FOR AFRICA'S YOUTH, JOBS ARE JOB ONE

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In 2013, Africa will reach the midpoint of the African Union's (AU) "Youth Decade Plan of Action" (2009-2018). With almost 200 million people aged between 15 and 24, Africa has the youngest population in the world. In a majority of African countries, youth account for more than 20 percent of the population (African Development Bank [AfDB], 2012). In addition, the number of young people will double by 2045, offering the possibility of a demographic dividend, but only if they can be absorbed into productive employment.[1]

The AU Action Plan calls for measures to reduce Africa's rate of youth unemployment by 2 percent per annum. The reality, however, is that midway through the Youth Decade, Africa is not creating enough jobs to absorb the 10 million to 12 million young people entering its labor markets each year. Although the youth population constitutes about two-fifths of the continent's working-age population, they make up three-fifths of the unemployed. It is clearly time for a "midterm review" of employment prospects for young Africans.

Why Jobs are a Priority for Africa

Unlike North Africa, sub-Saharan Africa seems, on the face of it, to be creating enough jobs for its growing labor force. In 2009, the overall unemployment rate in sub-Saharan Africa was about 6 percent compared with a global average of 5 percent. Youth unemployment was about double the overall unemployment rate, but is low by global standards. The ratio of youth to adult unemployment in sub-Saharan Africa is 1.9 compared to 2.7 worldwide (African Development Bank [AfDB], 2012).

This is not because Africa is doing well at generating jobs for the youth population. It is because African countries with low unemployment tend to have large informal sectors. Young people find work, but not in places that pay good wages, develop skills or provide a measure of job security. With the exceptions of Botswana, Nigeria and South Africa—all of which have alarmingly high youth unemployment rates—less than one-fifth of Africa's young workers find wage employment. Over 70 percent of youth in the Republic of the Congo, the Democratic Republic of the Congo, Ethiopia, Ghana, Malawi, Mali, Rwanda, Senegal and Uganda are either self-employed or contributing to family work. Moreover, the region's fastest growing economies—which include Ethiopia, Rwanda, Tanzania and Uganda—have the lowest employment intensity of growth (AfDB, 2012). Rapid growth has created few good

[1] A demographic dividend can take place when the share of the working age population exceeds the share of the dependent population, as occurred in East Asia during its rapid growth period.

jobs, pushing those seeking work into informal employment, self-employment and family labor. In 2011, 82 percent of African workers were working poor, compared to the world average of 39 percent (International Labor Organization [ILO], 2011). For the great majority of African young people, the "youth employment problem" is more about the quality of the job than the absence of a job.

Improving African Labor Markets in 2013

Seen from this perspective, while labor market reforms and active labor market policies can make a contribution to solving the youth employment problem, the greatest traction is likely to come from policies and public actions designed to accelerate the growth of "good" jobs. A new action plan—one that combines efforts to improve the employment prospects for young people with a strategy for job creation—is needed.

Improving employment prospects

In the short run, a number of interventions can be undertaken to improve the employment prospects of new labor force entrants. In Botswana, Nigeria and South Africa, as well as North Africa, pressures to address open unemployment among the youth population will remain high. Governments can target young workers in employment-intensive activities, such as tourism and construction, with programs that offer cash for work. Governments can also experiment with increasing budget allocations to labor-intensive public works. Public works programs provide good opportunities for young workers, particularly rural residents and people with low skills, to acquire initial work experience. For example, in Senegal, the *Agence d'Exécution des Travaux d'Intérêt Public* (AGETIP) trains unemployed youth who work temporarily on public infrastructure projects (roads, buildings, sanitation systems, etc.) and then move on to more permanent jobs (World Bank, 2008).

In the medium term, improving employment prospects will depend on changing the existing institutional arrangements that raise the costs of hiring workers for formal sector employers. In some countries, labor regulations that set minimum wages, determine social insurance contributions and protect job security will need to be changed. For example, firm-level surveys indicate that the single greatest impediment to the more rapid growth of labor-intensive, outward-oriented manufacturing in South Africa is the high level of real wages relative to productivity levels. However, regulatory reform is not a magic bullet. Most econometric evidence suggests that even complete deregulation of the labor market would not be sufficient to absorb all of the unemployed into the formal sector without more robust growth.

Building skills

There is a severe mismatch between the skills of young African workers and those needed by employers. In most sub-Saharan African countries, about two-thirds of all young workers in the labor market—95 million people—lack the basic skills needed to be competitive in the labor force (World Bank, 2008). Perhaps the most urgent reform needed is to increase the emphasis on post-primary education. Africa faces a large and growing gap with other developing regions in both secondary and tertiary enrollments. Increasing access to and the quality of post-primary education will be costly and unpopular with Africa's development partners—who remain transfixed by the Millennium Development Goal of universal primary education—but it will be essential (see also "Narrowing Africa's Education Deficit" by Kevin Watkins in this collection).

Changes in vocational and technical education are also needed. Africa's skill development schemes are supply-driven and disconnected from the demands of the labor market (Adams, 2006). A more market-oriented approach could be achieved through the use of training vouchers that can be redeemed with accredited private sector training providers or through industry-led training centers. Job training programs are also more likely to be successful if they are part of a package that includes basic education, employment services and social services (World Bank, 2008).

Boosting labor demand

To create more good jobs, Africa needs more industry. While manufacturing is the industrial sector most closely associated with employment-intensive growth, there are also "industries without smokestacks" in agriculture and services that can create good jobs. However, despite two decades of solid growth, industry, tradable services and agro-industry are still a small share of African employment and output (Page, 2012). To solve the employment problem more private investment in industry—with and without smokestacks—is essential.

Domestic private investment has remained at about 11 percent of GDP in Africa since 1990 (World Bank, 2012). This number is well below the level needed for rapid industrial growth. Efforts by African governments and donors to increase private investment have mainly focused on improving the "investment climate"—the regulatory, institutional and physical environment within which firms operate. The high costs of doing business in Africa have been well documented by the World Bank and the World Economic Forum.[2] However, investment climate reforms alone are unlikely to be sufficient to boost investment in industry.

Industry is lumpy in size, space and time, and, as the experience of "factory Asia" has shown, once a critical mass of investment is reached, industrial growth can be explosive. Below critical mass, however, incremental changes in policies and institutions—the centerpiece of investment climate reform—may not be sufficient to spur rapid growth of industry and jobs. To boost investment, Africa's economies need an industrialization strategy based on pushing exports, building capabilities and supporting industrial clusters.

For the vast majority of Africa's economies, the export market is the only option for rapid industrial growth. However, industrial growth need not depend solely on manufacturing. Agro-export value chains, tourism, and remote, IT-based tradable services also offer good prospects for job creation. Breaking into export markets will require an "export push": a coordinated set of public investments, policy and institutional reforms focused on increasing the share of nontraditional exports in GDP. The distinguishing feature of an export push is that it must be a government-wide initiative, involving much more than the trade ministry. Macroeconomic management plays a key role, and improving trade logistics is vital.

Often the critical constraints to industrialization are "firm capabilities"—the know-how and working practices that are used in the course of production or in developing new products. Firms in the global industrial marketplace are competing in capabilities, and the location of industry depends in part on how well economies acquire and diffuse them. Policies and institutions for attracting foreign direct investment (FDI) are key tools in capability building. Appropriate investment climate reforms are critical, and Africa needs to develop world-class FDI promotion agencies.

Manufacturing and service industries tend to cluster. Because of the productivity boost that these agglomerations provide, no single firm has the incentive to locate in a new area in the absence of others. Governments can foster industrial clusters by concentrating high quality institutions, social services and infrastructure in a limited physical area—such as a special economic zone (SEZ). Africa's experience with SEZs has been largely unsuccessful. Virtually all African SEZs fail to reach the critical levels of physical, institutional and human capital needed to attract global investors (Farole, 2011). A first step is therefore to upgrade the performance of Africa's SEZs to international standards.

Africa's youth employment problem is primarily a deficiency of good jobs. Rapid labor force growth has resulted in increasing pressures on the job market, and, in most African economies, this pressure has meant growing vulnerability of employment, especially for the young. Less than 20 percent of African youth find wage-paying work. For this reason, the solution to the youth employment problem cannot be found in employment policies alone. A strategy for industrial development—including the growth of agro-industry and tradable services—will be needed.

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[2] See for example, the *Doing Business* surveys of the World Bank or the *World Competitiveness Report* of the World Economic Forum.