Workers shifting to higher productivity jobs.

Such structural change has been slow in Africa, and the region's recovery from the recent global economic crisis seems to be driven largely by the rise of commodity prices. While the share of agriculture in the economy has been falling it still represents as much as 63.1% of the labour force.

A comparison of Africa's experience with that of countries that were able to successfully make the transition from low- to middle-income shows that the biggest struggle has been to shift labour resources to manufacturing. The share of manufacturing to GDP has remained stagnant for the last 40 years and manufacturing output per capita in African countries is considerably below what one would expect. With manufacturing productivity almost four times that of agriculture, this has handicapped the region's efforts to raise its inhabitants quality of life.

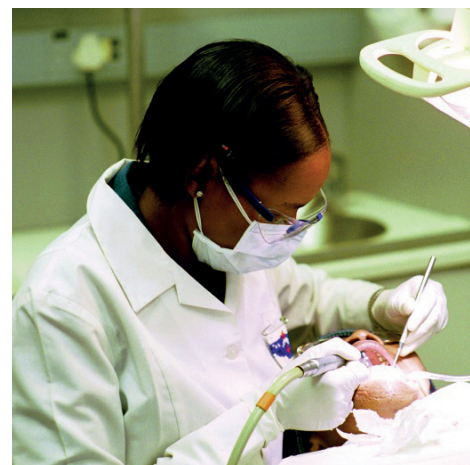
While in Asia the above mentioned two forces have worked together to reduce poverty, in many parts of Africa only the first force has been present. Although in Nigeria, Malawi and Egypt these fundamental forces in the labour market did reduce poverty, in Tanzania and Uganda structural shifts took workers in the opposite direction, from high productivity services to low productivity agriculture.

### **Rethinking foreign aid to Africa: focusing on structural change**

The efforts of foreign aid in relation to employment in Africa have been misguided. Countries where economic growth has led to only minimal improvement in employment received more aid than more successful ones. In a region where foreign aid tends to represent a substantial fraction of GDP, and in light of the inequality described previously, foreign aid has failed to direct attention to those projects which would have been more successfully reduced poverty.

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*Dentist at work.  
South Africa.  
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An alternative approach to poverty reduction in Africa should focus on improving working conditions and increasing job availability. This would include raising productivity of strategic crops such as cassava, maize, rice and wheat, improving roads, and enhancing access to finance. Meanwhile, foreign donors can help African nations to endow their workers with the necessary skills to make the transition to higher productivity manufacturing jobs by shifting the focus of aid from improving the regulatory environment to improving infrastructure, education and skills available. Finally, foreign donors can also assist African governments by supporting exports, building industrial clusters through special economic zones and building firm capabilities through development agencies to attract FDI and management training.

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#### **IMPLICATIONS**

**A new poverty reduction strategy for Africa should focus on:**

- Improving conditions and increasing opportunities in agriculture.
- Endowing private sector workers with the skills necessary to successfully transition into higher productivity manufacturing jobs.
- Supporting exports, building industrial clusters through special economic zones and building firm capabilities to attract FDI.