



# **Youth Employment and Unemployment Challenges in Ghana:**

The Role of the Private Sector

## Background

**T**he challenge of unemployment and low quality of employment among young people constitute major socioeconomic and political concerns globally. It always dominates the political discourse during election campaigning in Ghana at least over the last three decades. A high rate and long periods of joblessness and poor quality of employment for young people do not only constitute loss of potential output and tax revenue to the state, but also amounts to waste of the country's human capital investment in terms of high public and private cost of educating these young people. Ghana is not only a youthful country but it is also becoming more educated and enlightened society. Unfortunately, however the educated ones are bearing the brunt of high rate of unemployment raising concerns about the quality and relevance of education and training relative to the needs of the economy.

The youth represent a particular opportunity and at the same time a challenge for development and security. On the positive side, young people constitute a potential resource for growth and development if they are gainfully and productively employed. On the other hand, they could also be a source of civil conflict and social tension if this untapped resource is poorly managed. Essentially, disaffected youth without education, employment or prospect of a meaningful future may fuel instability, migration, radicalization and violent conflict. With proper training, coupled with well-focused and inclusive economic policy and institutional environment, the youth bulge could be a powerful engine for development. Clearly, if such a large share of the population were to be productively employed, then a major part of the poverty reduction target would have been met. On the other hand, socio-political and economic instability and deterioration become a credible threat for the country if the youth employment challenge is not effectively addressed.

Employment is the interaction between the desire of firms to hire one's labour service and the willingness of individuals to offer their labour service. In effect, employment generation is a shared duty of the employer (public and private) and the prospective worker with the requisite skills and talent to offer. The government has a responsibility to enact relevant and appropriate policies and regulations to facilitate effective functioning of the interaction between labour and enterprises. In the context of developing countries including Ghana, an individual doubles as the consumer and supplier of labour service (i.e. self-employment).

In the 1960s and 1970s, the role of government in economic activity and employment creation was very paramount culminating in the rapid expansion of public sector employment relative to that of the private sector leading to a bloated and inefficient public sector. The engine of economic activities and employment creation shifted to the private sector four decades ago when the country entered into economic reforms and structural adjustment programme that emphasized market oriented and private sector led economic activities. While the country has witnessed impressive economic growth and relative macroeconomic stability during this period, particularly over the last two decades, the same cannot be said about employment generation. Indeed, employment growth has not kept pace with economic growth over the period culminating in high unemployment particularly among the youth. The question is where do we locate the private sector in this episode and what are the constraints facing the private sector in generating employment for the rising youth labour force?



## Youth Unemployment

**Y**outh unemployment constitutes a major socioeconomic challenge and security threat in the country. In 2017, an estimated 810,000 Ghanaians aged 15+ years were unemployed out of which about 625,000 (or 77.2%) were young people within 15-35 age bracket. Indeed, the youth are the most affected when it comes to unemployment to the extent that 12.4% youth labour force was unemployed in 2017 compared with the overall unemployment rate of 8.3%. The rate is higher at 19.3% among younger youth between 15 and 24 years, most of whom are new labour market entrants with limited or no labour market experience compared with 9.1% among the older youth group.

**Table 1: Youth Population and unemployment rates by sex and locality in 2017**

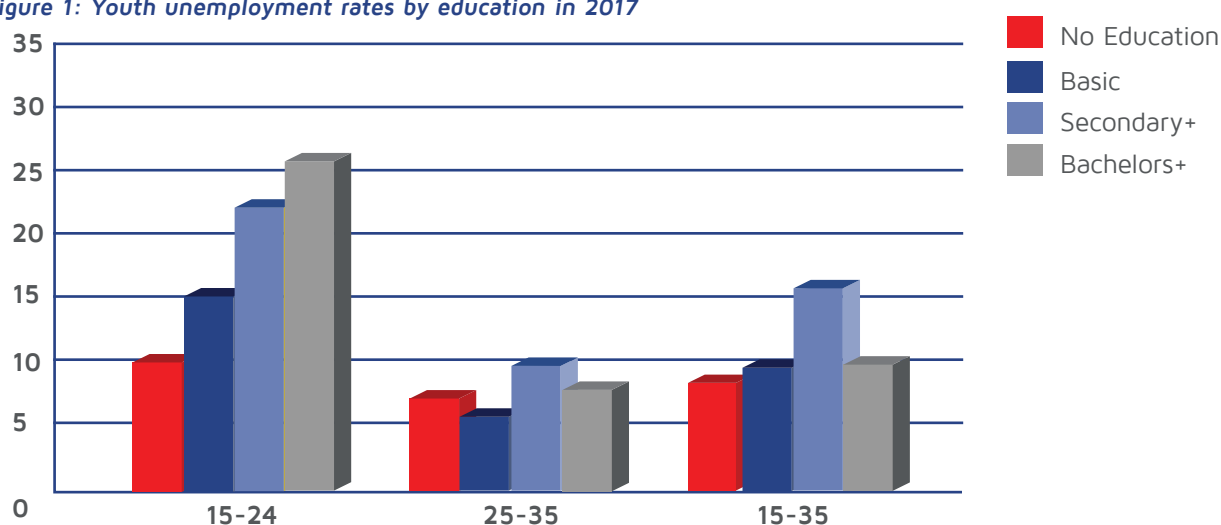
	15-24	25-35	15-35
Youth population (million)	5.48	4.44	9.92
Youth population (share %)	19.3	15.7	35.0
Unemployment rate (%)	19.6	9.1	12.4
Male	19.9	7.6	11.7
Female	19.3	10.5	13.1
Urban	24.8	10.8	15.6
Rural	13.8	6.3	9.7

**Source:** Computed by Author from the Ghana Living Standards Survey VII, 2016/17

The rate is higher in the urban than rural areas partly as a result of high informality in agriculture that masks the extent of the phenomenon. Essentially, migration of youth from rural to urban areas in search for hardly existing urban jobs, coupled with high incidence of informal rural agricultural activities as better option to unemployment largely explain urban-rural disparities of unemployment rates. Gender dimension suggests higher unemployment among females than males for all young people but the reverse is the case among younger youth group.

The youth particularly those in their teens and early 20s face specific challenges in accessing labour market opportunities, which have the effect of lowering their chances of finding decent jobs. Indeed, lack of experience of the youth in the labour market poses specific barriers to securing productive and better paying jobs and this even exacerbates their chances of getting jobs in subsequent years. Additionally, they also stand the highest chance of losing their jobs in times of economic downturn. Underutilization of skills of the youth does not only expose them to social exclusion but also has triggering effect on intergenerational poverty. The challenge facing these young people in securing quality jobs after school increases their vulnerability in society and makes them susceptible to social vices and source of conflicts and civil disorders. They are more likely to accept recruitment into fighting forces when they face high incidence of joblessness. Essentially, lack of employment opportunities may result in social conflicts such as violence and juvenile delinquency, which in turn incur high social cost. A comprehensive analysis of labor market challenges confronting the youth in Africa is required to find long-term antidote to it.

**Figure 1: Youth unemployment rates by education in 2017**



**Source:** 7<sup>th</sup> Rounds of Ghana Living Standards Survey (GLSS VII, 2016/2017)

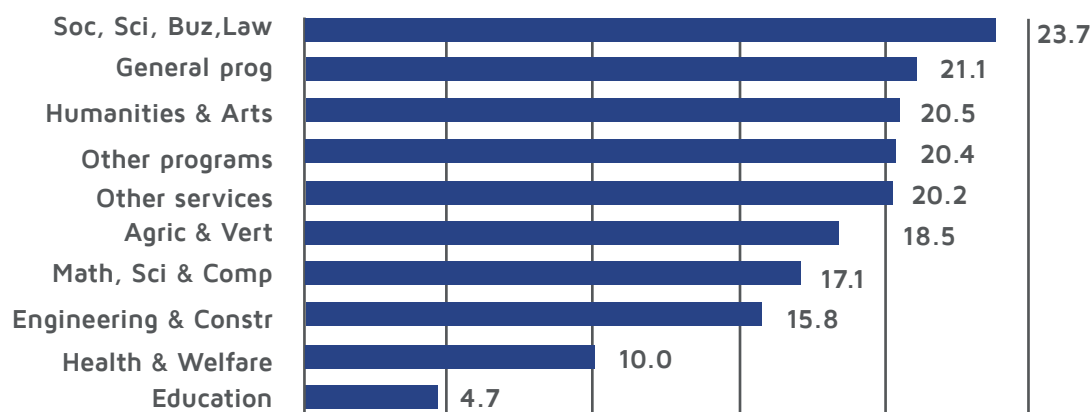
The educational dimension of the incidence of youth unemployment points to higher youth unemployment rate among the educated than the less educated (Figure 1). Thus higher youth unemployment rate is reported among those with secondary school education than those with no formal or basic education in 2017. This observation is linked to the fact that with limited access to formal sector employment, the less educated tends to take refuge in the informal sector where education is not a barrier to entry. Thus, young people with basic or no formal education have low unemployment rates because they have limited or no access to formal employment and clearly have no choice than to settle with informal agriculture and non-technical jobs which do not require any formal education. In contrast, the better-educated youth would always focus on the formal sector as the source of employment, as informal sector becomes unattractive employment destination to them. Given the limited employment openings in the formal sector relative to the number of people coming out of secondary and tertiary institutions, a larger army of educated youth is left unemployed. The higher youth unemployment rate among the educated youth underscores the need to focus on addressing the phenomenon of unemployment among this demographic group.

The programme of study in school relative to demand for expertise from those programmes constitutes a major source of educated youth unemployment. As reported in Figure 2, the rate is higher among the non-natural science (except education) than natural science graduates. Specifically, over 20% of young graduates in social science, business and law, general programme, humanities and arts, and other service programme is unemployed compared with 10-19.5% for the sciences (Figure 2).

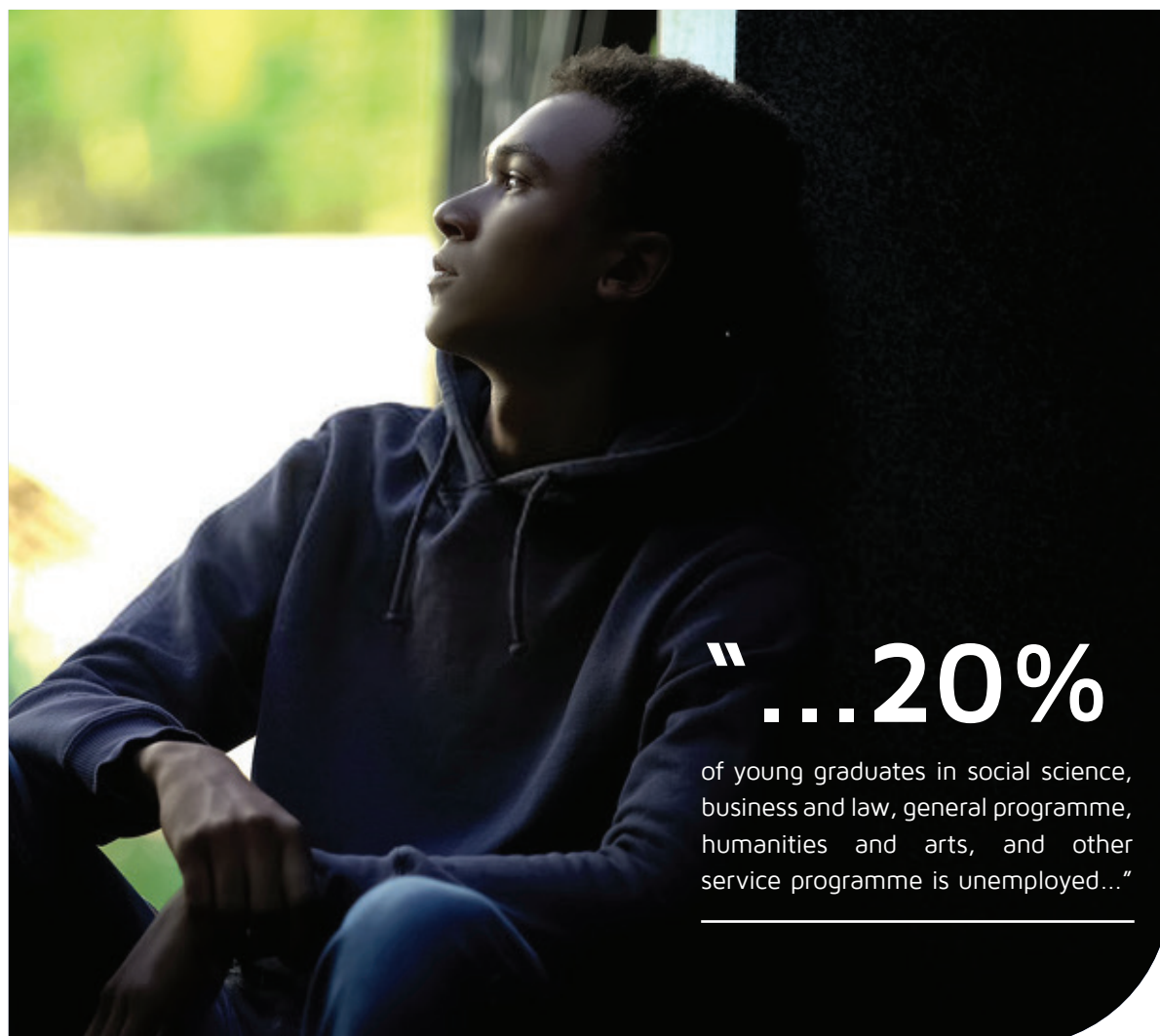


This is linked to the overproduction of skills in these areas (except agriculture) relative to the absorption capacity of such skills in the economy. On the other hand, lower rate of unemployment among those with skills in engineering relative to humanities and general program also relates to the fewer number of engineering graduates relative to the needs of the economy. Indeed, teacher trainees from educational institutions and medical doctors and other health trainees are readily absorbed by government right from school and this largely explains the lower unemployment rate among those with skills in education, health and welfare.

**Figure 2: Youth unemployment rates by programme of study in 2015(%)**



**Source:** Computed from the 2015 Ghana Labour Force Survey.





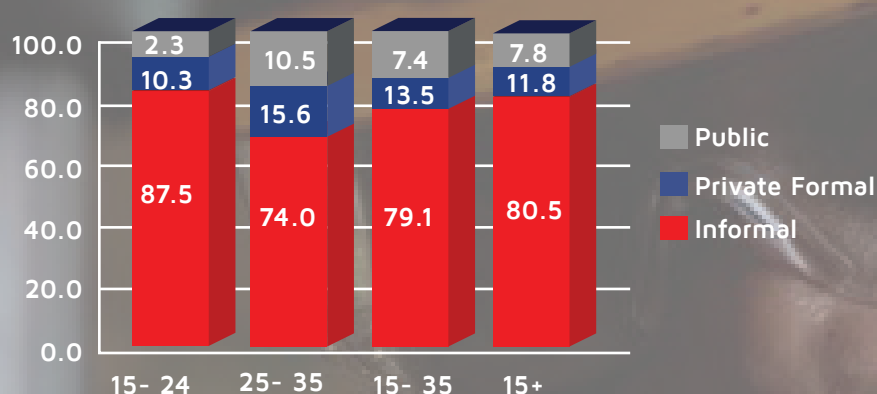
## Youth In The Private Sector

**T**he institutional sector of employment consists of the formal and the informal sectors. The formal sector comprises the public sector and the private formal sector. The informal activities are privately organised making the private segment of the labour market a major source of livelihood for Ghanaians. Indeed, the current economic management framework emphasizes the role of the private sector as engine of growth with government providing the enabling environment for the private sector, particularly the formal segment making it the main source of generation of productive and decent employment for young people.

Essentially, the private sector offers employment for 92% total workforce, with the chunk (80.5%) coming from the informal sector (Figure 3). The private sector constitutes the main source of employment for young people with the private sector performing better in terms of employment generation for the youth (13.5%) relative to all workers (11.8%). The older youth (25-35 years) benefited more from private formal sector employment than their counterparts in their teens and early 20s while the reverse is the case with employment in the informal sector.

Thus 15.6% of older youth compared to 10.3% of younger youth are engaged in private formal sector, which is the source of productive and decent employment in the private sector (Figure 2). On the other hand, about 88% of youth in their teens and early 20s compared to 74% of older youth are engaged in the informal sector which is noted for high rate of vulnerable employment, irregular earnings and lower job security.

Figure 3: Distribution of Youth employment by Institutional sector 2017 (%)



Source: 7<sup>th</sup> Rounds of Ghana Living Standards Survey (GLSS VII, 2016/2017)

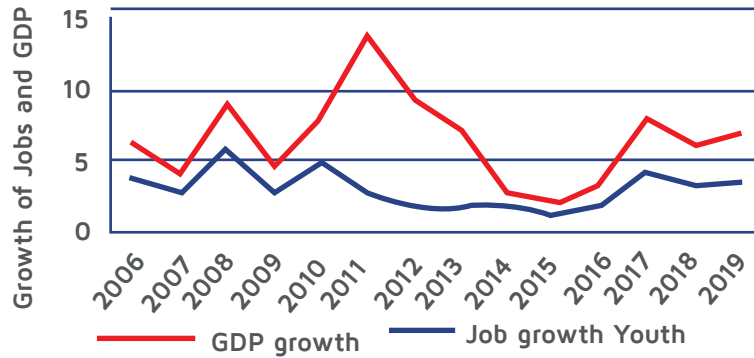
## Employment Growth Lags Behind Economic Growth

Generally the pattern and distribution of employment growth mirrors the activities in the real sector of the economy since demand for labour is a derived demand. However, employment growth has not kept pace with the speed of economic growth over the last few decades<sup>1</sup>. Over the last decade, job growth has lagged behind economic growth (Figure 4) indicating slow response of employment generation to economic growth. A widening gap between job growth and economic growth was quite pronounced over 2010 and 2013 when growth was largely driven by low employment generation extractive activities, particularly oil. Ghana commenced production of oil in 2011, which saw the country's growth peak at 14.0%.

The gap narrowed between 2014 and 2016 when economic growth slowed down as a result of abysmal growth performance of the extractive sector (i.e. oil, gas and mining). The gap opened up again from 2017 when extractive-driven growth reemerged. Thus, whilst the contribution of extractive sector (oil and mining) to overall growth is not in doubt, the same cannot be said of its direct employment generation effect.

<sup>1</sup> Baah-Boateng (2016)



**Figure 4:** Economic growth and job creation for the youth (%) 2006-2019

**Source:** Generated from National Accounts and GLSS, and Census dataset

The slow response of employment generation to strong economic growth has been linked to the sources of the growth over the period. Ghana's growth performance has been strong and robust over a period of more than two decades, accompanied by structural change from the dominance of agriculture to the dominance of services, with a dwindling manufacturing sector<sup>2</sup>.

Manufacturing, agriculture and tourism known to have high labour absorption have been performing poorly in terms of growth. The problem of unstable macroeconomic environment culminating in high cost of credit, erratic supply of power and general infrastructural bottlenecks, and general high cost of doing business in the country have constraining effect on enterprise expansion and employment generating effort.

In contrast, the extractive sector (mining and oil) and financial intermediation considered to have low labour absorption have been the key drivers of growth culminating in low employment response to economic growth in the country. Thus, Ghana's economic growth has largely been driven by the low direct employment generating sectors of mining and oil extraction as against slower growth in high labour absorption sectors, particularly manufacturing. In effect, employment generation challenge through slow job creation response to growth affects the youth more than adults as evident in high unemployment rates, largely on account of their limited labour market experience and social capital.

<sup>2</sup> Aryeetey and Baah-Boateng (2015)





## Constraints to Private Sector Growth and Employment Generation

The private sector remains the key source of economic growth and employment generation for the growing young people. Nonetheless, the sector continues to battle with a number of operational and regulatory challenges, which constrain the growth and development of the sector. These challenges include but not limited to

Macroeconomic challenges – even though the country has made some gains in terms of macroeconomic stability with rate of inflation at single digit over the last 12 months, high lending rate and exchange rate depreciation continues to hamper the operations of the private sector. Domestic borrowing of government ostensibly to finance chronic fiscal deficit has largely crowded out private sector from the borrowing market.

Infrastructural bottlenecks –

- poor road and absence of railway network.
- (until recently) high cost and unstable supply of power.
- water supply challenges, poor communication network and internet connectivity.

Inadequate supply of inputs (raw materials and capital inputs) particularly for manufacturing related to poor linkage with agriculture.

Regulatory challenges – high and numerous but uncoordinated taxes and levies and business registration challenges.

Poor quality of youth labour and concerns of skill mismatch. The ability of employers to engage the rising number of educated youth entering the labour market annually is not only premised on the constrained facing their enterprises in the effort to expand but also the difficulty in getting the right skills to recruit.

- Few STEM graduates against over production of Humanities graduates.
- Training approach and content not in line with job market requirements.
- TVET Training not helping the youth employment challenges either.

Absence of efficient labour market information system (LMIS) to bring jobseekers and prospective employers together.

High expectation of young people relative to job market reality

### Point for deliberation and action

The fight against youth unemployment and low quality of employment in Ghana requires a collective effort of government, private sector, academic and training institutions, civil society organisations (CSOs), Development partners and the youth themselves. Every stakeholder in the economic and labour market space has a role to play in the war against youth joblessness and low quality of youth employment in the country. What roles and actions are required by stakeholders to confront the chronic youth unemployment challenges in the country?

### **The Private Sector**

The private sector is touted as the engine of growth and if the engine is well lubricated would produce the best outcome by driving economic growth and generating the quality employment the youth are yearning for. Essentially, the private sector is the best source of sustainable employment for young people and also provides opportunity for the youth to develop themselves to be productive and useful citizens.

- What are the key constraints facing the private sector in employment generation?
- Do young people have the requisite skills and talent to meet the expectations of private employers?
- What complementary role is required by the private sector in getting young people ready for the employment market?
- What is the relevance of internship in getting young people well prepared for the employment market and does Ghana have adequate internship space for numerous young people?



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