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Brief

The Changing Nature of Work: Challenges and Opportunities for Sub-Saharan Africa

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Abstract

FEEM Policy Brief

At the beginning of January 2019 the World Bank published their annual World Development Report. This year the report focuses on work and on the effects of its transformations on people and firms across countries. Work is changing and is increasing its demand for non-routine cognitive and socio-behavioural skills. As individuals are more educated, human capital accumulates and technological progress continues to create new opportunities. Consequently, the job market becomes more global and firms ought to adapt their scope as well as their regulations. The main findings of the 2019 World Development Report are highlighted here to understand the role that Sub-Saharan Africa plays within the debate on the changing nature of work.

01 Introduction

Africa is urbanising at an incredibly fast rate. Yet the economic development is slowed down due to three main factors among others. First, agriculture is still the highest employer of the region accounting for 57 percent of total employment (2017 World Development Indicators, World Bank), thus pushing cities into a consumption trap. Second, in Sub-Saharan[1] Africa the job market is still predominantly informal, accounting for 70 percent of total employment (World Bank 2019). Lastly, the lack of adequate infrastructures disconnects people from their jobs (Lall et al. 2017).

Having said that, it is crucial to understand whether Africa can be part of the global debate on the changing nature of work. The aim is to observe whether this continent is stuck in the role of a secondary character, as target of external interventions or whether it has the potential to join the main players of the global economy. The next sections present a general overview of a selection of the topics described in the original 2019 World Development Report with a specific focus on Sub-Saharan African countries. Specifically, the changing nature of work and firms is described in the first section; human capital and its returns to work are specified in the second and third sections, respectively. A final section closes the report providing policy conclusions.

[1] Hereafter, the terms Africa and Sub-Saharan Africa will be used interchangeably and will indicate Sub-Saharan Africa.

02 The changing nature of work and firms

Technology progress has been affecting the workplace for decades. Nowadays, its effects emerge particularly in the skills requested to enter successfully in the job market. On the one hand, the decreasing demand for routine job-specific skills is compensated by the increasing call for non-routine cognitive and socio-behavioural skills, in both advanced and emerging economies. On the other hand, wages are higher for workers mastering combinations of different skill types. Rather than in the creation of the new roles, these factors result in higher standard profiles of existing jobs. Since 2001, the proportion of employment in occupations requiring advanced cognitive and socio-behavioural skills has increased from 33 to 41 percent in advanced economies and from 19 to 23 percent in emerging economies.

The so-called gig economy is another effect of technology progress, which sees a massive expansion of global value chains, where the production process becomes global and the geography of jobs overcomes the traditional boundaries of firms. This process induces companies to become larger and dominate the global economy. Given that 10 percent of the world's firms estimate around 80 percent of all profits, these superstar companies have a substantial impact on a country's GDP. Whereas this new gig economy raises employment making work more accessible on a more flexible basis, countries that do not keep the pace with this change pay the drastic consequences of this exclusion.

Employment growth occurs more noticeably in advanced economies, where technology is prevalent and the labour market is mainly formalised. On the contrary, emerging economies carry a predominant share of the informal sector, which is characterised by lower productivity and lower wages. In Sub-Saharan Africa, informal employment is at more than 70 percent and the shift to the formal sector is discouraged by onerous regulations, taxes and social protection schemes. At the same time, in the advanced economies labour markets are becoming more fluid and the gig economy still lies in a grey area of regulations which blurs the line between formal and informal work.

Emerging countries are facilitated to join this new digital market due to the convergence between the informal sector and the gig economy. Therefore, these countries are a fertile ground for on-demand services, which spread quickly in places with access to digital infrastructures. Examples in Africa are similar to those in the Western world and range from driving services and grocery delivery to music production, editing and accounting. For instance, Asuqu in Nigeria provides a network platform for creatives, professionals and businesses or Crew Pencil in South Africa connects crew and suppliers in the film industry.

03 Human capital

"Human capital consists of the knowledge, skills and health that people accumulate over their lives, enabling them to realise their potential as productive members of society" (World Bank 2019, p.50). Today we use this definition of human capital that comes from the original idea of Adam Smith in 1776, which was then expanded two hundred years later by Michael Grossman to include health as one of the main components (Smith 1776, Grossman 1972). As old as these contributions are, they are still valid and are at the foundation of a model still used today to connote the economic returns of individuals' activities for society.

There is evidence showing that an additional year of schooling is associated with higher earnings. Moreover, better education further raises the total income of an individual. A citizen's health status affects future productivity as well, thus contributing to the economic development of a country. In turn, governments are incentivised to improve people's health. This is true in Africa as well. For instance, the results of a program providing malaria testing and treatment showed an improvement in workers' earnings by 10 percent in just a few weeks (Akogun et al. 2017). Another study in Kenya illustrated the effect of deworming in childhood (Ahuja et al. 2015). The intake of a pill - that costs 25 cents to produce and deliver - reduced school absenteeism and increased future earnings by 20 percent.

Another component of human capital is social capital. Not only does evidence suggest that more educated people are found to be more tolerant and trusting of others, but also undermining human capital compromises social cohesion.

In general, there are different ways to increase human capital. Planning adult learning schemes aimed at preparing individuals for the changing labour markets plays a pivotal role towards this end. These schemes can take different forms, for instance programs on adult literacy, skills training for wage employment and entrepreneurship programs. Low reading proficiency is worryingly widespread worldwide. In Sub-Saharan Africa, in particular, it concerns about 61 percent of workers, which causes problems in the accessibility to the job market. In 2012, research associated more than US$5 billion a year lost due to the economic and social costs of adult illiteracy in developing countries (Cree et al. 2012).

Although these schemes are needed to take action to expand human capital, they often fail to generate a tangible impact. The 2019 World Development Report identifies two main reasons for their low effectiveness. Firstly, an incorrect diagnosis endangers the quality and persistence of adult learning programs. This can be addressed by systemically collecting data before the program design in order to isolate the characteristics of the target population and reduce low participation.

Secondly, a low impact of adult education may be due to a suboptimal program design that does not take into account the fact that the brain's ability to learn weakens with age. As the frequency of brain's stimulation affects its ability to learn, a strategy to address this issue is to integrate lessons into everyday life. A meaningful example is given by an experiment that was implemented in rural Niger where adults from two groups received instructions either via their mobile phones or only during standard education classes (Aker et al. 2012). This research found that participants of the former group scored higher in reading and math skills up until seven months after the end of the course. Other strategies towards a successful adult education design are those that factor in the stress and the demands of family, child care and work that pressure the adults' brain.

Human capital is deeply affected during difficult times by preventing children from going to school, for example. Being Africa a continent still crossed by wars and conflicts, governments of African countries should specifically focus on protecting human capital, bearing in mind its long-term economic returns.

04 Returns to work

Human capital accumulation continues after school, but several obstacles hinder its growth. Firstly, the presence of a large informal sector increases the number of workers in low productivity jobs that do not provide learning or stable sources of income. Secondly, a country with a high share of unemployed women fails to fulfil the total human capital stock. Lastly, a large agricultural sector means a high concentration of the poor in rural areas, where productivity is lower. All these are fixtures of African countries and the 2019 World Development Report highlights how they respond to tackle them.

The informal sector is widespread in emerging economies. It is characterised by low productivity and low transition rate towards a formal sector. In Kenya, incomes of workers in the formal sector are approximately 1.5 times higher than incomes in the informal sector. In Madagascar, the percentage of non-agricultural informal workers increased from 74.2 percent in 2005 to 75 percent in 2010.

Evidence shows that informal employment can be effectively reduced in emerging economies through different channels. For instance, creating stable formal jobs for the poor as well as improving infrastructures and services in town and villages in order to encourage formal businesses to move near poor workers. Other successful approaches are the simplification of red tape and regulations or the use of technology to send regular reports to national authorities.

The extremely low share of women in the labour force is another plague of African countries. This translates into a sensible gap in the economic opportunities available to women and men. Equal property rights are the key to equal inclusion and several African countries are reforming in this direction. In the Democratic Republic of Congo, the family code reformed in 2016 allowed a woman to register her business, open a bank account, apply for a loan, sign a contract and register land without her husband's permission. Another example comes from Zambia, where the Gender Equity and Equality Act of 2015 bans gender discrimination in employment and promotes women social inclusion. In Liberia, the Economic Empowerment of Adolescent Girls and Young Women project was launched in 2009 with the aim to train young girls both at school and with follow-up job placement support. The results of this program showed that for the participants employment and earnings increased by 47 and 80 percent, respectively (Adoho et al. 2014). Moreover, the overall well-being of these young women improved with their self-confidence, life satisfaction and social ability.

African countries have a predominance of the agricultural sector in their economy. This sector is characterised by low productivity and poverty. However, villages in rural areas foster deep human connections, which form networks of protection for the more vulnerable people. A recent study on the gaps in labour productivity between the agricultural and non-agricultural sectors in Kenya found that gains of moving to urban areas are either very small or non-significant (Hicks, 2017). An intermediate space between the subsistence agriculture-oriented villages and the crowded cities are secondary towns. A research on migrants in Tanzania confirms their enabling role in the transition of rural workers to other forms of employment, although still often related to agriculture (Ingelaere, 2018).

This transition towards a more productive and sustainable system is facilitated by technological improvement of the agricultural sector. For instance, crop insurance schemes are necessary to improve productivity as well as expensive. In Kenya, the company ACRE Africa (Agriculture and Climate Risk Enterprise, former Kilimo Salama, Swahili for safe farming) operates in the agricultural insurance value chain. Thanks to an app, it connects sellers and farmers to weather stations and it monitors the risks to calculate the best insurance policy. By 2017, over a million farmers in Kenya, Rwanda and Tanzania were insured under this project.

Policy conclusions

This policy brief provides an overview of the current global framework of work as described in the 2019 Global Development Report with a specific focus on the role that Africa plays in this debate. The effects of technology progress highlighted here are twofold. Firstly, new technologies increased the demand for workers with higher standard profiles for non-routine tasks. Secondly, they generated the new gig economy, characterised by a global production process and superstar firms that impact global productivity. In Africa, a convergence is gradually occurring between the informal sector and the gig economy due to a grey area within their respective regulatory frameworks. This creates a fertile ground for the multiplication of on-demand businesses which play a key role in the global digital market.

The fuel of labour market development is human capital accumulation, which revolves around improvements in health status and education. Enhancing human capital growth leads to future individual productivity development. However, many factors that characterise African countries impinge on this mechanism. Firstly, a large informal market lowers wages and reduces productivity. Secondly, low women's participation to the job market damages complete human capital stock. Lastly, a predominance of agricultural sector sub-optimally contributes to wage employment growth. Nevertheless, in Africa there is a growing number of successful interventions and activities aimed at tackling these issues.

Overall, innovation and globalisation are the main factors driving the change in the nature of work. However, the future of employment is uncertain and governments should promote policies that boost job creation as well as human capital accumulation. This is a fundamental step for those countries that aim at meeting the eighth UN Sustainable Development Goal on decent work and economic growth. Although African countries are experiencing deep changes in their participation in the new global job market, their economies would benefit from further promoting human capital.

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