Chapter 14

Challenges and Directions for Future Research

Philippe De Vreyer and François Roubaud

The 1-2-3 surveys provide a wealth of information and analysis on labor markets in Sub-Saharan Africa. To build on and expand on the knowledge they yield, researchers could follow several paths.

Three chapters that were supposed to have been included in this book were ultimately left out, because the research was not completed in time. The first deals with spatial inequalities and African labor markets. It explores two types of questions: spatial polarization and ghettoization phenomena and agglomeration and social interaction effects. The originality of the idea lies in exploiting the area frame for primary sampling units (enumeration areas) of the 1-2-3 survey sampling method in order to study neighborhoods, based on recent research (Ioannides 2002; Goux and Maurin 2007). The second considers within-firm training. It quantifies this phenomenon and measure its returns in terms of human capital accumulation, by applying matching techniques to estimate the effects of training. The third tackles regulation and employment in Sub-Saharan Africa. At its heart lies the issue of potential labor market rigidities and their possible consequences on labor and income. Through a political economy perspective, this research examines the following questions: Did structural adjustment programs lead to liberalization of labor legislation in Sub-Saharan Africa? Are African countries (in particular French-speaking countries) more rigid than other developing countries? To what extent is labor legislation actually applied? What is the impact of the highlighted rigidities (on unemployment, the size of the informal sector, and so forth)?

All these issues are still relevant. We strongly encourage their authors to continue and finalize their research, even if recent studies (as well as older ones; see the overview to this book) suggest that labor regulations are not major binding constraints in Sub-Saharan Africa (AfDB and others 2012). For instance, according to the enterprise surveys conducted by the World Bank (2011), only 0.9 percent of African firms blame labor legislation as the greatest obstacle to doing business on the continent, the second lowest (with courts) of 15 potential obstacles proposed (access to finance and electricity were the most cited obstacles by entrepreneurs, with about 20 percent of respondents citing each). This figure appears at odds with the conclusion drawn from the same surveys that labor regulations in Sub-Saharan Africa are the most rigid in the world. The apparent paradox can easily be explained by the huge gap between de jure and de facto regulation: although the restrictions stipulated in national laws are unfavorable on paper, they are not effectively applied, because of weak enforcement capacity. Lack of enforcement does not mean that labor market regulation issues should not be addressed, particularly given the fact that regulations are tighter in richer African countries (South Africa and the countries of North Africa) and will likely increase in poorer countries as they continue to develop.

The survey data can also be used to investigate other issues (some of which have already been explored), including the role of trade unions, social networks and information, and efficiency wages; the integration of young people (Antoine, Razafindrakoto, and Roubaud 2001; DIAL 2007); the modeling of unemployment or multiactivity (holding more than one job at the same time); and the characteristics of employment in the public sector (Razafindrakoto and Roubaud 2001) and in international firms and export processing zones (Glick and Roubaud 2006; Cling, Razafindrakoto, and Roubaud 2005, 2009). In terms of methodology, it is necessary to depart from reliance on the earnings equation, which, despite the intrinsic fragility of income measures (see the overview), is overused.

Three areas are at the top of the list for further exploration: employment and the informal sector, especially in relation to poverty; the microeconomic and macroeconomic dynamics of the labor market; and the impact of public policies. The three sets of issues are closely interconnected.

Employment, the Informal Sector, and Poverty

Using the definitions proposed by the International Labour Organization (ILO) and the official statistics community (labor statisticians and national accountants), the chapters in this book show that the concepts of the informal sector and its extension (informal employment) could pay off analytically, provided they are handled with a rigor; given their importance in labor markets in the region, understanding informality is critical. Alternative concepts (such as *vulnerable employment*, defined below) are more problematic.

Given that the 1-2-3 survey was designed precisely to understand the informal sector and informal employment, use of survey phases 2 and 3 should generate significant knowledge about the informal economy, especially in Africa. The completed project "Unlocking Potential: Tackling Economic, Institutional and Social Constraints of Informal Entrepreneurship in Sub-Saharan Africa" (2009–11) has already provided decisive additional results (Grimm, van der Hoeven, and Lay 2011; Grimm and others 2012). Among the issues it addresses are the returns to physical and human capital (economic constraints), the costs of legalization and corruption (institutional constraints), and the weight of redistributive pressure and the role of social networks in informal sector performances (social constraints). Combining the three phases of the 1-2-3 survey also yields a tool that is well suited to measuring and analyzing the working poor (as defined by the ILO).

Microeconomic and Macroeconomic Labor Market Dynamics

The only dynamic aspect addressed in this book is intergenerational mobility. Expanding research on this issue requires cross-sectional, multiround surveys or panel data. Both types of 1-2-3 surveys have been conducted in African countries such as Madagascar, where a 15-year series (1995–2012) is available.

Comprehensive development of all the issues that could be studied is outside the scope of this chapter (a research program conducted by Développement, Institutions et Mondialisation [DIAL] on macro and micro labor market dynamics that addresses them is in progress). It should be possible to gain insight into the cyclical or countercyclical nature of the informal sector from cross-sectional or pseudo-panel data; panel data could be used to study job transitions between the formal and informal sectors to gain a better understanding of labor market segmentation. Independent of their time properties, panel data form an invaluable source of information with which to enrich analysis, as they can be used to control for "unobservables" assumed to be constant over time. As a result, information can be gathered on questions as simple and crucial as the largely unknown impact of international financial crises on labor markets in Sub-Saharan Africa.

Impact of Public Policies

Africa is rife with programs that directly or indirectly target the labor market, including education, vocational training, and on-the-job training; support to job seekers, young entrants, and staff of privatized public enterprises; programs that seek to increase market access and access to information; microcredit programs; social security schemes; and other policies. These programs are rarely rigorously evaluated. All of the policy evaluation examples that appear in the latest ILO report on youth employment trends (2010) and the report on growth, employment, and social cohesion by the ILO and the International Monetary Fund (2010) concern developed countries.

Many African governments want to extend existing protection schemes in order to reduce poverty and increase social cohesion and political stability, with the aim of achieving universal coverage. Many policy makers want to reform these programs, which many believe are dysfunctional. Before embarking on a new agenda of reforms—such as decoupling social protection from employment status, creating individual unemployment saving accounts, or more broadly liberalizing African labor markets (by, for example, eliminating severance pay)—existing and planned mechanisms should be carefully and rigorously assessed.

The recent, well-founded interest in ex post public policy evaluation evidently applies, and these approaches warrant development. The 1-2-3 surveys, rounded out by ad hoc protocols, could serve as a suitable medium for analysis (see, for example, Gubert and Roubaud 2006 for an impact study on a microfinance institution in Madagascar). Researchers also need to study the impact of further-reaching macroeconomic policies (such as the effect of international openness on the informal economy) and shocks such as the international financial crisis, inflation created by the food crisis, and the rise in commodity prices and deregulation policies (minimum wage, labor code liberalization, and so forth).

The Data Challenge

The glaring lack of data has led the ILO to develop macroeconometric models to estimate and forecast employment and unemployment worldwide (the TRENDS model provided by KILM [Key Indicators of the Labor Market] databases). Given the rather crude assumptions they use, these models are no substitute for survey data. More surveys—that are comparable over time—are needed in Sub-Saharan Africa.

The paucity and low quality of national labor force surveys has forced researchers to use other sources of data. The chapter on youth employment in Africa in the study by the AfDB and others (2012) draws heavily on the Gallup World Poll labor market module. The main arguments for using these data are broader coverage (39 African countries covered between 2008 and 2010 versus only 16 labor force surveys conducted between 2002 and 2007); the fact that the data are more recent; the greater comparability across countries, thanks to the use of identical questionnaires; and the inclusion of valuable opinion questions dealing with key issues such as subjective well-being and perceptions of obstacles and opportunities, job search, and business success.

Using the Gallup World Poll data rather than national labor force surveys also has some drawbacks (AfDB and others 2012). Some labor market concepts are not aligned with ILO standards, and the sample sizes are limited (about 1,000 respondents, compared with the 20,000 or more usually included in labor force surveys). These issues are not the main source of concern about use of these data, however. Delegating the collection of information on labor markets to private polling represents the de facto privatization of the national statistical system. As a public good, labor market indicators should be delivered by public statistics authorities, in Sub-Saharan Africa as elsewhere in the world.

For two decades, we have been calling for the generalization of labor force surveys in Sub-Saharan Africa (Roubaud 1992), until recently without much effect. As stressed in the overview of this book, the ideal tool should be an extended labor force survey designed not primarily to measure unemployment but instead to capture the fundamental labor market specificities in developing countries, particularly the informal sector and informal employment. Adapted indicators should also be developed. The conventional split into primary, secondary, and tertiary sectors to proxy productive versus unproductive jobs is not useful in Sub-Saharan Africa. Using such an aggregate divide to assess modernization and structural change theory in developing countries is deeply misleading where the informal sector colonized manufacturing, construction, and services and coexists with the formal sector (see overview).

Not all recent efforts to expand labor market indicators are useful. For example, the concept of *vulnerable employment* (defined as self-employment and contributing family jobs) proposed by the ILO seems much less relevant than the NEET (not in education, employment, or training) ratio or the over- and undereducation ratios developed in this book. The concept of vulnerable employment is consistent with the conventional view of duality and informality, which implies that all wage jobs are good jobs and all self-employed jobs are bad jobs. The recent literature clearly shows that the picture is mixed. Once all dimensions of jobs quality and individual preferences are taken into account, self-employed workers in the informal sector may be better off than wage workers in the formal sector (see Roubaud 1994; Maloney 2004; Bargain and Kwenda 2011; Falco and others 2011; Nordman, Rakotomanana, and Roubaud 2012; Nguyen, Nordman, and Roubaud 2011; Razafindrakoto, Roubaud, and Wachsberger 2012; and chapter 6 of this book). The vulnerability intensity indicator developed in chapter 4 seems much more convincing in this respect.

The NEET indicator is much more useful than the youth unemployment rate, because it reincorporates the massive component of discouraged workers excluded by the usual measures of underemployment, providing a much better indicator of the true extent of the potential lack of jobs. Incorporating subjective dimensions (such as job satisfaction and happiness, and opinion questions) into labor force survey questionnaires is also needed (see chapter 3).

To incorporate these dimensions, the 1-2-3 surveys should be developed further, building on the work by DIAL and others in recent years. A new generation of surveys incorporating some methodological innovations is already planned in Sub-Saharan Africa. The new surveys will address two pending measurement issues. First, they will broaden geographical coverage at the national level to capture informality, farming, and off-farm activities in rural areas. Second, the Phase 1 questionnaire has been adapted and a new module developed in a participatory manner to fit with the Decent Work agenda (Herrera and others 2012). Expanding the focus in Sub-Saharan Africa beyond the French-speaking countries would add a wealth of information. More broadly, official socioeconomic household surveys in Sub-Saharan Africa should rely on generic surveys: augmented labor force surveys (such as 1-2-3 surveys) to assess the labor market and the informal economy, and living conditions surveys to assess poverty and livelihoods (Razafindrakoto and Roubaud 2007).

This data collection work will not yield results without associated programs in which researchers from developing countries, especially Africa, participate. On this continent where poverty and the informal economy are at their most intense and where research activities are the least developed, we need to work to gradually bring the information and research on labor markets into step with the wealth of information and research found in this area in Latin America (where the many panel surveys have made for substantial progress with our understanding of the mechanisms at work) and, to a lesser extent, in Asia.

"Good Jobs" and "Bad Jobs"

All of the issues raised above share a common denominator: the "good jobs" versus "bad jobs" dilemma, described in the *World Development Report 2013* (World Bank 2012). Beyond the imperative to create jobs to tackle the paradox of "jobless growth," the nature of the jobs provided is at the core of the development agenda. Identifying and promoting good jobs is far from trivial. Doing so depends on the objective sought: increasing short-term or long-term employment, improving individual or collective welfare, raising living standards, increasing productivity, enhancing social cohesion. For example, some jobs may enhance the monetary outcomes and well-being of the people who hold them but hurt long-term development (rent-based jobs). Similarly, good jobs in one country may be bad jobs in another (low-technology jobs). Tradeoffs are involved. Creating (some) jobs at any cost is not the best solution.

The frontier between good jobs and bad jobs is fuzzy, and the priority in terms of policy promotion is not straightforward. Some authors claim that creating good jobs may have an eviction effect on global job creation, a point put in a provocative way by Teal (2012) in his blog post "Why We Need More Bad Jobs (and Fewer Good Ones)." Teal argues that the creation of protected jobs with better pay increases poverty, because it requires a lot of capital. The choice is simple: "You either use that capital to benefit the lucky (well-educated) few who get these good jobs or you use it to create more 'bad' jobs for the many."

Even if one can see in this extreme view the classical argument of the rhetoric of reaction developed by A. Hirschman in his seminal book (1991), it warrants attention. Is the lack of capital responsible for labor underemployment in Africa (DIAL 2007)? It is tempting to accept this explanation. Between 1960 and 1994, when average annual investment outside Africa was 15.6 percent of gross domestic product, Africa invested just 9.6 percent (Hoeffler 2002). The result was a lower stock of capital per worker than in other continents. Some authors have suggested that this lack of investment is the main source of underdevelopment in Africa (Barro and Lee 1994; Collier and Gunning 1999). However, investment is endogenous. Several recent studies suggest that when its endogeneity is taken into account and the effect of other parameters, such as quality of governance, is controlled for, the long-term effect of investment on growth tends to disappear in Africa. An increase in investment flows would therefore probably not be sufficient to increase the growth rate and reduce underemployment (Hoeffler 2002; Devarajan, Easterly, and Pack 2003).

Whatever the cause of underemployment in Sub-Saharan Africa, informal sector jobs are at the core of this discussion. In Sub-Saharan Africa—and low-income countries in general—the informal sector is a key part of structural transformation. Lewis's (1954) dualistic view of the job market does not accurately describe how modernization will occur. There will be no shortcut between agricultural jobs and formal sector jobs: modernization will occur through an increase in informal sector jobs in most countries, spurred by demographic, urban, and off-farm transitions. This transformation is also an opportunity, because informal sector jobs are more productive, pay higher wages, and yield higher job satisfaction than smallholder farm jobs (Haggblade, Hazell, and Reardon 2010; Fox and Pimhidzai 2011), including in high-growth economies where agriculture is exceptionally dynamic, such as Vietnam (Cling and others 2010; Razafindrakoto, Roubaud, and Wachsberger 2012). Even compared with formal sector jobs, informal sector jobs cannot always be considered "bad jobs." The question is thus not quantity versus quality or formal versus informal sector jobs. A multipronged strategy should be promoted by facilitating transitions from both agriculture to off-farm jobs and from informal sector jobs to formal sector jobs. At the same time, increasing productivity and protection for informal sector (and agricultural) workers is imperative.

How best to improve productivity and working conditions remains unclear. What is certain is that employment policy should broaden its focus beyond the formal sector.

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