MOZAMBIQUE JOBS DIAGNOSTIC

Principal findings

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Jobs

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Outline of the presentation

1. Rationale and data
2. Growth, jobs and productivity
3. Demographics, labor supply and jobs outcomes
4. Firm growth and the demand for labor
5. Towards a jobs strategy

1. Rationale and main messages

Rationale / approach

Jobs are at the heart of development. Better jobs are the key to improvements in livelihoods for the mass of the population. The IDA 18 “Special theme” on ***Jobs and Economic Transformation*** addresses this agenda.

Jobs diagnostics: an analytical instrument requested by IDA donors that seeks to unravel the linkages between growth and jobs and identify options for improving livelihoods for the poor. They bring together three types of evidence:

- ***Macroeconomic growth trends*** and their relationship to productivity growth, “structural transformation”, poverty and inequality (*combining GDP data and household data on the labor force at sector level*).
- ***Labor market data*** (*household surveys like IOF*) showing what sorts of jobs people do (by sector, by formality/informality); and how jobs outcomes relate to education, gender, age and spatial location (regions, urban/rural).
- ***Evolution of formal sector labor demand*** *(firm growth and jobs growth in firms, using firm census (CEMPRE) data)*: is the share of formal jobs growing and what sectors and types of firms generate most formal jobs?

Preview of main messages

- ***"Good jobs" in MZ are not expanding fast enough to absorb the growing, better educated labor force***. Unless this changes, poverty reduction will slow and the "demographic dividend" will be squandered.
- ***Jobs can be improved through linkages in the labor market, the product market and capital markets.*** But - whether in self-employment or in wage jobs - better jobs need capital, technology, market access, scale and agglomeration economies.
- ***We need to accelerate the growth of labor intensive formal firms.*** There is potential in agriculture, manufacturing and services, but there are constraints (competitiveness, the business climate, regulations, capital market failures, infrastructure gaps).
- ***We also need to raise the productivity and earnings of smallholders and independent producers*** – *e.g.* through value chain linkages.
- ***The growth of formal wage jobs and improving jobs in self employment are complementary strategies, not alternatives.*** Local economy multipliers link the growth of formal firms, independent farmers and household enterprises.

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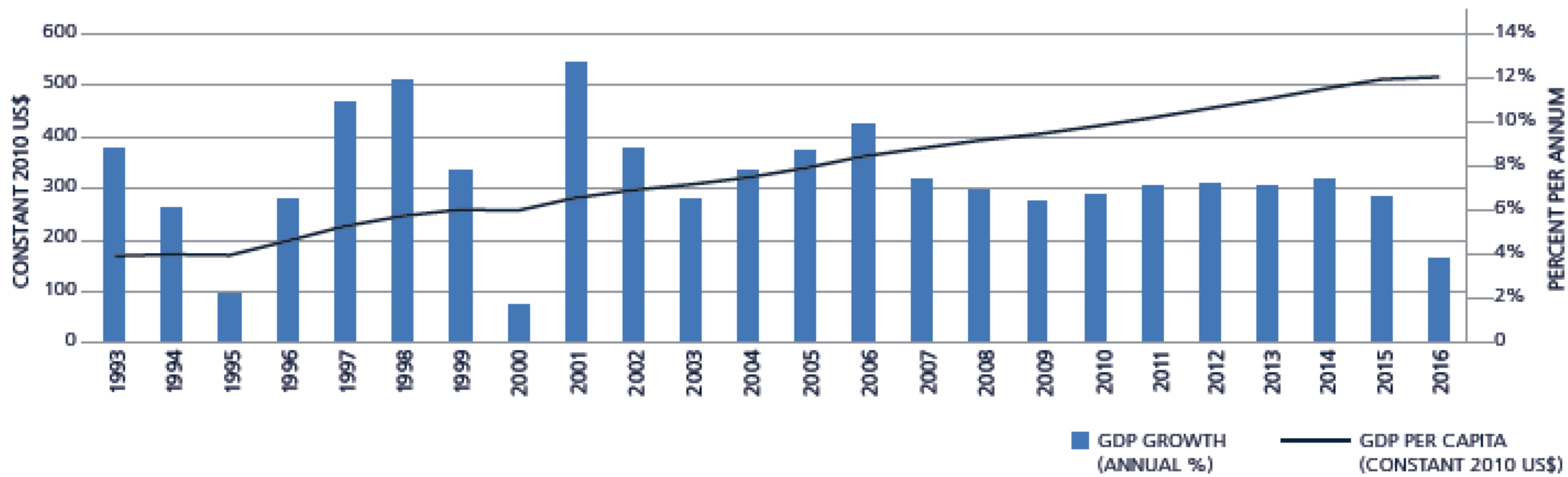
1. Growth, jobs and productivity

Figure 1.1
Mozambique: GDP growth rate and GDP per capita



Following a strong post-war recovery in the 1990s, GDP growth has been slowing over the last two decades.

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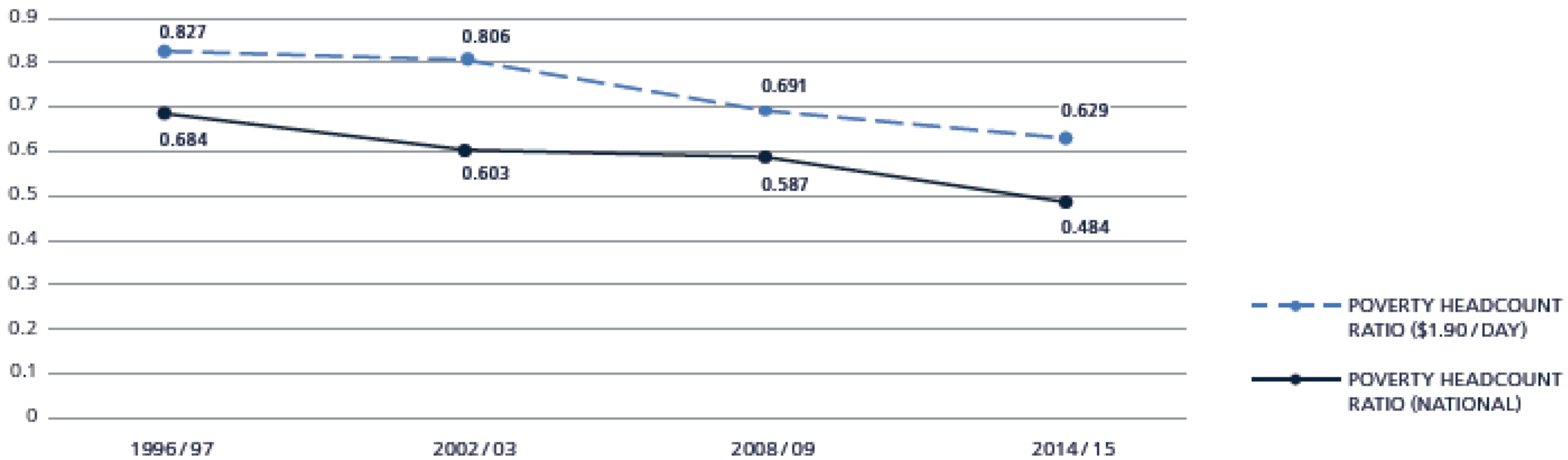
Figure 1.2
Mozambique: key poverty indicators



The poverty reduction trend was strong in 1997-2003; flat from 2003-2009; and picked up between 2009/15. But poverty remains high.

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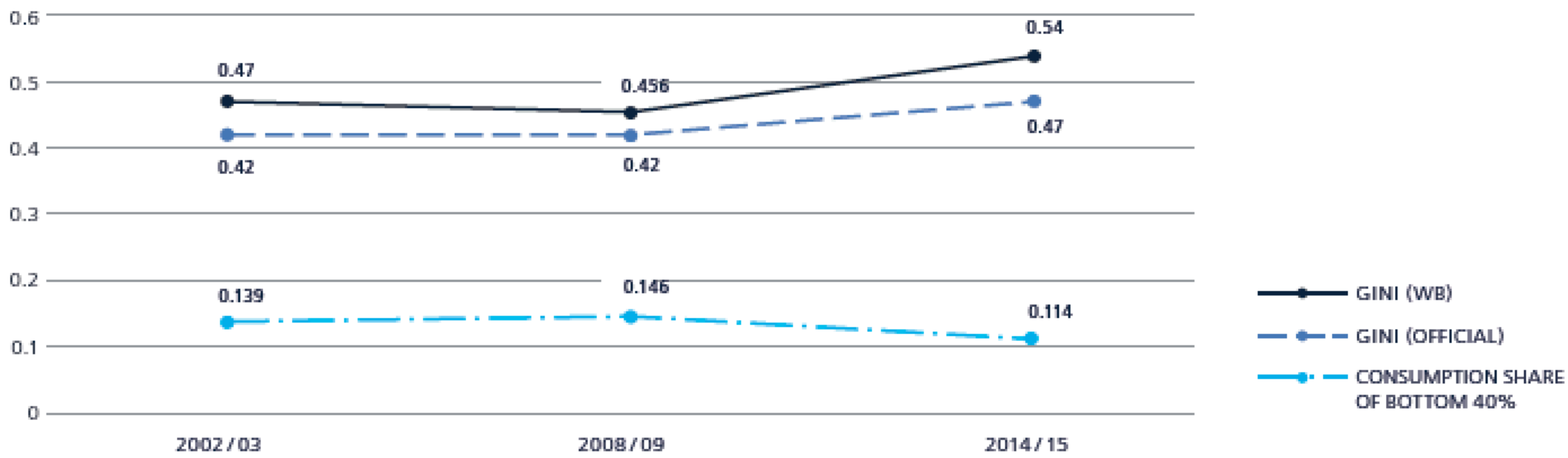
Figure 1.3
Mozambique: evolution of inequality indexes



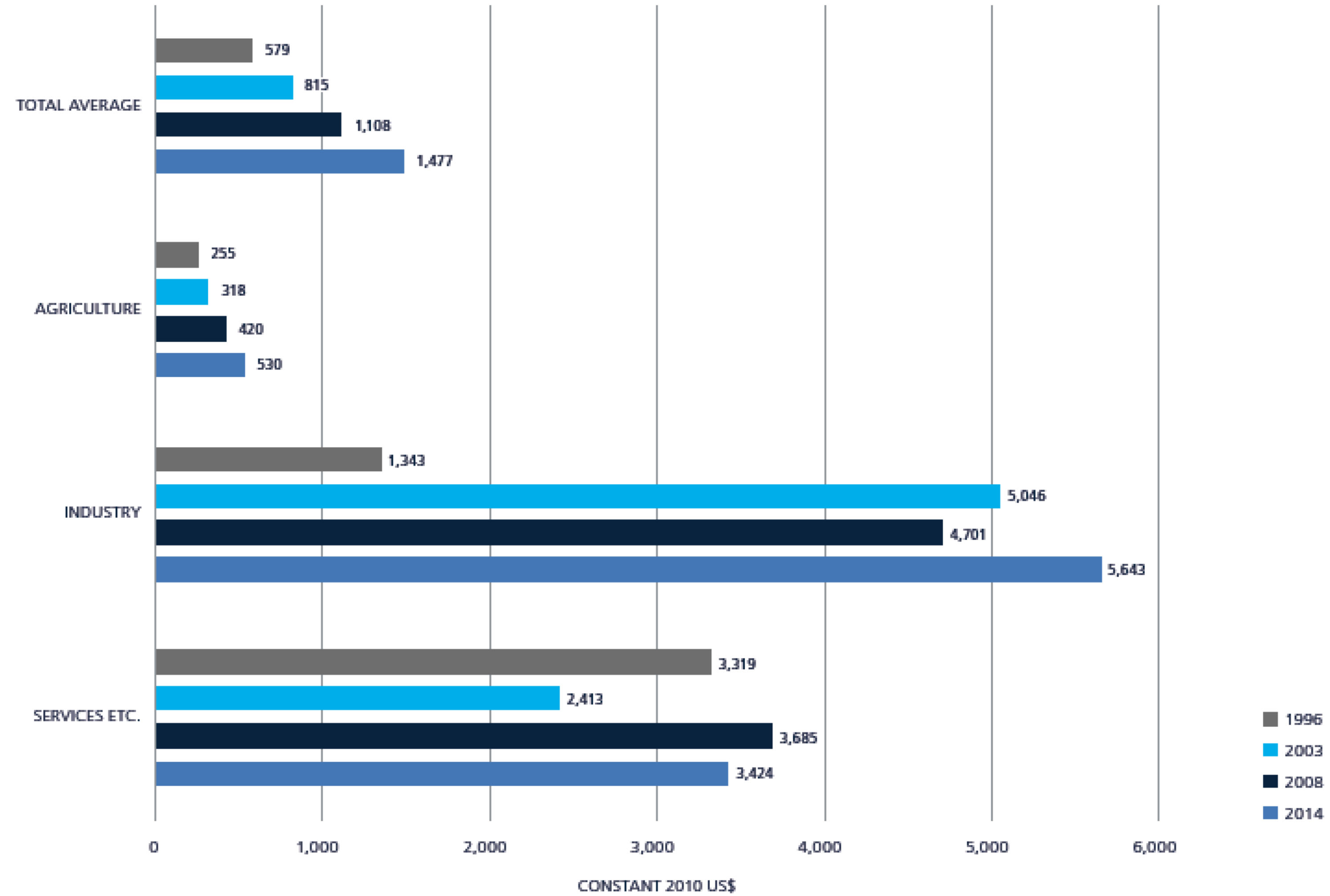
Inequality has been rising, as some households moved out of poverty while others were left behind

Table 1.1
Mozambique: structural evolution of the economy; by sector

	1996	2003	2009	2014
Sector shares of GDP				
Agriculture	38.1%	31.4%	30.5%	25.5%
Industry	10.2%	21.1%	19.7%	18.8%
Services	51.8%	47.7%	49.8%	55.7%
Total	**100%**	**100%**	**100%**	**100%**
	1996	**2003**	**2009**	**2014**
Sector shares of jobs				
Agriculture	86.6%	80.5%	80.4%	71.0%
Industry	4.4%	3.4%	4.7%	4.9%
Services	9.0%	16.1%	15.0%	24.0%
Total	**100%**	**100%**	**100%**	**100%**

The share of agriculture in output has declined faster than its share in jobs; industry's output share grew, but not its share of jobs; services share of jobs grew but its output share was stable.

Figure 1.4
Mozambique: average labor productivity by sector



Agricultural productivity remains very low and it dominates total productivity, due to the high share of the labor force in agriculture.

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Table 1.2
Decomposition of growth in per capita value added, Mozambique 1996–2014

	1996–2014	1996–2003	2003–2008	2008–2014
Annual growth of GDP per capita	4.85	5.41	5.30	3.83
% Annual contribution to growth of:				
Productivity (Y/E)	5.36	5.01	6.30	4.89
Employment rate (E/LFP)	–0.07	0.27	–0.27	–0.30
Participation rate (LFP/WAP)	–0.34	0.28	–0.49	–0.87
Demographic change (WAP/P)	–0.09	–0.15	–0.24	0.11

The main source of per-capita output growth is productivity growth...

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Table 1.3
Mozambique: decomposition of total labor productivity change, 1996–2014

	1996–2014		1996–2003		2003–2008		2008–2014	
Annual Average Growth of:	*%*	*% of total*	*%*	*% of total*	*%*	*% of total*	*%*	*% of total*
Total Labor Productivity	5.36	100%	5.01	100%	6.30	100%	4.89	100%
Within-Sector Contribution	**2.60**	**49%**	**1.76**	**35%**	**5.73**	**91%**	**1.03**	**21%**
Agriculture	1.30	24%	1.12	22%	1.77	28%	1.10	22%
Industry	1.20	22%	3.07	61%	–0.30	–5%	0.60	12%
Services	0.10	2%	–2.42	–48%	4.26	68%	–0.68	–14%
Between-Sector Contribution	**2.76**	**51%**	**3.24**	**65%**	**0.57**	**9%**	**3.86**	**79%**
Agriculture	0.59	11%	0.53	11%	0.02	0%	1.01	21%
Industry	0.08	1%	–0.53	–11%	1.05	17%	0.14	3%
Services	2.10	39%	3.25	65%	–0.50	–8%	2.71	55%

..and the main sources of productivity growth are the shift of jobs from agriculture to services, and productivity growth within agriculture and industry. But productivity within services is starting to fall.

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Table 1.4
Employment Shares by Sector and Job Type

	1996	2008	2014
Employment Shares by Sector			
Agriculture	86.6%	80.4%	71.0%
Industry	4.4%	4.7%	4.9%
Services	9.0%	15.0%	24.0%
Total	**100%**	**100%**	**100%**
Employment Shares by Job Type			
Agriculture	85.0%	85.1%	71.5%
Non-Farm Wage	10.6%	10.8%	16.3%
o/w Private Sector	4.2%	7.5%	12.2%
Public Sector	6.4%	3.3%	4.1%
Non-Farm Self-Employment	4.4%	4.2%	12.0%
Total	**100%**	**100%**	**100%**

The main shift in jobs over the last two decades is the fall in the share of agriculture and rise in services, divided equally between private sector formal wage jobs and informal household enterprise jobs

Main take-aways from the analysis of growth, poverty and productivity trends

- Mozambique's growth pattern has been too capital intensive and has produced too few jobs transitions; a new strategy is needed.
- Uganda, Rwanda and Bangladesh emerged from conflict to deliver strong, inclusive growth by investing in sectors where poor households earn their living, especially in agriculture, and encouraging private investment in labor-intensive firms, creating new wage employment in urban areas.
- This growth pattern created productive employment, raised labor incomes, and allowed households to work their way out of poverty.
- The result was a virtuous cycle of investment, rising labor earnings, and poverty reduction. This is the pattern Mozambique should aim to emulate.

2. Demographics, labor supply and jobs outcomes

Table 2.1
Demographic and Labor Market Snapshot of Mozambique

		Actual			Projected	
		1996	2014	1996–2014	2020	2030
		1,000 persons		*% change*	*1,000 persons*	
1	Population, total	16,411	27,216	65.8%	31,736	41,437
2	Working Age Population (WAP), ages 15–64	8,525	13,921	63.3%	16,784	22,824
3	Dependent Population, <15 and 65+	7,886	13,295	68.6%	14,952	18,613
4	Labor Force (LF)	7,174	11,081	54.5%		
5	Out of Labor Force	1,351	2,840	110.2%		
6	Employment	7,126	10,679	49.9%		
Key Labor Market Ratios						
	Working Age Population, % of total Pop. (2/1)	51.9%	51.2%		52.9%	55.1%
	Labor Force Participation, % of WAP (4/2)	84.2%	79.6%			
	Employment Rate, % of LF (6/4)	99.3%	96.4%			
	Unemployment rate, % of LF ((4–6)/4)	0.7%	3.6%			
	Dependency ratio (3/2)	92.5%	95.5%		89.1%	81.6%

The working age population is growing fast; participation rates are high; and most people who want to work have jobs…

… but (especially in agriculture) the vast majority of jobs are poor quality (self employed or unpaid, with low productivity)

Figure 2.1
The structure of the Mozambique labor force

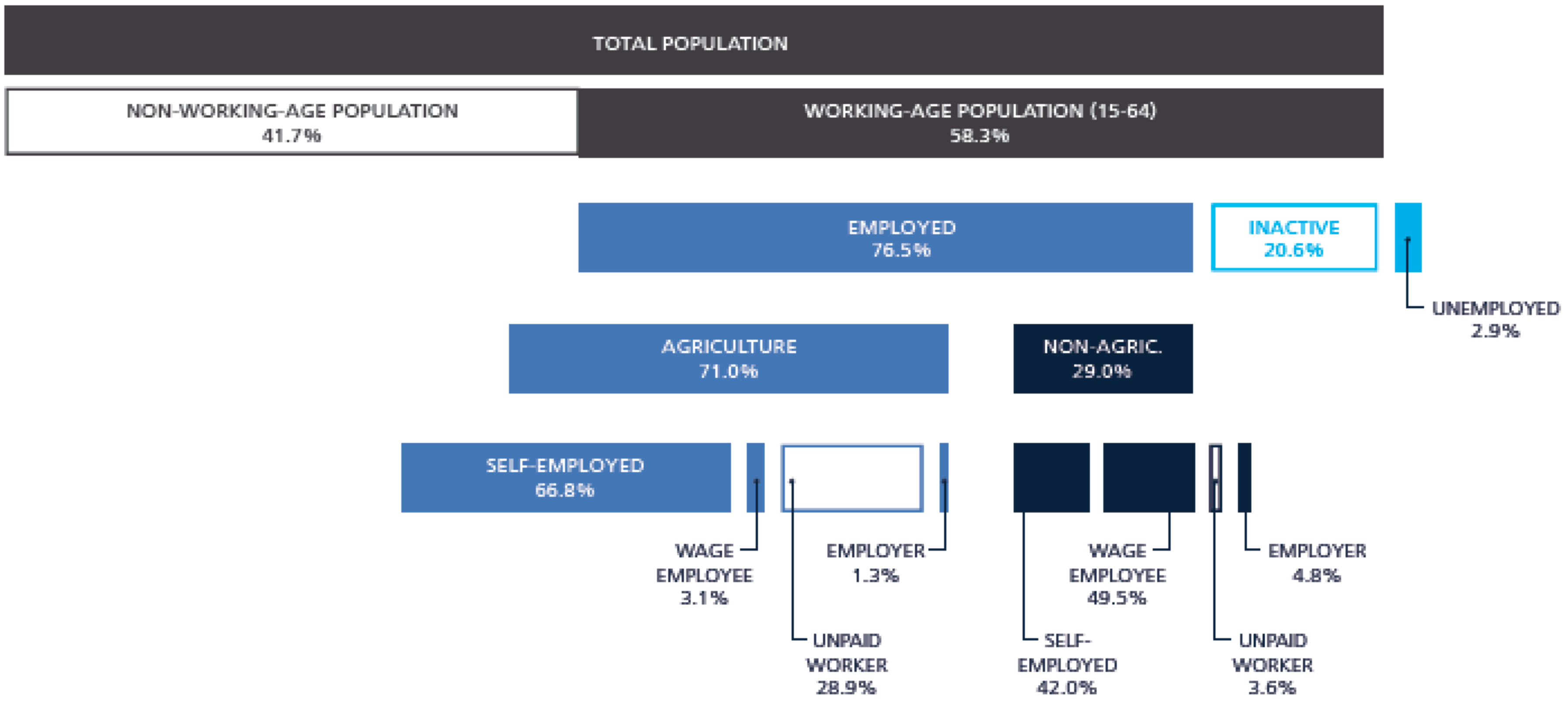

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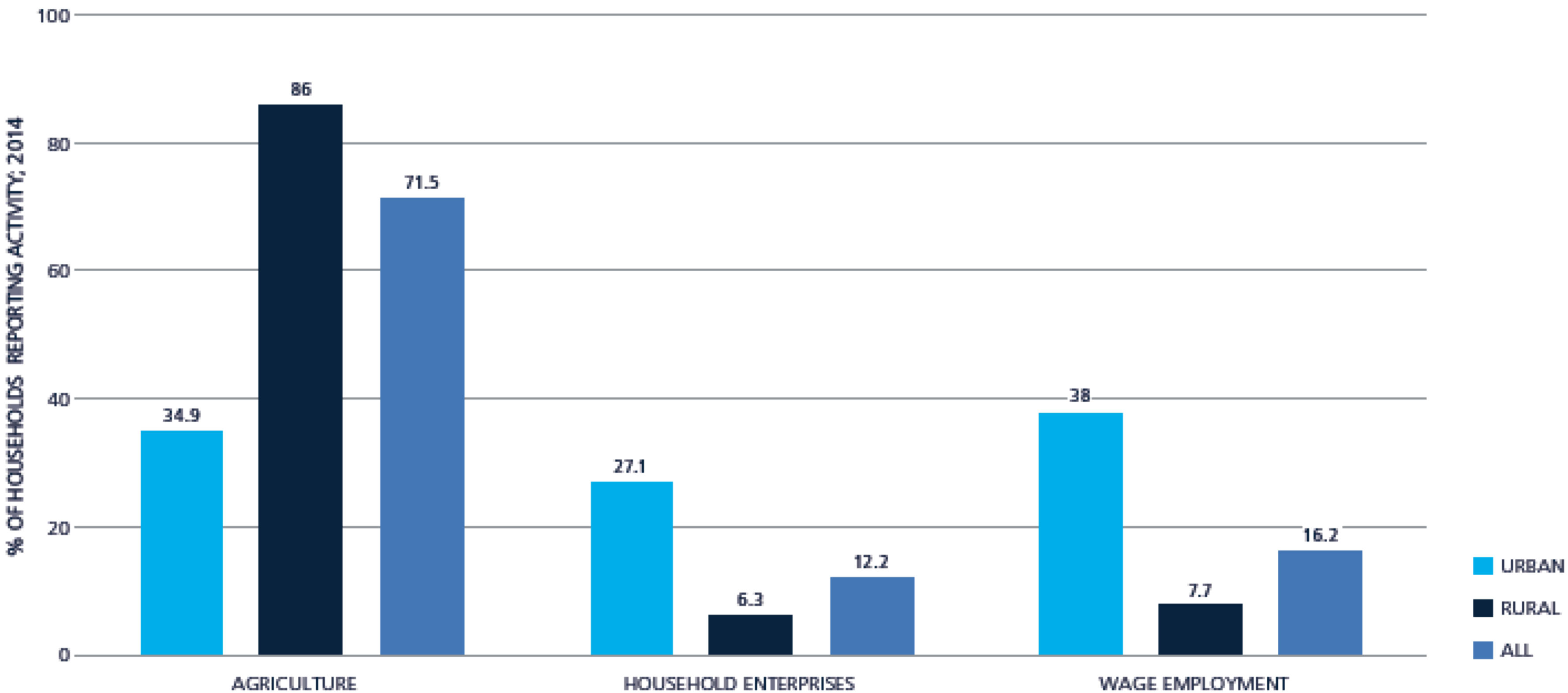
Figure 2.6
Household economic activities in rural and urban areas



Agriculture is the main rural activity, but in urban areas, formal wage employment and self employment in household enterprises are growing in importance.

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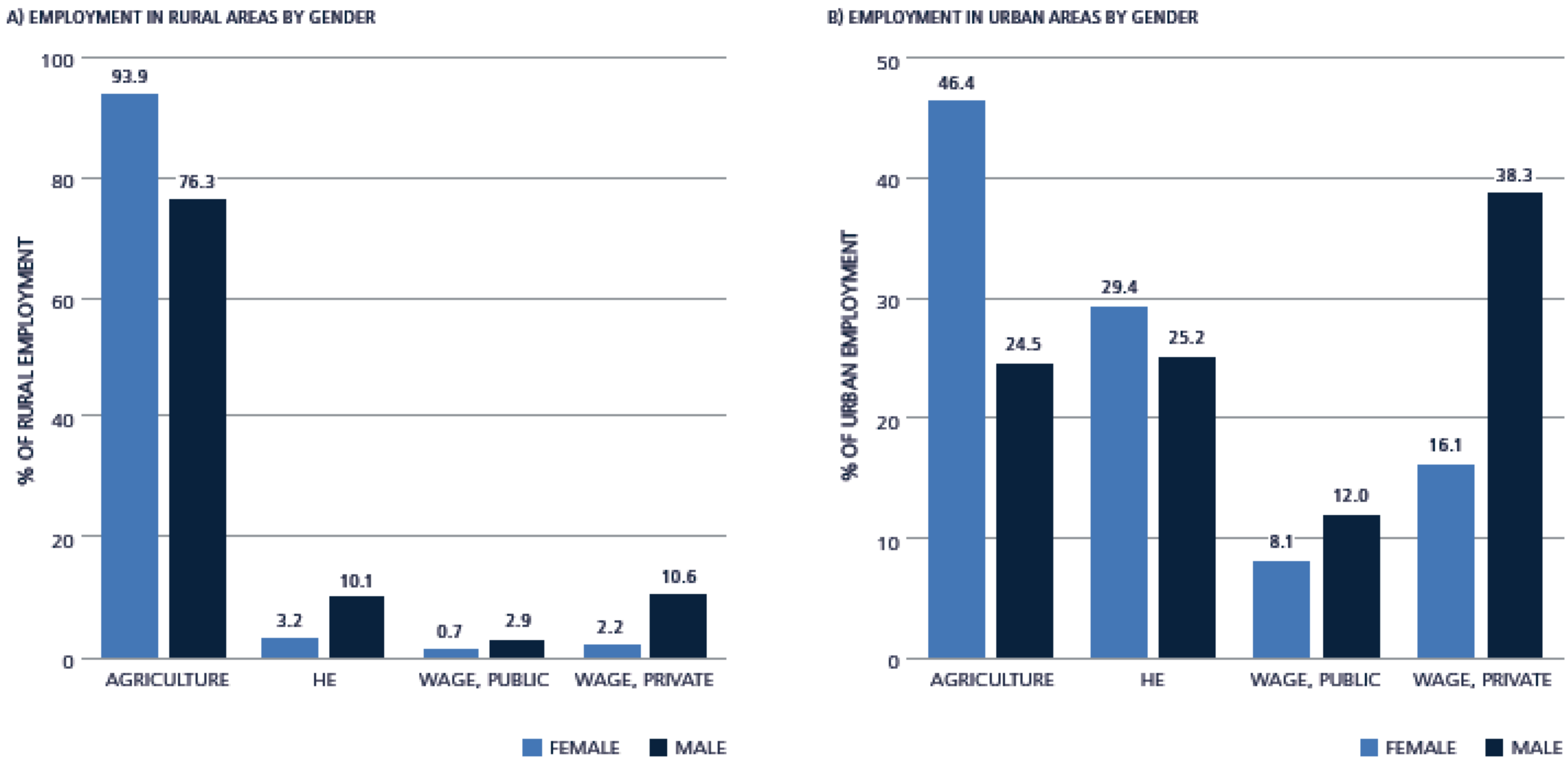
Gender differences are marked. In rural areas, men are more likely than women to work outside agriculture. In urban areas, men are more likely to have formal wage jobs, but many women work in agriculture.

Figure 2.7
Employment by gender and location



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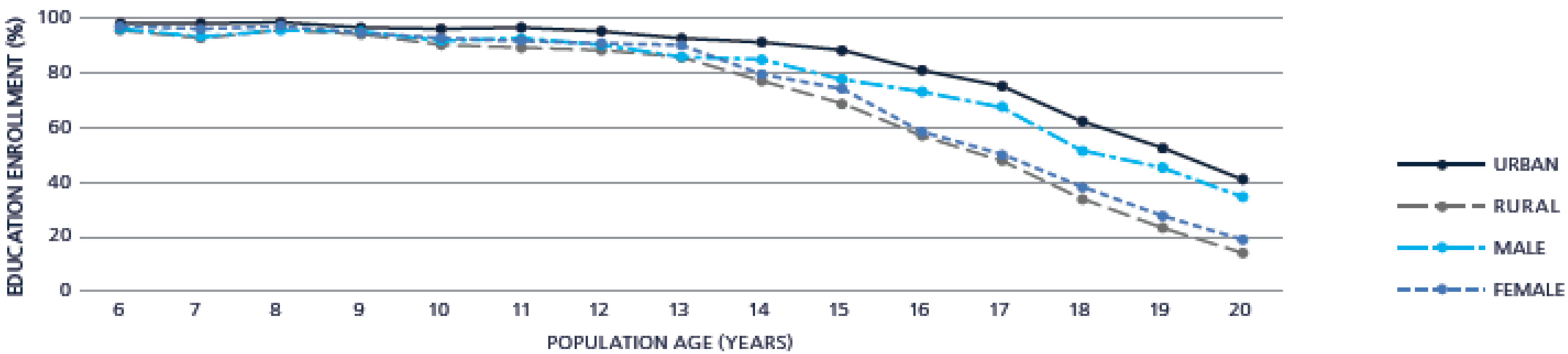
Education coverage has improved overall, but there are major urban-rural and gender differences, together with quality challenges and coverage deficits in secondary education.

Figure 2.2
Education enrollment by age, gender, and location



Wage jobs are normally held by relatively well-educated people while self employment is correlated with lower education levels, especially in agriculture

Table 2.6
Highest education level attained, by activity level and age group

	Ages 21–30					Ages 30+				
Highest education level attained	*Wage Public*	*Wage Private*	*HEs*	*Agric.*	*All*	*Wage Public*	*Wage Private*	*HEs*	*Agric.*	*All*
None	0.00	1.43	4.11	13.64	9.61	0.64	3.72	8.03	24.15	18.10
Some primary	1.09	15.10	22.72	48.85	37.26	5.85	32.46	43.50	60.31	51.31
Completed primary	2.30	18.26	21.34	21.20	19.89	7.13	25.36	24.90	11.20	14.40
Some secondary	11.69	35.03	31.54	12.41	18.87	16.87	20.01	15.49	3.50	7.86
Completed secondary	43.80	21.75	16.62	3.61	10.36	27.91	10.58	5.74	0.62	4.23
Some technical	17.66	2.68	1.47	0.20	1.61	10.93	1.76	1.17	0.15	1.19
Higher education	23.46	5.75	2.20	0.10	2.40	30.68	6.10	1.17	0.07	2.91
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

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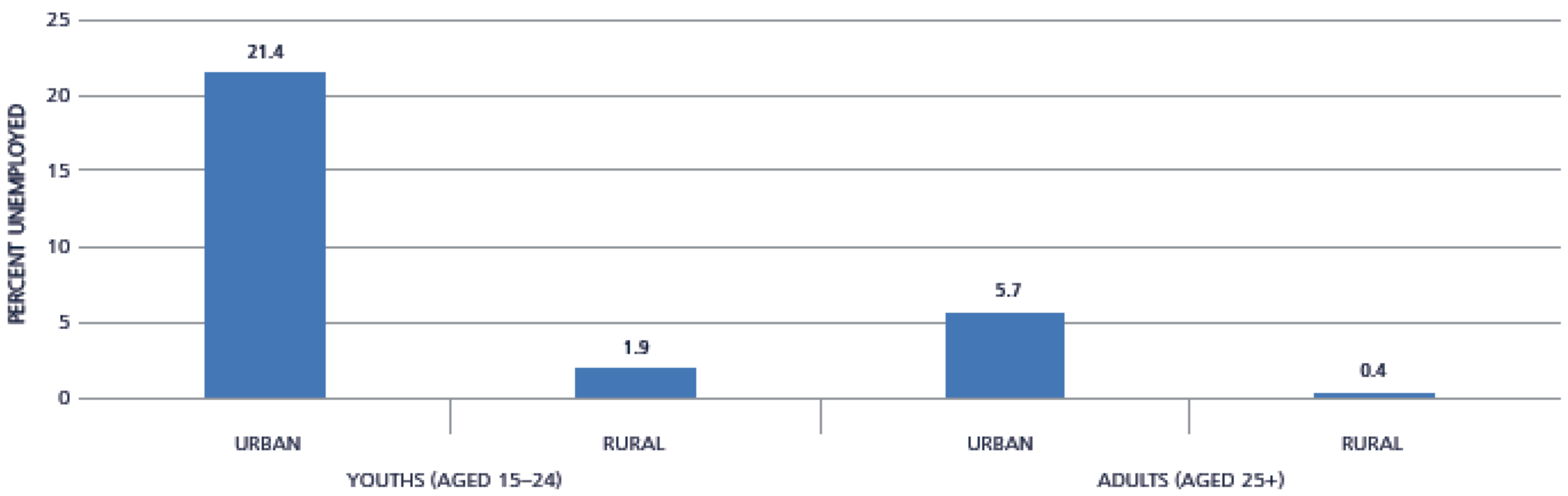
Unemployment is concentrated among young urban workers…..

Figure 2.8
Unemployment rate by age and location



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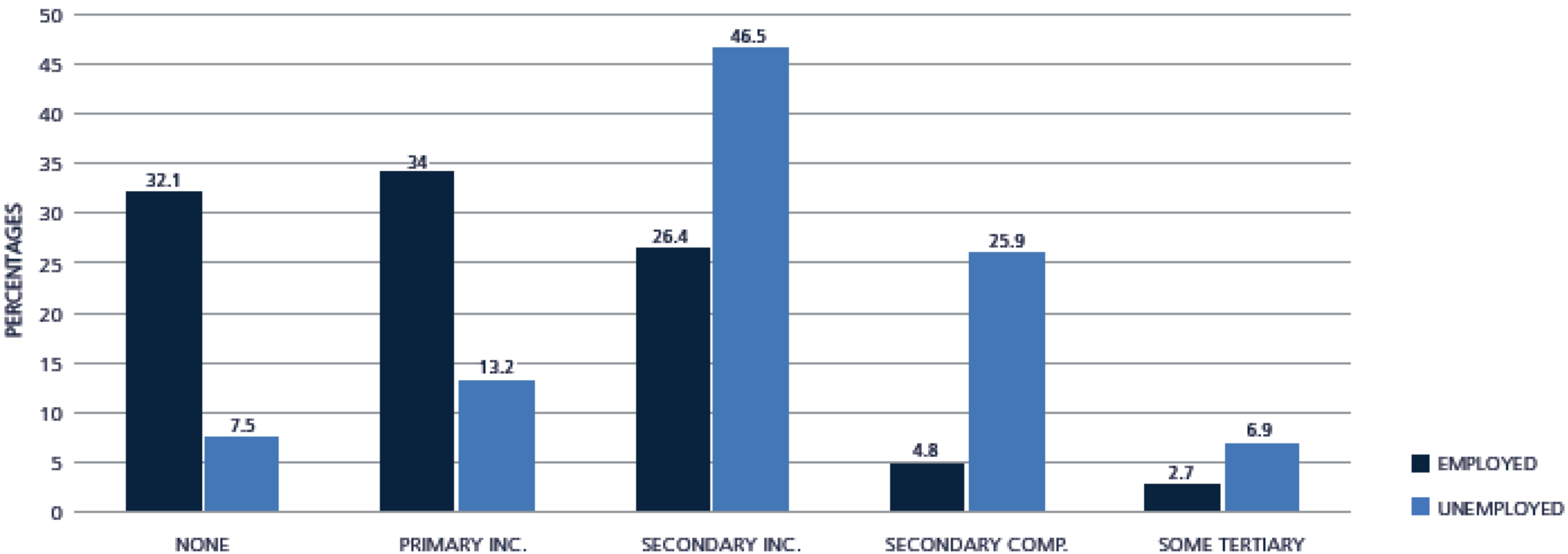
…and relatively well-educated workers are more likely to be unemployed, reflecting high reservation wages and poor job-readiness of secondary school and university graduates.

Figure 2.9
Education attainment of employed and unemployed workers, 2014



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Main take-aways from the analysis of demographics, labor supply and jobs outcomes

- **Mozambique's labor force** is growing fast, at a rate of almost 500,000 a year over the next decade – double the growth in the last decade.
- **Most Mozambicans who want to work have jobs**, but many are bad jobs, with low productivity and earnings, in smallholder agriculture and in non-farm self employment ("household enterprises").
- **Education** is closely linked to jobs outcomes and education attainment is improving - but there are still major urban-rural and gender gaps and huge quality challenges.
- **Women** are far more likely than men to be in "bad" jobs, suggesting the need for gender-specific approaches to improve educational outcomes and jobs opportunities for women.
- **Young, better educated, urban** people are more likely to be unemployed, suggesting the need to shortening the school-to-work transition of urban educated youth by helping them develop jobs-relevant skillsets.

3. Firm growth and the demand for labor

Business environment challenges
(Investment Climate Assessment ICA 2009)

Top constraints to operations and productivity of existing firms:

1. Unfair competition from the informal sector
2. Access to finance
3. Governance-related obstacles (Crime, Tax rates, Corruption)
4. Infrastructure-related obstacles (Electricity and Transport).

Few firms pointed to labor regulations or workforce education – but this might reflect sample bias (the survey only covers firms who manage to operate in the environment).

Business environment challenges
(2017 Doing Business report)

Mozambique overall ranks 137th out of 190 countries.

"Distance to Frontier" score of 53.8, close to the regional average score (49.5) for Sub-Saharan countries.

Mozambique's business environment is relatively weak in:

- Enforcing Contracts (ranking of 185 out of 190),
- Access to Electricity (168/190)
- Access to Credit ((157/190).

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Benchmarking labor regulations

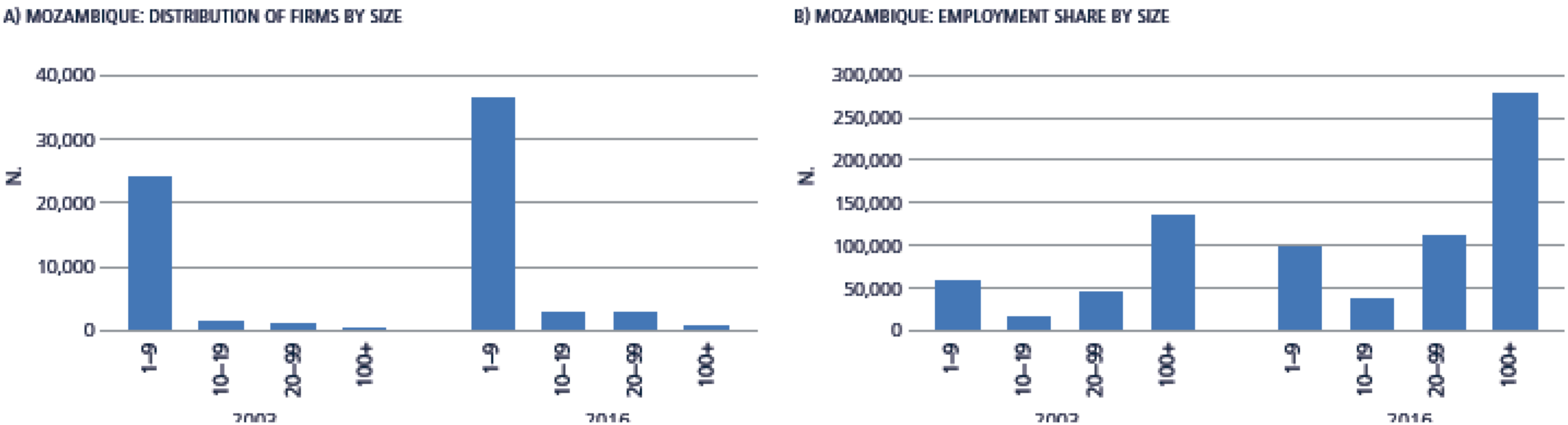
Two regulations that stand out in Mozambique are:

1. **High minimum wage** (equivalent to 140 percent of average value-added per worker). This is twice as high as the average (70%) observed in other Sub-Saharan countries that have minimum wages and three times as high as the world-wide average.

2. **High severance pay**, which rises from 2.2 weeks' pay for workers with 1 year of tenure, to 32 (65) weeks' pay for workers with 5 (10) years of tenure. This is high by world standards, but on a par with legislation elsewhere in Sub-Saharan Africa.

Formal firms and jobs were growing fast between 2003-16. The number of firms grew at a rate of 3.7% p/a and of jobs, by 5.7% p/a. Most formal firms are small, but most formal jobs are in larger firms

Figure 3.1
Mozambique: distribution of firms and employment by size, 2003 and 2016



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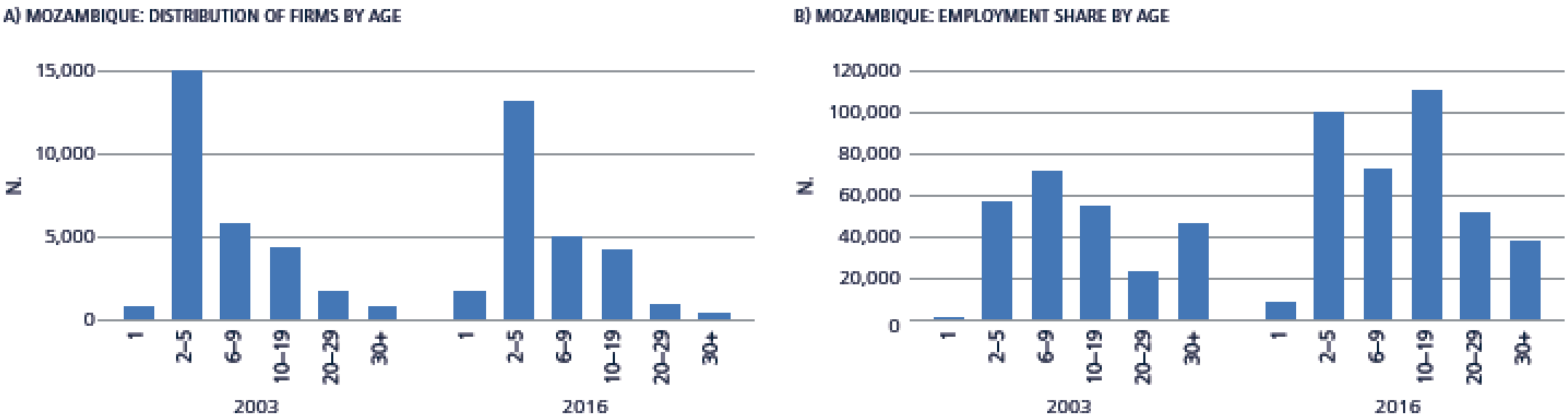
Most firms are young (left hand panel), but most jobs are in older firms (right hand panel)

Figure 3.2
Mozambique: distribution of firms and employment by age, 2003 and 2016



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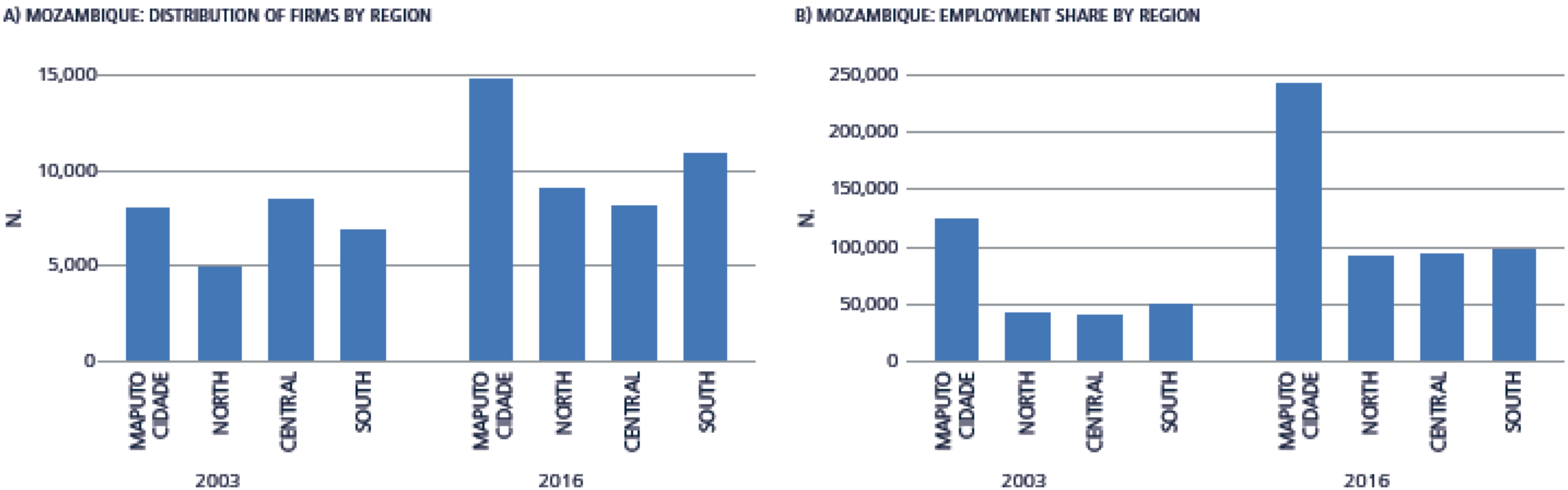
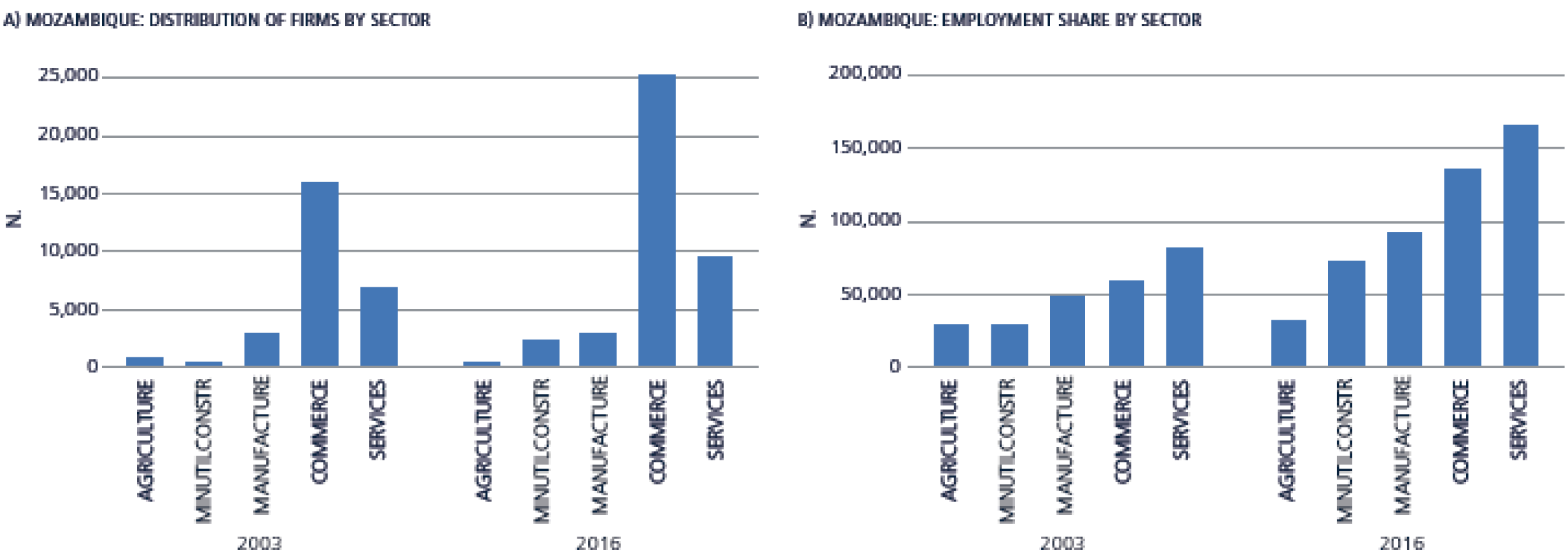
Most formal firms and jobs are in the Maputo region and the recent growth pattern has increased the gap, relative to other regions

Figure 3.3
Mozambique: distribution of firms and employment by region, 2003 and 2016



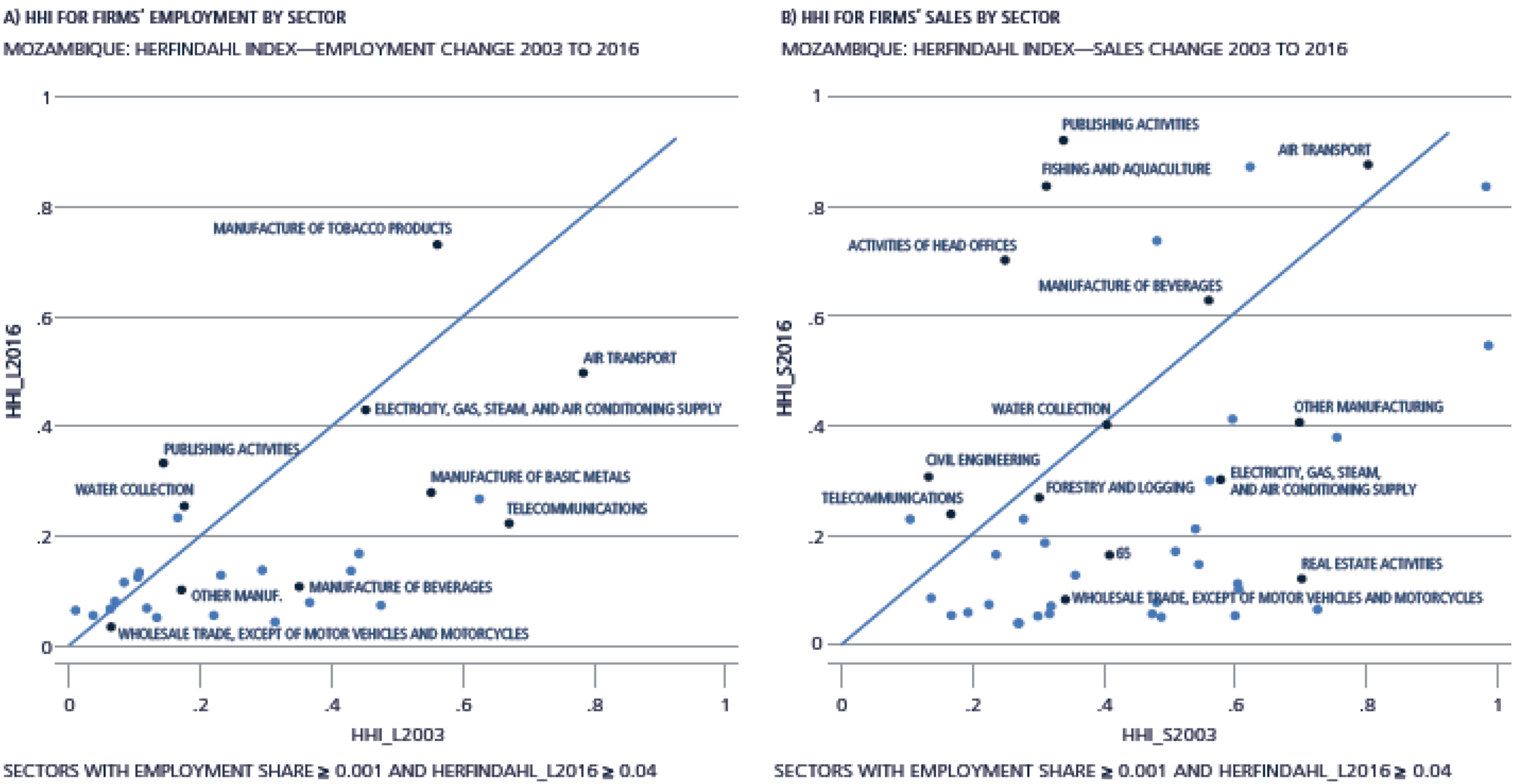
Commerce and services are the main growth sectors for formal firms and jobs. Manufacturing has contributed little.

Figure 3.4
Mozambique: distribution of firms and employment by sector, 2003 and 2016



Concentration of formal jobs and sales of formal firms has also been declining in most sectors, suggesting improving competitiveness

Figure 3.8
Changes in market concentration of firms' employment and sales by sector, 2003 and 2016



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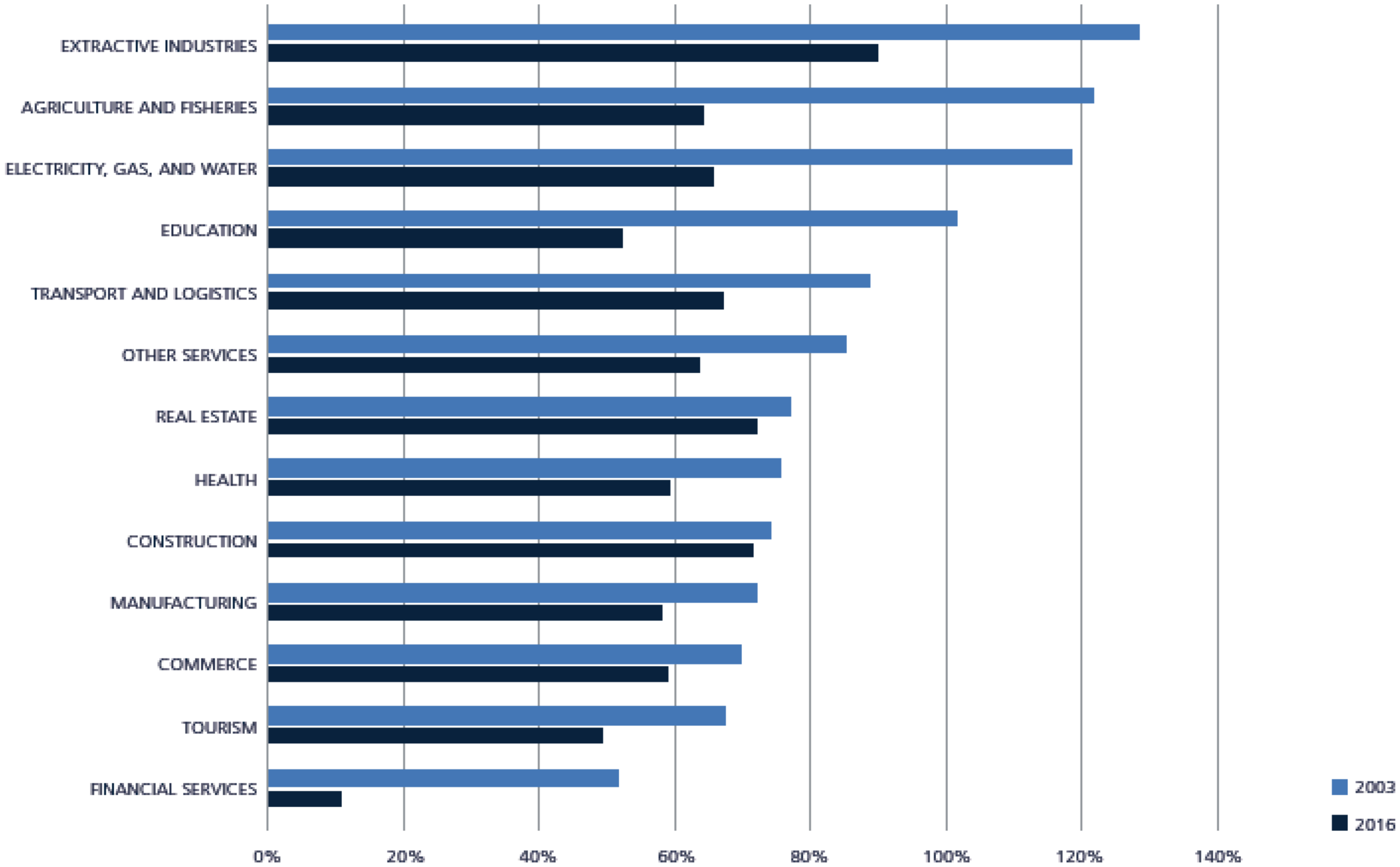
The productivity gap between top firms and bottom firms has also been narrowing: another sign of improved market performance.

Figure 3.11
Percentage difference in labor productivity by sector



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Main take-aways from the analysis of firm growth and the demand for labor

- **The number of formal firms and jobs** has been growing at a healthy pace since 2003, and most formal sector jobs growth is linked to larger firms.
- **Most of the increase is in Maputo**, the most affluent region. Growth rates in jobs were higher outside the capital city, but they started from a very low base and so contributed less to the growth in absolute terms.
- **Commerce and services** had the greatest growth in jobs and firms, but they had the slowest productivity growth between 2003 and 2016.
- **There are signs that competitiveness is improving**, as reflected in declining concentration of jobs and sales and in a convergence in productivity within all sectors.

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5. Towards a jobs strategy

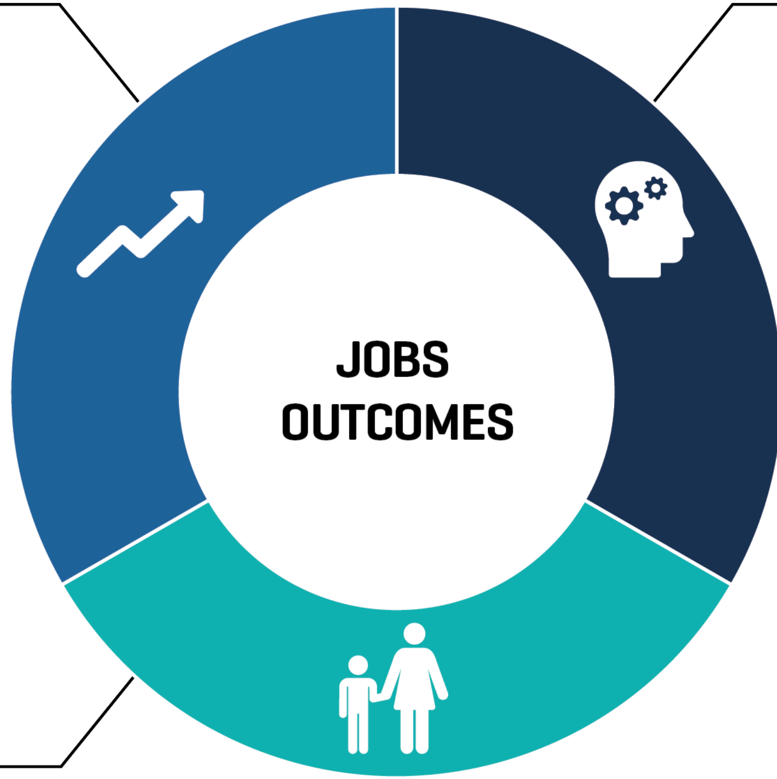
The elements of a jobs strategy

JOB CREATION

- Job Creation in Existing Enterprises
- New Enterprises
- Entrepreneurs / Self-employed

JOB QUALITY

- Worker Productivity
- Working Conditions and Benefits
- Earnings / Livelihoods



ACCESS TO JOBS

- Labor Force Participation
- Working of Labor Market (LM)
- Access and Opportunity for Jobs

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Mozambique Government policy

The findings of the Jobs Diagnostic are consistent with the Government's policy priorities (PPQ 2015-19):

- Increase production and productivity in all sectors with emphasis on agriculture;
- Promote industrialization to modernize the economy and increase exports;
- Create jobs and reform labor laws; and
- Promote the value chain of national primary products, ensuring integration of local content.

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MZ has a decade of opportunity to generate quality jobs through structural transformation

- **Investment will rise rapidly** as the coal and gas boom moves into full implementation phase and GDP is set to double in 2020-2024.
- **Avoiding “Dutch disease” effects** will be crucial
- **Key challenge:** leverage structural transformation to generate better jobs in agriculture and household enterprises ; and more formal jobs in agriculture, manufacturing and services.
- **A twin process is needed:**
- Raising Labor Productivity in Agriculture and Non-Farm Self-Employment
- Generating More Wage Jobs, especially in the Formal Sector

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Increasing agricultural productivity

- Shift Mozambique’s under-utilized land and labor into **higher productivity cash crops**.
- This is a well-recognized challenge reflected in the **National Strategic Plan for the Development of the Agricultural Sector (PEDSA)**; many development agents are trying to address it with varied models.
- **Aggregators** can help to overcome the scale limitations of smallholders; and can provide, capital, insurance, technological models and links to post harvest services and markets.
- **Diversification** coupled with sustainable land use strategies can increase land utilization (e.g.: idle land being transformed for plantation forestry) and productivity (so that agricultural incomes can rise).
- **Mechanization and irrigation** can help release labor constraints at critical points of the agricultural cycle

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Accelerate shifts into manufacturing and services

- Address the broad constraints to the creation and growth of formal sector firms in these sectors
- Identify potential value chain transformations in specific industries and eliminate market failures or policy failures that inhibit them

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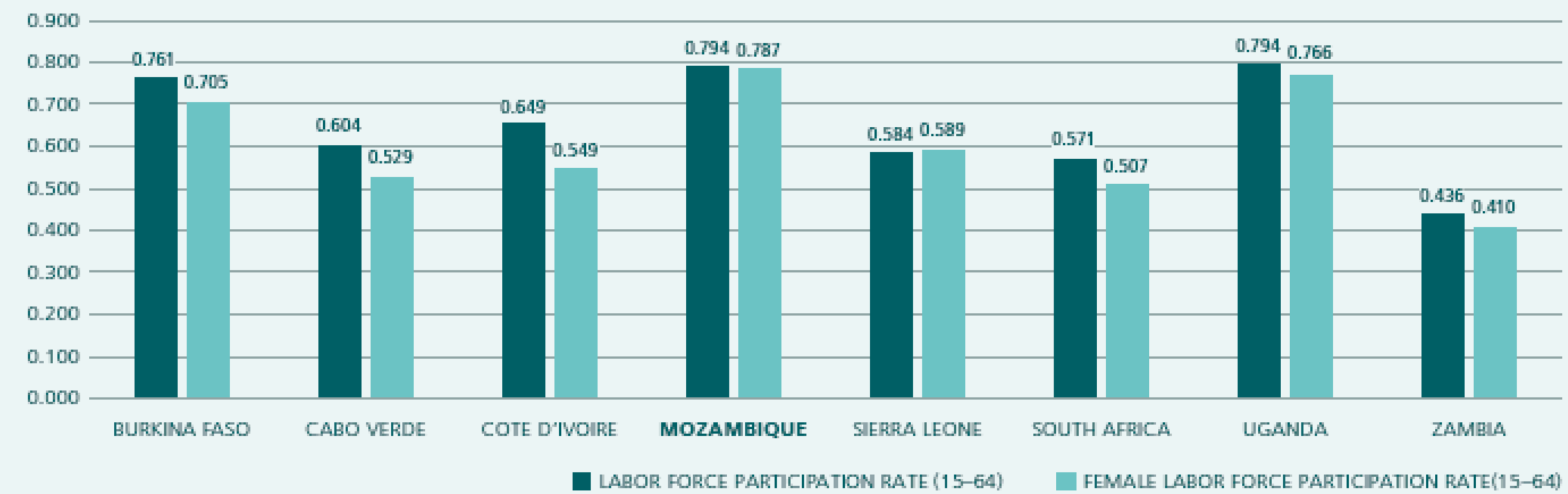
Next steps

- Over the next two years the ***Lets Work Program*** will continue to work with the GoM to identify and address key bottlenecks to the creation of more and better jobs in the private sector
- We are funding **Value Chain analyses** to identify the jobs potential, skills needs and policy bottlenecks in agriculture, forestry and construction
- We are also supporting **pilots and studies**:
    - To optimize models for increasing productivity in smallholder agriculture through links to aggregators who provide finance and technical assistance and market linkages
    - To evaluate the impact of the Biscate informal sector jobs matching service on earnings
- Our **Knowledge Platform** will continue to socialize information about what works to create more and better jobs in the private sector

Labor force participation rate in Mozambique and other SSA countries

Figure B3.2
Labor force participation rate in Mozambique and other SSA countries



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Obrigado!