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Growth and Labour Markets in Low Income Countries Programme

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Modelling Labour Markets in LICs with Imperfect Data

A Complex Labour Market Segmentation Model Can Ensure Well-Targeted, Evidence-Based Policy Interventions for Low Income Countries in Africa

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Segmenting African low-income countries' labour markets helps identify where to direct policy for maximum impact

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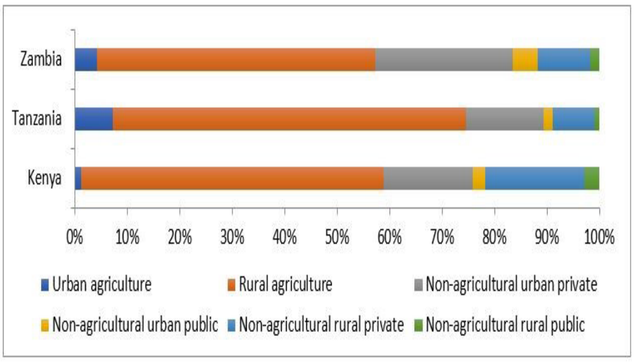
Topic at a Glance

There is no clear empirical appreciation of the most appropriate labour market segments both across and within lower income countries (LICs) in Africa. This study compares descriptive labour markets across three LICs: Kenya, Tanzania and Zambia, allowing the data to drive the design of the segmentation model. The study demonstrates the value of a more complex labour market model, which considers the full range of observable labour markets segments. It argues that a better understanding of these labour market segments is necessary to ensure well-targeted, evidence-based policy intervention.

Figure: Labour Market Segmentation



Caption: Reducing everything to an urban/rural labour market omits a significant degree of heterogeneity within and across LIC labour markets.

New Insights

Unemployment

It is often assumed that unemployment is not a major concern for sub-Saharan African countries (outside of South Africa). However, while unemployment rates are relatively low in Kenya, Tanzania and Zambia, more detailed analysis reveals that urban unemployment rates are substantial in all three countries. Moreover, youth unemployment is higher than adult unemployment in all three countries. In Tanzania, youth unemployment is purely an urban phenomenon. Overall, this study reveals that unemployment among even relatively well-educated youth is a major problem in all three countries.

Labour market models usually assume that higher skilled workers are substantially more likely to be employed than lower skilled workers. However, decomposing unemployment rates by level of education reveals that the likelihood of unemployment does not systematically decrease with level of education in any of the three countries studied. Therefore, it is not just unskilled migrants that experience high unemployment rates. Largely as a result of an underdeveloped urban industrial sector in Africa countries, relatively skilled people may also struggle to find work, which is why in some countries the unemployment rates for those with secondary or tertiary education are so high.

Labour Market Segmentation

This study decomposed employment into six distinct labour market segments. The figure indicates that dual sector models do not fit with the reality in the African countries covered in this study. Reducing everything to an urban non-agricultural private segment, and a rural subsistence agricultural segment, omits a significant degree of heterogeneity within and across different labour markets in the African context. While simple dualistic labour market models do not account for a rural non-agriculture labour market segment, the rural private segment is substantial in all three countries. In Kenya, both men and women are more likely to work in the rural private segment than the urban private segment.

Furthermore, the urban agriculture segment also provides a substantial source of employment; especially in Tanzania, where it accounts for 7 percent of total employment.

Policy Recommendations

Good quality data is the foundation behind evidence-based policymaking. Knowing where resources are lacking allows governments to prioritise social spending and ensure well-targeted service delivery. Data also allows government to assess policies to ensure that, once implemented, they are having the desired outcome.

Overall, this study highlights the need for high quality, comparable data in sub-Saharan Africa. This will enable policy makers to identify those who are being left behind both socially and economically, so as to ensure well-targeted and adequately resourced interventions for those who are most deprived. While averages may hide specific groups in need of intervention, segmenting the labour market will enable policy makers to identify where to direct policy for maximum impact.

Having access to the correct information does not necessarily result in the correct policy being applied, but it does make successful policy implementation more likely.

Limitations

It can be difficult for researchers and policymakers outside of official statistical agencies to access African survey data. When the data is made available, it is not always of high quality. In fact, there is an international consensus that official statistics in many sub-Saharan African countries are both inadequate and unreliable (Jerven, 2013).

Often, comparability both within and between countries is challenging. For example, survey instruments may differ across household surveys of different years, making comparability across time problematic. Furthermore, when countries use definitions which are very specific to their own context, rather than those produced by international organisations such as the ILO, comparability across countries may be impaired.

In this study, segmentation of the labour market is complicated due to data problems in all three countries studied. An example is individuals reporting being self-employed, in the public sector, in the agriculture industry. This type of inconsistent reporting needs to be cleaned, and makes the data less reliable. These issues highlight the need for a much greater emphasis on survey tools and methodology in order to collect high-level, good quality data.

Reference: Jerven, M. 2013. Poor Numbers: How We Are Misled by African Development Statistics and What to Do about It. Cornell University Press.

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GLM|LIC is a joint program by IZA and the UK Government Department for International Development (DFID) – improving worldwide knowledge on labor market issues in low-income countries (LICs) and providing a solid basis for capacity building and development of future labor market policies.

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