Boosting productive employment in Africa

POLICY PUBLICATION

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This paper summarizes the synthesis study on Boosting productive employment in Africa: what works and why? conducted by the INCLUDE Secretariat. The study was based on the NWO-WOTRO programme 'Research for Inclusive Development in Sub-Saharan Africa' (RIDSSA) and presents the key findings of the five research projects in this programme: 'Dutch multinational businesses in Africa', 'Feeder road development', 'Productive employment in segmented markets', 'Empowering female Ugandan entrepreneurs', and 'The IT-sector in Kenya'. The full synthesis study can be found at this link.

While Africa's large and rising youth population holds the potential for a demographic dividend, there are significant labour market challenges to be overcome before this dividend is realized. Making sure that Africa can live up to its potential requires the creation of a massive amount of productive employment as well as enhancing youth's access to these jobs. There is no 'one-size-fits-all' solution: reaching different types of youth in different African countries and regions requires a comprehensive approach that combines micro-level interventions that offer multiple training and financial services with macro-level interventions that enhance productivity in agriculture, agribusiness and informal non-farm household enterprises.

Although high un- and underemployment is not a problem only faced by youth, youth are disproportionately affected. By robbing youth of a decent living, long-term un- and underemployment can be a catalyst for social and political instability, and a strong incentive for young Africans to look for a better future elsewhere. As such, African and European policymakers have placed youth employment in Africa high on the political agenda. In 2017, the African Union (AU) adopted 'Harnessing the Demographic Dividend through Investments in Youth' as its annual theme and it marked the decade 2010–2020 as the 'Decade for Youth'. Youth also feature prominently in the African Development Bank's High Five Priorities, as expressed in its 10-year 'Jobs for Youth in Africa' strategy. Enhancing jobs and income for youth and women is also a key priority of the Dutch Minister of Foreign Trade and Development Cooperation, as expressed in her policy document *Investing in global prospects*. The challenge for policymakers in this regard is in the form and nature of the policies and programmatic interventions that have been put in place, as well as how to effectively implement them.

There are substantial cross-country differences in the job-generating potential of different economic sectors. Yet, there is consensus that, in the short-term, most jobs in low- and lower middle-income Sub-Saharan African countries will be created in the informal sector, both in agriculture (including the off-farm food system), and household enterprises. Continued public and private investment in industry and high value services is needed for Africa's structural economic transformation, but this will only yield sufficient wage employment effects in the long term.

Employment patterns and the sectors driving growth

For a better understanding of where and how productive employment can be generated, it is important to analyse the structure of Africa's labour markets and the potential of the different economic sectors to generate employment. The synthesis report reveals three general observations about the structure of Sub-Saharan Africa's labour markets. The first is the continuous relevance of agriculture as an employment category. Although urbanization is increasing, the majority of the population in Sub-Saharan Africa, including a high proportion of youth, live in rural areas. This means that agriculture and agribusiness will remain the largest employment category for at least the next decade or more. Secondly, in Sub-Saharan Africa in general, the share of formal wage employment, either wage industry or wage services, is low, meaning that the notion of a formal wage job being the only pathway to employment for youth in Africa is misguided. There are, however, considerable differences between countries: wage employment is much lower in low-income, lower middle-income and resource-rich countries than in upper middle-income countries. A final observation with regard to the structure of Sub-Saharan Africa's labour markets is the high significance of informal non-farm household enterprises, especially for youth.

When it comes to the sectors driving growth in Sub-Saharan Africa, the synthesis report reveals four conclusions. The first is that the highest potential for massive job creation comes from raising productivity in the agricultural sector. As less 'new' land is available, this can be done by making better use of the land and technology available. The choice of which agricultural sub-sectors to prioritize is country-specific. As shown by the research project 'Productive employment in segmented markets', connecting farmers to international markets though contracting raises their income, and investing in value chain development creates multiplier economic effects. Value chain development raises employment opportunities in the broader off-farm food system (including processing, distribution, transportation, storage, and retailing). And, as rural incomes will increase, local demand for non-agricultural products and services will also increase, meaning that more jobs will be created in the off-farm enterprises that provide these goods and services. The research project shows that the sustainability of this approach depends on the ability to deal with issues such as side selling and mistrust, which can result from contract farming. Yet, in general, for youth to benefit, investing in sub-sectors with low entry barriers (for example, grain, fruit and vegetables) is key.

The second conclusion is that continued investment in wage job creation in industry and manufacturing is needed for structural transformation, but that significant employment effects can only be expected in the long run given that industrialization in Sub-Saharan Africa comes from such a low base. There are important cross-country differences in the size and, hence, job-creating potential, of this sector, as in low- and lower middle-income Sub-Saharan Africa the share of the labour force employed in industry is significantly lower than in upper middle-income countries. Importantly, there are signs that the sector will become more important in the future. Especially agro-processing is touted as a way to increase formal wage employment in this sector, with small and medium-sized enterprises (SMEs) that engage in agro-processing considered the most critical for employment creation. Yet, as concluded in the African Policy Dialogue on 'Youth employment in Mozambique's extractives industry', to create substantial *productive* jobs, improving the business and investment climate is essential. In addition, infrastructure investment (e.g. roads, rail, air, telecommunications) is essential for SMEs to thrive.

Third, since the services sector contributes almost half of Africa's economic output, the sector has a high potential to create jobs. Yet, most of the services are low-value services in the informal economy, and the majority of people engaged in the provision of these services barely earn sufficient income for a decent living and often lack social protection. There is, therefore, a need for African countries to invest in high-value services, such as export services, creative industries, tourism and, notably, information and communication technology (ICT) (see, for example, the research project 'The IT sector in Kenya'). In addition, for employment in services to be productive, efforts should also be made to improve working conditions in the informal services sector, for example, by implementing social protection schemes (see INCLUDE's Social protection synthesis report).

A final conclusion is that, as also emphasized in INCLUDE's synthesis of the African Policy Dialogues, infrastructure has the potential to contribute to employment creation both directly, through job provision in the design, construction and maintenance of infrastructural projects, and indirectly, for example, by enhancing productivity in other sectors such as agriculture, agro-processing, the services sector and extractive industries. This is supported by the research project on 'Feeder road development' in Ethiopia, which found that feeder road development, especially when combined with water harvesting projects, has contributed to the expansion of farms and non-farm businesses in the rural areas of Northern Ethiopia, as well as improving people's mobility and access to markets and administrative and financial centres. Yet, the project also found that the effects of infrastructural development on employment creation are not necessarily equally distributed, as people who are already better off economically tend to benefit the most from infrastructure and construction projects. To enhance the direct and indirect effects of feeder road development on productive employment creation, the project recommends simultaneously investing in affordable and reliable rural transport to accommodate the diverse needs of men, women, the elderly, disabled and youth.

Dynamic entrepreneurship: the employability and characteristics of labour market entrants

Youth's aspirations differ. Not every young adult aims for a formal wage job and, at the same time, not everyone has the potential or opportunity to be a successful entrepreneur. Recognizing that employment aspirations and access to job opportunities differ for different types of youth is vital when determining priorities for productive employment. INCLUDE's synthesis on productive employment distinguishes four groups of Sub-Saharan African youth: 1) rural youth from modest farming families working on the family farm, 2) low-skilled, self-employed youth in urban or rural survival enterprises, 3) young apprentices in rural or urban individual enterprises or in search of wage employment, and 4) young urban graduates seeking formal wage-employment. The size and proportion of the different groups is country specific. Importantly, as shown by the research project 'The IT sector in Kenya', middle-class youth and youth from the slums require different interventions and programmes to enhance their employability and the success of their businesses.

Effective short-term interventions are those that offer multiple services, that are tailored to individual needs (profiling), and that include investing in education, skills training and long-term mentoring. As shown by the research project 'Empowering female Ugandan entrepreneurs', technical and vocational skills are not sufficient, as basic education as well as soft skills are essential to enhance the employability of most groups of youth and women. As stressed by the research project on the 'The IT sector in Kenya', training programmes that only focus on 'hard' skills (e.g., accounting) neglect a key aspect of SME-growth, namely, the importance of assisting entrepreneurs to develop a mind-set to 'make the best of the unexpected'. Entrepreneurs who learn from business failures and are able to implement changes in their businesses can in fact grow from informal sector operations to a business creating formal sector jobs. Cash transfers can also enhance people's employability and ability to take business risks, as they help cover household expenses on education, nutrition and healthcare. Moreover they stimulate employment directly, as the cash receipts are often invested in economic activities and productive assets. Such interventions to increase people's employability should be complemented by interventions that enhance their *access* to employment opportunities, for example, access to finance, land, technology and social networks. Such interventions are crucial to enhance youth's employability in wage employment, but also to enhance the productivity of family farms and informal household enterprises.

The role of national governments: creating jobs and an enabling policy environment

Yet, such interventions to enhance youth employability and access to jobs are only beneficial when additional jobs are indeed created, meaning that national employment strategies should always include both micro- and macro-level interventions. Although the private sector creates most of the jobs for youth in Africa, especially in fragile countries and countries that lack domestic resources, the role and responsibility of national governments should not be neglected. Especially in resource-rich countries, governments play an important role in creating formal wage jobs by investing in the public sector, such as education, healthcare and security/police. In addition, governments can also implement labour-intensive public employment programmes, for example, in infrastructure and construction, to provide employment opportunities. Such programmes can yield significant multiplier effects, especially when they stimulate the use of local resources and local manpower. Other government-induced policy measures include spatial policies, for example, by choosing to invest in rural areas and secondary towns, rather than solely in large cities, or by establishing special economic zones (SEZs).

Notwithstanding the role of governments in creating direct employment possibilities, their key role lies, as, for example, stressed by the research project 'Dutch multinational businesses in Africa', in creating an enabling policy environment conducive to business development and investment. This includes ensuring simple business registration procedures for start-ups, investing in adequate transport and logistics infrastructure, investing in basic education and skills-training, developing and promoting functional financial systems, streamlining economic regulations including tax and employment regulations, developing and protecting institutions for law and order, supporting regional integration and trade, and ensuring accountability and fighting corruption.

Essentially, politics matters when it comes to creating productive employment! Although national governments are strategic actors (see INCLUDE's synthesis report *Strategic actors for inclusive development in Africa*) in creating productive employment opportunities, the biggest constraint appears to be lack of political will, prioritization and resources. Sub-Saharan Africa countries often lack a well-coordinated overarching (youth) employment strategy that is shared by all government departments, ensures private sector engagement, and guides all interventions. Moreover, as stressed in INCLUDE's synthesis of the African Policy Dialogues, the effective implementation of employment strategies is frustrated by the absence or misallocation of resources. The resource challenges faced by many African governments are compounded by weak capacity for domestic resource mobilization (especially taxation), as well as leakages through licit and illicit capital flows by multinational corporations and elites.

However, creating sufficient productive jobs for Africa's growing youth population is not only a matter for governments alone. Rather, INCLUDE's syntheses studies have shown that programmes to enhance productive employment opportunities, and access to these opportunities, are most effective when designed and implemented in partnerships. Donors can play a role in supporting and funding skills training and mentoring programmes for different types of youth, as well as programmes aimed at enhancing productivity in vital economic sectors. Non-governmental organizations (NGOs) and community-based organizations (CBOs) often have a comparative advantage here, as they are working at the community level with youth and SMEs and, as such, also play an important role in representing youth's interests. Furthermore, donors and other international actors can be helpful in encouraging and supporting farmers' organizations, unions, resource hubs and CBOs. Finally, national and international knowledge institutes can play a vital role in providing governments and development partners with proper diagnoses of youth un- and underemployment challenges, priority sectors, and the effectiveness and impact of youth employment programmes and interventions.