Labour Market Dynamics in Times of Crisis: Evidence from Africa

An Overview

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All countries experience periodic crises. Some are of their own making, such as bad economic or financial policy choices, some are the result of historical path-dependence and the structure of their institutions perhaps stretching back to colonial times or further, and some, like the recent global financial crisis, are totally exogenous. Developing countries, due to history, their institutions and their 'fragility' are strongly affected by crises of different types. African countries, in particular have experienced regular crises since independence. These range from civil wars, sometimes tied in with the independence struggle, and insurgencies, to political struggles and economic crises, some of which culminated in Structural Adjustment Programs, and most recently the global financial crisis.

A first round impact of most crises is disruption of the economy, even if the crisis was not specifically economic in nature. This in turn has labour market effects, and since labour market outcomes and poverty are closely related, affects livelihoods and poverty. In addition to these immediate effects, there is further evidence that periods of unemployment can have a 'scarring' effect on wages and future employment probabilities which lasts longer than merely the period of unemployment (see for example the overview of Arulampalam, Gregg and Gregory, 2001, for evidence from the United Kingdom). Despite limited evidence of the long-term impacts of un-, and under-employment in African countries it seems likely that a crisis will have long-term effects, given that these are systematic shocks which affect the labour market. It also seems likely that the impact of crises will differ depending on the type of crisis but also across groups with different characteristics. This project aimed to investigate the impact of crises of different kinds across a number of sub-Saharan African countries, with a specific focus on how vulnerable groups, especially women, the youth and those with lower levels of skills, are affected. It uses micro-data from household and firm surveys to investigate labour market outcomes, and where possible the dynamic impacts of these crises. It covers nine different countries and a variety of crises – including political (in Madagascar), insurgency (Uganda), the aftermath of trade liberalisation arising from a Structural Adjustment Programme (Cameroon), and the global financial crisis (in Rwanda, South Africa and Swaziland). In addition to this, papers on Ghana, Kenya and Tanzania provide more insight on how labour markets function in these countries more generally. The results highlight the tenuous positions of those on the fringes of the labour market. A summary of each paper is provided below, and a section on commonalities between the studies and potential policy lessons concludes.

Rwanda

Dickson Malunda, "Employment intensity of growth in Rwanda: Analysing the links between Growth, Employment, and Productivity"

Rwanda has experienced sustained high economic growth rates since the genocide and with this a reduction in poverty. Despite this World Bank figures indicate that approximately 45% of the population lives below the poverty line. This paper uses Rwandan labour market data from 2005/6 and 2010/11 to investigate in more detail how economic growth and employment are related. The results suggest that there are three important drivers of output growth per capita in Rwanda between 2006 and 2010. First, inter-sectoral shifts of workers from low productivity sectors, like agriculture, to higher productivity non-agricultural sectors. The second driver is increased agriculture productivity driven by the government's Crop Intensification Program. Third, one of the main risks to Rwanda's progress is population growth. Changes in the structure of the population, and more minors and elderly dependents per worker, had a negative impact on per capita value added over the 2006-2011 period. This suggests that reproductive health interventions can have a positive impact on economic growth. Taken together these changes show better consumption growth among the poor between the period 2006 to 2010/11. This was not the case for the 2001 to 2005/6 period. (Hernandez, 2013). In this sense, Rwanda has managed to produce inclusive growth.

Madagascar

Harivelo Rajemison, Faly Rakotomanana, Patrick Léon Randriankolona, Julia Rachel Ravelosoa, "The impacts of socio-political crisis in 2002 and 2009 on the labour market in Madagascar: The case of the agglomeration of Antananarivo

Since independence in 1960 Madagascar has experienced four political crises, the two most recent being in 2002 and 2009. These crises have affected the economy and particularly the labour market, and have thus also affected poverty levels. This paper uses data from Antananarivo to examine the impacts of these two most recent crises on labour market outcomes. Both crises had a larger effect on the most marginalised in the labour market – women, youth and the low-skilled, and impacted particularly on employment in the Export Processing Zone (EPZ).

In 2002 two out of three people who lost jobs were women and in 2010 this was nine out of ten. Low-skilled workers, specifically individuals with low education lost most jobs after each crisis. Firms in the EPZ were the primary victims of job loss in both crises, 21,000 jobs were lost in these firms between 2009 and 2010 and 33,900 jobs were lost between 2001 and 2002. The impact on the EPZ (or Zone Franche) is particularly concerning given that those employed in the EPZ are predominantly young, semi-skilled female workers and that employment in the EPZ is significant step-up in pay for women who would otherwise be found in poorly remunerated informal sector work (Glick and Roubaud, 2006). After the crises the informal sector was the only one which experienced net job creation (4,700 jobs created in 2010 and 11,300 in 2002) as those who lost formal sector jobs entered this sector. These results indicate that crises of this nature impact the most vulnerable, and provides further motivation for efforts to resolve these crises as quickly as possible.

Uganda

Kim Lehrer, "Returning Home: Post-Conflict Livelihoods in Northern Uganda"

Uganda has experienced a long-running and brutal conflict in the north of the country between the Lord's Resistance Armey (LRA) and the official Ugandan military. As a response to this conflict, over 80 percent of the population in the affected areas moved, either voluntarily or forcibly, to Internally Displaced People's (IDP) camps. These camps were surrounded by security zones and meant that residents were without access to their homes and land. This meant that IDP camp residents were dependent on food aid for survival. This "semi-urbanization of rural life" (Bøas and Hatløy, 2005) meant that occupations changed dramatically for both men and women as they were displaced.

This paper investigates changes in labour market outcomes associated with displacement to these camps through the use of a panel dataset which spans six years. In 2005 911 household living in 32 IDP camps were interviewed. These households were then re-interviewed two years later during resettlement and again in 2011 several years after resettlement. The results show that despite resettlement unemployment remained high amongst formerly displaced individuals - at levels similar to those in 2005 when these individuals were living in IDP camps. Displacement and resettlement had different labour market effects on males and females – men who had been resettled for a longer period were more likely to be working and female labour force participation, which increased post-displacement, is negatively correlated with the duration of displacement. Post-displacement most people who are in agriculture if they are in income generating activities, which suggests a return to the activities they were doing prior to displacement.

These results suggest that long periods of displacement can have negative implications for labour market outcomes, particularly for females.

Swaziland

Zuzana Brixiová and Thierry Kangoye "Gender gap in employment and entrepreneurship in Swaziland", and Zuzana Brixiová, Thierry Kangoye and Robert Fakudze "Youth employment challenge and entrepreneurship in Swaziland"

Swaziland had one of the slowest growing economies in Africa during the period of 2001-2011, averaging only 2.3% per annum. This low rate of growth has meant that unemployment rates are high, particularly among vulnerable groups. In 2007 and 2010 more than 50% of young people were unemployed and unemployment among females, of working age, was 31% and labour force participation amongst this group low. Females are not only less likely to be employed, but if employed, earn lower wages. The two papers on Swaziland use data from the 2007 and 2010 Swaziland Labour Force Surveys and the 2012 Survey of Constraints to Entrepreneurship in Urban Swaziland to investigate the gender wage gap and youth unemployment and entrepreneurship.

This research confirms that women are, in general, disadvantaged in the Swazi labour market – they are more likely to be unemployed, earn less (only by a small amount though), and although they predominate amongst entrepreneurs, run mostly small informal firms and face major challenges obtaining credit and growing their businesses. In addition to this the global financial crisis exacerbated the constraint of access to finance amongst young female entrepreneurs due to their limited access to land which can serve as collateral. This means that young women rely more heavily on informal sources of finance. These results indicate that policies which help women to own assets (such as land), and access formal financing opportunities can help them grow their businesses.

South Africa

Neil Rankin, Gareth Roberts, Volker Schöer and Debra Shepherd "Recession and recovery on the edges of the labour market. South African youth employment"

The South African research specifically focuses on how the recession in South Africa, an outcome of the global financial crisis, affected labour market outcomes for young South Africans. In South Africa, youth employment rates are particularly low – South Africa's National Treasury (2011) estimates that only one in eight working-age adults under 25 years of age has a job (compared with 40 per cent on average in most other emerging economies). Although in 2013 overall employment levels returned to pre-recession (2008) levels, approximately 500,000 fewer young South Africans (between the ages of 18 and 30) were in employment. Using a quarterly panel dataset over the period 2008 to 2013 the paper finds that exit out of jobs is more likely to occur for young people, those employed in smaller firms, and those in lower paying jobs. As the economy recovered, the probability of exit from lower paying jobs declined. The crisis also seems to have had a lasting impact on entry into jobs. Entry rates fell with the recession but continued to fall even post-crisis. Relative to older individuals, the crisis decreased entry more for those aged 25-29. The effect on the different age groups remains after the crisis – entry probabilities increase for those aged 30 and above relative to younger people. This relative reduction in the probability of entry into jobs helps explain the continued divergence in employment growth by age group post-crisis.

The South African results indicate that the crisis further exacerbated a longer term trend of employment growth which favoured older people over younger people and the more-skilled over the less-skilled. The South African government has recognised the challenges that young people face in entering new jobs and introduced a tax incentive for firms which hire people aged 18-29.

Cameroon

Ousmanou Njikam and Kouty Manfred, "Trade, Foreign Ownership, Closure and Labour Demand: Firm-Level Evidence from Cameroon"

The research on Cameroon examines the response of Cameroonian firms to trade liberalisation which was as consequence of a structural adjustment programme implemented in the late 1980s. This trade liberalisation saw Cameroon move away from high tariffs and a policy of import substitution towards a more open economy. Theoretical models of international trade predict that increased foreign competition is likely to drive out uncompetitive firms – the paper finds this and also finds that firms which already operate in the international market through the use of imported intermediate inputs or by exporting were less likely to close.

The closure of manufacturing firms can also result in job loses, at least initially as a first round effect, which may be permanent if these individuals do not find other forms of employment, but surviving firms may also increase employment if they are able to grow. The paper also examines the relationship between employment and foreign competition among surviving firms. It finds that import penetration acts as a complement (substitute) to skilled (unskilled) workers. Hence, skill-biased technological change is a determinant of the decline in the relative demand for low skilled labour in the Cameroonian manufacturing sector. Moreover, the negative effect of import penetration on the demand for unskilled workers is less pronounced for more capital intensive firms. Firms in industries with relatively greater reductions in tariff rates experience large demand in unskilled employment but this impact is estimated with precision. These results suggest that tariff reforms need to either take place after policies aimed to increase productivity (to enable firms to withstand heightened competition from imports), or that policies need to be in place to mitigate the job losses created by the exit of uncompetitive firms.

Ghana, Kenya and Tanzania

Priscilla Twumasi Baffour, "Selection into Employment Sectors in Urban Ghana and Tanzania"; Priscilla Twumasi Baffour, "Determinants of Urban Worker Earnings in Ghana and Tanzania: The Role of Education"; Anthony Wambugu, Jane Kabubo-Mariara and Leopold Mureithi, "The Distribution of the Formal/Informal Earnings Differential in Kenya, 1994-2005

The papers which focus on Ghana and Tanzania use similar datasets of individuals in the urban labour force in the two countries to examine selection into jobs and earnings in these two countries. These surveys track individuals over a three year period (2004-2006). The papers indicate that the two labour markets differ across a number of important dimensions. For Tanzania education is found to increase the probability of employment but for Ghana education is positively correlated with not working, potentially indicating the highly educated individuals in Ghana prefer to wait for good jobs. In both countries there is a preference for private sector work, over self-employment, and this preference rises with education. The probability of self-employment increases with age in both countries. There are a number of potential explanations for this including that individuals may acquire skills or capital which makes them able to enter self-employment as they age, or that entry into the formal sector is difficult after a certain age.

Education plays an important role in facilitating access to lucrative jobs in the public sector in both countries but has no further role in determining earnings, on average, within this sector. In the private sector, there is a strong convex relationship between education and earnings – those with higher levels of education earn substantially more than those with lower levels.

The research on Kenya also examines earnings differentials between the formal and informal sectors and covers the period 1994 to 2005. Across this period formal sector workers earn more than those in the informal sector and the earnings gap is greater for male workers compared to females. However once the worker's education, potential experience, region of residence and endogenous sector participation is controlled for the gap vanishes, indicating that it is these factors, rather than the sector, which explain the gap. Like with the Ghana and Tanzania work, returns to education are higher in the formal sector. Over time returns to secondary education for males has increased in the formal sector, suggesting increased demand for these types of individuals. In contrast to this, returns to education in the informal sector have increased for females, potentially due to the changing nature of the informal sector or increased competition in this labour market.

Policy implications

Although crises differ, as does the context in which they occur, there are some policy lessons which can be drawn from these studies. The first is that those who are already at a disadvantage in the labour market are particularly vulnerable – consistently across these studies it is the youth, women, those with lower levels of skills or education, people in smaller firms or the informal sector, and those without access to collateral, such as female entrepreneurs, who are most affected. Arguably economic policy should already focus on these groups, but in addition to this, specific policies which mitigate the impact of crises on these individuals are required. The exact nature of the type of policy required will differ depending on context. Policies such as temporary wage subsidies or other active labour market interventions may be appropriate if the crisis is exogenous, such as the global financial crisis but interventions which are relevant in circumstances when government and government administration does not function as a result of the crisis are more difficult to design.

The second is that the duration of the crisis seems to matter. As the studies on Madagascar and Uganda show, the negative consequences of these crises grow larger, the longer the crisis endures. The third is that the consequences of even a relatively short crisis can persist – for example South Africa experienced a recession for a year but three years later youth employment still remained below pre-crisis levels. Given that work trajectories are path dependent and that early periods of unemployment can result in later labour market scarring this suggests that interventions, particularly for those on the margins of the labour market, need to be implemented quickly. The South African Employment Tax Incentive (ETI), a wage subsidy which was implemented in 2014, may have been more effective in preventing job losses amongst the youth if it had been implemented earlier, when it was initially proposed, and been applicable to all young people rather than just new hires. In this context the ETI provides an example of how political dawdling can be particularly costly in times of crisis.

The last policy lesson to draw from these studies is perhaps the most important – crises happen, and governments need to have strategies, and potential policies, to mitigate the impacts on the labour market, particularly women, the youth and those with low levels of skills when these crises occur. For interventions to be put in place quickly, as the results from this project suggest they should be, then programmes need to already be in place that can be scaled up quickly, or at the very least there needs to be provision for 'emergency' interventions, which have been already planned and have political backing, which can be implemented when a crisis strikes.

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