Global Wage Report

International Labour Organization

AFRICA BRIEF 2010/11

Introduction

This short *Africa Brief* is a companion document to the *Global Wage Report 2010/11,*[1] which reviews the global and regional wage trends during the years of the economic and financial crisis, and also discusses the role of wage policies in times of crisis and beyond. The present brief collates the information from the *Global Wage Report 2010/11* that is specific to African countries and also presents some additional information that was collected during the preparation of the report.

Part I of the brief highlights trends in labour productivity, in the number of wage earners and in the growth and distribution of average wages in Africa. To produce this section a major effort has been made over the past two years to collect more wage statistics from national statistical offices and to collate them in the ILO Global Wage Database. This exercise has been made possible in large part thanks to interactions with national statistical offices during the two sub-regional workshops hosted by the ILO in Addis Ababa in July 2009 and in Dakar in December 2009. The available data – mostly collected from labour force surveys and other household surveys – show the extent to which wage employment and average earnings have increased in recent years, mostly before the global economic crisis.

Part II of the brief focuses on the role of wage policies – collective bargaining, minimum wages and public sector pay harmonization – in the African context. In particular, it provides some examples of the trends in union density and collective bargaining coverage, the need for unions to organize vulnerable low-paid workers and the complementary role that well-designed minimum wages can play in such a context. Finally, the brief suggests that wage policies should be seen as part of a broader objective to support the incomes of poor families and those at the bottom of the income distribution.

[1] ILO (2010a).

PART I | Major trends

The economic context

After two decades of stagnation, and before the outbreak of the global financial crisis in 2008, economic indicators in Africa improved considerably. From about 2004, sub-Saharan Africa systematically outperformed the more advanced economies, achieving annual growth rates of around 6.5 per cent over the period 2004–08, compared with a world average of around 4.5 per cent. Given the fast increase in the population, this has translated into growth in GDP per capita of about 4.3 per cent per year between 2004 and 2008 in sub-Saharan Africa (figure 1). This performance has given rise to some cautious optimism that Africa has "turned the corner".[2] However, the global economic and financial crisis has slowed growth in sub-Saharan Africa to 2.1 per cent in 2009. This is the result of lower demand and prices for African countries' exports, lower foreign direct investment and tourism and declining remittances.

Labour productivity

What has been the impact of economic trends on labour productivity? Growing labour productivity – producing more output with the same input of labour – has historically been one of the most powerful driving forces behind rising living standards and increases in real wages. In particular, labour productivity is a key factor in wage determination and is often used by the social partners as a reference point in collective bargaining. Moreover, when labour productivity increases, it becomes profitable for companies to hire additional workers, which in turn tends to increase labour demand and pull up wages in the labour market.

Definitions and sources

While there are a number of different ways to measure labour productivity, they all define economic output in relation to labour input. One question in particular is whether labour input should be measured by the number of hours worked or by the total number of people who are employed in an economy. In line with Target 1b of the United Nation's Millennium Development Goals,[3] this brief uses GDP per person employed as a simple measure of labour productivity. The "employed" comprise all persons of

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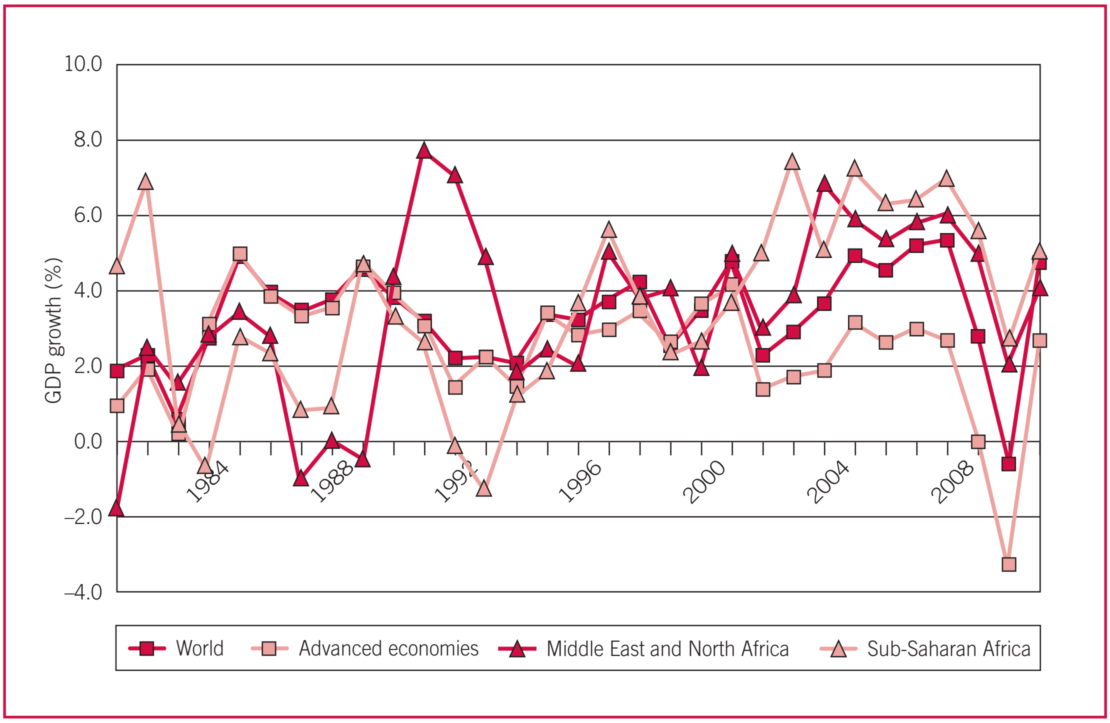
[2] World Bank (2008).

[3] See ILO (2009).

Figure 1 Real GDP growth in the world, advanced economies and Africa



Source: IMF (2010).

working age who are either in paid employment or in self-employment (own-account workers, contributing family workers and employers), even if they worked very little (which, in many countries, is defined as at least one hour per week).[4]

To map trends in labour productivity growth across Africa and to compare it with other regions, this brief relies on data from international repositories, namely the ILO's estimates of total employment from the Global Employment Trends Model[5] and the World Bank's figures for GDP in constant 2005 PPP$.[6] Compared with some statistics, the raw data required to compute labour productivity growth can be obtained relatively easily in most countries: GDP at constant prices is collected in the national accounts (although some questions regarding the reliability remain),[7] while data on total employment can be obtained from labour force surveys and other household sample surveys, as well as

[4] For the exact statistical definition, see the Resolution concerning statistics of the economically active population, employment, unemployment and underemployment, as adopted by the 13th International Conference of Labour Statisticians in 1982.

[5] See ILO, *Key Indicators of the Labour Market*, table 2a, Employment-to-population ratio (ILO estimates, by sex and age group), freely downloadable at http://kilm.ilo.org/KILMnetBeta/default2.asp.

[6] See World Bank, World Development Indicators, series "GDP, PPP (constant 2005 international $)". The series is based on "GDP (constant LCU)", which is equal to nominal GDP deflated by the GDP deflator. A free download of the database is available at http://data.worldbank.org/data-catalog/world-development-indicators.

[7] See the classic study on Zaire (now Democratic Republic of the Congo) by MacGaffey (1991) and a recent review on the reliability of African economic statistics as compiled in international repositories by Jerven (2009).

Table 1 Labour productivity by region in 1991, 2000 and 2009 (level and growth rates)

	Labour productivity levels, in 2005 PPP$			Compound annual growth rate, in %	
	1991	2000	2009	1991–2000	2000–09
World	16177	18360	21253	1.4	1.6
Sub-Saharan Africa	**4545**	**4269**	**5037**	**–0.7**	**1.9**
South Asia	3380	4585	6807	3.4	4.5
East Asia	3193	6198	12164	7.6	7.8
South-East Asia and the Pacific	5676	7 168	9 184	2.6	2.8
Middle East	31737	30709	34844	–0.4	1.4
North Africa	**14064**	**14186**	**16182**	**0.1**	**1.5**
Latin America and the Caribbean	20221	21180	22288	0.5	0.6
Central and South Eastern Europe (non-EU) and CIS	20791	16712	23524	–2.4	3.9
Advanced countries	54550	64885	70451	1.9	0.9

Note: "Labour productivity" refers to GDP in 2005 PPP$ per person employed. "Advanced countries" refers to Australia, Canada, Iceland, Israel, Japan, New Zealand, Norway, Switzerland, the United States and the 27 member states of the European Union.

Source: Own calculations based on ILO (*Key Indicators of the Labour Market*, table 2a) and World Bank (World Development Indicators).

population censuses.[8] Establishment sample surveys, establishment or economic censuses and administrative records (such as social security registers and public sector payrolls) are an alternative source for employment data, though they usually cover only the formal sector.

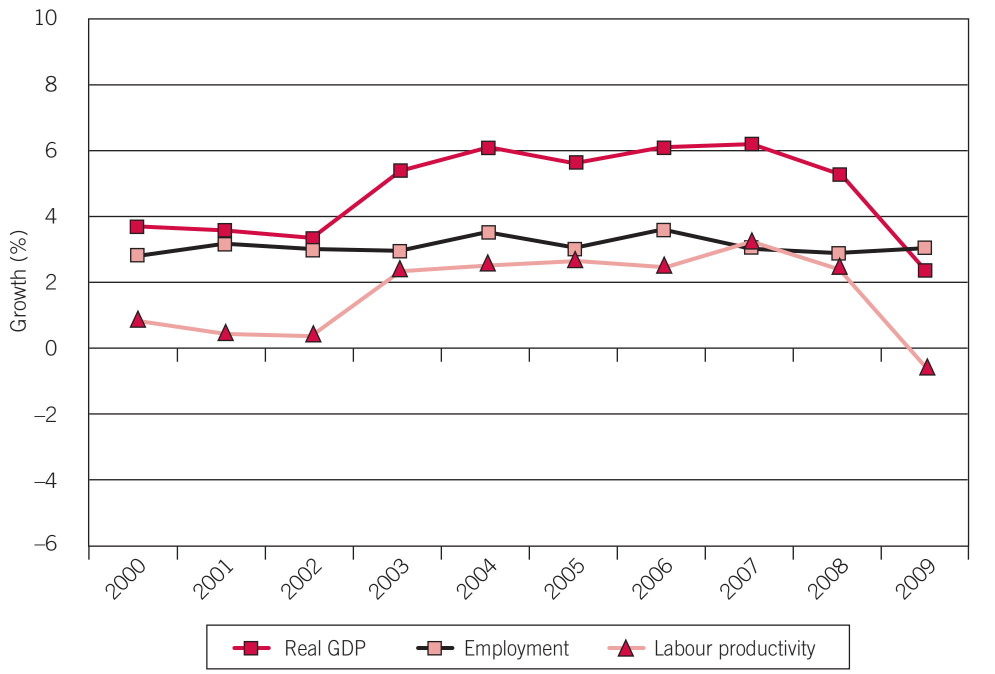
Trends

Table 1 shows how labour productivity grew as a result of the positive trend in GDP per capita growth before the global economic crisis. In sub-Saharan Africa we see that while labour productivity declined by an average rate of –0.7 per cent per year during the 1990s, overall GDP per employed person increased at an annual rate of 1.9 per cent over the years 2000 to 2009 – faster than in advanced countries. Similarly, in North Africa labour productivity growth accelerated from a low 0.1 per cent per annum in the 1990s to 1.5 per cent per year during the past decade. In spite of these improvements, though, it must be noted that the actual level of output per worker in sub-Saharan Africa (PPP$5,037) remains the lowest of all regions, while the level in North Africa is substantially higher (PPP$16,182).

Figure 2 illustrates trends in labour productivity, real GDP and employment for the whole of Africa. We can observe that in the six years before the global financial and economic crisis, labour productivity grew at rates of 2–3 per cent per year. While remarkable, these rates remain considerably below the 6 per cent or so annual growth in GDP during the same years. This discrepancy between labour productivity and GDP growth is due to the strong employment growth of around 3–4 per cent per year, which essentially reflects the fast increase in the working-age population and points towards a particular challenge for policy-

[8] For measuring employment in sample surveys, see Hussmanns et al. (1990); for measuring employment in population censuses, see United Nations and ILO (2009).

Figure 2 Trends in labour productivity, GDP and employment



Source: ILO calculations based on GDP data from the World Bank (GDP in constant 2005 purchasing power parity (PPP)$) and employment data from the ILO *Key Indicators of the Labour Market*, table 2a.

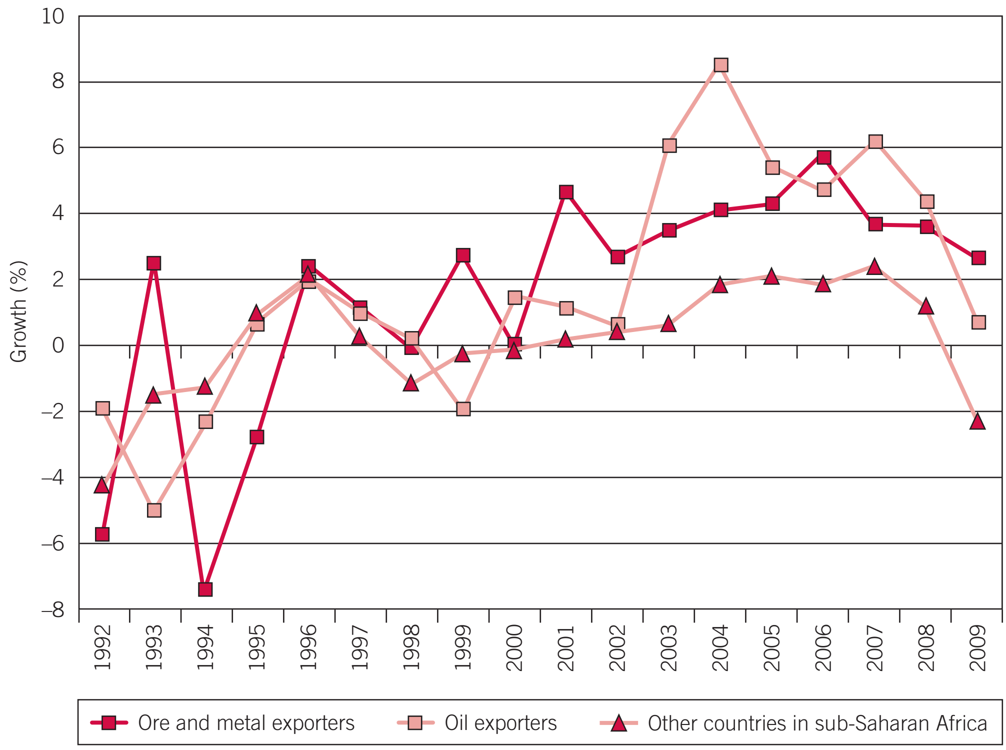
makers in the region. Figure 2 also shows that the global crisis has severely affected African countries. In 2009, the year of the global economic crisis, although overall GDP growth remained positive, labour productivity actually fell by –0.6 per cent. Figure 3 shows that since 2003 the value of labour productivity increased much more rapidly in oil and ore and metal exporting countries than in other sub-Saharan African countries. However, we can observe that even the "other" sub-Saharan African countries succeeded in increasing output per worker by about 2 per cent per annum in the 4–5 years before the global crisis.

Paid employment and wages

Have the trends in labour productivity benefitted workers through an expansion of wage employment ("the quantity of paid employment") and/or higher wages ("the quality of paid employment")? As we have pointed out, labour productivity is a useful indicator that shows the extent to which an economy is building the preconditions for a sustainable, long-term rise in the living standards of workers.[9] At the same time, in economies characterized by a degree of "labour surplus", industries which provide paid employ-

[9] The ILO's framework for measuring decent work uses labour productivity as an indicator for the "Economic and social context for decent work", based on the argument that working poverty and the low pay rate (percentage of workers who receive less than two-thirds of median earnings) are better direct measures of progress towards decent work (see ILO, 2008a and 2008b).

Figure 3 Labour productivity growth in sub-Saharan Africa by export structure, 1992–2009 (in per cent)



Note: "Labour productivity" refers to GDP in 2005 PPP$ per person employed. "Ore and metals exporters" refers to countries in which ore and metal exports accounted for at least 50 per cent of all merchandise exports in 2005 (Mauritania, Mozambique and Zambia); "Oil exporters" refers to countries in which fuel exports accounted for at least 50 per cent of all merchandise exports (Angola, Chad, Congo, Equatorial Guinea, Gabon and Nigeria). Export data are from World Bank (African Development Indicators).

Source: Author's calculation based on ILO (Key Indicators of the Labour Market, table 2a) and World Bank (World Development Indicators).

ment can easily attract as many workers as they need without having to increase wages. In such situations, increases in productivity are likely to translate into higher profits and investment – hence more wage employment – rather than increases in wages.

Definitions and sources

The share of paid employees refers to the proportion of wage earners in total employment. Wage earners are defined here as workers who hold "paid employment jobs".[10] They can be regular employees, workers in short-term employment, casual workers, outworkers, seasonal workers and other categories of workers holding paid employment jobs.[11] They can work either in the formal economy or in the informal economy. Essentially, the status of a paid employee contrasts with self-employed workers.

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[10] See the 15th International Conference of Labour Statisticians in 1993.

[11] ILO, Resolution concerning the International Classification of Status in Employment (ISCE), adopted by the 15th International Conference of Labour Statisticians (Geneva, October 1993). http://www.ilo.org/global/statistics-and-databases/standards-and-guidelines/resolutions-adopted-by-international-conferences-of-labour-statisticians/lang--en/index.htm

In this brief, wages are defined as "remuneration or earnings, which are payable in virtue of a written or unwritten contract of employment by an employer to an employed person".[12] The concept of wages therefore excludes the labour earnings of self-employed and other types of non-wage workers. The word "wage" usually refers to total gross remuneration, including regular bonuses, received by employees during a specified period of time for time worked as well as time not worked, such as paid annual leave and paid sick leave. It closely corresponds to the concept of "total cash remuneration", which is the major component of income related to paid employment and which excludes employers' social security contributions.[13]

Data on the share of wage earners are usually collected from labour force surveys or other household surveys. Most of these surveys classify total employment by status, distinguishing between workers who are in paid employment (i.e. wage earners) and those who are employers, own-account workers, contributing family workers or members of producer cooperatives. While these classifications are not without their problems – and can lead to some under-reporting of actual wage employment[14] – the information collected through labour force surveys provides the only statistics collected consistently over time and across countries. Most countries have conducted at least one or two labour force surveys over the past ten years.

Wage data are even less frequently available. In principle, wage data can be collected through a variety of sources, including establishment surveys, labour force surveys (or other household surveys) and administrative records from social security institutions or tax authorities. While in developed economies, wage statistics are usually collected through monthly, quarterly or annual establishment-based surveys, this is only rarely the case in sub-Saharan Africa, where only few countries – such as South Africa or Botswana – carry out such establishment-based surveys on a frequent basis.[15] Most other countries collect data on employment-related income through household surveys. While labour force surveys and household surveys are more representative than establishment surveys (which typically leave out small and informal enterprises that are not officially registered), they suffer from the fact that interviewed individuals have a tendency to under-report their earnings. Table 2 provides information on the sources of wage data for a selected sample of African countries. The table lists all the recent

[12] See ILO Convention No. 95, Article 1.

[13] ILO, Resolution concerning the measurement of employment-related income, adopted by the 16th International Conference of Labour Statisticians (Geneva, October 1998). http://www.ilo.org/global/statistics-and-databases/standards-and-guidelines/resolutions-adopted-by-international-conferences-of-labour-statisticians/lang--en/index.htm

[14] In rural areas, casual wage labour may be perceived as degrading. Hence people with some land ownership prefer to report themselves as self-employed farmers (see Oya, 2010).

[15] Statistics South Africa (SSA) collects quarterly information on both employment and gross earnings paid to employees through a survey of enterprises in the formal non-agricultural business sector. These data are published in the quarterly employment statistics and provides information on current and constant earnings in eight different industries. The series started in 2006 and hence does not provide very long times series. Similarly, in Botswana the Central Statistics Office (CSO) collects data on average earnings of paid employees, by industry, sex and citizenship through a survey of employees of establishments listed in the CSO's Enterprise and Establishment Register (EER). Such quarterly establishment surveys provide precious information on the evolution of wages in the formal sector. They do not, however, cover unregistered companies and also tend to leave out small establishments. In Botswana, for example, establishments with fewer than five employees are excluded from the sample.

Table 2 Sources of employment-related income data in Africa

Country	Mid 1990s or before	Mid 1990s/ early 2000	Latest	Source
Household surveys				
Benin	-	2000/01	2007/08	Enquête ménages
Botswana	1984/85	1995/96	2005/06	Labour force survey
Burkina Faso	-	2003	2007	Enquête emploi
Cameroon	-	2001	2007	Enquête ménages
Burundi	-	-	2006/07/08	Enquête 1-2-3
Côte d'Ivoire	1998	2002	2008	Enquête niveau de vie
Ethiopia	-	1999/2000	2005	Labour force survey
Ghana	1992	1998	2006	Household survey
Liberia	-	-	2007	Labour force survey
Madagascar	-	2001	2005	Enquête ménages
Malawi	1998	2004/05	2009	Household survey
Mali	-	2004	2007	Enquête ménages
Namibia	1993/94	-	2003/2004	Household survey
Nigeria	-	2003/04	-	Living standard survey
Rwanda	-	2000/01	2005/06	Household survey
Senegal	1994/95	2001/02	2005/06	Enquête ménages
South Africa	-	2001	2007	Labour force survey
Tanzania	1990/91	2000/01	2006	Labour force survey
Uganda	-	2002/03	2005/06	Labour force survey
Zambia	1986	2005/06	2008	Labour force survey
Establishment surveys				
	Frequency		*Source*	
Botswana	quarterly		Survey of employment and employees	
South Africa	quarterly		Quarterly employment statistics	

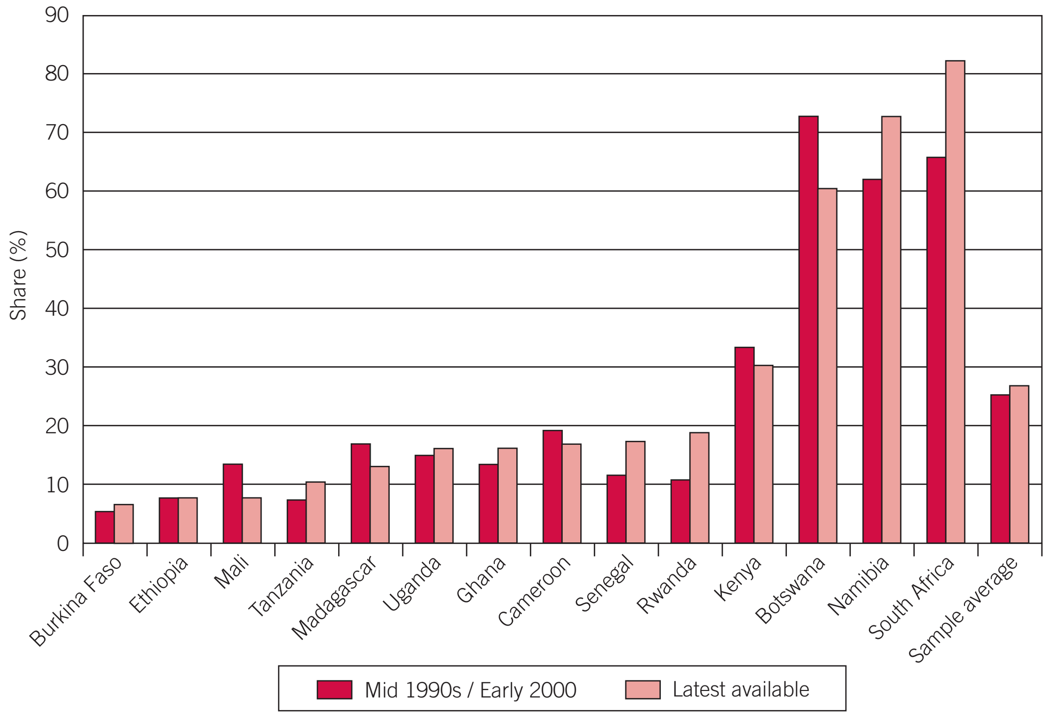
labour force surveys or other relevant household surveys from which some information on wages and/or wage employment could be extracted.[16]

Trends in the share of wage earners

Has the proportion of wage earners increased in Africa over the past 10 to 15 years? Based on a sample of 14 countries for which two recent data points can be compared, figure 4 shows that the trend in the proportion of wage earners in both the formal and informal sectors appears to have been growth in a majority of countries. While many countries have recorded relatively modest increases in the share of wage earners (such

[16] The analytical report on Tanzania's 2006 integrated labour force survey for example points out that the income question is a sensitive one and that reliable answers are difficult to obtain due to the fact that people regard such questions as a way for the government to acquire evidence for taxation purposes or because they regard the information as confidential and personal (Tanzania National Bureau of Statistics, 2007, pp. 76–77). Hence, income-related questions are often deliberately placed at the end of the questionnaires.

Figure 4 The share of wage earners in selected African countries (percentage)



Note: The share of wage earners in total employment is taken or estimated from official national sources. In Botswana, the share of wage earners in 1995/96 was not available from the central statistical office and was therefore estimated as the sum of formal employment (excluding traditional agriculture) plus informal paid employment. Using the same method for 2005–06 overestimates wage employment by 4 percentage points compared with the official estimate. Hence we have adjusted our own 1995–96 estimate downwards by 4 percentage points.

as Ghana, United Republic of Tanzania and Uganda) others seem to have made significant progress (in particular Namibia, Rwanda and South Africa). There are also exceptions to the positive trend. Botswana, for example, was one of the fastest growing countries in the world over the period 1995–2006, yet the share of wage earners appears to have decreased;[17] although, it nonetheless remains one of the highest in Africa.

Despite the general progress in recent years, wage employment in sub-Saharan Africa remains a relatively small part of total employment – not exceeding an estimated 25 per cent (table 3). This share, however, can be expected to increase in the future along with economic growth. Also, while the number of wage earners may be small in relative size, in absolute terms they amount to about 100 million people. Table 4 shows that, whereas in advanced countries the fraction of men and women in wage

[17] One possible reason is that economic growth in Botswana has been achieved in large part due to the export of diamonds which, together with other mining, represents about 35 per cent of the county's GDP (Poteete, 2009). This has created few opportunities for wage employment. Overall, during the past 20 years, the total working-age population has increased by about 20 per cent, from 950,000 in 1995–96 to 1.15 million in 2005–06. Almost three-quarters of this additional labour force has been absorbed in the two sectors with the lowest proportion of wage earners, namely agriculture and wholesale/retail trade.

Table 3 All wage and salaried workers in 2008 (percentage of total employment)

	1998	2008
World	44	48
Developed	84	86
Eastern Europe and CIS	77	78
East Asia	36	45
South-East Asia and Pacific	33	36
South Asia	18	21
Latin America and the Caribbean	62	63
Middle East	50	62
North Africa	46	54
Sub-Saharan Africa	18	25

Source: ILO (Key Indicators of the Labour Market) http://www.ilo.org/public/english/employment/strat/kilm/index.htm

Table 4 Wage and salaried workers in 2008 by sex (percentage)

	Male	Female
World	49	47
Developed	84	89
Eastern Europe and CIS	77	80
East Asia	49	41
South-East Asia and Pacific	39	33
South Asia	24	15
Latin America and the Caribbean	62	66
Middle East	65	53
North Africa	57	46
Sub-Saharan Africa	31	17

Source: ILO (Key Indicators of the Labour Market) http://www.ilo.org/public/english/employment/strat/kilm/index.htm

employment is roughly equal, the proportion of women employees in sub-Saharan Africa is substantially smaller than that of men.

Trends in average wages

How has the growth in labour productivity increased the level of wages? The *Global Wage Report 2008/09* had little data from Africa, but a substantial effort has been made since then to collect wage statistics from national statistical offices. These efforts now allow for some regional estimates of wage growth. Table 5 shows that real wages across the African continent have increased by about 16 per cent since 1999[18] against a global increase of 22.6 per cent during the same period, while in advanced countries, real average wages increased by only about 5 per cent in real terms, reflecting a period of wage moderation.

[18] This estimate is tentative in the sense that it is based on wage data for 15 large African countries, which cover an estimated 57 per cent of wage earners and about 76 per cent of the region's total wage bill (for more details, see the methodology in the *Global Wage Report 2010/11*).

Table 5 Cumulative wage growth, by region since 1999 (1999 = 100)

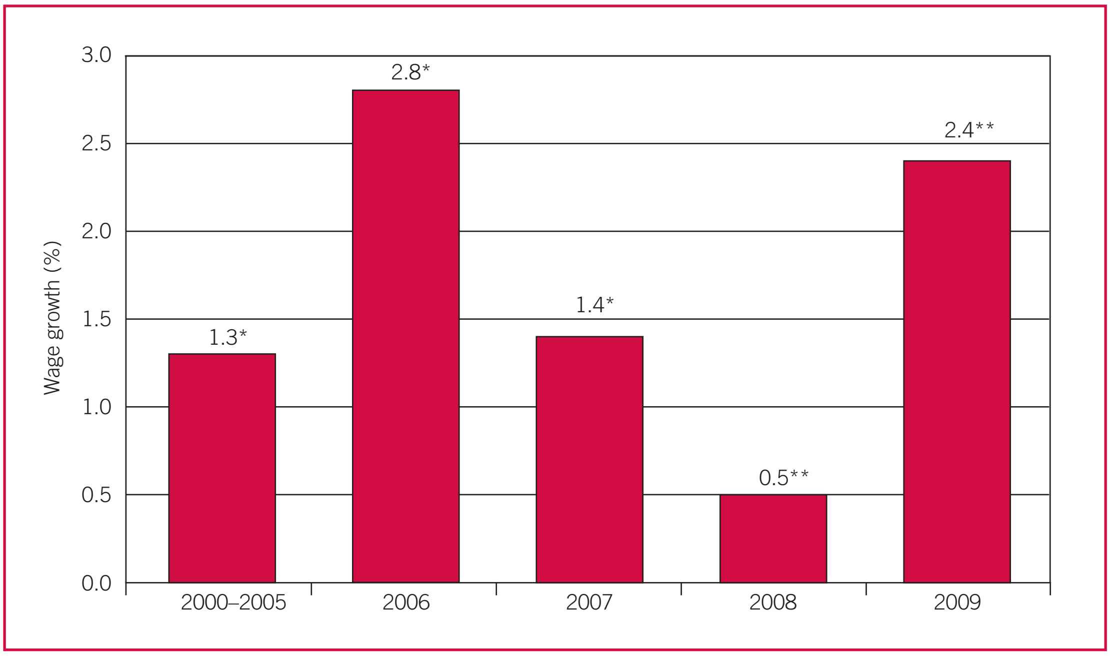
	1999	2006	2007	2008	2009
Advanced countries	100	104.2	105.0	104.4	**105.2**
Central and Eastern Europe	100	144.8	154.4	161.4	**161.3**
Eastern Europe and Central Asia	100	264.1	308.9	341.6	**334.1**
Asia	100	168.8	180.9	193.8	**209.3***
Latin America and the Caribbean	100	106.7	110.3	112.4	**114.8**
Africa	100	111.2*	112.8*	113.4**	**116.1****
Middle East	100	101.9*	102.4*	…	**…**
Global	100	115.5	118.7	120.6	**122.5**

* Provisional estimate. ** Tentative estimate. … No estimate available.

Note: For coverage and methodology, see Technical appendix I of the *Global Wage Report 2010/11*.

Source: ILO Global Wage Database.

Figure 5 Estimated growth in average wages in Africa (percentages)



* Provisional estimates (based on coverage of ca. 75 per cent). ** Tentative estimates (based on coverage of ca. 40 per cent to ca. 60 per cent).

Note: For methodology see Technical appendix I of the *Global Wage Report 2010/11*.

Source: *Global Wage Report 2010/11*.

We estimate that before the crisis (over the years 2000 to 2005), average wages grew at an annual rate of about 1.3 per cent and that wage growth slowed to 0.5 per cent in 2008 before recovering in 2009, probably under the influence of much lower inflation than in previous years (figure 5). It is worth emphasizing, however, that these are estimates based on wage data for 15 African countries, which cover an estimated 57 per cent of all Africa's wage earners and about 76 per cent of the region's total wage bill. Since, even for these 15 countries, data are not available for every single year up to 2009, some extrapolation methods were used for the regional estimate.

Figure 6 Nominal and real wage indices in South Africa, Q1 2007 to Q2 2010 (2007 = 100)

Source: ILO Global Wage Database.

One example of the impact of the crisis on wages can be observed from figure 6 for South Africa. In the face of rising inflation (as indicated by CPI) and alongside increases in nominal wages, real wages remained stagnant throughout 2008 after a gradual increase through 2007. However, in 2009 real wages grew by 3.5 per cent, subsequent to both increases in nominal wages and a more tempered increase in inflation in comparison with previous years (year-on-year inflation declined from about 12 per cent in 2008 to about 7 per cent during 2009).

Although the figures presented above suggest that higher labour productivity has allowed for positive wage growth in Africa in recent years, one caveat relates to the difficulty of measuring wages in the informal economy. This may result in an overly optimistic picture of wage trends. Analysis of wage data from Burundi, for example, shows that wage earners in the formal economy earn 22 to 38 per cent more per hour than informal economy workers, even after accounting for differences in education and other personal characteristics.[19] A careful review of wages in Senegal also illustrates the fact that wage growth can be much faster in the formal economy than in the informal economy (see box 1).

[19] See Sobeck (2010).

Box 1 Wage growth in Senegal

In Senegal, the national statistical office, the *Agence Nationale de la Statistique et de la Démographie* (ANSD), conducts several types of survey that provide information about employment and incomes. The first type of source relates to household surveys with an employment module. Over the past 20 years, ANSD has conducted three such surveys: ESAM I (in 1994–95), ESAM II (in 2001–02) and ESPS (in 2005). Unfortunately, only the first of these surveys includes information on wages and the series can therefore not be used to calculate wage trends. Nevertheless, all three surveys provide information on the share of wage earners in the economy, revealing that this part of the labour force has increased from 10.3 per cent of total employment in 1994–95 to 11.8 per cent in 2001–02 and to 17.4 per cent in 2005.

Although increasing, this relatively low proportion reflects, as in many other African countries, the high proportion of the labour force in agriculture – a sector that is characterized by a high share of self-employed workers. Latest figures show that in urban regions as much as 31.4 per cent of all workers are wage earners, compared with only about 6 per cent in rural Senegal. Perhaps the biggest challenge in measuring wages lies in the fact that about 40 per cent of all wage earners work in the informal economy, mostly within household enterprises. Most of the others are either active in registered formal enterprises or in public administration. Men make up two-thirds of all wage earners, and a majority of 58 per cent of women wage earners can be found in the informal sector.

What can be said about wage trends? When analysed together, three different data sources provide an indication of wage trends between 1995 and 2006, a period in which Senegal's GDP grew at a real rate of 4.2 per cent.

- Data for about 1,000 registered companies, obtained from administrative records under the West African accounting system SYSCOA, show that in formal enterprises average wages increased at 4.0 per cent per year in nominal terms and about 2.6 per cent in real terms (and apparently even slightly faster for women). According to these data, earnings for this segment of wage earners increased from about CFA143,500 (PPP$584) per month in 1995 to CFA221,000 (PPP$873) in 2006.
- The increase in wages in the public sector was slightly less rapid. Administrative sources show that wages of public administration workers over the same period increased by 2.5 per cent in nominal terms and less than 1.0 per cent in real terms, from CFA221,500 (PPP$900) to CFA240,700 (PPP$950).
- Finally, stagnation seems to be the norm in the informal sector. Two specific surveys conducted by ANSD in the informal sector in the urban region of Dakar in 1996 and in 2003, respectively, show that nominal earnings remained virtually unchanged at about CFA40,000 (PPP$160) per month.

Source: Sylla, 2009.

The distribution of wages

While average wages are useful, they do not convey any information on the distribution of wages by sector or occupation. Particularly relevant in the context of minimum wage policies is the question of who is low paid? In this section we provide an illustration by examining data from South Africa and defining people with low pay as the proportion

Figure 7 Who is low paid in South Africa? Incidence of low-wage employment, 2007

of workers whose hourly wages were less than two-thirds of the median wage across all jobs.[20] This indicator captures a sense of the degree of social and economic inclusion among a country's workforce that is sensitive to societal notions of relative deprivation or relative disadvantage. It highlights groups which are particularly vulnerable in times of economic crisis. Although not all low-paid workers are poor, a fall in the purchasing power of wages at the lower end of the distribution definitely increases the risk of poverty.[21] It may also undermine public perception that policies are fair or will lead to a better future.[22]

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[20] This definition has been adopted for the ILO's decent work indicators (Decent Work Indicator for "low pay rate": http://www.ilo.org/wcmsp5/groups/public/---dgreports/---integration/documents/meetingdocument/wcms_115402.pdf [9 Sep 2010]). An alternative measure of low pay is the proportion of workers who earn less than an absolute wage level that would be necessary for a household to live above the income poverty threshold (for example, Anker et al., 2003; Anker, 2006). While the first measure is most useful for understanding the link between low wages and household poverty (see, for example, IPPR, 2008; Altman, 2006), it also poses some formidable challenges for cross-country comparisons since the definition of what basket of goods is required to meet subsistence varies from one country to another. For the purpose of inter-country comparison, therefore, a relative measure of low pay is more reliable. For a review of the definitions of low pay, see Grimshaw (2010). Note also that the concept of low-wage employment by definition leaves out the self-employed and unpaid family workers, who are often in even more vulnerable forms of employment.

[21] See also ILO (2010b).

[22] See ILO (2010c).

Figure 7 shows the proportion of workers in South Africa who are paid less than two-thirds of the median wage. The dataset reveals that workers in low-paid jobs tend to have low levels of education, tend to be young and female and are more likely to be members of a disadvantaged race or immigrant group. For example, more than 60 per cent of workers with no or little education end up in low-paid employment, compared with a national average of 32.5 per cent. In addition, the same research also shows that the risk of low pay is higher among informal employees without a written contract, domestic workers in private households, workers in small firms and those who work in the wholesale and retail sector. Workers without union membership are also at higher risk.

PART II | Wage policies

What can be done to improve labour market outcomes? Evidence shows that productivity growth and education for all would be significant steps towards improving both the level and the distribution of wages. This brief has shown that productivity in particular is a key determinant of the level of wages, and that people with low education are at high risk of ending up in low-paid work. At the same time, productivity growth and education alone are insufficient to explain all the variations across different countries' wage outcomes. This is why the *Global Wage Report 2010/11* argues that a number of key labour and social policy measures are also necessary to improve wage outcomes, labour market performance and overall macroeconomic results.

Some of these policies are highlighted in figure 8. They range from collective bargaining and minimum wages to in-work benefits and other income-support policies. Together, these policies should be placed within an overarching regulatory framework that aims to address the discriminatory practices which at least partially account for wage inequality and low pay. While collective bargaining benefits all workers who are covered and can contribute to an improved link between wage growth and productivity growth, the minimum wage is a policy tool to provide an effective backstop at the lower end of the wage distribution. In-work benefits can provide incentives for workers to take up low-paid jobs by providing additional income through tax credits or other schemes. And, finally, income-transfers, which are unrelated to employment status, are necessary to reach the poorest households. Taken together, these measures can promote more inclusive labour markets, stable consumption demand and, ultimately, a more sustainable economic growth.

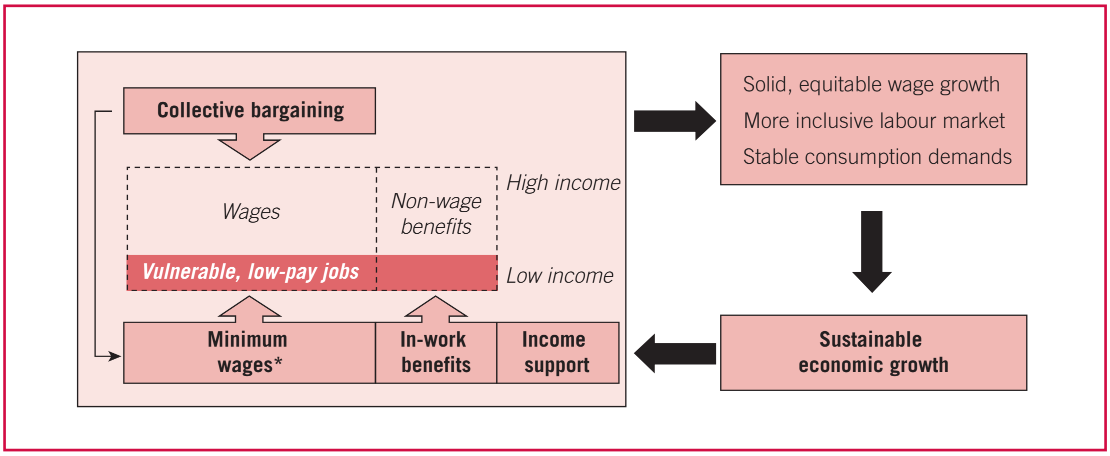
At the same time, there are some challenges in ensuring that wage policies are set and discussed on the basis of empirical analysis. This requires a strengthening of labour statistics to monitor progress on decent work in Africa. Another key challenge is to ensure that wage policies are designed in a coherent way to avoid the situation where one set of policies undoes the benefits of another.

Collective bargaining

There have been significant developments regarding legislation and institutional frameworks in a number of African countries.[23] Some countries have strengthened organizational rights and ended state-sponsored union monopolies, while others have improved procedures for collective bargaining or for dispute resolution. However, in spite of this progress, collective bargaining remains underdeveloped in many countries in the region.

[23] See Hayter, Fashoyin and Kochan (forthcoming).

Figure 8 Sound wage policies make differences: An illustration



* In some countries, minimum wages are fixed by collective bargaining at sectoral or national levels.

Trade unions face a number of challenges in respect of their membership and strength. Paradoxically, it appears that the strengthening of freedom of association and the ending of a unitary state-sponsored union has often been followed by a proliferation of trade unions and a fragmentation of the union structure, and ultimately a decline in the strength in the bargaining power of unions. This relative weakness is also illustrated in the ILO statistics on trade union density and collective bargaining coverage shown in tables 6 and 7. Even where the percentage of wage earners covered by collective agreements is significant (such as 20.8 per cent in Malawi), it must be kept in mind that this often represents a small proportion of total employment (2.7 per cent in Malawi).

Another challenge for trade unions is to reach out to low-paid workers. As an illustration, figure 9 shows the proportion of low-paid workers who are union members in South Africa compared to the overall proportion of union members. We see that while 30 to 40 per cent of all wage earners were union members (depending on whether we use the source of table 6 or figure 9), union membership among low-wage workers was only slightly above 13.2 per cent, which itself represents a significant decrease from 17 per cent in 1995.[24] Similar trends are observed in other regions, including in Brazil, Indonesia and the Republic of Korea.

Minimum wages

In light of the challenges confronting unions trying to reach out to low-paid workers, minimum wages can play an important complementary role. Through the ILO Declaration on Social Justice for a Fair Globalization, adopted in 2008, member States have reaffirmed the importance of minimum wages as an instrument of social protection, which can help achieve progress and social justice in the era of globalization. The Declaration explicitly highlights the importance of "policies in regard to wages and earnings, hours and other conditions of work, designed to ensure a just share of the

[24] Oosthuizen and Goga (2010); see also Altman (2006).

Table 6 Trade union density

	Year	Proportion of wage and salary earners	Proportion of total employment
Cameroon	2005	..	16.0
Egypt	2007	26.1	16.1
Ethiopia	2007	12.9	1.0
Ghana	2006	70.0	..
Kenya	2007	35.5	4.1
Malawi	2006	20.6	2.7
Mauritius	2007	28.2	14.8
Niger	2008	..	1.1
Sierra Leone	2008	46.8	3.6
South Africa	2008	39.8	24.9
Tanzania	2009	18.7	2.2
Uganda	2005	..	1.1

Note: .. data not available.

Source: Hayter and Stoevska (2010).

Table 7 Collective bargaining coverage

	Year	Proportion of wage and salary earners	Proportion of total employment.
Egypt	2008	3.4	2.1
Ethiopia	2007	22.7	8.3
Ghana	2006	70.0	..
Kenya	2007	3.7	0.4
Malawi	2006	20.8	2.7
Mauritius	2008	16.5	9.9
Sierra Leone	2008	46.8	3.5
South Africa	2008	27.3	17.1
Sudan	2008	..	0.2

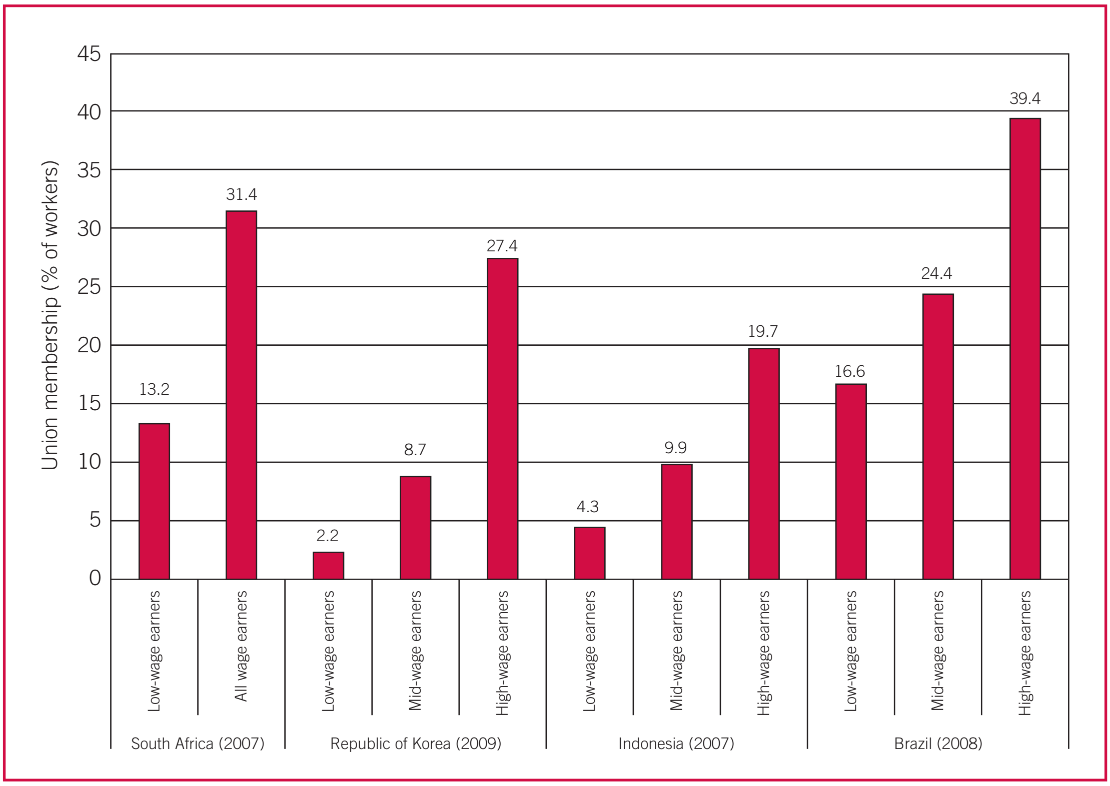
Note: .. data not available.

Source: Hayter and Stoevska (2010).

fruits of progress to all and a minimum living wage to all employed and in need of such protection". The Global Jobs Pact, adopted by the ILO in June 2009, further stresses the importance of minimum wages in the context of the global economic crisis and the recovery. The Pact encourages member States to consider strengthening social dialogue, collective bargaining and statutory or negotiated minimum wages.

After years of conscious neglect of minimum wage policies in many countries during the 1980s and 1990s, the *Global Wage Report 2008/09* provided indications of their more vigorous use in both developed and developing countries. Among developed countries, the United Kingdom (1999), Ireland (2000) and Austria (2009) introduced a national minimum wage in the past ten years or so. Developing countries, too, rely increasingly on minimum wages. Regional players, such as Brazil, China and South Africa, are among the main drivers of this trend. South Africa, for example, introduced new minimum wage floors in 2002 to support the wages of millions of low-paid workers

Figure 9 Union membership by pay level in selected countries (as percentage of workers)



Note: Mid-wage earners refer to workers earning between two-thirds and four-thirds of the median wages. All the figures refer to union members as a percentage of total wage earners, except Brazil where only formal wage earners are considered.
Source: ILO estimates from national labour force surveys ("national technical reports" and estimation by Janine Berg for Brazil).

in a variety of economic sectors, including domestic workers. Of 55 countries in Africa, 37 (67 per cent) were found to have a minimum wage currently in place in 2007 and/or 2008. As can be seen in figure 10, the level of minimum wage varies considerably across African countries. The design of minimum wage systems also varies widely across countries. While 70 per cent of African countries for which data are available implement relatively simple national minimum wages (with a few possible adjustments by region, sector or broad categories of workers), the other 30 per cent implement more complex systems by industry and/or occupations.

One key challenge is to determine the right level of the minimum wage. ILO Convention No. 131, which considers that minimum wage systems are necessary to protect wage earners against unduly low wages, calls for setting levels that take into consideration (a) the needs of workers and their families – taking into account the general level of wages in the country, the cost of living, social security benefits and the relative living standards of other social groups – as well as (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment. The extent to which these factors are balanced can be approximated by some rough indicators, such as the level of the minimum wage relative to the median or mean wage, or the proportion of workers whose wages are affected by the statutory minimum wage; this requires statistics on average wages and the distribution of wages.

While national perceptions about the ideal level for minimum wages can vary from one country to the next, the first rule of good practice is to involve social partners in the determination of the adequate level. Specifically, Convention No. 131 calls for systems that involve representatives of organizations of employers and workers on a basis of equality, as well as independent experts with recognized competence for representing the general interests of the country. A second rule of good practice involves the use of reliable statistical and other empirical information to be used as a basis for negotiation among social partners. In the absence of tripartite institutions and empirically based determinations, countries run the risk of mismanaging minimum wages, setting them either too high or too low. While there is no universal formula for determining the ideal level, the ILO has recently been providing technical assistance at the request of a growing number of governments and social partners around the world, including recently in Cape Verde, which is considering the introduction of a national minimum wage for the first time in its history.

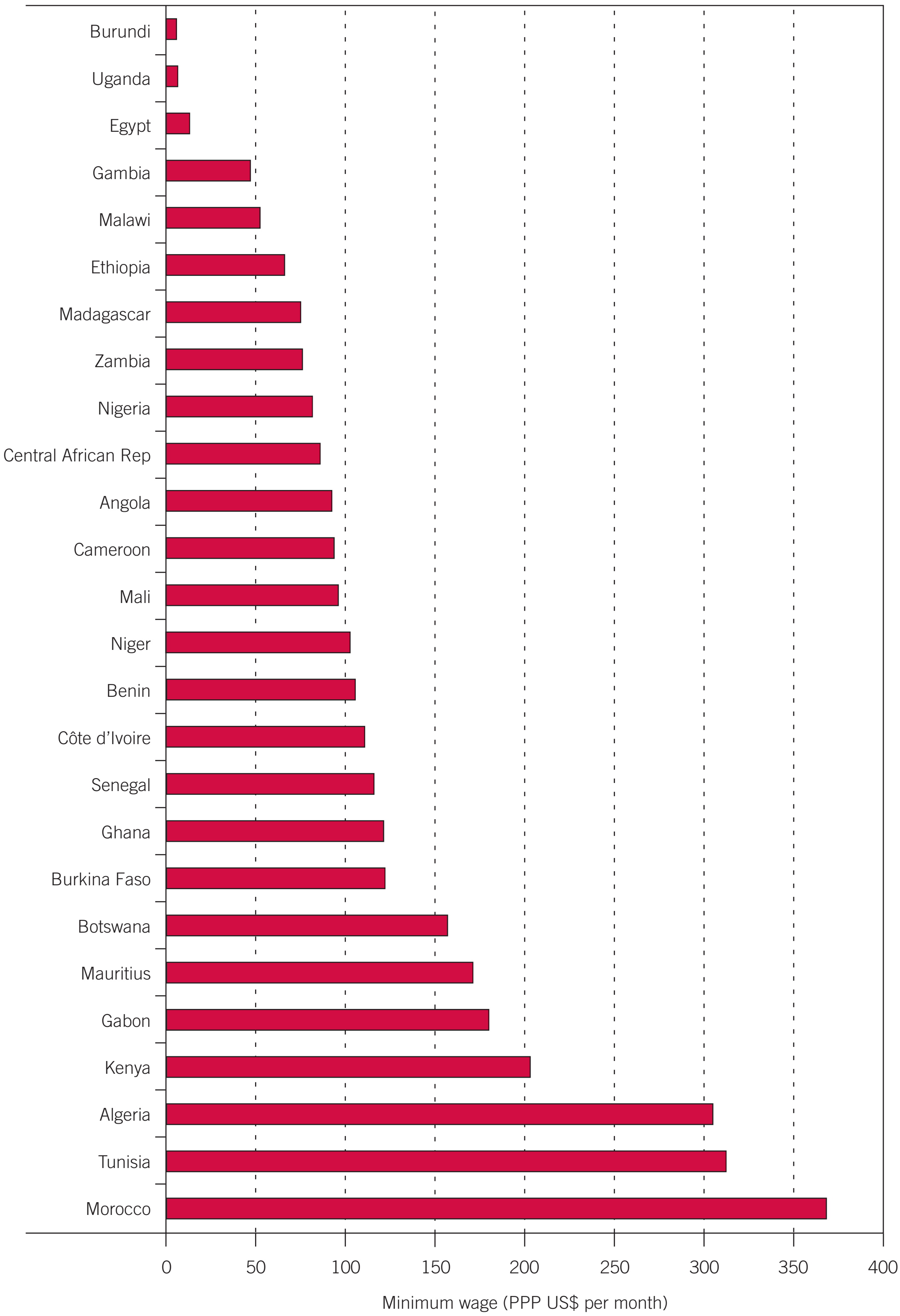
Wages in the public sector

Low and unequal pay in the public sector can also be problematic. A comprehensive study of seven African countries shows that many countries have struggled over the years to increase and harmonize public sector wages (Kiragu and Mukandala, 2003). In fact, the multiplication of special allowances and bonuses – which complement basic salaries – is a strategy frequently used by governments to raise take-home pay for some groups in an ad hoc manner and without raising the overall wage bill for the whole public service. At some stage, however, the system becomes so unequal, opaque and unmanageable that systematic reform is needed. Reviewing the experiences of some countries in addressing these problems can be very useful.

In 1989, Uganda created a national commission similar to the one in Burundi (see box 2), whose recommendations led to a series of public sector pay rises in the early 1990s and to an integration of most special allowances into the basic salary rate. More recently, in 2002, the Ministry of Public Services adopted a recommended pay strategy, proposing to raise the total wage bill from 4.9 per cent up to 6.1 per cent of GDP and to "compress" public sector wages by reducing the difference between the highest and lowest pay from a ratio of 34:1 to no more than 20:1. Implementation of these reforms, designed to create a more transparent and equitable pay structure, has begun and is expected to be spread over a ten-year period.

In the United Republic of Tanzania, the Government decided in 1995–96 to consolidate 36 different forms of special allowances and bonuses into one basic salary. The number of possible additional allowances was reduced to seven. Similarly, the number of pay scales used in the public sector was reduced from 34 to four, and the number of grades was cut from 196 to 45. Later, in 1999, the Government adopted a new medium-term pay reform strategy, which proposed a "decompression" of public sector pay (rather than a compression, as in Uganda) and substantial increases in public sector pay. This was estimated to increase the total wage bill from 4.2 per cent of GDP in 2000 to 4.9 per cent. Experiences from these countries can be useful for other countries which are currently reviewing their public sector pay systems, such as Burundi (see box 2).

Figure 10 Minimum wage per month in PPP US$ (most recent year)



Box 2 Public sector pay harmonization in Burundi

After the civil war, Burundi entered a sensitive process of "peace consolidation" in 2009, characterized by the disarmament and demobilization of rebel groups, national consultations to address the legacy of the civil war, and the consolidation of democratic institutions. In this difficult post-conflict situation, the Government became increasingly concerned about the low levels and huge disparities in public sector wages, which triggered a series of strikes – including by medical doctors, stopping the delivery of essential services – and a growing discontent among the 60,000 or so public sector employees.

How did Burundi arrive at this juncture? Since the 1980s, the various public sector pay scales were progressively delinked from one another. As a result, individual ministries and state-owned enterprises adjusted pay scales in an uncoordinated way, mainly by expanding the list of special allowances to the more powerful groups of workers. The result was the emergence of wide disparities in the pay levels of similarly qualified workers in different public sector occupations. While most public sector employees have very low wages (which they often need to complement with some other formal or informal activity), a few groups have been able to achieve much better outcomes, such as the judiciary and, as a result of their recent strike, medical doctors.

To reform this unsustainable system, on 13 May 2008 the President of Burundi set up by decree a tripartite national commission with a mandate to formulate proposals on how to harmonize public sector pay. Analysis by the ILO in support of this commission estimated that benefits and other bonuses represented an average of 25 per cent of the wage bill, which varied between a low 20 per cent for school teachers to more than 50 per cent for employees in the Ministry of Justice, particularly those who were highly qualified. The same report found that harmonization of transportation and housing allowances alone would increase the total wage bill by at least 9.3 per cent, which already represented an estimated 40 per cent of current budget expenditures and about 10 per cent of GDP.

The tripartite commission thus formulated a proposal to implement the harmonization over several years. One immediate effect of the work of the commission – which involved various ministries as well as employers' and workers' organizations – has been a return to some degree of industrial peace and stability.

From minimum wages to minimum income

Weakening the linkage between low pay and poverty is a key policy concern. One practice is the use of in-work benefits, which are intended to provide financial incentives for workers to take low-paid jobs by offering additional earnings, thus reducing poverty. These may take the form of tax credits, wage-related transfers or other lump-sum payments.[25] However, the introduction of in-work benefit schemes may be challenging for developing countries, especially in the wake of the crisis, given the massive size of the informal economy and the existing budgetary constraints. Yet, despite the obvious constraints, recent experiences show that the implementation of such benefits is not

[25] For a review of policies in industrialized countries, see Immervoll and Pearson (2009).

entirely impossible.[26] In the Philippines, for instance, non-wage benefits packages were introduced during the economic crisis to improve income for low-wage earners. One of these packages was the exemption from income tax payment, which was estimated to add about 37 to 61 pesos per day (slightly more than 10 per cent of the minimum wage) to the disposable income of minimum-wage earners.[27]

When in-work benefits remain a difficult policy option, broader income-transfer measures, which are not related to employment or earning status, can be used. For instance, family health and the education of children both raise particular concerns for low-paid workers. Without proper education (and health), the children of low-paid workers may be vulnerable to the risk of being trapped in low-paid employment themselves. Therefore, public schemes that alleviate these financial constraints for low-paid workers will not only increase the welfare of their families but also reduce the risk of a future in low-paid employment for their children. Indeed, an increasing number of countries are implementing such policies, in particular conditional/unconditional cash transfer programmes, which are intended to help low-income families with health and education matters.[28] The Brazilian experience is particularly interesting in its successful combination of wage policies and income-support policies; while active and systematic adjustments in minimum wages have led to the reduction of low pay, *Bolsa Família* – which transfers cash to poor families – has contributed to preventing "wage poverty" from being translated into "income poverty" by providing additional income support to low-income families.

[26] For a review, see ILO (2010d).

[27] See Peralta and Guirao (2010).

[28] See ILO (2010d).

Conclusion

In the years 2000 to 2009, as a result of the positive trend in GDP per capita growth, labour productivity in sub-Saharan African countries increased faster than in advanced countries, at an annual rate of 1.9 per cent. In 2009, the year of the global economic crisis, overall GDP remained positive, but labour productivity fell by –0.6 per cent.

Over the past ten years the share of wage employment in total employment in sub-Saharan Africa has been growing. Today there are about 100 million wage earners, representing about 25 per cent of total employment. This share is expected to increase in the future alongside economic growth. The proportion of wage earners among women workers, however, is substantially lower than among men, and this is an issue of concern.

For these 100 million workers, wages represent the main source of income to support their families. The level of wages, therefore, has a direct impact on the education and health of African families. Over the years 2000 to 2005, average wages grew at an annual rate of about 1.3 per cent. In 2008, wage growth slowed down to 0.5 per cent, but recovered in 2009, most likely because of the lower inflation relative to previous years.

Another important issue is related to the macroeconomic dimensions of wages. While much of the past research on wage policy has considered that high wages have a negative impact on firm-level or industry-level investment or employment, it is important to keep in mind that the level of wages is also a positive determinant of household consumption.

In 2007 and 2008, 37 out of 55 countries in Africa had a minimum wage in place. The level of minimum wages and the mechanism through which minimum wages are set and adjusted vary significantly across these countries. While there is no universal formula to fix the ideal minimum wage level, empirical evidence shows that it is good practice to involve the social partners in the decision-making process, as well as independent experts with recognized competence for representing the general interests of the country, and to base negotiations on accurate and transparent statistics and other relevant information.

The only sustainable way to raise wages is through economic growth that brings about increases in labour productivity. A sound and well-articulated system of wage and income policies can make a positive contribution towards a more balanced and sustainable economic and social model. In particular, a coherent system of collective bargaining, minimum wages and income support can strengthen the link between productivity growth and decent work for all.

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