

## ACTIVITIES AND ACHIEVEMENTS QUESTIONNAIRE

### 1. Non-Technical Summary

A 1000 word (maximum) summary of the main research results, in non-technical language, should be provided below. The summary might be used by ESRC to publicise the research. It should cover the aims and objectives of the project, main research results and significant academic achievements, dissemination activities and potential or actual impacts on policy and practice and highlight where the project has been successful in building capacity.

Some of the poorest countries in the world are in Africa and its failure to participate in the reduction in poverty which has occurred in other parts of the developing world is a central policy issue both for Africans and those who seek to aid them. In the last decade economic performance in Africa generally has improved dramatically. However there are substantial differences within Africa and the countries where this research was conducted – Ghana and Tanzania – have very different experiences of poverty reduction. In Ghana poverty has halved over the period from 1991 to 2005 while in Tanzania there have been only marginal changes. Understanding some of the underlying reasons for success and failure in Africa has been the overarching objective of the research.

The premise of the research proposal was that finance and formality were key elements in enabling poverty to fall and that finance was a constraint on the formation and growth of firms. This premise turned out not to be supported by the data the research collated and collected. In both Ghana and Tanzania a labour force survey was carried out which allowed us to assess the extent of income differences between both the formal and informal sectors. One of the contributions of this work is that we can make much clearer what makes for formality and informality in these urban labour markets and the implications for the incomes of those who work there. Formality is related to two aspects of the jobs people do: one, whether the worker is employed in the public sector; and two, the size of the enterprise in which the worker is employed. The patterns found across Tanzania and Ghana are remarkably similar. Earnings differentials between the private and public sectors are substantial even after allowing for differences in education. Another result which came out clearly from the research for both countries was that enterprise size was strongly related to earnings and this applied to both wage and self-employment. There are many reasons why one might observe this result. Workers may have very different skills and very different aptitudes to work in enterprises of different type and size. One of the contributions of the research has been to attempt to narrow down the reasons why one might observe these differences by explicitly considering how these factors might impinge on earnings. Once we do this we find some surprising results, those working in small firms earn less than the self-employed in Ghana and the same in Tanzania. Viewing wage employment relative to self-employment as a crucial aspect of formality turns out to be inconsistent with the data. Informality measured by enterprise size affects earnings and much wage employment which is in small firms pays less than self-employment.

In parallel with collecting data we carried out work in Ghana, in collaboration with the Ghana Statistical Office, analysing the Living Standard Surveys which have been carried out for the year 1991, 1998 and 2005. These are nationally representative surveys and thus complement the panel data collected as part of this research project. They show over this period a halving of Ghana's poverty rate. This is a remarkable, and within

Africa, a unique achievement to have met one of the key Millennium Development Goals ahead of time. Faced with this finding and our research question we sought to establish from these surveys whether this fall in poverty had been driven by a rise in more formal enterprises paying higher wages for more skilled jobs. To answer that question required us to collate the data across the three surveys and exploit the fact that once we had standardised occupations we could ask how the number of jobs had changed and how the incomes from those jobs had increased over his period when poverty halved. The results were, again, very surprising. Over the period from 1998 to 2005 by far the most important change in the labour markets was the rise in wage employment in small firms (defined as firms employing less than 10 workers). Their numbers increased from 350,000 to 890,000 while employment in large firm (those employing more than 100) declined from 68,000 to 39,000. Employment in the public sector did go up over this period but by modest amounts and urban self-employment fell substantially.

In parallel with this work on the panel and cross section data we also sought to set up in both Ghana and Tanzania an experimental framework that would allow us to assess the role of microfinance at a very micro level. For logistical reason we were not able to implement this in Tanzania but we were in Ghana. In collaboration with an NGO in Accra we carried out a survey of their borrowers in areas where we already had data on self-employed entrepreneurs who did not have access to finance. We are in the process of analysing that data but the results will not be available for a few more months. A final element of the research which is also being written up at the moment is the analysis of the role of risk in the outcomes.

In summary, our research for Ghana has shown that rapid falls in poverty are possible with a rise in employment in the lowest paying sector of the urban economy. How can this change in employment be linked to rises in income? Again exploiting the three cross sections has allowed us to show that incomes rose rapidly in the period from 1998 to 2005 for all types of jobs but particularly for the unskilled. The key to poverty reduction in Ghana was not a shift to formality it was a shift to informality in a context where rapid growth of incomes within sectors was possible. The sources of those increases remain at present uncertain.