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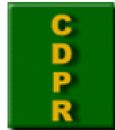

Centre for Development Policy and Research

Investment for Poverty Reducing Employment in Africa: Review of case studies and an analytical framework

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List of Acronyms

CAP(s)	Country Action Programmes
FDI	Foreign direct investment
GDP	Gross Domestic Product
ILO	International Labour Organisation
IMF	International Monetary Fund
IPRE	Investment for Poverty Reducing Employment
JFA-PRESA	Jobs for Africa Programme-Poverty Reducing Employment Strategy for Africa
LFS	Labour Force Survey(s)
LSMS	Living Standards Measurement Surveys
MDG(s)	Millennium Development Goal(s)
PRE	Poverty Reducing Employment
PREG(s)	Poverty Reducing Employment Goal(s)
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
UNDP	United Nations Development Programme

Executive Summary

Overall conclusion:

The UNDP-ILO Joint Programme, when linked to the UNDP's policy studies on pro-poor growth, the ILO's Decent Work programme, and the MDGs, has the potential to shift the policy debate in favour of bolder initiatives for poverty reduction.

Principle conclusions:

1. Without policies to redistribute income, the probable rates of growth in sub-Saharan countries are unlikely to generate rates of poverty-reducing employment that will achieve the Millennium Development Goals for poverty reduction.
2. The principle policy instrument available to governments to achieve redistribution and poverty-reducing employment growth is public investment.
3. To achieve poverty targets through decent work, the integration of the PRSP and the JFA-PRESA should a) result in less emphasis upon short term macroeconomic stability, and b) primary emphasis on medium and long term public investment.

Analytical Clarity and Definitions

A programme for poverty reducing employment generation requires analytical clarity and appropriate definitions. There are problems in the definition of unemployment and underemployment that result in a great variation of statistics across countries in the sub-Sahara and lack of consistent empirical evidence. There is a need for more appropriate labour categories in statistics in order to capture what is called 'informal' employment, because of the heterogeneity of the labour market. The dichotomy between 'formal' or 'modern' and 'informal' labour market fails to do justice to the heterogeneity that cuts across formal-informal boundaries. Given the rigidities and constraints of official statistics, one must use results from micro-surveys and independent research, and relate these to research based national accounts and other official data.

In the case study countries information on employment and unemployment typically comes from institutions involved in benefit claims, and refers to people searching for work. Thus, it is not surprising that unemployment rates are low by international standards, especially at national level, because of low recorded rates in rural areas, where most households engage in some type of activity. In rural areas, the main problem is poverty, intensified by seasonal periods of inactivity.

Unemployment figures for rural areas do not provide much insight into the labour market. In many surveys, self-employment is taken as a residual category after others have been recorded. As a result, employment in the agricultural sector tends to be oversimplified. Micro-level evidence suggests that rural labour markets are dynamic and non-agricultural employment is significant and growing. In order to understand the trends and dynamics among growth, investment, employment and poverty reduction in rural, as well as urban areas, one should have detailed and relevant information about the

range of occupations. More detailed information is necessary to examine questions such as: the types of public investment, in which sectors, for which activities that would yield larger gains in terms of job opportunities or increases in wage rates for the poorest people in rural areas.

Why the Poor are Poor in Africa

In much of the conventional poverty literature the confusion among causes, symptoms and consequences is substantial. There is a neglect of the distinction between the *characteristics of the poor*, and *the characteristics of the circumstances that constrain the poor*. A historical perspective on what poverty is and which its objective circumstances may also be necessary to avoid the inaccuracies of survey results.

Micro-level research and historical analysis can highlight the relationship between poverty and the objective circumstances of employment patterns. The availability of employment opportunities, levels of remuneration, and social benefits play key roles in lifting households from poverty. Thus, poverty in developing countries can be viewed as the lack of opportunities for decent work and social inclusion. In order to understand the link between poverty and employment it is essential to account for the factors that lie behind this link. The *objective circumstances* that determine poverty and the symptoms of poverty are poor infrastructure, weak states, weak regulatory capacity of working conditions, political instability, inequality and limited access to resources, and lack of employment diversification.

Growth, Distribution and Employment

Poverty in Africa is intimately related to growth performance and the distribution of the marginal increase in income created by growth. In real economies, as opposed to abstract models, the distribution of income is always changing as working people shift among sectors. One frequently reads that while redistribution may be relevant for poverty reduction in other regions, in the sub-Sahara it is not, because the level of per capita income is so low. This opinion is false: as long as income is not equally distributed, which it never is, redistribution, either of current income or the growth increment, is a more effective instrument for poverty reduction than growth which is distribution neutral or increasingly unequal at the margin.

The Joint Programme of the UNDP and ILO can make an important contribution to through emphasis on poverty reducing employment through greater equity in growth, driven by productive investment. This can and should have an impact on the Poverty Reduction Strategy Paper process. This impact requires a restructuring of partnerships among development agencies, in which the UN system establishes itself as an equal partner in defining the framework more broadly, fostering flexible fiscal guidelines that accommodate public investment, and influencing the basic goals of the process, especially national ownership of development strategy.

Macro Economic Context

If an economy is demand constrained, the impact of increased government expenditure on the components of private demand is an empirical question. Public expenditure, especially investment, can ‘crowd-in’ private expenditure through the

familiar multiplier effect, the impact on profit expectations, and cost reductions associated with improved infrastructure.

In light of the evidence that the economic growth of the sub-Saharan countries has been demand constrained over the last twenty-five years, we conclude that the observed high capital-output ratios and the low rate of job creation are not explained by the ineffectiveness of aggregate investment. Rather, realising the growth and employment benefits of investment has been limited by lack of demand, coincident with, and perhaps the consequence of conditionalities associated with stabilisation and structural adjustment programmes.

Investment and Employment Generation

Governments of the sub-Saharan region can and do attempt to increase the employment generating effect of private sector investment, but the instruments available to them to do so are few and frequently ineffective. In the case of the private formal sector, influencing investment choice through policies that affect relative prices are unlikely to have any significant impact. While governments should attempt to induce private sector behaviour that is more employment generating, the most effective way it can do so is through public investment. Public investment has a direct employment effect, which can be increased through an employment-focused policy strategy, in part by drawing on decades of work in the ILO on labour-intensive public works. These investments also have indirect employment effects.

The aggregate share of total investment in the sub-Saharan region is well below what would be necessary for economic growth that would have a substantial and sustained impact on poverty reduction through employment generation. The consistently poor investment performance after the early 1980s may be explained in great part by a drastic fall in public investment. The low level of overall investment in sub-Saharan countries suggests the necessity for a public investment strategy focussing on ‘crowding in’ private investment.

The Case Studies

Macroeconomic Policy

After a summary of the main characteristics and empirical information on poverty and employment in the country, which usually replicates the profiles published in their PRSPs, the three country studies provide: 1) a detailed review of macroeconomic and sector policies with a focus on the link between investment, employment and poverty reduction; and 2) highlight the main constraints at each level and the possible options available for a more poverty reducing investment-led strategy. A demand-constrained growth framework does not seem to underpin the country reports. Rather, a supply-side approach appears to provide the basis for many of the diagnoses and recommendations, in line with the conventional approaches in PRSPs.

The tone of the studies of Uganda and Burkina Faso suggests an acceptance of the neoliberal vision of the *role of the state*, to look after ‘social’ sectors (education, health and social assistance), and ‘creat[e] favourable conditions for private investment’ and ‘improv[e] business confidence’. This approach results in a positive view of the orthodox policies on the fiscal deficit, exchange rate management and deregulation.

Inequality and Distribution

The importance of inequality and income redistribution and the role of the state, in addressing inequalities are treated marginally in all three reports. Inequality is mentioned most explicitly in the gender chapters, with an emphasis on different forms of the gender gap and unequal access to resources.

The report points to a danger inherent in 'strong redistribution' that would hinder savings and long-term growth potential. The best form of redistribution, it is argued, is the creation of 'productive jobs' for the poor. Thus, redistribution is treated as a by-product of economic growth, under the assumption that investment-led growth will necessarily benefit the poor people and reduce poverty. More evidence is needed to support such an argument, with a more detailed breakdown among activities, sectors and occupations with greater likelihood of trickle-down to the poor. The effects of redistribution on effective demand are largely ignored. The attention paid to the effects of redistribution on savings of richer classes implicitly derives from a macroeconomic model in which the income of the poor grows more than proportionately with overall growth.

The diagnosis of poverty for Cote d'Ivoire acknowledges that poverty results in part from inequality, which implies selective redistribution. However, data on inequality and its evolution are not presented in a systematic way. Evidence of falling real wages in Cote d'Ivoire during the 1990s suggests a worsening of income distribution for wage earners in urban areas, whereas other data suggest that inequality did not change much in this period.

Public Investment

The case studies emphasise the role of public investment in employment generation and poverty reduction. The study of Burkina Faso provides considerable detail on projects for employment promotion *via* investment in rural areas and in the industrial sector. The emphasis is not on demand creation, but on the supply side, namely in education and health. Investment in infrastructure is also stressed for its role in creating an enabling framework for growth through lowering transaction costs. However, there is little discussion of the direct effects of infrastructural development on job creation, income generation and increasing in demand in rural areas. The Uganda report assesses the multiplier effects of public investment for different sectors, in which it is evident that both direct and indirect effects in terms of job creation by public investment programs are very important.

The links between public and private investment are not clearly spelt out, nor is the possibility of 'crowding-in or out'. The Uganda report does stress the complementarity between public and private investment, with indirect evidence of crowding-in provided, but the increases in private investment is interpreted as an outcome of 'sound macroeconomic management' and 'attracting foreign investors'. More details on the crowding-in mechanisms and the medium term implications in terms of sustained employment would have been useful.

The reports are detailed, but sometimes rather descriptive and lacking a consistent flow or a clear strategic message. Some sections (especially Burkina Faso report) are primarily descriptive inventories of specific projects of employment promotion, and are not noticeably connected with other, more analytical sections of the same report. A

comprehensible investment-led employment for poverty reduction strategy does not clearly and consistently emerge from the conjunction of the three country reports, which makes the task of coming up with a common approach rather difficult.

Public investment fell in relative terms in the three countries. In Uganda this has partly offset by an increase in private investment. On the other hand, it is not encouraging that public sector employment fell drastically by twenty-five percent during the period 1993-1998. Evidence of pre-1993 retrenchments is not discussed, and no evidence is provided on the absorption of those redundant workers by the regulated private sector.

Road infrastructure and the modernisation of agriculture are the two key areas of public investment in which gains in poverty reduction were expected in Uganda. In spite of greater absolute number of jobs created by public investment in services and construction, the agricultural sector displays the highest direct job creation per unit of public expenditure. At the same time, public investment in construction induces higher private investment rates in Uganda. In general, it is shown with simulations that the multiplier effect of public investment is strong, in terms of jobs in agriculture. Yet, 'by and large, public investment that has been in favour of structural reforms that have involved liberalisation of the economy have had a complimentary effect on private investment'. The report also notes that 'Uganda's public investment policies and programmes have not emphasized the use of resources that are locally available, such as labour'.

In Cote d'Ivoire the emphasis is placed on the mismatch between fiscal austerity and the need for public investment to redress urban unemployment in the modern sector, and improve the working conditions in the informal sector. Investment was negatively affected by structural adjustment and policies in the 1980s and 1990s. Only in the late 1990s were there signs of recovery. Hence, report emphasises the incompatibility between the objective of employment promotion through public investment and privatisation, wage-freezes and job-freezes in the public sector, and subsequent lack of funds for social sectors.

Agriculture and Rural Development

In Cote d'Ivoire, the withdrawal of the state from direct support and production was compensated by increases in private investment, which has mainly concentrated on some more profitable sub-sectors. The dismantling of parastatal agencies and the reduction in government expenditure allocated to the agricultural sector may have had pernicious effects on both capitalist agriculture and smallholder farming. The conflict ravaging large parts of the country also had a devastating effect on agricultural production in some areas.

In the 'traditional' sector in Cote d'Ivoire, poor savings and low productivity are binding constraints on growth in investment and employment creation, even among smallholders. It is noted that the agricultural sector is diverse, and that general solutions for job creation are not useful. Rather, initiatives to solve the problem of access to credit, through the creation of viable private financial institutions, and employment diversification, especially for family labour that is underemployed in subsistence agriculture. Agricultural policies in the last two decades have failed to diffuse technological packages and upgrade the level of skills in the agricultural labour force.

Declining labour productivity continues to be the main problem in this sector. In this regard, access to credit and a better coordination of government agencies in rural areas should be stimulated by substantial increases in public investment in rural areas, not only in road infrastructure and market access but also in the creation of services and opportunities for private investment in non agricultural activities.

Other Issues

With regard to *privatisation*, in Burkina Faso its impact was not totally negative. Jobs were not lost in the aggregate, the report maintains. Throughout the Burkina Faso report it is suggested that the inefficiencies of the state, for example, manifested in absenteeism, lack of motivation, and low productivity, called for a privatisation programme. In this context, job losses could be justified as a means of increasing overall efficiency. In the absence of evidence for efficiency gains at micro and meso levels this is a possibility that remains unproved. Evidence of net employment effects of privatisation in Uganda is missing, though it is noted that the enterprises that significantly reduced employment were the largest parastatal employers before privatisation.

Industrial investment in Uganda is assessed positively, while in Cote d'Ivoire the record in the last ten years has been rather disappointing. According to the Uganda report, privatisation and macroeconomic management have promoted private investment in the industrial sector, across small, medium and large enterprises. FDI flows have increased substantially in Uganda and the manufacturing sector increased in proportion of GDP remarkably. However, many constraints limit a more rapid and balanced development of the manufacturing sector, notably the malfunctioning of public utilities, energy provision, high transport costs due to poor infrastructure, fiscal restrictions, expensive credit, and the competition from imports in the wake of trade liberalization. However, the employment elasticities of investment in the industrial sector are low.

From the country reports it emerges that the *financial systems* of Cote d'Ivoire, Uganda and Burkina Faso are not consistent with poverty reducing employment in the key sectors, because the banking system is almost exclusively directed towards urban and large business. Agriculture and rural development are marginalised from domestic modern financial intermediaries, which clearly prefer trade (especially imports), transport and large service-related enterprises. Short-term credit prevails over long-term lending for investment projects. A large proportion of firms, especially small and medium sized ones, lack access to large financial intermediaries. Because of lack of sufficient government advisory services, these firms do not have knowledge of available credit schemes. In Burkina Faso, credit is a major constraint on investment, and the option preferred by the authors of the report is that of decentralising financial institutions.

Areas for Further Work

A gap in the studies is the lack of detail on vulnerable groups among workers. In these countries vulnerable groups, even if they do not represent a majority of the rural population, are relevant for poverty reduction efforts, especially led by investment and employment strategies. One also misses a detailed breakdown of sub-sectors that are strategically important for investment led strategies. This is done for different forms of public investment, without sufficient disaggregation in the case of Uganda, and for the industrial sector in the case of Cote d'Ivoire.

The country reports would benefit from more detailed and disaggregated accounts of the specific social groups that face discrimination and that have not benefited from growth. Differentiation among 'women' and 'urban youth' may be such that they may not constitute a homogeneous 'vulnerable groups'. However, evidence discussed in the section on labour markets and poverty suggests that better defined social categories can be found according to forms of participation in the labour market and type of livelihoods.

Concluding Remarks

A favourable view is held, especially by the reports on Uganda and Burkina Faso, of the beneficial role of reducing the fiscal deficit, as an instrument of macroeconomic stability and to ease balance of payments constraints. The positive effect on 'business confidence' is also cited, but no evidence is provided to support this conclusion (Uganda, p. 11). Deregulation in Uganda is alleged to have played a positive role in increasing employment in cash cropping by sixty eight percent, through an increase in the share of the final price received by cash crop farmers.

There is the need to reconceptualise macroeconomic frameworks to meet the objectives of an ambitious IPRE strategy. Ministries of Finance, in coordination with other public bodies, must be the main agents of this rethinking process. Leaving an IPRE strategy to the Ministry of Labour alone, which is often among the most under-funded and marginalised public administration bodies in African countries, is unlikely to be successful.

A system to monitor progress towards the goals established in the ILO/UNDP strategy is essential, and could be easily linked to PRSP monitoring mechanisms. Monitoring should include six inter-related indicators: a) the employment level; b) the investment rate to generate employment; c) net crowding-in or out effects of public investment; d) GDP growth rate, broken down by sectors; e) rate of poverty reduction; and f) real wage trends (including information from non-regulated 'informal' sectors. The key challenge remains as to obtain reliable and consistent estimates for these indicators.

I. Introduction

> Work is central to …people's lives and the main test by which they judge globalisation. It is the source of dignity, stability, peace and credibility of governments.
>
> (Juan Somavia, Director-General of the ILO, *International Herald Tribune* 27 February 2004, p. 6)

Both the ILO and the UNDP have sustained commitments to poverty reduction and an equitable distribution of income and wealth in market societies, albeit under different conceptual headings: 'Human Development' in UNDP, and 'Decent Work' in the ILO. Thus, the JFA-PRESA represents the continuation of the core development values of both organisations.

The purpose of this report is to consider three case studies of African countries with in the context of the two UN partners' commitment to poverty reduction and equity. This report follows the ILO-UNDP tradition of viewing these as inter-related and analytically inseparable. The fundamental link between how income is distributed and the degree of social deprivation in a society is central to our discussion. This linkage generates another element of the core approach of the ILO and the UNDP; namely, that poverty reduction is never a purely economic process, even less a process governed principally by technical considerations. This holistic view of poverty is manifested in the terms of reference of the case studies commissioned under the JFA-PRESA, which called for the authors of country case studies to consider participation, governance, and gender 'mainstreaming', as well as economic topics (UNDP-ILO 2002, pp. 2-3). Since this report is a synthesis of country case studies, it is, by extension, mandated to take a holistic approach.

With our mandate in mind, we begin our substantive discussion in Section II, first by considering the causes of poverty in Africa south of the Sahara, with employment and work the central theme, and second analysing the interaction of growth, distribution and employment in the process of poverty reduction. Section III moves from general, theoretical considerations to more concrete issues, all organised around the theme of investment for poverty reduction. Because of the growing importance of the PRS process, the section begins by assessing the actual and potential complementarity

between the PRS and the IPRE. The presentation then turns to investment, organised into three parts: the macroeconomic conditions necessary for an effective investment programme, the conditions when effective investments foster adequate employment growth, and the role of public investment in the IPRE. Sections II and III provide the basis for analysis of the case studies in Section IV. The Executive Summary of the report serves as the summary and conclusion.

II. Analytical Framework

II.A. Issues of Data and Definition

In this section, we make four main points. First, there are problems in the definition of unemployment and underemployment with significant empirical implications that result in great variation of statistics across countries in SSA and generally lack of consistent empirical evidence. Second, there is a need for more appropriate labour categories in statistics in order to capture what is called ‘informal’ employment, because of the heterogeneity of the labour market that is not captured by official statistics. Third, the dual labour market hypothesis and its statistical implications, in terms of the dichotomy between ‘formal’ or ‘modern’ and ‘informal’ labour markets, are simplistic and fail to do justice to the heterogeneity that cuts across formal-informal boundaries. Fourth, given the rigidities and constraints of official statistical sources, one must scrutinise carefully results from micro-surveys and independent research, and relate these to desk-research based national accounts and official statistics.

The concept and definition of unemployment is problematic in the context of many African countries that lack appropriate statistical tools to account for the complexity of their labour markets and the access of the poor to income generating opportunities. Typically the definition of unemployment refers to ‘all those aged fourteen or fifteen or over who worked (for 5 hours or more) in the seven days preceding the interview (reference week) for pay or profit or family gain, (whether for cash or in kind)’. With rigid definitions a problem of cross-country comparability emerges, due to different

statistical sources, definitions and quality of data collection. As a concept, the internationally accepted definition of unemployment carries different dimensions (Standing *et. al*., 1996): a condition (being without employment), a need (for work and income), attitude (desire for paid work), a capacity (ability or availability to accept an opportunity) and an activity (searching for work). These are too many dimensions for a single question. Depending on how questions are worded and interpreted by the respondent, one or other dimension of unemployment will take precedence, thus making international and even intra-national comparisons misleading.

In many countries, including the ones represented by the three reports considered here, most information on employment and unemployment comes from institutions involved in benefit claims, and refers to people searching for work covered by marginalised and under-funded labour ministries. Ideally, more detailed information could come from labour force surveys (LFS), but these are organized with substantial lags, if indeed, they are conducted regularly. Moreover, living standards measurement surveys (LSMS) have gained such primacy in Sub-Saharan Africa, driven by the search for consumption estimates to be used for poverty analysis, that other types of detailed socio-economic surveys have been put aside in many countries. LFS are an example of this bias. The employment sections of LSMS are notoriously small and general, aiming at collecting very general information for international comparisons and not offering sufficient data to understand the actual nature and dynamics of labour markets, including the non-regulated ones. This is a missed opportunity since, with better and more context-specific employment data collected in LSMS, it would be possible to link poverty, equity and employment at both micro and macro levels.

Given definitions in use, it is not surprising that unemployment rates in the countries reviewed are not very high by international standards, especially at national level. This is due to very low rates of unemployment by these definitions in rural areas, where most households engage in some type of activity. In rural areas, the main problem is poverty, sometimes called ‘underemployment’, and seasonal periods of inactivity. Thus, unemployment rates, as they are defined, are mostly useful to assess the employment situation in urban areas and in ‘regulated’ and ‘recorded’ sectors characterised by wage labour.

Table 1. Unemployment rates in countries reviewed (%)

Country/category	National	Urban	Urban youth
Burkina Faso	2.5	18.3	n.a.
Cote d'Ivoire	4.9	11.1	n.a.
Uganda	7.4	21.7	25.6

Source: ILO-UNDP country reports.

In these countries, as elsewhere in Africa, the two groups most vulnerable to unemployment by the standard definition are women and youth, especially in urban areas. The unemployment rates for these two groups are consistently higher than for other groups in all countries reviewed. However, unemployment figures for rural areas, where the bulk of the poor are concentrated, do not provide much insight into the labour market. In this context, underemployment is often used as an indicator of labour market performance. Underemployment is also a problematic statistical concept, whose measurement and interpretation are challenging and should be properly put in context. The definition commonly accepted in ILO, i.e. 'underemployment exists when a person's employment is inadequate in relation to specified norms or alternative employment, account being taken of his or her occupational skill (training and working experience)', requires detailed information that is seldom available in poor countries. In Burkina Faso a forty percent underemployment rate is reported, but its analytical basis is not clear.

Another problem lies in the statistical and conceptual boundaries between categories of self-employment and wage-employment. In many surveys, self-employment is typically taken as a residual category after other categories have been recorded (or not recorded). Moreover, employment in the agricultural sector, usually definited as self-employed or unpaid family helpers on household farms, is oversimplified. Micro-level evidence suggests that casual labour markets are dynamic in rural areas and non-agricultural employment in rural areas is significant and growing (Sender 2003). Therefore, when wage employment is under- or not reported, the missing gap is normally assumed to be self-employment. Underlying is the assumption that the largest majority of people who are not recorded as wage workers in official statistics,

usually dependent on limited samples of 'formal' and regulated enterprises of urban base, must be either self-employed or unemployed (Sender 2003). This practice is evident in the country reports reviewed here. The magnitude of wage employment has probably been underestimated, and the role of self-employment accordingly over-estimated. Alternatively, people may be considered as underemployed in the sense that they do not work as many hours as they are willing to and that the amount of hours they work is not sufficient for their social reproduction. These two definitions have quite different policy implications.

The dichotomy formal-informal, analogous to salaried and self employed can be misleading. As Lachaud showed in his study of urban labour markets in West Africa (Lachaud 1994), observed occupational categories cut across conceptual divides between the 'formal' and the 'informal'. In this context, one could distinguish between the following classes:

1. All 'irregular' wage workers (not subject to effective labour market regulation), which usually includes the very poor, and between formal and informal activities;
2. Marginal self-employed with little working capital, a large group, including poor workers in informal activities;
3. Self-employed with more working capital, and some 'regular' workers (with formalised employment contracts), covering a very diverse 'middle' class, in both formal and informal activities;
4. Protected regular workers with indefinite contracts, monthly pay, more skills, who are typically the 'better off', in formal occupations, concentrated in large urban areas;
5. Unprotected formal wage workers, usually casual workers with variable remuneration, unskilled or semi-skilled, which includes poor people working in both formal and informal activities.

This classification suggests that the 'very poor' in urban areas find themselves to be unprotected casual wage workers, in marginal unregulated enterprises, and the marginal self-employed with almost no working capital. In order to understand the trends and dynamics between growth, investment, employment and poverty reduction, one should have detailed and relevant information about this range of occupations.

Unfortunately, the range of occupation and employment categories presented in the country reports is conventional and does not conform to subdivisions of the type suggested by Lachaud (1994).

The paucity of employment data in the sub-Sahara, and the statistical problems highlighted above, are clearly reflected in statistics from the Global Employment Prospects report (see table 6.1 in the cited report). Of the nineteen countries reported in the list, only two (Benin and Zambia) had unemployment statistics for 1990, only four in 1995 (Nigeria, Benin, Mauritius and Botswana), with fourteen for 1999, drawn from a variety of statistical sources, sometimes referring to different years. The differences in unemployment rates across countries appear remarkable, ranging from a low of six percent in Zimbabwe to more than twenty-five in Burkina Faso and South Africa. This large variation results from differences in coverage and definitions. The similar numbers for the last two countries, which are at extremely different levels of development, casts further doubt on the statistics.

Compounding the paucity of data, other problems in conventional statistical sources, household surveys and labour market analysis are:[1]

1. An artificial and often forced distinction between 'primary' and 'secondary' activities of a respondent, usually biased towards own-account farming in rural areas;[2]
2. The classifications of salaried (monthly paid), wage, and own-account work, which is common in OECD countries, remain problematic in poor countries with occupational multiplicity, and activities that can be interpreted in differently through careful questioning;
3. Bias against identifying many forms of employment as wage-employment, due to biases from respondents, enumerators or analysts, which involve embedded in deep-rooted cultural and political norms;

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[1] See Pincus and Sender (2001) for further discussion.

[2] The typical case is that of 'semi-proletarians' or 'peasantariat', who cannot survive on their own-account farming and form the bulk of casual day labourers working for neighbours or becoming seasonal migrants. Given the questions social stigmatisation of casual manual agricultural labour, most report to be 'farmers'.

4. Huge diversity of own-account activities and need for occupational disaggregation, given that very different incomes and income strategies can be associated to the same branch of activity (trade, construction, transport, etc.); and
5. Insufficient attention to unpaid domestic labour, especially by women.

A very important gap in knowledge of labour markets in Africa involves rural labour markets. These can be regarded as almost 'invisible markets' in current international statistics (Sender 2003). There is no consistent official cross-section or time series to shed light on the trends and nature of rural labour markets in Africa, where the bulk of the poor live. Scattered micro-level research and surveys provide valuable sources of information for a deeper understanding of these labour markets. It is widely known that 'wage agricultural workers comprise a high proportion among poverty-affected groups' (ILO 2003: 6), but there a few data to verify this.

Recently, the ILO stressed the lack of reliable statistics on agricultural wage labour in developing countries, emphasising the need for 'comprehensive disaggregated statistics' (ILO, 2003: 42). The data are particularly problematic in the sub-Sahara where, there are important discrepancies between data from official (government) sources and that from studies carried out by other agencies, including NGOs, in their project areas. (Mwamadzingo, 2003: 31).

Much of the discussion focuses on the capacity of urban economies to absorb a rural exodus that is viewed as increasing due to the development process itself and a crisis in agriculture in many countries. One can argue that most of the new entrants in the labour force are found in rural areas and do not flock the cities to search for work to the extent typically assumed. The ILO report on decent work in agriculture (ILO 2003) shows how pervasive and precarious are wage employment forms in agriculture in poor countries. Therefore, an analysis of the functioning of rural labour markets is necessary in order to understand the links between employment and poverty reduction, and the strategic sources for job creation to improve working conditions of the rural poor. For example, evidence on peasant differentiation in the countryside may be consistent with increases in wage-labour opportunities in small-scale agriculture, i.e. 'capitalism from below'. All micro surveys indicate that a substantial proportion of smallholders employ seasonal and casual labour (ILO 2003), including workers under very precarious or

'informal' wage contracts. That rural non-farm employment is a very important phenomenon has been highlighted by a range of empirical studies (Elberts & Lanjow).

Generally, categories of agricultural wage workers may include permanent, temporary, seasonal, casual, migrant, and piece-rate workers, as well as those receiving some form of 'in-kind' payment (ILO 2003: 6). Their working conditions differ from country to country, and across employers in the same country. Understanding the reasons for these differences may be critical to design well-targeted and designed anti-poverty strategies based on employment generation. Different micro-level surveys have shown a variety of forms of labour arrangements based on market transactions and social networks. Most often village-level labour services are casual and extremely flexible. Labour is hired when labour shortages at peak times arise, when personal relations have been established between employers and workers, and when sporadic opportunities arise. Labour services can involve only a few days in which several people are hired. Some of the poorest people in a community may work in several smallholdings in the village and neighbouring areas, since this part of their survival strategy (ILO 2003; Sender 2003). Payments vary, but piece-meal and task-based payments are most common. Studies suggest that these payments are growing in frequency, because they lower the risk faced by the employer. In great part they reflect a growing strength in the bargaining power of employers (ILO 2003). Frequently, the use of seasonal migrant labour also raises bargaining power of local employers *vis-à-vis* local casual workers. There are rarely any employment benefits, apart from meals in time of harvest when efforts are necessary as an incentive to attract larger numbers of day workers on a short time basis. Moreover, non-farm employment and services, usually un-enumerated, include a wide range of occupations often accounting for thirty or forty percent of annual income and concentrated in the dry season. These occupations may take different forms depending on concrete arrangements, and involve varying magnitudes of income flows. Examples are brick making; pounding cereals, transport, various repair activities (for example, for bicycles and radios), brewing, hut construction, food preparation and sale, petty itinerant trade, and small shop based commerce based.

Understanding labour supply in poor rural areas is complex and not only dependent on wages and demand conditions. Contrary to what one might expect,

evidence indicates that the poorest do not always form the bulk of wage workers. The relationship between poverty and wage labour may not be so clear in all contexts. A wide range of occupations and survival strategies arise, as well as forms of 'resistance to proletarianization' by poor households, through maintaining access to land, reducing family consumption and over-exploiting family labour (Cousins *et al*., 1996). This resistance is often related to intra-household power relations, whereby husbands prevent their wives and children from participating in the labour market. Empirical evidence shows that a large proportion of the poorest casual wage labourers in rural areas are women, and very often these women live in households where no male is present physically or as a source of income (Sender 2003). Women who escape violent husbands or find themselves deserted, often eke out a living from irregular wages. In this sense, rural labour markets are gendered institutions and we can explain labour market participation by looking at household power relations and gender dynamics.

In order to achieve an adequate balance among macro, meso and micro levels of employment, investment and poverty reduction, studies should present more detailed information, both from official sources and from a comprehensive review of micro-level studies of labour markets and poverty, especially in rural areas. More detailed information is necessary to examine questions such as: the types of public investment, in which sectors, for which activities that would yield larger gains in terms of job opportunities or increases in wage rates for the poorest people in rural areas. For a rigorous and constructive IPRE agenda, an empirical basis of different strategic options is essential in order to assess alternative outcomes. This relates to the question of how much we know about the 'poor' in Africa, discussed further in the following section.

II.B. Why the Poor are Poor in Africa

To understand the causes of poverty in Africa, it is useful move beyond economics and draw on sociological theory. Referring to financial brokers, Max Weber wrote,

> Dominated persons, acting with formal freedom, rationally pursue their own interests as [those interests] are forced upon them by objective circumstances. (Weber 1968, p. 943)

This quotation from Weber can guide one in the analysis of poverty. It suggests that one should distinguish between the *characteristics of the poor*, and *the characteristics of the 'objective circumstances'* in which they find themselves. The inference follows that the social and demographic characteristics of the poor may not be fundamentally different that those of the non-poor; or, if they are, this may be the consequence rather than the cause of poverty. There are compelling analytical and empirical reasons to consider this approach in the analysis of poverty in Africa.

In much of the conventional poverty literature the confusion between causes, symptoms and consequences is significant. A large number of household budget surveys carried out over the last fifteen years provided a rich set of data that led to two types of exercises:

1. Describing the average characteristics of the 'poor' and 'ultra-poor' (or indigent), compared to the 'non-poor', through estimating consumption per capita for each sampled household and a poverty line that is typically divided into a food poverty line and a non-food poverty line;
2. Analysing the causal factors, or correlates, of low consumption per capita, or the state of being poor, indigent or neither.

The latter exercise often becomes problematical because the line of causality cannot always be clearly discerned from the country poverty profiles. Indeed, this may lie behind the neglect of the distinction between the *characteristics of the poor*, and *the characteristics of the 'objective circumstances'*. A number of points arising in relation to the *definition* and measurement of the poor are worth considering:

1. Poverty is recognised as multidimensional, but most empirical analyses are based on consumption-based measures and treat other dimensions as secondary.

2. Definitions based on consumption per capita with an international standard baseline imply that for a large number of countries in the sub-Sahara headcount poverty is in the range of fifty to seventy percent of the population. This is very high and carries the methodological difficulty of clearly distinguishing *within* the poor, necessary for concrete policy intervention. The 'poor' becomes a very vague social category, which in terms of the growth-employment-poverty reduction linkage, may not be helpful as an objective performance indicator.
3. Other sources of evidence and indicators, including proxies for wealth other than consumption per capita (asset indices) have been shown to be robust, and easier for data collection and interpretation. Moreover, they tend to provide information that breaks down the social distribution across wealth groups (Sahn and Stifel 1999)
4. One of the problems with consumption per capita based measures is the bias introduced by the household size and the neglect of scale economies. This makes interpretations of rankings among the poor and non-poor and their differences more difficult. Ethnographic and other micro-level survey evidence suggest that poorer households tend to be smaller, whereas rankings based on consumption per capita show the contrary.

From available evidence contained in the PRSPs of several countries, the African poor can be characterised by the following.

1. concentrated in rural areas and sparsely distributed;
2. increasing in large cities;
3. have poor educational attainment, with low literacy especially for women;
4. suffer from poor health, including high infant and maternal mortality rates, and high incidence of serious diseases, notably malaria, diarrhoea and HIV/AIDS, as well as under- and malnutrition;
5. live in conflict-prone areas;
6. live in regions of low density and/or remote/isolated; and
7. are isolated with infrastructure, including roads, schools and health posts.

Although we know more about the education, asset possession and consumption per capita of different households from the large-scale statistically representative

household surveys, a ranking of poverty with respect to what people do to survive has not been adequately documented in most countries. Ethnographic and historical evidence provides some indications. First, inequality at village level is very significant; not all villagers are 'poor', even if most of them may appear 'poor' from consumption per capita measures.[3] Second, a feature that distinguishes the less poor (or relatively well-off) from the very poor is that the former normally do not need to work for wages on a casual basis. On the contrary, they often hire in labour, usually local, on their farms, whereas the latter typically have to work in neighbours' farms or elsewhere for a low remuneration in order to survive. This precarious work often carries a social stigma, and is associated with self-reproducing poverty patterns, and forms of subordination, which are reported in large-scale one-visit surveys. When multiplicity of activities is the rule, the reporting of the 'main' occupation often depends on the subjective assessment either of the respondent or the interviewer. By contrast, in-depth studies uncover forms of employment and labour relations that are strongly associated with local social stratification and inequality patterns. Cousins *et al.* (1997) distinguish five categories of households on the poverty-stricken Communal Lands of Zimbabwe including semi-proletarians, without viable farms and mainly dependent on casual wage labour; the less poor petty commodity producers; and those with access to remittances of external employment opportunities (frequently migrants). Households are divided by labour relations, asset and income poverty, external sources of income (remittances, petty business) and migration. These elements are essential to understand the objective conditions of poverty in a given context and the dynamics of poverty, i.e. how people get in and out of a poor status.

Unfortunately, the country reports do not shed sufficient light on these aspects of household characteristics. The country reports present poverty incidence rates for different occupational categories. Not surprisingly, the groups most hit by poverty are, in the cases of Burkina Faso and Uganda, the food crop ('subsistence') farmers, followed by cash-crop farmers. Other groups, such as salaried people, show much lower poverty incidence. The most vulnerable groups, who often depend on casual wage labour to survive and complement their crop production, are mixed with others in the category of 'cultivators'. A statistical disaggregation, more sensitive to forms of labour that are

[3] For a more sophisticated 'discovery' of this rather obvious fact see Elbers *et al.* (2003).

specific to social and income classes, would help identify the most vulnerable groups, with some degree of precision.

A historical perspective on what poverty is and which its objective circumstances may also be necessary to avoid the inaccuracies of survey results. In this vein, Iliffe (1987), a historian, considers a distinction between the structural and conjunctural poor, and shows how their numbers have changed since the colonial period. Historical analysis shows that before and after independence, the structural poor included the incapacitated, the aged, unsupported women, and the young (Iliffe 1987: 230). After independence, new forms of poverty appeared, with the growing numbers of those who inhabit remote or neglected regions, the unemployed and especially the ill paid, who form the bulk of the so-called informal sector. The poorest at the village level have historically been equated to those who, in spite of having some land, had to perform labour services for neighbours. Few poor people are landless in Africa, due to an absence of pressure on land.[4] Thus, they are different from the poorest in Asia and parts of Latina America. Historically, structural poverty in Africa was associated with lack of access to labour, i.e. lack of capacity or means to use the land available to farm. The structural poverty among the able-bodied was often related to lack of kin support, or sufficient household members to make farming units economically viable, as well as to relative geographical and social isolation.

Conjunctural poverty took a different direction in the postcolonial period compared to the colonial epoch. A series of famine episodes and deteriorating weather conditions created a growing mass of conjunctural poor, some of whom, after a combination of mishaps became structural poor. People on the move because of conflict, or because of economic and environmental crisis in their places of origin, add a strong degree of vulnerability to household welfare. The onset of the famine and conflict episodes, albeit not new in African history, has become a very important cause of poverty. At the same time, it has been associated with the resilience of large masses of people.

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[4] Over the past three decades, relative land pressure has become more common, especially in some more densely populated areas across the subcontinent, such as parts of Kenya, Rwanda, Burundi, and Uganda, parts of Malawi and Ethiopia among others.

Micro-level research and historical analysis highlight the relationship between poverty and the objective circumstances of employment patterns. The availability of employment opportunities, levels of remuneration, and social benefits of 'decent work' play key roles in lifting households from poverty. Thus, poverty in developing countries can be viewed as the lack of opportunities for decent work and social inclusion. In order to understand the link between poverty and employment it is essential to account for the factors that lie behind this link:

1. Unemployment, especially in urban areas, of people who often come from rural areas but fail to find a job in the overcrowded urban sector;
2. Underemployment, i.e. that poor people cannot work as many hours and days as they are willing and able; and
3. Very low and unstable remuneration, scarce opportunities and extremely weak bargaining power vis-à-vis those who offer casual employment opportunities.

To these we add that most jobs available to the poor are not 'decent' in the sense that they are not accompanied by the benefits one finds in a regulated sector and that regulate the health and safety of the worker. Sick and leave pay are extremely rare in unregulated low-paid sectors, medical assistance is not provided, and paid holidays are unknown in most 'informal' and 'flexible' jobs.

In sum, the *objective circumstances* that determine poverty and the symptoms of poverty, as related to the employment situation, can be briefly sketched as follows:

1. Very poor infrastructure, which impairs better mobility and access to different forms of markets.
2. Weak states and weak regulatory capacity incapable of ensuring adequate work conditions in rural areas and incentive provision for more dynamic small, medium and large-scale employers.
3. Political instability that hampers long-term investment and more decent jobs;
4. Inequality and the associated limited access to resources and opportunities also reflected in unequal power relations down to the village level.
5. Limited and in some cases declining industrialisation, and insufficient structural change in economies, manifested in an alarming lack of manufacturing dynamism and low capacity utilization, arising from low domestic demand, which hampers

potential for productive investment and job creation in more highly paid sectors. This is due to weak transport infrastructure, remoteness, unskilled labour forces and diminished capacity of the state to manage public utilities (water, electricity), due to continuous cuts in public expenditure.

6. In spite of the rhetoric of 'livelihood diversification', much of the diversification in place among the poorer people is not a matter of choice but of compulsion. There is little choice at any given moment as opportunities come and go, frequently not always benefiting the poorest.

II.C. Growth, Distribution and Employment

Poverty in Africa is intimately related to growth performance and the distribution of marginal increase in income created by growth. In market economies, livelihoods, either through self-employment or employment by owners of capital and land, are determined by the actual or anticipated level of output and the composition of that output (which dictates the technology used). A fundamental characteristic of market economies is their dynamism, responding to changes in demand, technology, and other influences. This dynamism results in a continuous change in the composition of output, thus in the structure of employment and distribution of income. In real economies, as opposed to abstract models, the distribution of income is always changing as working people shift among sectors.

Other things equal, the two most important economic factors that can foster a sustainable expansion of employment are economic growth and redistribution to make income more equal across households. Economic growth does so by increasing the demand for labour through raising the level of output. A more equal distribution of income raises employment through two channels: a) since the rate of household saving typically decreases as one moves down the distribution, greater equality increases aggregate demand for any level of national income; and b) empirical evidence suggests that the employment intensity of output is greater for the goods the poor purchase than

for those purchased by the rich, implying greater labour intensity in the aggregate when income is more equally distributed.[5]

One frequently reads that while redistribution may be relevant for poverty reduction in other regions, in the sub-Sahara it is not, because the level of per capita income is so low in most of the countries. As Annex 1 demonstrates, this opinion is false: as long as income is not equally distributed, which it never is, redistribution, either of current income or the growth increment, is a more effective instrument for poverty reduction than distribution neutral growth alone. If growth is associated with increased inequality, as in Ethiopia (Geda, Simeles and Weeks 2002), the effectiveness of redistribution increases. The basis of this conclusion should be obvious. Distribution neutral growth by definition maintains the status quo level of inequality, and the elasticity of poverty reduction with respect to growth is unchanged. If the growth increment is more equally distributed than current income, the elasticity rises, for that increment and all subsequent ones.[6]

The inter-relation among growth, distribution and employment can be summarised with algebra. If one assumes that employment (E) is homogeneous, and the economy produces only one product in quantity Y,

$$E = Y^{\alpha}$$

The elasticity of employment with respect to output is the coefficient α, which reflects the current factor intensity of the economy. Let α be determined by per capita income (y), the distribution of income (π), and the composition of the capital stock (β).

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[5] The authors were surprised to encounter the following passage in the background paper for the Joint ILO-UNDP Programme:

> For a while...redistribution of existing income can help alleviate poverty to some extent; and to the extent that this is possible without seriously compromising the growth potential of the economy, redistribution measures should certainly be taken. But it is clear that sustained increase in the income of the poor must be underpinned by sustained growth of potential output. (Osmani 2002, p. 8)

As we show, a relatively small redistribution can have an enormous impact on poverty reduction, not just 'to some extent'. Further, the distribution-induced increase in employment is even more sustainable than the impact of growth because aggregate demand and labour intensity are increased permanently for nay level of national income.

[6] The elasticity is permanently raised because the following period's distribution is more equally distributed. If the subsequent growth increment is more unequally distributed that the new current income, the elasticity declines.

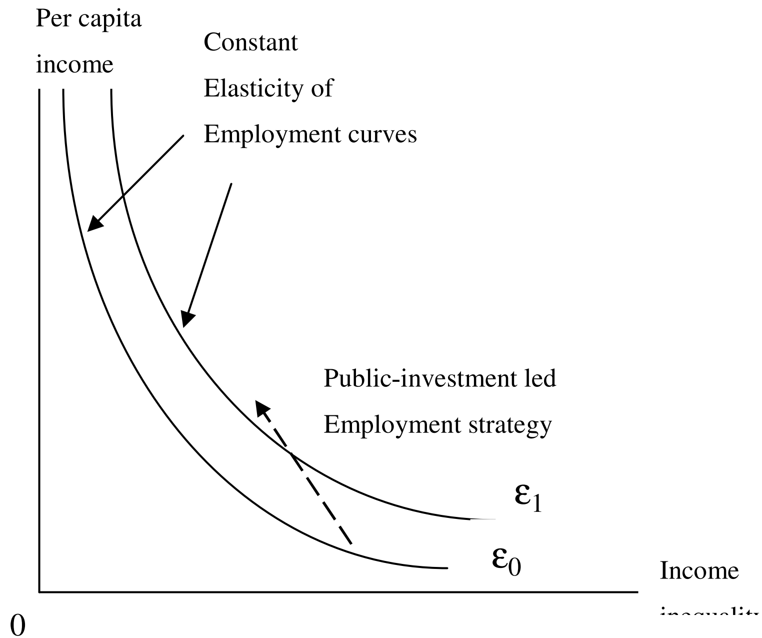
A higher per capita income, both initially and over time, implies greater capital intensity and a higher capital output-ratio. We assume that the consumption of the poor and the investments they make are less capital intensive than the economy as a whole. Policy makers can select public investments such that the resulting capital formation is more labour intensive than for the private sector (exclusive of the investments of the poor). The elasticity of employment with respect to output can then be written as follows, using an exponential form,

$$\varepsilon_{e,y} = y^{\alpha_1} d^{\alpha_2} r^{\alpha_3}$$

Where r is the ratio of the public to the private capital stock, α_1 and α_2 are negative, and α_3 is positive.

If one holds the composition of capital constant (short-run), the elasticity of employment with respect to per capita income and distribution can be represented by a series of 'iso-elasticity' curves, as in Figure 1. The diagram shows that in order to maintain a given elasticity of employment with respect to output, a rising per capita income must be accompanied by decreased income inequality. However, higher per capita income and a greater employment elasticity can be achieved through selecting public investments that are pro-poor; i.e., investments that are labour-intensive and designed to create employment or foster the incomes of the poor (shown by the dashed arrow).

Figure 1: Iso Employment Elasticity Curves for Varying Per Capita Income and the Distribution of Total Income



Policies of redistribution pass from being an option for governments to a necessity when the joint ILO-UNDP Programme is placed in the context of the Millennium Development Goals. While some of the MDGs might be achieved on the basis of past economic performance, and almost no sub-Saharan country could the poverty targets be reached by 2015. In light of past performance, per capita growth of 2.5 percent per annum would be both a considerable achievement and quite optimistic (see Annex 2). This per capita growth rate, requiring 4.5 to five percent for GDP when population increase is included, would still leave most countries short of the poverty targets in 2015.

Therefore, unless the Millennium poverty targets are abandoned, for most countries growth must be combined with redistribution, at least in the growth increment. Fostering poverty reduction through the creation of productive employment in Africa requires a purposeful combination of policies to raise growth rates that produce a pattern of growth that is increasingly pro-poor. The central policy instrument to achieve pro-

poor growth at or greater than 2.5 percent per capita is public investment, discussed in the next section.

III. Investment for Poverty Reducing Employment

III.A. IPRE, the PRS process and Pro-poor Growth

> The multilateral system of international organizations is not performing well….[W]e are failing to reach the key balance between economic policies…and social and environmental policies…
>
> (Juan Somavia, Director-General of the ILO, *International Herald Tribune* 27 February 2004, p. 6)

> …I have drawn the UN system, with the full support of the Secretary General, into fully accepting the PRSP as the dominant macro-economic instrument for developing countries to organize their priorities internally and their relationships with donors externally. And this *despite continued uneasiness* about the extent to which these PRSPs are being internalised and owned and about the extent to which the macro-economic tail may still be wagging the poverty dog.
>
> (Mark Mallock Brown 2002, p. 2, emphasis added)

The international community has sought to address problem of poverty in Africa with many, largely unsuccessful, initiatives. The current approach derives from the World Summit for Social Development (WSSD) held in Copenhagen in 1995, where heads of state and representatives from 180 countries committed themselves to 'formulating or strengthening national poverty eradication plans to address the structural causes of poverty'. The Poverty Reduction Strategy Paper process derives from this general commitment, and arose first in the context of low income country debt relief (the Highly Indebted Poor countries Initiatives). Formally, it is a 'partnership-based' approach to reducing poverty in low-income countries. Its purpose is to empower country stakeholders, both in government and civil society, in designing their strategies. Nationally owned poverty reduction strategies are at the heart of this new approach, with an explicit rejection of the previous 'donorship' approach.

The IMF established the Poverty Reduction and Growth Facility (PRGF) in 1999, replacing the Enhanced Structural Adjustment Facility. Programmes supported by the PRGF and IDA (International Development Association, the World Bank's concessional window) must be framed around a comprehensive, nationally owned PRSP prepared by the borrowing country. The PRSP is then reviewed by the Boards of the IMF and World Bank, in their respective areas of responsibility, as the basis for the institutions' concessional loans and for relief under the enhanced HIPC Initiative. The PRS approach also stresses the underlying principle that national poverty strategies should foster domestic and external partnerships that improve the effectiveness of development assistance. Many bilateral donors have joined the partnerships in support of the PRS approach. When successful, the PRS process promotes poverty reduction strategies that are country driven, comprehensive, set clear priorities, partnership based, and framed within a long-term perspective.

Since this IFI-initiated instrument has become a central, if not *the* central, development strategy document in most low income countries, it is important that the joint ILO-UNDP programme integrate itself into the PRS process. The important question is on what basis this integration should be undertaken in order that the goals of the ILO-UNDP programme are not undermined as the result of that integration.

The PRS process is very much a work in progress, and numerous reports have identified its shortcomings. The ones relevant to the ILO and the UNDP are several. First, while in most PRSPs there is a coherent growth strategy; this strategy is not always pro-poor, and is not clearly linked to employment and household livelihoods. The focus on poverty issues is frequently a step forward from previous national documents,[7] but the poverty diagnosis typically lacks a link to poverty reducing employment policies. In other words, many PRSPs do not integrate poverty and growth.

Second, and related to the first, PRSPs tend to be *macroeconomic frameworks* constrained by Bretton Woods conditionality with reference to poverty reduction, rather than *development strategy frameworks* for poverty reduction. Third, the partnerships among development agencies, including the UN system, tend to be dominated by the

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[7] In terms of its stated goals, the PRS process has been most effective in broadening and deepening the poverty analysis of governments (Lerche, Pincus & Weeks 2004).

World Bank, in great part because the PRS document itself is a pre-condition for initiating a Bank programme (which is not the case for the IMF, bilaterals and the UN system).

The Joint Programme of the UNDP and ILO can make an important contribution to overcoming these shortcomings. Through emphasis on poverty reducing employment through productive investment, it can help define the links among poverty diagnosis, policies, and poverty reduction. For this to have an effective impact on the PRS process, a restructuring of partnerships among development agencies is necessary, in which the UN system establishes itself as an equal partner in defining the framework more broadly, fostering flexible fiscal guidelines that accommodate public investment, and influencing the basic goals of the process, including and especially national ownership of development strategy.[8]

III.B. Macroeconomic context

The terms of reference for this report clearly state the purpose of the Joint Programme:

> Practically [the purpose] is to concretely promote an **emphatic shift** to policies, projects and programmes with significant employment contents…[B]illions of investment dollars undertaken in Africa…have had minimal impact on job creation, hence on poverty reduction. (UNDP-ILO, 2003, p. 2, emphasis in original)

More specifically with regard to investment in Africa, the TOR of this study go on to state,

> '…[I]nvestments in Africa have been characterised by…low productivity as reflected in a low out-put capital ratio (of 10 percent between 1970 and 1997). Investments in agriculture…has [*sic*! have] drastically plummeted in the last two to three decades…It is in this context that a major effort in resuscitating of the quantum of investment as well as redirecting its orientation becomes crucial. (UNDP-ILO, 2003, p. 2)

[8] These points are discussed in detail in UNDP (2003, volume 1: Main Report).

In order to consider the 'productivity of investments', investments must be placed within their macroeconomic context. This requires clarity on the appropriate analytical framework. There are two broad approaches to macroeconomic analysis, demand constrained frameworks and price constrained frameworks. *A price constrained economy* can be defined as one that is either in a unique full employment general equilibrium, or prevented from achieving that general equilibrium by private or public price 'distortions'. *An economy is demand constrained* when its level of output limited by one or all of the components of aggregate demand: consumption, private investment, government expenditure, or exports.

The theoretical and policy implications are quite profound of choosing between these frameworks. Consider the simple case of a single product closed economy with no public sector. In the price constrained framework, all markets clear in an instantaneous process in which no exchanges occur at prices other than those in the price set which prevails at full employment general equilibrium. In this theoretical circumstance, consumers and producers take prices as 'signals' to determine the quantities they consume and produce. If all markets clear automatically at the unique full employment price set, then it follows that any action by private or public agents to inhibit market adjustment in prices will result in an outcome below full employment. Assuming there to be no private constraints to price adjustment (e.g., no market power by private agents), that the full employment equilibrium price set is unique, and all markets are fully developed, it follows that the role for public policy is extremely limited. Most important for the present discussion, the price constrained framework implies that fiscal policy should be 'neutral' and 'passive'.

Fiscal policy should be 'neutral' in that it would not alter the incentives of private agents from making the choices that would yield the general equilibrium price set: 1) taxes should not affect the decision of private agents between income and 'leisure' (e.g., no income tax); 2) neither taxes nor expenditures should affect the relative profitability of commodities (no tariffs, export levies or subsidies); 3) expenditures should not impact on the consumption allocation decisions of households (no sales taxes that discriminate among commodities and no subsidies to commodities); and 4) government should not 'distort' capital markets by competing with private agents for funds (no funding of the

fiscal deficit through bond sales). As a practical matter, governments must tax, spend, and sometimes run deficits. The price constrained framework accepts this and counsels that the inherently-distorting operations of the public sector should be minimised: levy taxes on a uniform basis (a single tariff rate for all imports, for example); minimise fiscal deficits; and restrict government operations to national security, social services, and general administration (see Annex 2).

The theoretical basis for the price constrained framework is quite weak. It cannot be demonstrated that there is a real world process that ensures the realisation of the full employment price set. Nor can it be demonstrated that the full employment price set is unique. The latter is a quite serious problem, because if the price set is not unique, the concept of 'distortions' is called into question. A distorted outcome is defined in relation to a non-distorted one. If there is more than one non-distorted outcome, one cannot be sure that the prices in an economy with public sector interventions are substantially different from some non-distorted outcomes.[9]

While price constrained systems may seem abstract curiosities, they are the basis for any statement that governments 'distort' the economy. One cannot allege the existence of distortions without simultaneously asserting the existence of a unique non-distorted economy. An apparently simple statement, such as, 'tariffs distort profitability between importables and exportables', requires the prior demonstration of the existence of a unique full employment general equilibrium. Since this cannot be demonstrated generally, even in theory, the correct statement would be, 'tariffs alter profitability between importables and exportables'. The practical difference between using the two words, distort or alter, is the core of policy debate. If public sector actions distort the economy, that results in inefficiency that should be avoided or minimised. If the actions alter the economy, then a subjective policy assessment is required to determine whether the alteration is net beneficial to society.[10]

If economies are demand constrained, then the existence of a general equilibrium price set becomes a moot point, because relative prices derive from the level of aggregate

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[9] If the general equilibrium price set is unique, it is not necessary to know what it is, since by definition any price intervention prevents it from being realised.

[10] 'Subjective assessment' is used in the sense that the economics profession defines 'positive' and 'normative' statements.

demand, and change as aggregate demand rises and falls. Therefore, relative prices are not 'signals' to producers and consumers, but result from their production and consumption decisions. Since prices do not determine quantity choices by consumers and producers (they are derivative *from* them), they are not indicators of efficient allocation. This implies that public sector interventions should be judged on a pragmatic basis in terms of social cost and social benefit. In the case of fiscal policy, active macroeconomic interventions are justified to move the economy towards full employment and foster growth. Taxes and expenditures should be similarly judged, and not by whether they violate abstract principles efficient allocation (since the 'efficient' price set is unknowable). The criterion for judgement should be whether taxes and expenditures achieve the goals set by society, and when those goals conflict, an empirical analysis of trade-offs is required. We take the demand constrained approach to be implied by the work on the ILO and the UNDP on employment generation, poverty reduction and human development (McKinley 2002). In each developing country pursuit of these goals occurs in the context in different constraints.

An especially important concept for any discussion of an investment led strategy as proposed under the Joint Programme is so-called 'crowding-out', in which public expenditure reduces private investment through its impact on interest rates. 'Crowding out' follows necessarily from a price constrained framework, since that approach presumes that capital markets are in equilibrium. If this is the case, an increase in any component of aggregate demand, *however financed*, must be compensated by a decrease in some other component (e.g., private investment). In a demand constrained framework, the impact of increased government expenditure on the components of private demand is an empirical question. If an economy is demand constrained, public expenditure, especially investment, can 'crowd-in' private expenditure through the familiar multiplier effect, the impact on profit expectations, and cost reductions associated with improved infrastructure. A series of country reports issued under the UNDP's Regional Programme for Asia on the Macroeconomics of Poverty Reduction provide strong empirical evidence in support of 'crowding-in' (Roy & Weeks 2004).

One can summarise by saying that the demand constrained framework results in an empirical approach to fiscal policy, in which expenditure levels, revenue levels, and

deficits, with these set subject to the goals of poverty reduction, growth, and macroeconomic stability. Within this framework, the function of policy is to achieve an economy's potential and sustainable growth rate, and redistribute income at the margin in order to increase the elasticity of poverty reduction with respect to growth. Public investment, discussed below, is the key to these goals, since it increases capacity, and can be designed to do so in a way that biases income gains to the poor.

Because actual economies are demand constrained, the intrinsic efficiency or productivity of investment determines the upper limited of the output-capital ratio, and the level of demand determines would close the economy approaches that upper limit. The performance of most of the economies of the sub-Saharan region over the last twenty-five years conforms to the demand constrained hypothesis.

Clear, if indirect evidence of this is given in Figure 2, which shows a scatter diagram with the average cross-country incremental gross capital output ratio on the horizontal axis, and the cross-country growth rate of GDP on the vertical axis (both in natural logarithms).[11] On casual inspection the negative relationship is obvious: higher rates of growth, by inducing greater capacity utilisation, lower the ICOR. A simple regression yields a correlation coefficient close to .6 and an associated high level of statistical significance (F-statistic). In Figure 3 this relationship is presented in a different manner. For four overlapping groups of sub-Saharan countries,[12] the gross capital-output ratio is generated by using simple regression equations like the one reported in Figure 2. These simulated values show an almost continuous upward trend after the late 1970s, followed by an apparent cyclical movement from the early 1980s to the end of the period. Both Figure 2 and 3 are difficult to explain outside a demand constrained process.

One major reason for the demand constrained under-performance of sub-Saharan economies has been the relative stagnation of government expenditure. Figure 4 shows the share of total government expenditure in GDP over thirty years for fifteen countries of the region.[13] During 1973-1981, total government expenditure rose steadily as a share

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[11] The capital-output ratios are rather high because they are gross (inclusive of depreciation).

[12] There are four groups because data for some countries are not continuous. However, including only those countries with continuous data may give a misleading impression for the region as a whole. Therefore, statistics for all four groups are included, as explained in the notes to Figure 3.

[13] In the World Bank's *World Development Indicators 2003* this statistic is provided for almost all

of GDP, from below twenty percent to almost twenty-five percent, providing a strong demand stimulus. The growth rate of these countries during this nine year period was almost five percent per annum. After 1981, government expenditure fluctuated as a share of GDP. It imparted no consistent demand stimulus, nor did it provide counter-cycle stabilisation. During this twenty year period, the cross country growth rate fell to just under three percent per annum.

In light of the evidence that the economic growth of the sub-Saharan countries has been demand constrained over the last twenty-five years, we conclude that the observed high capital-output ratios and the low rate of job creation are not explained by the ineffectiveness of aggregate investment.[14] Rather, realising the growth and employment benefits of investment has been limited by lack of demand, coincident, and perhaps the consequence of conditionalities associated with stabilisation and structural adjustment programmes.

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the countries of the region (over forty) for some years. Only for the countries included in Figure 2 are the series continuous rather than occasional.

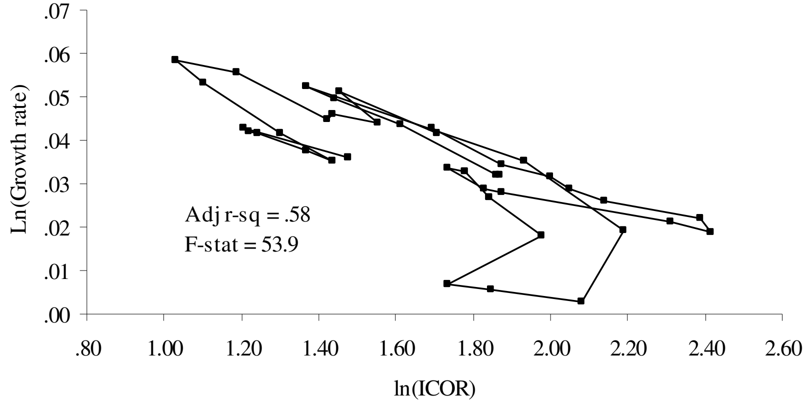
[14] The TOR take a somewhat different view,

> The JFA Programme basically aims at…a fundamental shift from the traditional macro policy with aggregate (national) targets to a harmonious linkage of meso (sectoral) and micro policies with specific targets. (UNDP-ILO 2003, p. 2)

We agree that greater attention to sectoral and micro policies are required to make investments more effective. Such policies require a macro framework which releases the aggregate demand constraint on economies.

Figure 2:

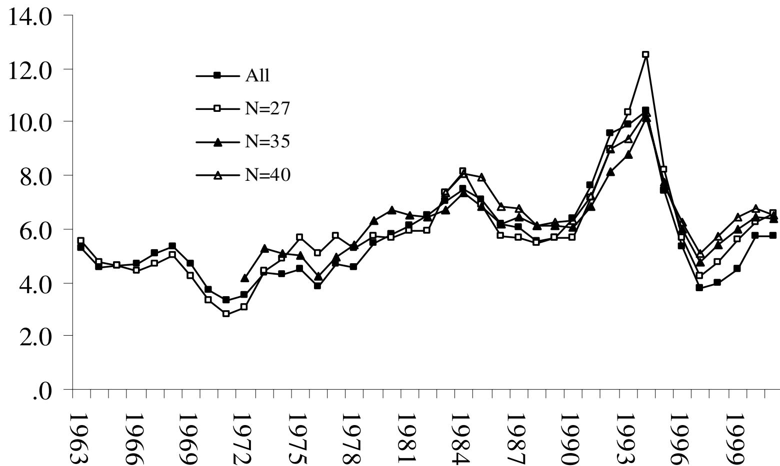
Sub-Saharan Countries: Scatter Diagram, Incremental Capital-Output Ratio (ICOR) and GDP Growth, 1961-2000



Notes: The scatter diagram is for all countries in the region, 1961-2001, using a three-year moving average for both variables.
Source: *World Development Indicators 2003*.

Figure 3:

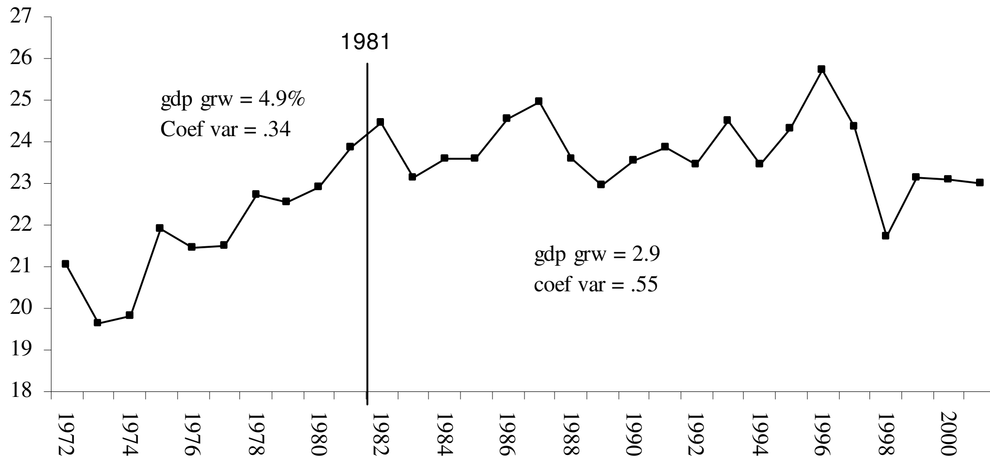
Sub-Saharan Countries: Simulated Marginal Capital-Output Ratio, 1961-2001



Notes: N is number of countries. ‘All’ and ‘N=27’ are for all years. ‘N=35’ includes 1970-2001; ‘N=40’ covers 1981-2001. The variables are 3-year moving averages. Estimated equations are the hypothesis, ln(ICOR) = $a_o + a_1$(ln[gdp grw]). Degrees of freedom, R-squares and F-statistics are: (All) 37, .58 and 59.3; (N=27)37, .55 and 37.1; (N=35) 28, .54 and 36.3; (N=40) 17, .26 and 6.1.
Source: *World Development Indicators 2003*.

Figure 4:

Sub-Saharan Countries: Total Public Expenditure as Percentage of GDP, 1972-2001 (fifteen countries)



Countries: Botswana, Burkina Faso, Cameroon, Congo, Cote d'Ivoire, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mauritius, South Africa, Swaziland, Uganda, Zimbabwe.

III.C. Investment with and without Employment Generation

The previous section addressed the macroeconomic context of investment performance. This section considers the composition of investment between public and private. Three major conclusions stand out: aggregate investment in most sub-Saharan countries was substantially lower in the 1980s and 1990s than in the mid-to-late 1970s; public sector investment fell by much more than private sector investment; and the public sector must play the leading role in an employment generating investment programme.

Governments of the sub-Saharan region can and do attempt to increase the employment generating effect of private sector investment, but the instruments available to them to do so are few and frequently ineffective. In the case of the private formal sector, influencing investment choice through policies that affect relative prices are unlikely to have any significant impact. In most sub-Saharan countries wages are low and labour market regulations, to the extent they exist, typically are not enforced (van der Hoeven 1999). Thus, 'deregulation' of labour markets, even if one believes that it

fosters more efficient factor prices, has little scope for affecting private sector investment choice. Scope for policy influencing investment choice is further limited because much of the interest in the sub-Sahara by foreign investors is in the exploitation of natural resources. Investment choice is technologically limited in this sector, and in key products employment generation is quite small (for example, petroleum and natural gas).

While governments should attempt to induce private sector behaviour that is more employment generating, the most effective way it can do so is through public investment. Public investment has a direct employment effect, which can be increased through an employment-focused policy strategy, in part by drawing on decades of work in the ILO on labour-intensive public works. These investments also have indirect employment effects, for example, through reducing transport costs in the case of road construction.

As pointed out in the TOR, the aggregate share of investment in the sub-Saharan region is well below what would be necessary for economic growth that would have a substantial and sustained impact on poverty reduction through employment generation. As discussed above and in Annex 2, a rate of growth of per capita income of about 2.5 percent per annum would be necessary to generate sufficient employment to achieve substantial poverty reduction and come close to the Millennium goals. Given population growth, this implies an overall growth rate of GDP of about five percent per annum. If one takes an optimistic estimate of the cross country gross capital output ratio of four, a gross investment rate of twenty percent is implied.

As Figure 5 shows, this investment rate was only achieved for a brief period over the last forty years, during 1974-1982. After 1982, investment performance was well below this, falling into the range of fifteen to eighteen percent of GDP,[15] and the movement appears cyclical with no rising tendency. For the five countries with large populations and continuous data over the forty years (Figure 6), the performance was notably worse. The average for these five countries, with about forty percent of the sub-Saharan population, fluctuated below eighteen percent. During 1990-2001 these

[15] In Figure 4 the average for all countries rises above twenty percent in the 1990s, but this is an anomaly of the data, resulting from the inclusion of countries with non-continuous data series. In all three of the series in which the inclusion of countries is consistent across time, the cross-section averages are well below twenty percent (that is, the series indicated as N = 27, N = 35, and N = 40).

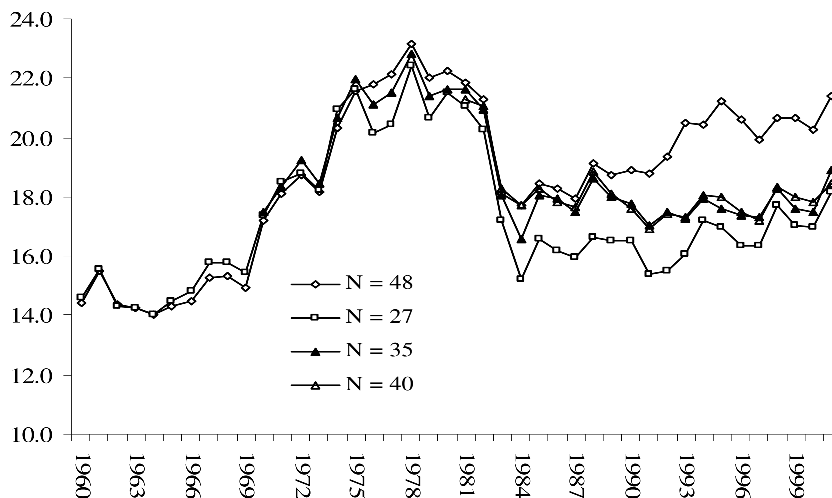
countries had an average of barely over fourteen percent, an investment share barely consistent with an economic growth rate to match population increase.

The consistently poor investment performance after the early 1980s may be explained in great part by a drastic fall in public investment. Table 6 gives the share of public investment in GDP in fifteen countries for which it is possible to obtain a continuous time series (the same countries included in Figure 4). The data for these countries show an almost continuous decline after the late 1970s, to settle in the range of three to four percent during 1990-2001. If one had an accurate estimate of depreciation, it is doubtful that this low share of public investment would be sufficient to match the infrastructure needs of the countries, much less to contribute to and investment-led employment and poverty reduction strategy.

The low level of overall investment in sub-Saharan countries suggests the necessity for a public investment strategy focussing on 'crowding in' private investment. The 'crowding in' element of the strategy implies both increases in public investment, and for governments to assume a greater degree of strategic leadership than is presently the case.

Figure 5:

Sub-Saharan Countries: GDCF as percent of GDP, 1960-2001



Notes: The letter N refers to number of countries in the series. 'All' and 'N=27' are for all years. 'N=35' includes 1970-2001, and 'N=40' covers 1981-2001.

Figure 6:

GDCF/GDP: Sub-Saharan High Population Countries, 1960-2001

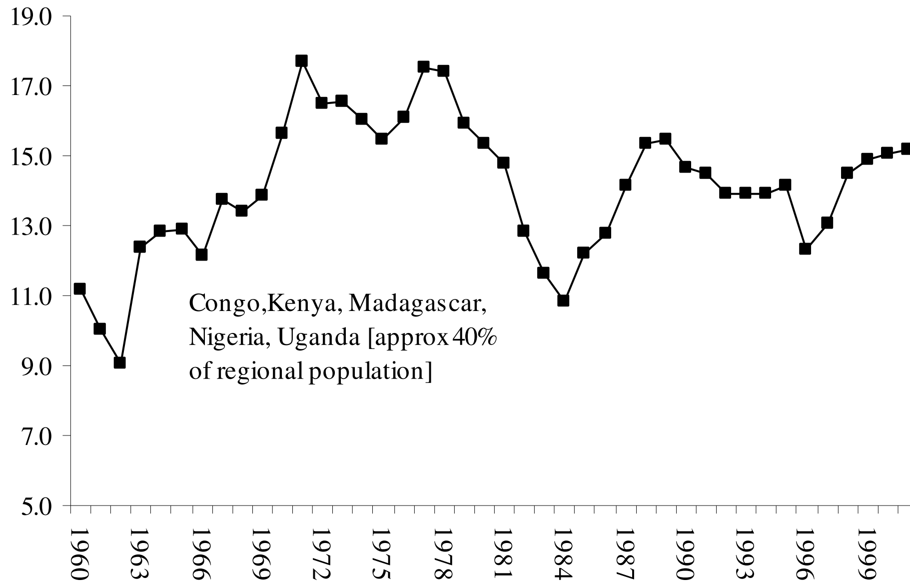
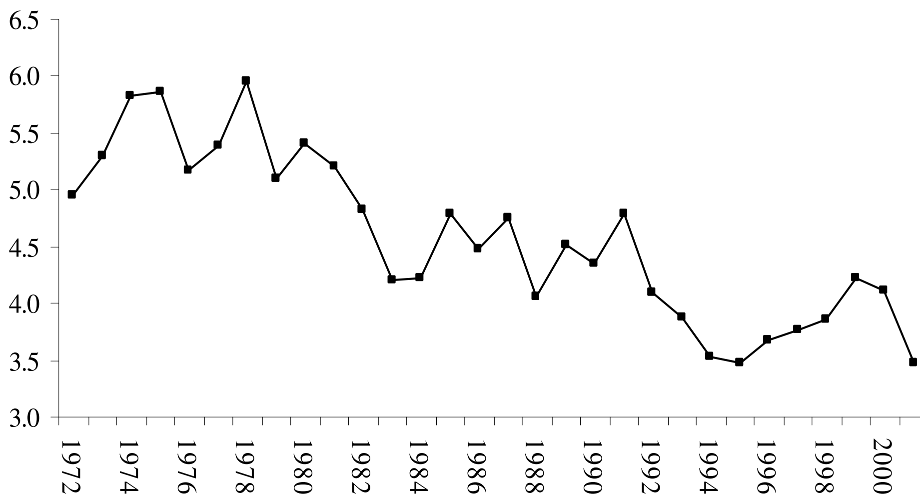


Figure 6:

Sub-Saharan Countries: Public Investment as Percentage of GDP, 1972-2001 (15 countries)



Countries: Botswana, Burkina Faso, Cameroon, Congo, Cote d'Ivoire, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mauritius, South Africa, Swaziland, Uganda, Zimbabwe.

III.D. Role of public investment

For the sub-Saharan countries, perhaps the most effective instrument for promoting and investment-led employment strategy for poverty reduction is fiscal expansion through increasing public investment. While such fiscal expansion can generate government deficits, there is no longer a consensus that these are necessarily inflationary. Also, as long as inflation is kept within a moderate range, it does not necessarily dampen growth or directly harm the poor.[16] Moreover, growth stimulated by fiscal expansion can generate the fiscal revenue needed to reduce budget deficits via the elasticity of taxes with respect to GDP.

While advocating for greater flexibility on stabilization policies, both the ILO and the UNDP support forms of public investment that can provide a more long-term, durable basis for human development and poverty reduction. This implies capital accumulation and technological innovation that can deliver lasting gains to the poor, examples of which are found in the country reports. A focus fiscal policy that fosters sustainable growth shifts emphasis in national poverty reduction strategies from short-term targeted interventions to longer-term programmes that alter the underlying structure of people's access to resources and technology.

Public investment is the necessary ingredient in a pro-poor macro strategy, serving three benign purposes: demand management, capacity creation, and redistribution. In the absence of a robust public investment programme, the pro-poor element in fiscal policy is reduced to counter-cyclical interventions, progressive taxation, and redistributive expenditure, all from the current budget. While each of these is important, in many developing countries the capacity to implement the latter two is quite limited. The progressiveness of the tax system is typically constrained by the relative low contribution of the formal sector to income generation, and redistributive current expenditure may be beyond the administrative capacity of the public sector.

Perhaps most important, basing a redistribution strategy on the current budget is not a growth strategy. If sustained, it may create a new, more equal distribution which

[16] Bruno and Easterly find no correlation between growth and inflation when the latter is below forty percent (Bruno & Easterly 1998).

the economy will approach. However, except for a possible one-off impetus resulting from the positive incentives to the poor of redistribution, it has little impact on the sustainable growth rate. For this reason, public investment is the *sine qua non* of a pro-poor growth strategy, and the reduction of public investment undermines that strategy.

IV. Three case studies

IV.A Areas for Further Work

The three case studies emphasise the critical and pivotal role of public investment in the link between employment generation and poverty reduction. The study of Burkina Faso provides considerable detail on projects for employment promotion *via* investment in rural areas and in the industrial sector. However, it is not clear whether the emphasis lies in the same type and nature of public investment. The general emphasis is not on demand creation, but on the supply side; i.e. public investment in education and health. Investment in infrastructure is also stressed for its role in creating an enabling framework for growth through lowering transaction costs. However, it is not argued in terms of the direct effects of infrastructural development on job creation, income generation and increasing in demand in rural areas. The Uganda report assesses the multiplier effects of public investment for different sectors, in which it is evident that both direct and indirect effects in terms of job creation by public investment programs are very important.

After a summary of the main characteristics and empirical information on poverty and employment in the country, which usually replicates the profiles published in their PRSPs, the three country studies provide: 1) a detailed review of macroeconomic and sector policies with a focus on the link between investment, employment and poverty reduction; and 2) highlight the main constraints at each level and the possible options available for a more poverty reducing investment-led strategy. This analysis is generally comprehensive in the three reports. A demand-constrained growth framework does not seem to underpin the country reports. Rather, a supply-side approach appears to provide the basis for many of the diagnoses and recommendations, in line with the conventional approaches in PRSPs. The critical role of public investment and the association between cuts in public expenditure and the demand-constrained under performance of the

countries analysed, are not specifically addressed or do not constitute a main thrust in the country reports.

The importance of inequality and income redistribution, and the role of the state in addressing inequalities are treated marginally in all three reports. In the studies inequality is mentioned most explicitly in the gender chapter, with an emphasis on different forms of the gender gap and unequal access to resources. The analytical discussion in the report on Cote d'Ivoire in suggests that redistribution, via negative effects on savings and therefore on investment, can hamper economic growth. The report goes further, to suggest that there is a danger inherent in 'strong redistribution', which is synonym of 'charity' that would hinder savings and long-term growth potential. The best form of redistribution, it is argued, is the creation of 'productive jobs' for the poor. Thus, redistribution is treated as a by-product of economic growth, under the assumption that investment-led growth will necessarily benefit the poor people and reduce poverty. More evidence is needed to support such an argument, with a more detailed breakdown among activities, sectors and occupations with greater likelihood of trickle-down to the poor. The effects of redistribution on effective demand are largely ignored. The attention paid to the effects of redistribution on savings of richer classes implicitly derives from a macroeconomic model in which the income of the poor grows more than proportionately with overall growth. However, no evidence is presented to support this interpretation. The theoretical logic starts from the importance of savings as the drive for investment in the economy, investment which is the main force for employment creation, which, in turn, benefits the poor. This line of causality is only consistent with a non-homogeneous saving function, for which there is little empirical support.

The diagnosis of poverty for Cote d'Ivoire acknowledges that poverty results in part from inequality, which implies selective redistribution (page 30). However, data on inequality and its evolution are not presented in a systematic way. Evidence of falling real wages in Cote d'Ivoire during the 1990s suggests a worsening of income distribution for wage earners in urban areas, whereas other data suggest that inequality did not change much in this period. Gathering data on inequality and relating them to poverty and employment is an important empirical challenge. In the context of this project, however, one would anticipate a significant effort from country level specialists in disentangling

these relationships and uncovering data gaps more clearly. As noted by Rao on pro-poor growth, 'Income or expenditure surveys of households on which much of the evidence is based raise difficult issues of interpretation and comparability' (Rao 2002: 4). The contribution of labour in GDP growth is a very valuable indicator that ought to be monitored in the context of ILO/UNDP country studies in the JFA programme. Unfortunately, perhaps due to lack of data, these important issues are seldom discussed in the country reports, which also devote a little space to inequality as related to pro-poor growth. Instead, poverty trends are analysed in more detail and show a mixed picture, with poverty increasing in Cote d'Ivoire, remaining stagnant in Burkina Faso and decreasing in Uganda. The account of these trends focuses on macroeconomic policies and their mixed effects, depending on the country and the trends in GDP growth and investment.

The overall message remains unclear, apparently in line with what the mainstream literature seems to suggest on the links among growth, investment and employment creation. The tone of the studies of Uganda and Burkina Faso suggests an acceptance of the neoliberal vision of the *role of the state*, to look after 'social' sectors (education, health and social assistance), and 'creat[e] favourable conditions for private investment' and 'improv[e] business confidence'. This approach results in a positive view of the orthodox policies on the fiscal deficit, exchange rate management and deregulation. The links between public and private investment are not clearly spelt out, nor is the possibility of 'crowding-in or –out'. The Uganda report does stress the complementarity between public and private investment, with indirect evidence of crowding-in provided, but the increases in private investment is interpreted as an outcome of 'sound macroeconomic management' and 'attracting foreign investors'. More details on the crowding-in mechanisms and the medium term implications in terms of sustained employment would have been useful.

The reports lack an overall theme, such that each problem is treated separately from the others. As a result, the reports are detailed, but sometimes rather descriptive and lacking a consistent flow or a clear strategic message. Some sections (especially Burkina Faso report) are primarily descriptive inventories of specific projects of employment promotion, and are not noticeably connected with other, more analytical sections of the

same report. A comprehensible investment-led employment for poverty reduction strategy does not clearly and consistently emerge from the conjunction of the three country reports, which makes the task of coming up with a common approach rather difficult.

The data presented in general are at the macro and meso level, drawn largely from national accounts and official statistics at the sector level. The report on Uganda presents analysis from household surveys to identify the determinants of poverty. This is obtained from the series of poverty profiles available from the rounds of expenditure surveys, participatory assessments, and annual socio-economic surveys carried out in Uganda over the 1990s.

A notable gap is the lack of detail on vulnerable groups among workers. Especially, references on waged agricultural workers and women and children amongst them are particularly missing. Given the breadth and depth of these studies and the purpose of the project, this lacuna seems particularly unfortunate. In these countries vulnerable groups, even if they do not represent a majority of the rural population, are relevant for poverty reduction efforts, especially led by investment and employment strategies. We also miss a detailed breakdown of sub-sectors that are strategically important for investment led strategies. This is done for different forms of public investment, without sufficient disaggregation in the case of Uganda, and for the industrial sector in the case of Cote d'Ivoire.

In the remainder of this section we present selected findings and issues raised in the country studies, ordered by main headings that can be useful to illustrate some of the points above and in previous sections of this paper.

IV.B Macroeconomic Policy and Public Investment

A positive view is held, especially by the reports on Uganda and Burkina Faso, of the beneficial role of reducing the fiscal deficit, as an instrument of macroeconomic stability and to ease balance of payments constraints. The positive effect on 'business confidence' is also cited, but no evidence is provided to support this conclusion (Uganda, p. 11). Deregulation in Uganda is alleged to have played a positive role in increasing

employment in cash cropping by sixty eight percent, through an increase in the share of the final price received by cash crop farmers.

Public investment fell in relative terms in the three countries. In Uganda this has partly offset by an increase in private investment, an increase justifiably highlighted. However, it is not encouraging that public sector employment fell drastically by twenty-five percent during the period 1993-1998. Evidence of pre-1993 retrenchments is not discussed, and no evidence is provided on the supposed absorption of those redundant workers by the regulated private sector. Evidence of net employment effects of privatisation in Uganda is missing, though it is noted that the enterprises that significantly reduced employment were the largest parastatal employers before privatisation.

The report on Cote d'Ivoire, in contrast, presents a gloomy picture of the employment reducing effects of years of adjustment and a tight fiscal policy. It is argued that part of the job losses in the public and regulated sectors has been compensated by increases in poorly paid jobs in the 'informal' sector. The report suggests that this is not a sustainable path out of poverty in the long term, and calls for a greater emphasis on the revitalising the 'modern' industrial sector. The authors of this report refer to the 'Ivoirian miracle' of the 1960s and 70s, as based on state capitalism and the emergence of a state bourgeoisie. During that period the importance of public investment and credit was critical for the rapid development of the private sector and the creation of a business class

Road infrastructure and the modernisation of agriculture are the two key areas of public investment where the pay offs in poverty reduction were expected in Uganda. In spite of greater absolute number of jobs created by public investment in services and construction, the agricultural sector displays the highest direct job creation per unit of public expenditure. At the same time, public investment in construction induces higher private investment rates in Uganda. In general, it is shown with simulations that the multiplier effect of public investment is strong (above three for each sector). The direct effects of public investment are quite significant, in terms of jobs and spending on local resources. The employment-poverty link is shown to be strong, especially for investments in agriculture. Yet, 'by and large, public investment that has been in favour of structural reforms that have involved liberalisation of the economy have had a complimentary effect on private investment' (Uganda report, p. lix). The report also

notes that "Uganda's public investment policies and programmes have not emphasized the use of resources that are locally available, such as labour" (*Ibid.*, p.42).

In Cote d'Ivoire the emphasis is placed on the mismatch between fiscal austerity and the need for public investment to redress urban unemployment in the modern sector, and improve the working conditions in the informal sector. Investment was negatively affected by structural adjustment and policies in the 1980s and 1990s. Only in the late 1990s were there signs of recovery. Hence, report emphasises the incompatibility between the objective of employment promotion through public investment and privatisation, wage-freezes and job-freezes in the public sector, and subsequent lack of funds for social sectors.

IV.C Industrial investment

Industrial investment in Uganda is assessed positively (Uganda p. ix), while in Cote d'Ivoire the record in the last ten years has been rather disappointing. According to the Uganda report, privatisation and macroeconomic management have promoted private investment in the industrial sector, across small, medium and large enterprises. FDI flows have increased substantially in Uganda and the manufacturing sector increased in proportion of GDP remarkably. However, many constraints limit a more rapid and balanced development of the manufacturing sector, notably the malfunctioning of public utilities, energy provision, high transport costs due to poor infrastructure, fiscal restrictions, expensive credit, and the competition from imports in the wake of trade liberalization. The employment elasticities of investment in the industrial sector are low, ranging from 0.02 in middle-size firms to 0.3 in large companies. It is important to note some significant differences between branches of activities and crops, in terms of the necessary investment to create one job. For example, in tea production, which is very labour intensive, requires much less investment per unit of labour than other crops. In table 2.10 (Uganda p. 18), clear evidence is provided on the net reduction in employment in most industrial sub-sectors between 1992 and 1998, in spite of fast rates of growth; in other words, a form of immiserising industrial growth.

Similarly, in Cote d'Ivoire, the employment elasticities of industrial investment during the period 1992-1998 were negative for a many sub-sectors, and especially for the

ones that typically employ a large number of workers. Thus, investment growth in the 1990s was labour saving, detrimental to poverty reducing employment creation. The report shows evidence of underemployment and growing informalisation, with participation in the labour market becoming more precarious. The authors suggest that the 'informal' sector is not capable of offering sustainable escape from poverty because, the working conditions and remuneration are too precarious. This report tends to focus on the 'regulated' industrial sector and disregard the role of the 'informal' labour markets as catalytic of alternative poverty reducing routes.

IV.D Agriculture and Rural Development

In Cote d'Ivoire, the withdrawal of the state from direct support and production has not been compensated by increases in private investment, which has mainly concentrated on some more profitable and localised sub-sectors (*filieres*).[17] The dismantling of parastatal agencies and the reduction in government expenditure allocated to the agricultural sector may have had pernicious effects on both capitalist agriculture and smallholder farming. The conflict ravaging large parts of the country also had a devastating effect on agricultural production in some areas.

In the 'traditional' sector in Cote d'Ivoire, poor savings and low productivity are binding constraints on growth in investment and employment creation, even among smallholders. It is noted that the agricultural sector is diverse, and that general solutions for job creation are not useful. Rather, initiatives to solve the problem of access to credit, through the creation of viable private financial institutions, and employment diversification, especially for family labour that is underemployed in subsistence agriculture. Agricultural policies in the last two decades have failed to diffuse technological packages and upgrade the level of skills in the agricultural labour force. Declining labour productivity continues to be the main problem in this sector. In this regard, access to credit and a better coordination of government agencies in rural areas should be stimulated by substantial increases in public investment in rural areas, not only

[17] Unfortunately, the main section on agriculture in the country report files we received was missing. Here we draw on the executive summary, which does not specify sub-sectors or crops.

in road infrastructure and market access but also in the creation of services and opportunities for private investment in non agricultural activities.

The assessment in Uganda stresses the following points:

1. Smallholder agriculture is the main source of employment, and engagement in non-traditional exports constitutes one priority area for investment. Exchange rate trends have favoured the tradable sectors and shifted the composition of agricultural output in favour of cash crop and export production.
2. There are many non-agricultural activities with great employment potential in rural areas, such as brick-making, carpentry, tailoring, and shop-keeping;
3. Public and private investments are essential to sustain growth in rural areas. However, the levels attained in the 1990s are too low to warrant a sufficient rate of growth and employment creation for poverty reduction;
4. Improving skills is essential, requiring investments in training, entrepreneurship, other measures to improve access to market opportunities in rural areas.

In Burkina Faso, the agricultural sector has the particularity of a successful cotton sector that has been managed by parastatal agencies for many years. Rural poverty is prevalent and the development of vertically integrated cash-cropping provides opportunities to lift many households out of that poverty. However, in order to maintain rural incomes in cotton, which has suffered from a collapse in world prices, public investment and subsidies are necessary. Otherwise, the effects the world price collapse passed onto farm gate prices will be very negative. A retreat into food crops is not a long-term solution from the point of view of a sustainable investment-led poverty reducing and employment strategy.

IV.E Other Issues

With regard to *vulnerable groups*, women suffer discrimination in various domains, notably in education and employment, both in the public and the private sectors. The deep-rooted causes for the marginalised position of women within the socio-political system require more purposeful interventions, and current efforts are insufficient to close the gender gaps in several domains, according to all three reports. Young people represent another vulnerable group in the labour market. When young people are skilled

and fail to find jobs in urban areas where they largely concentrate, social instability is latent and seeds of violence, crime and conflict are sown.

Missing from the country reports are detailed and disaggregated accounts of the specific social groups that face discrimination and have not benefited from growth. Differentiation among ‘women’ and ‘urban youth’ may be such that they may not constitute a homogeneous ‘vulnerable groups’. However, evidence discussed in the section on labour markets and poverty suggests that better defined social categories can be found according to forms of participation in the labour market and type of livelihoods.

The impact of *privatisation* in Burkina Faso was not totally negative. Jobs were not lost in the aggregate, the report maintains. Throughout the Burkina Faso report it is suggested that the inefficiencies of the state, for example, manifested in absenteeism, lack of motivation, and low productivity, called for a privatisation programme. In this context, job losses could be justified as a means of increasing overall efficiency. In the absence of evidence for efficiency gains at micro and meso levels this is a possibility that remains unproved. Statistics presented from Burkina Faso show that the levels of public investment in a key sector, agriculture, decreased between 1995 and 1999. This decrease was mainly due to a reduction in the budget implementation rate, resulting in a diminishing capacity to spend, probably explained by the weakening of state capacities via retrenchment and wage freezes. It is possible that cuts in recurrent expenditure, fading morale, the reduction in government competences, and poor infrastructure tend to affect absorptive capacity, which reduces the investment potential of the public sector.

From the country reports it emerges that the *financial systems* of Cote d’Ivoire, Uganda and Burkina Faso are not consistent with poverty reducing employment generation in the key sectors, due to the high degree of concentration, which results in a banking system is almost exclusively directed towards urban and large business. agriculture and rural development are marginalised from domestic modern financial intermediaries, which clearly prefer trade (especially imports), transport and large service-related enterprises. Short-term credit prevails over long-term lending for investment projects. A large proportion of firms, especially small and medium sized ones, lack access to large financial intermediaries. Because of lack of sufficient

government advisory services, these firms do not have knowledge of available credit schemes.

In Burkina Faso, credit is a major constraint on investment, and the option preferred by the authors of the report is that of decentralising financial institutions. Public sector institutions are rejected because of their bureaucracy and poor management. In general, the formal financial system is primarily urban and focussed on short-term lending, to the cost of long-term investment-led strategies for employment creation. Agriculture receives very little credit, with the exception of cotton farmers, who are integrated in a vertically integrated, parastatal marketing chain. In contrast, industry has been severely affected by the credit squeeze.

IV.7 Final remarks on the Country Studies

To conclude, we raise several points in line with the framework presented in this paper and the review of the country studies. First, there is the need to reconceptualise macroeconomic frameworks to meet the objectives of an ambitious IPRE strategy. Ministries of Finance, in coordination with other public bodies, must be the main agents of this rethinking process. The public institutions that currently lead policy reform and strategic design should be clearly targeted. Leaving an IPRE strategy to the Ministry of Labour alone, which is often among the most under-funded and marginalised public administration bodies in African countries, is unlikely to be successful.

Second, a system to monitor progress towards the goals established in the ILO/UNDP strategy is essential, and could be easily linked to PRSP monitoring mechanisms. Monitoring should include six inter-related indicators: a) the employment level; b) the investment rate to generate employment; c) net crowding-in or –out effects of public investment; d) GDP growth rate by sectors; e) rate of poverty reduction; and f) real wage trends (including information from non-regulated 'informal' sectors. In essence, with reliable figures on these indicators one could estimate at country level, the factors underpinning poverty reduction based on employment creation. The key challenge remains as to obtain reliable and consistent estimates for these six indicators, whose importance was discussed earlier in this report.

Annex 1:

A Presentation of the Inter-action of Growth, Distribution and Poverty Reduction

The purpose of this annex is to demonstrate the effectiveness of income redistribution, even marginal redistributions, in reducing poverty. One finds the argument that some countries are 'too poor to redistribute'; that is, their per capita income is so low redistribution would have little impact on the level of poverty. Quite simple calculations show this argument to be false (Dagdeviren, van der Hoeven, & Weeks, 2002). A complementary anti-distribution argument is that there is a 'trade-off' between redistributing income and the aggregate growth of income. A milder version of this argument is that while distribution may achieve a degree of poverty reduction, economic growth does so in a more sustainable manner. The fallacy in both versions of the distribution-versus-growth argument is that in practice, growth in market economies is always associated with some degree of redistribution. Market economies allocate resources through the price mechanism, be this through competitive or privately-administered markets. Thus, the distinction between distribution neutral growth and static income redistribution exists only as a mental construct. Since redistribution of income is inherent in the growth of a market economy, it is appropriate that it be subjected to policy influence.

An evaluation of the effectiveness of growth and distribution for poverty reduction would be required even were it the case that for the vast majority of countries historical growth rates would achieve the poverty target (see van der Hoeven 1999). Any target growth rate, in this case for poverty reduction, has an opportunity cost in foregone consumption compared to lower rates. This real resource cost can be compared to the cost of achieving the same poverty reduction at a lower growth rate. Economic growth is a means, and raising the rate of economic growth without considering the opportunity cost would be the domestic equivalent of mercantilism.

The relevance of the opportunity cost of raising growth rates passes from academic to practical interest because, for the vast majority of countries, maintaining

recent growth rates would not be sufficient to meet the Millennium poverty targets.[18] Using an absolute poverty line, such as that which is the basis of the first Millennium Development Goal, we define the income distribution of a country over the adult population, which we divide into percentiles (h_i), and the mean income of each percentile is Y_i. The distribution of current income conforms to the following two parameter function:

(1) $Y_i = Ah_i^{\alpha}$

While this function will tend to be inaccurate at the ends of the distribution, its simplicity allows for a straight-forward demonstration of the poverty impact of distribution and growth. Each country's distribution differs by the degree of inequality (the parameter α) and the scalar A, which is determined by overall per capita income. Thus,

(2) $A = \beta Y_{pc}$

and

(3) $Y_i = \beta Y_{pc} h_i^{\alpha}$

Total income is, by definition,

(4) $Z = m\sum \beta Y_{pc} h_i^{\alpha}$ for 1 = 1,2...100, and m is the number of people in each percentile.

If the poverty line is $Y_p = P$, we can solve for the percentile in which it falls, which is also the percentage in poverty (N).[19]

(5) $h_p = N = [P/\beta Y_{pc}]^{(1/\alpha)}$

If we differentiate N with respect to per capita income, we can express the proportional change in the percentage of the population in poverty in terms of the growth rate of GDP and the distributional parameters:[20]

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[18] A discussion of this issue is found in Demery & Walton (1998).

[19] A characteristic of this distribution function is that the two parameters, and , are not independent of each other. This characteristic does not affect our calculations in the next section, because we use the function only for the initial period's income.

[20] Ravallion (2001, p. 19) proposes that this relationship can be estimated with the simple formula,

(6) $DN/N = n = y[1/\alpha][P/\beta]^{(1/\alpha)}$

Equation 5 can be used to generate a family of iso-poverty curves, of decreasing level as they shift to the right, shown in Figure A1.1, on the assumption that α is constant. The diagram clarifies the policy alternatives: redistribution of current income (RCY) involves a vertical (downward) movement, distribution neutral growth (DNG) a horizontal (rightward) shift, and RWG is represented by a vector lying between the two. The diagram also shows the case of increasing inequality growth (IIG), in which the growth of per capita income so worsens the distribution of income that it leaves poverty unchanged (movement along the constant poverty level curve for P = 20 percent). Perhaps too optimistically, we do not treat this as a planned outcome, since we address policies to reduce poverty.

The diagram implies certain generalisations that apply to all countries. First, because the schedules converge to the left, the impact of redistribution on poverty *declines* as per capita income declines. At low incomes, both redistribution and redistribution with growth are less effective, relatively to distribution neutral growth. Second, for a given per capita income, the lower the level of inequality,[21] the greater is the impact of redistribution on poverty reduction. When the poor are clustered close to the poverty line, the income transfer necessary to raise them out of poverty is less than if the same number of households were unequally distributed.

The growth-distribution interaction on poverty reduction can also be shown for growth rates, using equation 6. In Figure A1.2, the percentage reduction in poverty is on the vertical axis and growth rates on the horizontal. Three lines are shown, for increasing degrees of inequality as they rotate clockwise (increasing values of α, holding initial per capita income constant). The figure shows that for any initial per capita income, growth

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$n = \beta(1 - G)y$

β is an unspecified parameter and G the Gini coefficient. For a number of countries, he calculates the value of β, which he calls 'the elasticity of poverty to growth'. On this basis he obtains a cross-country average for β of –3.74. Since the formula does not specify on what distribution function it is based, it is not clear how one should interpret this so-called elasticity. At most the formula could be considered a rough algorithm for the appropriate relationship among the variables.

[21] The model specifies the slope of the distribution function near the poverty line with the parameter α, along with it being an index of overall inequality.

reduces poverty more, the less the inequality of initial income distribution. From the initial position at point a, distribution neutral growth increases the rate of poverty reduction along the schedule a = 1.3 to point b (an increase in the growth rate with distribution unchanged), redistribution of current income involves a vertical movement to point c, and a shift from point a to point d is a case of redistribution with growth.

Any distribution neutral growth in per capita income, no matter how low, will reduce poverty. However, redistribution reduces poverty as measured by the international standard of US$ one dollar a day only if it moves a person above a per capita income of US$ 365. To put the point another way, redistributions that reduce the degree of income poverty for those below an arbitrary poverty line poverty standard do not qualify as poverty reducing.[22]

We can link the discussion of public investment to this model of distribution and growth. In a pro-poor strategy, the task of public investment, in addition to its demand and capacity effects, is to generate a distribution each time period's growth increment that is more equal than the distribution in the initial period. In symbols:

$S_p = h_p Y_p$, the income share of the poor, where Y_p is mean income for all those households (h_p) below the poverty line, and S_{np} is the income share above the poverty line, growth is pro-poor if:

$[\Delta S_p / \Delta S_{np}] > [S_p / S_{np}]_t$ where the increment refers to the increase from period t to t+1.

Public investment contributes to this outcome by creating assets that foster income earning opportunities for the poor. This can include the following: 1) public works projects that directly hire the poor, 2) increases in the wages of the poor engaged in other activities as a result of public sector projects leading to a tighter labour market; 3) creation of infrastructure assets that gives the poor access to markets and lowers their production costs; and 4) social sector assets such as schools and health clinics that increase the productiveness of the poor, as well as facilitating their participation and integration into the political system.

[22] A redistribution of one percentage point of GDP from the richest ten percent of the population to the poorest ten percent, equally distributed among the latter, would improve raise the incomes of all those in the lowest decile, but might shift none of them above the poverty line.

Figure A1.1:

Relationship between Inequality and Per Capita Income
for Constant Levels of Headcount Poverty

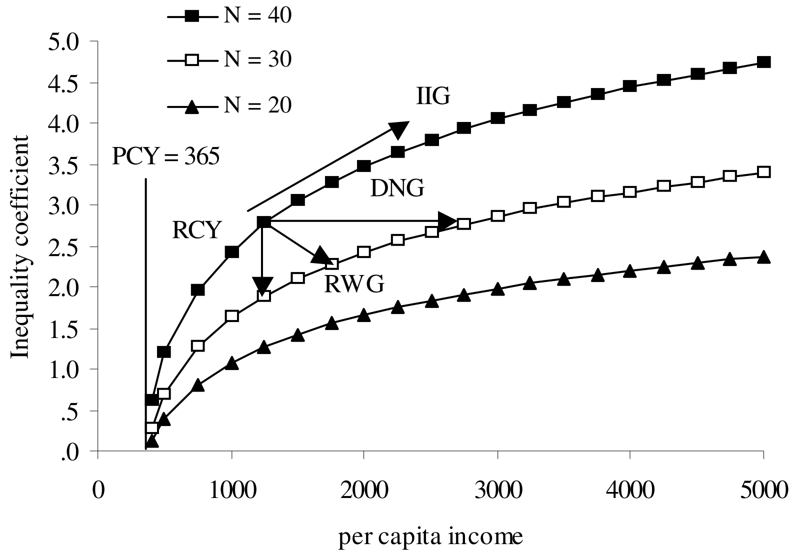
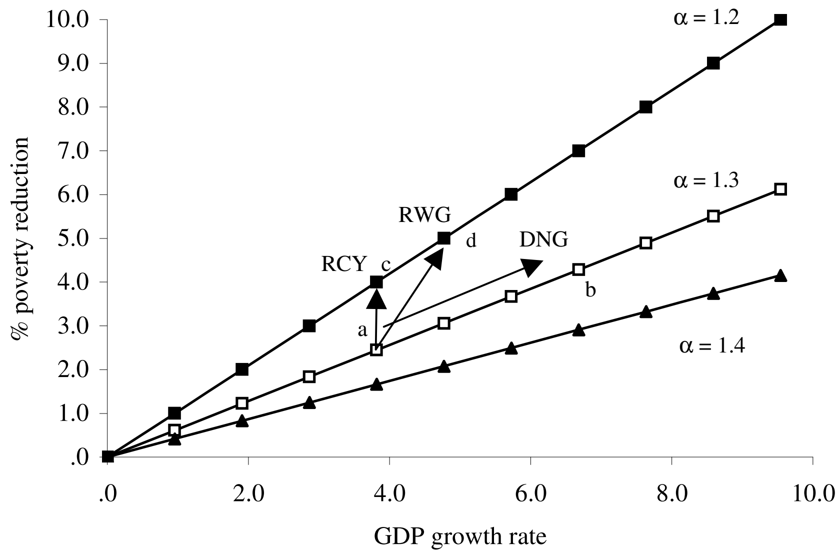


Figure A1.2:

Poverty Reduction and GDP Growth
for Degrees of Inequality



Annex 2:

Probable Growth Rates for Sub-Saharan Countries And their Employment Implications

Given the distribution of income and its trend (see Annex 1), the sustainable rate of employment generation and poverty reduction depends on the rate of economic growth. We argue that for the sub-Saharan countries, 2.5 percent per capita is the minimum consistent with the goals of the UNDP-ILO Joint Programme (which implies a doubling of per capita income by 2030). By comparison to Asia, this is a modest target, but would represent a substantial improvement for sub-Saharan countries.

The likelihood that the countries of the sub-Sahara could attain this target on average is analysed in Tables A2.1 and A2.2. For each country ten-year moving averages of the per capita growth rate were calculated. Table A2.1 reports the number of ten-year periods for which an average of 2.5 percent was achieved, by country, along with the time periods. On the basis of the number of time periods and the variations in growth (from the previous section), the countries are divided into six categories in Table A2.2. The table reports several statistics for each category: the average growth rate of countries, the standard deviation, and the percentage of ten-year periods for which the target rate was met or exceeded. The last statistic is taken as a rough proxy of the probability of the countries achieving the target rate during 2001-2010, with 2001 the last year for which the tables include actual outcomes.

A country qualifies for *category one* if it had moving averages at or above 2.5 percent per capita for at least half of the ten-year time periods. The five countries that *ex post* meet the criterion for this category were not typical of the continent as a whole. Two were island states, and the other three closely linked to South Africa, especially Lesotho and Swaziland. Given the very slow rate of growth of the South African economy in the 1990s, it might be that the later two countries would have difficulty maintaining their historically high rate of growth. Certainly this is the case for Lesotho, whose economic performance has been severely affected by the spread of AIDS.

Category two includes those countries that failed to sustain the target rate, but enjoyed strong growth for extended periods (three or more consecutive periods of 2.5 or

higher). This category is sub-divided into countries whose strong performances were before 1990 ('old success stories'), and those were occurred after 1990s ('new success stories'). Both sub-sets of countries have virtually the same long-term growth rates, and very high standard deviations, relatively to those growth rates. As for those in *category one,* the four countries whose growth performances were strong in the 1990s (but not before) provide limited guidance for rejuvenating growth for the region as a whole. Equatorial Guinea's phenomenal growth was the result of the discovery of petroleum, not policy changes. The strong performances of Uganda and Mozambique reflect the end of debilitating internal conflicts, as well as large inflows of concessional finance. For countries still suffering conflict, there may be lessons to consider (see category 6). The Sudan was an interesting case, a country beset by conflict, yet with a strong growth performance in the 1990s. This unlikely combination might result form the regional concentration of the conflict.

Prior to the 1990s there were five countries that had shown the capacity for sustained rapid growth (*category 2a*), though two of the cases involved petroleum exports, which were highly sensitive to world prices. Perhaps most interesting of the five were Kenya and Malawi, which performed quite well in the 1970s, but deteriorated dramatically in subsequent years. These two countries would be logical candidates from which to seek lessons for reviving growth in the sub-Saharan region, particularly if the regime change in Kenya results in a more pro-poor policy framework.

Categories one and *two* account for fourteen, or exactly one third, of the countries. It would be realistic, if somewhat optimistic, to anticipate that these could all achieve the target rate during 2001-2010. Among *categories three, four and five*, there are few additional candidates. The three countries in *category three* share the unfortunate characteristic of low and stable long-term growth, with no ten-year periods that meet the target. *Category four* is somewhat more promising, for all seven of the countries passed through episodes of growth sustained at 2.5 percent or higher. However, for all the countries save one (Chad), these periods ended in the 1970s. High growth variability, with a negative average, was the plight of the eleven countries in *category five*. Of these eleven, none sustained 2.5 percent for a as much as a decade. Finally, there are the countries affected by serious conflicts in the 1990s (excluding Sudan, see above). Even

should ‘peace breakout’ in these countries, they have shown little potential for high growth, with the exceptions of Burundi and Rwanda.

This brief review of growth performances underlines the importance of bold and purposeful policies to raise growth rates in the sub-Saharan region that is pro-poor. The UNDP-ILO Joint Programme provides a framework to assist governments in doing so.

Table A2.1: Number of Incidents of Per Capita Growth Equal to Or Greater Than 2.5 percent, Ten year Moving Average, Sub-Saharan Countries, 1961-2001

Country	10 year periods @ ≥ 2.5	Consecutive @ ≥ 2.5 (dates)**	Country Category***
Angola	0		6
Benin	0		5
Botswana	29	every year	1
Burkina Faso	0		3
Burundi	10	1971-79	6
Cameroon	7	1981-87	4
Central Afr Rep.	0		5
Chad	4	1989-92	4
Congo, Dem. Rep.	0		6
Congo, Rep.	17	1973-89	2b
Cote d'Ivoire	10	1970-79	2b
Eq Guinea	3	1996-98	2a
Eritrea*	0		6
Ethiopia	0		6
Gabon	14	1970-83	2b
Gambia, The	1	1973-1976	5
Ghana	0		5
Guinea	0		3
Guinea-Bissau	0		5
Kenya	11	1971-81	2b
Lesotho	19	1976-82, 1993-98	1
Madagascar	0		5
Malawi	9	1971-76, 1978-80	2b
Mali	0		5
Mauritania	5	1970-74	4
Mauritius	23	1976-98	1
Mozambique	5	1994-98	2a
Namibia	0		5
Niger	0		5
Nigeria	9	1970-78	4
Rwanda	5	1981-84	6
Senegal	0		5
Seychelles	24	1971-82, 1990-98	1
Sierra Leone	2		6
South Africa	7	1970-76	4
Sudan	5	1995-98	2a
Swaziland	11	1987-96	1
Tanzania	0		5
Togo	5	1970-74	4
Uganda	3	1995-98	2a
Zambia	0		5
Zimbabwe	8	1970-77	4

*Time series too short to yield 10 year moving average.

**At least four consecutive years. **See Table A2.2.

Table A2.2: Categorisation of Sub-Saharan Countries by Long-Term Growth Of Per Capita Income, 1961-2001

Categories:	Criteria	Countries (no. of periods and/or dates)	Probability of g = 2.5 & comment
1. Consistently high growth Aver: 3.9 Stdev: 6.2	Long term growth ≥ 2.5 pc for more than half of 10 year periods	Botswana (29), Lesotho (19), Mauritius (23), Seychelles (24), Swaziland (11) [**five**]	Probability: 79% Redistributive policies for poverty reduction
2. Many periods of high growth			
a. 1990s 'New success stories' Aver: 1.7 Stdev: 5.8	Growth ≥ 2.5 pc in 3 or more 10 year periods, ending in 1998	Eq Guinea (1996-98), Mozambique (1994-98), Sudan (5, 1995-98), Uganda (1995-98) [**four**]	Probability: 48% Policies for short-term stability
b. Before 1990s 'Old success stories' Aver: 1.8 Stdev: 7.0	Growth ≥ 2.5 pc in 3 or more consecutive 10 year periods, before 1990s	Cameroon (1981-87), Congo Rep (1973-89), Gabon (1970-83), Kenya (1971-81), Malawi (1971-76, 1978-80) [**five**]	Probability: 42%
3. Consistently low growth Aver: 1.1 Stdev: 2.4	No periods ≥ 2.5, average over 1.0	Burkina Faso, The Gambia, Guinea [**three**]	Probability: 1%
4. Unstable, low growth Aver: 0.9 Stdev: 6.4	Occasional high growth, non sustained (at least 5 periods ≥ 2.5)	Chad (1989-92), Cote d'Ivoire (1971-79), Mauritania (5, 1971-74), Nigeria (9, 1970-78), South Africa (1970-76), Togo (1970-74), Zimbabwe (1970-77) [**seven**]	Probability: 25% Policies for long term stability
5. Consistently near-zero growth Aver: -0.4 Stdev: 5.0	No periods ≥ 2.5 pc, average < 1.0	Benin, CAR, Ghana, Guinea-B, Madagascar, Mali, Namibia, Niger, Senegal, Tanzania, Zambia [**eleven**]	Probability: 0%
6. Conflict affected (1990s) Aver: -0.7 Stdev: 7.5	Affected by conflicts in 1990s	Angola, Burundi (1970-79), Congo DR, Eritrea*, Ethiopia, Rwanda (5, 1981-85), Sierra Leone (2) [**seven**]	Probability: 10% End conflicts

Notes:
The dates in parenthesis are years of consecutive 10 year moving averages equal to or greater than 2.5 percent per capita. If these do not exhaust the incidence of such averages, the total number is given before the dates (the maximum for most countries is 29). The numbers in bold are the country counts. For the countries with more than half of years equal to or greater than 2.5 (category 1), only the number of years is given.

*Excluded from long-term average because of short time series.

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