STUDY

LABOUR AND SOCIAL JUSTICE

# AFRICA'S EMPLOYMENT CHALLENGES

## The Ever-Widening Gaps

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The employment situation in sub-Saharan Africa is deteriorating. It is unlikely that Africa's economic growth alone will create the necessary jobs. The impending job crisis can no longer be resolved with traditional methods which have failed to live up to expectations.

This study analyses recent trends, debates and successful and unsuccessful attempts to address the increasingly difficult employment challenges in sub-Saharan Africa. It shows that there is a pressing need for a new endogenous economic policy in Africa. Employment opportunities must be improved through industrialisation, urban-rural linkages and by connecting foreign investment and local entrepreneurship.

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ECONOMY AND FINANCE

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# Executive Summary

Climate change is engulfing Africa and compounding the already widespread poverty and employment crises. Everywhere, proposals are made for how to eradicate poverty and employment problems through growth, a better business environment, foreign direct investment (FDI) or hydropower. But some of these approaches fail the reality test. The model whereby high growth, increasing per capita incomes and the rise of a low-income country (LIC) to a middle-income country (MIC) goes hand in hand with more and better jobs has not proven to be viable in Africa. There is no sign of improvement in the labour markets – on the contrary, in fact. Job opportunities are lacking for a large part of the population and social challenges on the continent are on the rise.

This study looks at employment trends in sub-Saharan Africa in four chapters. First, it examines the main factors influencing the employment situation. These include population growth, unemployment (including youth and women), rural employment, and job creation through FDI, value chains, digitalisation and the green economy. The report also outlines the changing urban trends in the transformation process, which are accompanied by an expansion of the informal economy and an increase in informal employment. The study then goes on to discuss the policy interventions and programmes that have been pursued to promote employment so far, before concluding with a summary of the main findings and strategies for employment reform.

The Covid-19 pandemic that descended on the world in 2020 highlights how fragile the situation is for the majority of people in sub-Saharan Africa (SSA). There have been some achievements in poverty reduction over the last few years. Relative poverty has declined, but absolute numbers are still skyrocketing. More and more Africans are falling into poverty and lack decent jobs. The trends since 2000 show how the situation has changed for the overwhelming majority of the population. First, there is the extremely high population growth. Africa's population is expected to grow by an average of 2.2 per cent every year until the 2060s (and by as much as 2.5 per cent by 2040). Population growth in cities also remains very high and the majority of Africans are forecast to be living in urban areas over the next three to four decades. In view of these developments, the decoupling of economic growth from employment growth over the past 15 years has exacerbated the situation on the labour market. A one per cent increase in economic growth brought employment growth of only 0.4 per cent on the continent. This means that economic growth alone will not solve Africa's employment problems. At the same time, employment growth was 1.8 per cent per year, but the labour force grew by three per cent. The labour force in SSA is expected to increase from 620 million at present to two billion by 2060. The majority of Africans are forced to make their living in the informal sectors and in agriculture. In most countries, jobless growth and growth with an increase in informality is the norm.

The result of these delinkages is that only 17 per cent of employed people are wage workers. Not even five per cent of new labour market entrants can find jobs in the formal sectors. Only 20 per cent of all workers have permanent, paid jobs in the private sector and public services. The vast majority of people find work in agriculture (50 per cent) and the service sector (35 per cent), with only 15 per cent of all jobs being provided by industry. A total of 70 per cent of workers are vulnerable, about one-quarter of those who do work remain poor (working poor), and as many as 35–38 per cent of Africans are classified as extreme working poor (living below the 1.90 US dollars/day poverty line).

The number of jobseekers on the continent is increasing significantly and all efforts so far have failed to create enough jobs for young people. Every year, 20 million young people enter the labour market, but very few of them currently have a chance of finding a formal job. A small number of well-educated young people in the capital cities, in the industrial zones and in start-up companies, with access to the Internet, can put a value on their education. The rest end up in informal and precarious jobs – in the continuously expanding stagnant zones. Young people are often in unpaid work, whether as apprentices or as helpers in family households. The situation for female youth, who are even worse off than male youth, is particularly serious. Young women have even fewer opportunities in the formal labour market and therefore largely work in the informal sector.

The situation of youth is particularly clearly illustrated by the NEET (not in education, employment or training) trends. In MICs, for instance, NEET has risen to 30 per cent, while in LICs it is less than 20 per cent. Contrary to all assumptions, even as the wealth levels of SSA countries rise – that is, as an LIC moves up into the MIC category with increased average per capita incomes – fewer and fewer young people are finding paid jobs.

It is often argued that the better educated are more likely to find work because of the increasing demand for skilled labour in the industrial and service sectors of urban centres. To some extent, this is true. Some can expect well-paid jobs in public administration, in the big companies, in the start-ups or even in the companies that are part of global value chains (GVCs). But the absolute number of young people in this kind of work and their share in the total workforce remain low, as SMEs barely grow and have little demand for labour. Similarly, large companies also generate little demand for labour, and the state, which often pays higher salaries than the private sector, does not tend to hire young people. The vast majority of better-educated youth end up working in the stagnant zones of agriculture, the informal sectors and the less dynamic small and medium-sized towns.

Growth- and employment-enhancing effects of FDI result from productivity spillovers to domestic firms and from direct employment. For example, over the 2003–2014 period, just 650,000 jobs were created in manufacturing (including North Africa), 280,000 in services, 160,000 in high-tech sectors and 220,000 in extractive sectors. The majority of these jobs were in a small number of MICs. Between 2014 and 2018, less than 100,000 workers per year were hired by foreign companies in SSA. On average, all foreign investors combined create just 2.8 jobs per one million US dollars invested. Chinese and European investors operate mainly in agriculture and in small enclaves in the extractive and energy sectors. The latter are capital-intensive and resource-intensive investments that do not make a substantial contribution to job growth. In addition, jobs have been lost through disinvestment as foreign companies began to withdraw from the region. Increasingly, FDI also has to be higher to generate jobs. It is particularly striking that investors from China, India, Turkey, Europe, the USA, etc. rely on wage dumping by exploiting SSA's economic weaknesses.

The focus on resource investment has contributed to deindustrialisation and a shortage of jobs. That is, resource allocation was concentrated in capital-intensive sectors that brought in foreign exchange, thus favouring rent-seeking political and economic choices by African economic and political elites. High wages were paid in extractive sectors and states generated relatively high revenues and were thus able to provide large salaries to those working in public administrations. The focus on capital-intensive investment went hand in hand with the expansion of unlimited labour supply and the lack of employment opportunities for the majority of African workers. The number of job-seekers is on the rise, but the number of available jobs is diminishing because foreign investments hire very few job-seekers. Hence, there is no clear correlation between rising FDI and additional jobs. This situation will become even more pronounced, as technological developments and the tendency of FDI to target large investments mean achieving greater employment successes per sum of foreign investment is unlikely to be possible in the future.

Chinese investment has not yet proven to be a benefit to the labour market. The Chinese government's promises that 100 million jobs would be created by Chinese FDI lacked any basis. Like all other investors, China has primarily been interested in raw materials and energy as well as access to markets. These capital-intensive investments have not generated a boost in employment. Chinese capital investments create just 1.9 new jobs for every one million US dollars invested (compared to German investment creating 4.6 new jobs). Moreover, China has in fact contributed to the decline of African industries through cheap exports (including textile industries in several African countries). Now, because wages are rising in China, Chinese investment is also expected to contribute to the development of industries in Africa. The reality is different, however. Chinese FDI has not even created 200,000 jobs in SSA (2014–2018).

Global value chains (GVCs) have entered manufacturing, services and agriculture. Many African exports are controlled by key enterprises in GVCs, which also act as conduits for new technologies. In principle, GVCs can benefit SSA by facilitating African firms' access to global markets. They act as subcontractors and take over certain tasks in the value chain. This has increased the number of jobs generated by African industrial firms in GVCs. But exports and GVC activities create very few jobs.

Many international organisations are of the opinion that automation, robotisation and digitalisation (Industry 4.0) can have a positive impact on the African labour market if Africa succeeds in implementing the technological transformation locally. The new technologies open up opportunities for SSA's economic development, but even if they are effectively translated into action, they are still not employment intensive. They can lead to an increase in demand for and trade in new products and make production more efficient, which contributes to an increase production and exports and consequently increases the demand for labour. But the new technologies can also lead to labour substitution in traditional labour-intensive (routine) manufacturing and destroy jobs. Especially at the stage when some countries want to industrialise and establish themselves in GVCs, the pressure of the new technologies can destroy hopes for more jobs in the modern sectors.

Most of the latest technologies imply that the benefits of low wages in manufacturing also tend to be diminished. Newer technologies make factor substitution more difficult, especially for firms whose production is integrated into GVCs. This is due to the high accuracy and quality standards associated with these technologies. Global value chains also imply a shift in the control over the production environment from local governments, producers and consumers to international firms, resulting in local firms becoming more dependent on the standards of global corporations. As production standards become more exacting, leading to the transfer of technology and knowledge, unskilled labour tends to be less in demand.

Traditionally, unskilled labour has been the most important input in African value chains. Factories that produced simple consumer goods, clothing, toys or food also hired workers who had few manual skills. Therefore, labour-intensive manufacturing was particularly suitable and could have expanded without encountering supply-side bottlenecks. It was thus possible to boost labour-intensive production even with very poor starting conditions. Many Asian countries have done this too. But the new technologies reduce these supposed comparative advantages. Recent trends in manufacturing technology do not entirely bode well for Africa. Automation, robotics and 3D printing are all labour saving, allowing simple consumer goods to be produced cheaply by robots. They increase the demand for skilled labour and reduce it for unskilled labour. Hence, there is a danger that production facilities in SSA will not even be established in the first place, or will move out of Africa to China, Europe, etc. again. Numerous companies have reduced their investment, including those from Lesotho, South Africa and Nigeria, because they can produce more cost effectively in Eastern Europa and South East Asia, por example.

The digital revolution is also deepening geographical divides. Rural areas and small towns are falling behind in the digitalisation process, while small technology hubs with companies providing jobs for the highly skilled are emerging in the economic centres. The ›globotic transformation‹ is most likely to increase opportunities for those who are already benefitting from the globalisation process. But technological change has significantly diminished these benefits.

African institutions believe that the implementation of the African Continental Free Trade Area (AfCFTA) could increase employment opportunities and wages. Projections show that average gross domestic product (GDP) and job demand would grow by up to one per cent annually. This could create more than two million new jobs, according to UNECA. Real wages could also increase across the board, for both skilled and unskilled workers. A crucial precondition for this would be that African firms, which will face greater competition in the AfCFTA, are also able to serve the expanded markets. In all likelihood, companies from China, Europe, the US and emerging economies will also exploit their comparative advantages and capture the potential of the now larger and more open market.

For many decades now, the human impact of climate change has become increasingly apparent in SSA. SSA is one of the most vulnerable regions to climatic shocks, mainly due to the negative impact of climate change on African agriculture. The World Bank estimates that millions of people in SSA are at risk of falling back into poverty as a direct result of climate change. Africa faces collateral damage that poses systemic risks to its economies, infrastructure investments, water and food systems, public health, agriculture and livelihoods, threatening to reverse development gains.

The economics of outward-looking activities and trade asymmetry is a distinct feature of resource-rich countries. Multinational companies dominate in MICs. Their capital-intensive investments create barely any jobs, but they shape developments in these countries, to such an extent that Dutch disease effects often occur. These distort economies, weaken agricultural production, lead to greater dependence on imports, restrict local financial markets and stand in the way of endogenous and industrial development. Not only do MICs find themselves in a middle-income trap, but their development trends make it clear that the labour markets are not improving. Unemployment is high and at the same time informal employment is increasing with the growing share of poor people. This includes not only urban informal poverty, but especially rural informal poverty, which affects women and youth to a greater extent. This structural heterogeneity must be overcome in order to sustainably alleviate the situation on the labour markets. Overall, the region is seeing an expansion of stagnant zones, in which a large part of the population is informally employed and facing precarious living conditions. Stagnant zones and prosperous zones are diverging because of the model of extraversion and the rent-seeking orientation of the economic and political elites. Inequality is thus on the rise.

Precisely because economic growth is decoupled from employment growth and because populations are growing rapidly – and only weak counter-trends are discernible – these processes will deepen and bring mass poverty in their wake. If the strategies that have been pursued for many years (»growth is good for the poor«; »getting the institutions right«; »market orientation and export-driven growth«) are continued, inequalities in income and employment will deepen further, leaving only small islands of globally integrated economic production with few highly skilled jobs in the metropolitan areas and economic centres.

After 40 years of supply-oriented strategies and reforms focusing on education without addressing the demand side of labour, it is time for a rethink. This study therefore also addresses the potential employment effects that arise from the development of local enterprises. Neither pro-poor growth nor inclusive growth are capable of solving the employment crises. They rely on trickle-down effects instead of tackling the problem where employment is created: on farms, in small and medium-sized enterprises, in trade, in the service sector and in industry. The complexity of development processes does not allow for simple solutions. No one can say where millions of decent jobs could come from. It is also clear that employment measures are particularly difficult to implement. Overly simple solutions and overly optimistic expectations are not the right tools for the job. We are a long way from being able to offer adequate solutions, especially since, despite high economic growth and the emergence of vibrant industrial and service sectors in urban centres, employment problems have increased rather than diminished over the past 20 years.

## REFORMS

What is needed is a new discussion on economic policy in Africa that will overturn the current growth model and deconstruct misleading promises. It would be reckless to cling to the illusion that higher growth, low wages and higher financial flows will solve the employment crisis.

Reform must be geared towards the future of work in SSA, towards creating options for decent work. It must be about more and better employment opportunities, as well as the appropriate regulatory measures to alleviate the major social crises of poverty and informal work. It is imperative to improve employment opportunities through endogenous development, through national and regional development strategies, through the advancement of enterprises and farms that are currently prevented from growing by lack of support or even marginalisation. Reform is also about reducing privileges for foreign companies. In almost every country in SSA, foreign companies are offered better conditions than domestic ones, e. g. in terms of taxation and access to finance and the Internet. In view of the deepening employment crisis, an issue the region has been facing for years, a U-turn is vital, a new beginning of the essence. For a long time, international organisations, such as the ILO or the FAO, lobby groups, trade unions, NGOs, the United Nations Economic Commission for Africa and the African Development Bank (AfDB), to name just a few, have been calling for more attention to be paid to the serious employment problems the region is facing. Not only in Africa itself, but also in Europe, in the USA and in China, there must be a rethink, as it is precisely these countries that are exacerbating the region's employment crises through their investment activities. The Washington and Geneva institutions are also in need of a wake-up call, and it is up to the governments in Washington, Paris, London, Beijing and Berlin, in Addis Ababa, Johannesburg and Abuja, the development organisations, the civil societies and the business associations to push them to act.

Industrialisation concepts, SME promotion, training measures etc. are therefore important measures to help address the growing employment crisis. That said, many of these concepts should be treated with caution, as they have not have a successful track record. Many industrialisation plans failed, and special economic zones (SEZs) were also largely only moderately successful. Fresh ideas are needed. Some of the key areas that new concepts must address include the connectivity problem in cities, urban-rural linkages, connections between local and international enterprises and closer cooperation between of vocational training institutions and enterprises. Particular attention needs to be paid to structural change in rural areas, as this is where the majority of the poor and informally employed live and work.

– A new multilateral agenda is needed to support Africa's efforts at the global level. Multilateralism that is fit for the 21st century must prioritise the welfare of the poorest, help create decent jobs for several hundred million people and eliminate precarious and vulnerable work. The 2015 Paris Agreement requires the international community to contribute to climate change mitigation, economic performance and adaptation to the inevitable impacts of climate change. A total of 100 billion US dollars is to be allocated to contribute to reducing greenhouse gases, transforming energy systems, transitioning to climate-friendly development models and addressing unavoidable damage and loss due to climate change.

– Fair trade relations, codes of conduct for companies, ending wage undercutting and strengthening African integration efforts can help alleviate the major employment crisis on the continent. In order to have a realistic chance of achieving this goal, civil societies and trade unions need to be more involved in global governance processes. Global governance must go beyond the exclusive clubs of governments, regulators and technocrats.

– FDI and GVCs feature prominently in the discussions and therefore deserve closer attention. It is essential that local entrepreneurs are integrated into GVCs to create more jobs and employment opportunities for the large number of unskilled workers. However, it is also important to increase specialisation in better-skilled activities along the value chain to boost productivity. Endogenous development is promoted when enterprises become part of GVCs as subcontractors, employing as many relatively low-skilled workers at fair wages as possible. Upgrading local industry can become an important source of productivity growth and contribute to the creation of more productive and better-paid jobs. Incentive schemes and measures seeking to deepen linkages between key actors in GVCs and local SMEs, between farmers and urban consumers, and between FDI and local firms are particularly effective. Backward linkages between key actors in GVCs and local businesses enable knowledge and technology transfer and create jobs for skilled workers.

– On the supply side, in terms of digitalisation, better regulatory frameworks should be put in place to foster competition and address existing market imperfections. At the same time, in addition to improving telecommunications infrastructure, major efforts must be made to improve access to electricity, transport and water in rural and urban areas. New digitalisation strategies can help reduce spatial and social inequalities and promote the introduction of digital solutions in the non-digital economy and the diffusion of digital innovations beyond the major cities.

– Not all agricultural job transformation strategies are equally effective in reducing poverty. To harness agricultural employment potential, the sector needs to move towards market-oriented and integrated food systems. One promising approach is to increase the labour productivity of the more commercially oriented smallholder farmers. Targeting this group can be an effective strategy as not all smallholders are equally capable of adopting new technologies, marketing their staple foods and adapting their production to changing urban consumer demand.

– Local demand for jobs can be stimulated by companies increasing their foreign exports. Another option is to substitute imports (textile, apparel, simple consumer goods, food). Given the supply of cheap imports of products and services from China, India and even neighbouring countries, this path seems difficult, but not impossible. Support measures would be required to enable companies to shift production to higher-quality goods and services. This path is necessary, but fraught with obstacles, not least the limited (management) skills of companies and the constraints most of them face.

– Many experts recommend two-track strategies which, in addition to promoting the modern corporate sector, simultaneously increase the productivity and income of informal microenterprises and farms. SMEs, farmers and also workers can benefit from the targeted support for certain economic sectors and the associated value added in local supply chains. This includes strengthening supply relationships and knowledge transfer between foreign investors and local enterprises and the modern and informal economies, as well as bolstering public employment programmes.

This study emphasises that SSA needs an accelerated and climate-friendly economic transformation to create more and better jobs. The first step of the transformation is sectoral reallocation of resources, which increases productivity by shifting resources from less efficient to more productive activities. The second step involves spatial integration policies that redistribute resources through improved rural-urban integration, regional (inland and coastal) connectivity and by creating cities that promote production in tradable industrial and service sectors.

Those who see solutions as being primarily rooted in urbanisation are ignoring the immense problems of the development of rural areas, where the majority of the poor live, and the importance of the informal sector, where the lion's share of the population work. They are also neglecting to consider the particularly serious and growing issue of youth and female unemployment. Of course, strategies to develop smart-tech / high-tech service industries, industries without smokestacks, green industry or even simple latecomer industrialisation are also important. They satisfy consumer demand, while at the same time boosting productivity and also providing jobs for the better educated. But they are not a panacea for the problems in the labour market.

In light of the polarisation we are witnessing, new employment initiatives, new ideas and a better understanding of emerging trends are needed. There are three major challenges here.

1. The number of jobseekers will continue to rise sharply in the coming decades. Worryingly, developments since 2000 tend to offer less hope for improvements in the labour market. Almost all indicators point to a deterioration of the current situation.

2. The previous growth model of jobless growth and growth with increasing informality is exacerbating the situation on the labour markets. It is time to reverse the trend towards greater inequality and worsening employment for the overwhelming majority of Africans.

3. The climate crisis is exacerbating employment problems on the continent. Measures to combat the consequences of climate change must therefore be set in motion, especially in combination with steps to tackle the job situation.

# 1

# INTRODUCTION

With regard to the severe employment crisis and the economic policies on the African continent, the only possible course of action now is a radical political wake-up call. Business as usual is no longer an option. The situation for African populations is deteriorating, and not only since the pandemic, although this did, of course, lead to a dramatic decline in people's circumstances. Poverty and unemployment are increasing significantly in many parts of Africa. More and more people find themselves in precarious social conditions. A deep employment crisis is unfolding on the continent that can no longer be resolved with the old methods. A fundamental review is necessary. Unconventional measures will have to be set in motion – by African governments, by companies, through the cooperation of trade unions with state institutions and through the participation of civil societies.

In today's Africa, it appears unlikely that economic growth alone will create the necessary jobs. Fundamental changes are needed, as are mitigating measures to tackle the increasingly difficult employment challenges. Even inclusive growth is not enough. Urgent action needs to be taken to promote more employment and wage growth. The trend towards lower-paid and low-quality jobs must be discouraged. Governments must realign their strategies to build social safety nets, protect workers and introduce robust regulations that put work back at the heart of their activities. The jobs crisis is worsening. The strategy pursued by African governments and international organisations of offering unfair incentives to big business and foreign investors and the distortions caused by focusing on commodity production, while at the same time disadvantaging agriculture, small farmers, rural workers and local SMEs, is a major failure. It is becoming increasingly obvious, not least due to the ramifications of the pandemic, that tinkering around the edges of the challenges posed by Africa's great transformation is no longer a fitting response.

The huge challenges on the African labour market can be characterised by four main structural features: a high degree of informal work, the predominance of agricultural work, low-productivity, low-quality employment, and underemployment. Only a small share of the working population are wage workers and salaried employees; most are self-employed in family farms or households.

By 2050, Africa will be home to 25 per cent of the world's workforce. Yet, there is no guarantee that those workers – especially the growing share of young people among them – will be employed, let alone in decent jobs. Unemployment, underemployment, informal employment and vulnerable employment are the biggest social challenges in sub-Saharan Africa (SSA). They eclipse all other problems. And it is clear from this analysis that the underlying challenges are on an upward trajectory, as population growth remains high, and poverty and unemployment are rising. In 2013, the World Bank reported that there would be ten million new entrants to the labour force every year. Now, almost ten years later, other institutions have reported that every year there are at least 20 million young people looking for work.[1] High employment growth is needed to cope with population growth. A country that illustrates the huge discrepancy between job supply and demand is Uganda: 400,000 young Ugandans enter the job market to compete for approximately 52,000 available formal jobs every year.

A number of years ago, the World Bank, Western governments and civil society increasingly began to focus their discussions on what they referred to as the »demographic dividend«, which was essentially tantamount to an evasion strategy. The elements of this were, for example the African non-employed labour force providing labour for the job market in the ageing societies of Europe, China, Japan, the USA, etc. To this day, policymakers are talking about the labour dividend as if it were a panacea for the continent's employment problems. This paper is therefore not about sweeping problems under the carpet but about facing the major challenges of the worsening situation in the sub-Saharan labour markets head on.

The paper seeks to ascertain how the employment situation in Africa has developed since then and to what extent the view of many scholars and key institutions that unemployment, underemployment and poverty are the most pressing problems has been taken seriously.

1 World Bank (2013): *World Development Report 2013*. Washington, D.C.: World Bank; ILO (2020b): *Report on Employment in Africa (Re-Africa).* Geneva: ILO; available at: https://www.ilo.org/africa/information-resources/publications/WCMS_753300/lang--en/index.htm.

Numerous international organisations and experts have emphasised how much the employment crisis could worsen. Moreover, technological change combined with the continuing high population growth in most countries could further increase the pressure on the labour markets. A spiral of external and internal causal chains risks creating social crises, and social unrest cannot be ruled out. Many people are ready to migrate – mainly within Africa. A spiral of mutually reinforcing developments make the huge challenges Africa is facing all too clear: the climate crisis, the consequences of the pandemic, the challenges of globalisation, growing protectionism, the continent's asymmetric trade integration and, above all, the technological revolutions pose the most serious risks to African societies.

Policy leaders take decisions and a raft of publications analyse developments and provide recommendations.[2] They talk about the promotion of small and medium-sized enterprises (SMEs), integration in value chains, promotion of the informal sector, jobs for women, eradicating rural poverty, providing vocational training and green jobs, as well as the opportunities opened up by digitalisation. African debates are diverse, they are oriented towards opportunities on the ground, they criticise the weaknesses of government policies and highlight strengths and dynamics. Some approaches adopted by Washington, Brussels and Beijing have been far less successful than expected, and some promising trends, such as the emphasis on financial flows for Africa's development, or the purported benefits of large-scale investment, or the construction of huge dams and, more recently, digitalisation, have ultimately ended up reinforcing social inequalities. Overall, it can be argued that the focus on GDP growth has not led to the much-vaunted breakthrough for Africa.

To make matters worse, many of the crisis-ridden African countries do not have the resources to manage the necessary structural change. This illustrates just how difficult it is to catch up when reforms have been lagging. The extent to which external actors can contribute to alleviating the major social crises must now be questioned more than ever. A considerable share of the blame for the deepening social crises on the continent must be shouldered by certain foreign companies, such as multinational corporations by illegally transferring their profits,[3] by focusing FDI on commodity sectors, by not linking their economic activities with local entrepreneurship, by putting pressure on wages and preventing the payment of a minimum wage, and by undermining international standards. Ultimately, many governments have failed to curb these practices. Moreover, previous strategies – such as those of the Washington Consensus or the G20 agenda's Compact with Africa, to name just two – have placed more emphasis on conventional agendas that exacerbate rather than alleviate the continent's problems.

The rest of this paper will be structured as follows: Chapter 2 comprises conceptual discussions, Chapter 3 describes the main employment trends and changes in African labour markets and shows how different the challenges of tackling underemployment, unemployment, informal labour market problems, rural and urban underemployment, and the particular situation of youth and women workers are. Chapter 4 addresses various policy interventions and support programmes, and the final chapter presents the main findings of the study.

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2 For basic appraisals, see, among others Cilliers, Jakkie (2021): *The Future of Africa. Cham: Palgrave, Macmillan*; Lopes, Carlos (2019): *Africa in Transformation.* Cham: Palgrave, Macmillan.

3 See UNCTAD (2020): Africa Could Gain 89 Billion dollars Annually by Curbing Illicit Financial Flows. Geneva: UNCTAD (28.9.2020); available at: https://unctad.org/news/africa-could-gain-89-billion-annually-curbing-illicit-financial-flows.

# 2

# ENTERPRISE DEVELOPMENT AND EMPLOYMENT: THE DEBATE

The study begins by illustrating the relationship between employment, labour market development, informal work, SMEs and private sector development. At the outset, the study characterises these different employment contexts in a schematic way, making clear that the dynamics of enterprise development for labour market growth are influenced by various trends. In this respect, the study also looks at the overall labour market and employment environment.

The discussion on employment in Africa is extensive. This study will only look at some of the discourses with a view to better understanding how employment and unemployment in SSA are developing. In order to fathom the direction in which developments are heading, a closer examination of the transformation processes as well as the special role of informal work and self-employment is beneficial. McMillan, Rodrik and Verduzco-Gallo (2014)[4] argued that there has been a shift from relatively unproductive labour in agriculture to relatively unproductive labour in the informal service sector. In their view, it seems likely that informalisation may become even more pronounced in the future. A growing literature has examined the extent of heterogeneity in informal work. The model developed by Danquah, Schotte and Sen best represents the complexity of the African labour market.[5] The model distinguishes between formal and informal employment, and between ›upper-tier‹ and ›lower-tier‹ informality, with earnings being significantly higher in upper-tier informal activities than in lower-tier, and highest of all in formal work. They show high persistence of informality, where self-employed workers, in particular, tend to remain locked in a situation of inferior pay and conditions.

Closely linked to labour categories are enterprise categories. Numerous studies have shown that entrepreneurship is diverse and constrained. Of particular interest is the dynamic between the informal sector and the respective labour activities. Some studies illustrate that there could also be a ›missing middle‹ with smaller, less productive firms coexisting with a set of more productive, yet constrained firms.[6] However, not only is there a missing middle, there is also only a very small number of large African enterprises with very few jobs. The large enterprises are usually more productive and more likely to hire better-qualified workers, who are essential for a growth and employment surge.[7] To provide a more detailed picture of the transformation process in SSA and of African enterprise sectors, we distinguish between the modern sector, which comprises large-scale industry, the informal sector, and the survival economy in both rural and urban areas. Graph 2 displays this categorisation combined with the following approaches to classification and, through the direction of the arrow, shows the potential of the firms to integrate into the formal sector. The typology in Table 1 illustrates this differentiation.

4 McMillan, Margaret, Dani Rodrik and Íñigo Verduzco-Gallo (2014): Globalization, Structural Change, and Productivity Growth, with an Update on Africa, in: *World Development* 63: 11–32.

5 Danquah, Michael, Simone Schotte and Kunal Sen (2019): Informal work in sub-Saharan Africa. Dead end or steppingstone?. Helsinki: *WIDER Working Paper* 2019/107; available at: https://www.wider.unu.edu/publication/informal-work-sub-saharan-africa. See Grimm, Michael, Pieter Knorringa and Jann Lay (2012): Constrained Gazelles: High Potentials in West Africa's Informal Economy, in: *World Development* 40, 7: 1352–68; La Porta, Rafael and Andrei Shleifer (2014): Informality and Development, in: *Journal of Economic Perspectives* 28, 3: 109–26; Banerjee, Abhijit V. and Esther Duflo (2008): What is Middle Class about the Middle Classes around the World?, in: *The Journal of Economic Perspectives* 22, 2: 3–28; Charmes, Jacques (2014): The Informal Economy Worldwide: Trends and Characteristics, in: *The Journal of Applied Economic Research* 6, 2: 103–32.

6 Gelb, Alan, Christian J. Meyer and Vijaya Ramachandran (2014): Development as Diffusion: Manufacturing Productivity and Sub-Saharan Africa's Missing Middle. *Working Paper* 357, Center for Global Development. Washington, D.C.; available at: http://www.cgdev.org/sites/default/files/development-diffusion-market-productivity_final.pdf; Kappel, Robert (2016): *Rise of the »African Mittelstand«*. Hamburg: GIGA Focus Africa 5; available at: https://www.giga-hamburg.de/en/system/files/publications/gf_afrika_1605.pdf; Wohlmuth, Karl and Oluyele Akinkugbe (2019): Middle Class Growth And Entrepreneurship Development In Africa, in: *Journal of European Economy* 18, 1: 94–139.

7 Ciani, Andrea, Marie Caitriona Hyland, Nona Karalashvili, Jennifer L. Keller, Alexandros Ragoussis and Trang Thu Tran (2020): *Making It Big. Why Developing Countries Need More Large Firms.* Washington, D.C.: World Bank.

Table 1
**Typology of African enterprises**

| Type of entrepreneurship | Level of technology, productivity | Employees | Local, regional, national and international activities | Integration in value chains | Strategies |
|---|---|---|---|---|---|
| **IS traditional** microenterprises in the informal sector | Very low productivity growth, family-based enterprises | < 10 | Local markets; flea market activities, localised agenda, consumers of their own products: poor population; low level of trust | No integration, no exports | Minimalistic and risk-averse strategies, more or less stagnating, survival economy |
| **Small informal or formal enterprises** | Low – but higher than IS traditional; low productivity growth, some division of labour inside the firm | < 20 | Local markets, localised urban demand, low level of trust, mainly flea market activities | - | Market-oriented, serves local urban and rural markets, low dynamic |
| **Medium-sized entrepreneurs** | Diversified level of technology; state-of-the-art technology, higher productivity than small enterprises | > 20 | Serve local and regional markets, local networking; higher trust relationship with long-term customers | Access to knowledge and technology; some integrated in regional and GVCs, sometimes long-term contracts with customers | Dynamic segment of entrepreneurship; incremental innovations, using contracts with small entrepreneurs and governing economic exchange with small enterprises |
| **African Mittelstand** | Higher productivity, state-of-the-art technology | > 20 | Serve local, national, regional and global markets | Partly subcontractors of key firms in regional and GVCs; import technology and knowledge | Dynamic segment of African enterprises; growing and innovative. Own branding and own innovative products; competitive |
| **Formal large enterprises** | Modern technology, high productivity | > 100 | Local, regional and global market | Key firms in value chains, own »brand names«, partly subcontractors in global and regional value chains; import technology and knowledge | Dynamic segment of African enterprises; growing and innovative. Own branding and own innovative products; competitive |

Source: Typology based on Ishengoma, Esther K. and Robert Kappel (2006): Economic Growth and Poverty: Does Formalisation of Informal Enterprises Matter? Hamburg: *GIGA Working Paper* 20; available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=909188; Brach, Juliane and Robert Kappel (2009): Global Value Chains, Technology Transfer and Local Firm Upgrading in Non-OECD Countries. Hamburg: *GIGA Working Paper* 110; available at: https://econpapers.repec.org/paper/zbwgigawp/110.htm.

1. The *modern sector* (MS) – including large enterprises – is characterised by high capital intensity and high marginal labour productivity.[8] Wage labourers are employed, and wages are higher than in the informal sector.

2. The *African Mittelstand* serves national markets and is partly integrated in regional and global value chains. It is the dynamic and innovative sector, which is characterised by higher productivity and higher wages for workers.

3. The *informal sector* (IS) is growing in large parts of Africa. Enterprises in the IS tend to remain small.

4. The *survival sector* absorbs surplus labour and exhibits very low labour productivity. Here, income levels are directly dependent on labour productivity. This sector is unable to generate the necessary surplus for capital accumulation. Microenterprises with limited income dominate.

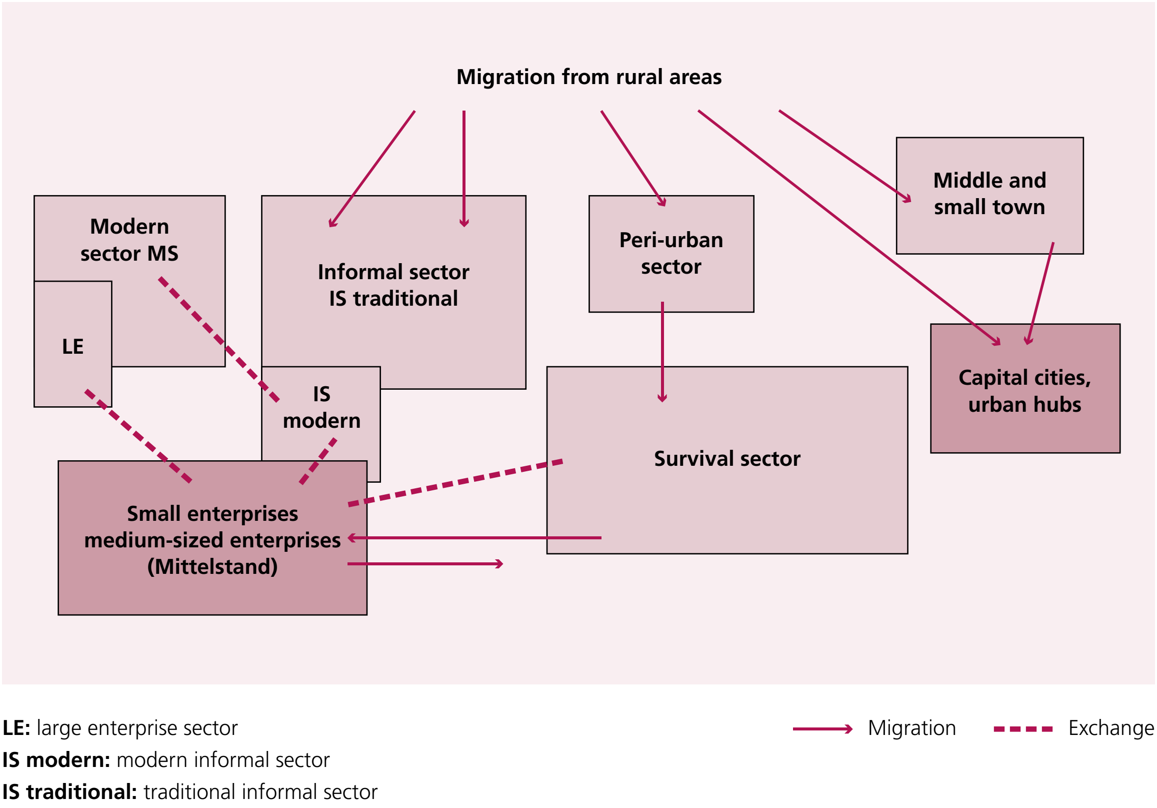
Based on these classifications and concepts, we formulate six questions that will be examined in the following chapters.

1. To what extent will the nature of the African employment crisis change in the transformation process?

2. To what extent will informal work continue to develop and what is the relationship between formal, better-qualified, more productive and better-paid jobs and informality and precariousness?

8 Marginal labour productivity describes how much production increases when an additional unit of labour is used in the production process while all other production factors are held constant.

Graph 1
**Relationship between modern, informal and subsistence sectors**




**LE:** large enterprise sector
**IS modern:** modern informal sector
**IS traditional:** traditional informal sector

Source: Own compilation based on Ishengoma and Kappel (2006), op. cit.; Ranis, Gustav and Frances Stewart (1999): V-Goods and the Role of the Urban Informal Sector in Development, in: *Economic Development and Cultural Change* 47, 2: 259–88.

3. To what extent are divisions in the employment market deepening: rural-urban; female-male; better-educated vs workers with basic education, urban hubs vs small and medium-sized towns.

4. To what extent is the urbanisation process successful in alleviating the situation on the job markets?

5. Informal labour is particularly prevalent in rural Africa and in small and medium-sized towns – to what extent have reform measures succeeded in mitigating the disparities?

6. Jobs created through FDI and GVC play a distinct role in the discussion on employment, as these are often higher-productivity jobs. To what extent are these types of jobs capable of easing the employment situation and also contributing to higher wages?

# 3

# MAIN FEATURES OF EMPLOYMENT IN AFRICA

Describing Africa's labour markets and employment is difficult for several reasons:

1. A total of 49 sub-Saharan countries have to be included in this study.

2. The employment situation is extremely diverse making it difficult to draw general conclusions.

3. Labour market statistics are inadequate,[9] compounded by the problem that national definitions of the labour market are not necessarily compatible with data from the International Labour Organisation (ILO), the World Bank, the International Monetary Fund (IMF), the United Nations' Conference on Trade and Development (UNCTAD), the United Nations Industrial Development Organisation (UNIDO) and the African Development Bank (AfDB).

4. Most studies mainly address job creation, but do not analyse job losses due to investment, competition or technological changes. It is important to bear this in mind. This study too is mainly concerned with employment developments rather than job cuts, which can be significant.[10]

This paper will mainly draw on data from the above-mentioned institutions, as they also share comparative data. Occasionally, data from individual states will also be included. Definitions of the labour market vary, and approaches are especially disparate when it comes to the discussion of the informal sector and informal work.

Box 1
**Definitions**

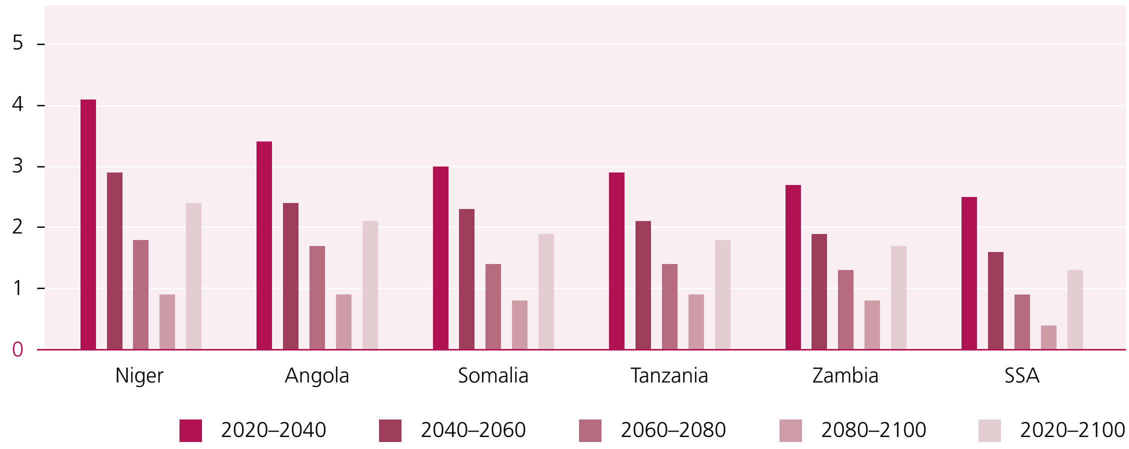
- → **Employees:** All those workers in paid employment.
- → **Employment-to-population ratio:** Number of persons who are employed as a per cent of the total working-age population.
- → **Informal employment:** Persons who are own-account workers, contributing family workers or employees holding informal jobs.
- → **Labour force:** Persons of working age who furnish the supply of labour for the production of goods and services. Sum of all persons of working age who are employed and those who are unemployed.
- → **Labour force participation rate:** Labour force as a per cent of the working-age population.
- → **Labour productivity:** Amount of output per unit of input. Key measure of economic performance.
- → **Labour underutilisation:** Mismatches between labour supply and demand. Includes time-related underemployment, unemployment and the potential labour force.
- → **Not in education, employment or training (NEET):** Measure of youth (persons aged 15 to 24) who are outside the educational system, not in training and not in employment.
- → **Public sector employment:** All employment in general government sector plus employment in publicly owned enterprises and companies, resident and operating at central, state and local levels of government.
- → **Underemployment:** a) Time-related underemployment and b) ›Invisible‹ underemployment: very low labour earnings, low productivity and low utilisation of skills.
- → **Unemployment:** Persons of working age who are not in employment.
- → **Unemployment rate:** Number of unemployed as a per cent of the labour force.
- → **Vulnerable employment:** Own-account (self-employed) workers plus contributing family workers.
- → **Wage rates:** Measure of wages paid including basic wages, cost-of-living allowances and other guaranteed and regularly paid allowances.
- → **Working poor:** Persons who, despite being employed, still live in a household classified as poor.
- → **Working poverty rate:** Number of working poor as a percentage of the employed population.
- → **Working-age population:** Persons aged 15 years and older.
- → **Youth:** Defined as persons aged 15 to 29.

Source: ILO, https://ilostat.ilo.org/resources/concepts-and-definitions/glossary/#all.

9 On South Africa, for example, see Alenda-Demoutiez, Juliette and Daniel Mügge (2019): The Lure of Ill-Fitting Unemployment Statistics: How South Africa's Discouraged Work Seekers Disappeared From the Unemployment Rate, in: *New Political Economy* 25, 4: 590–606.

10 On South Africa, see Kerr, Andrew, Martin Wittenberg and Jairo Arrow (2014): Job Creation and Destruction in South Africa, in: *South African Journal of Economics* 82, 1: 1–18.

Graph 2
**Annual growth rate of youth population, 2020–2100, in per cent**




Source: Haroon Bhorat and Morné Oosthuizen (2020): Jobs, Economic Growth and Capacity Development for Youth in Africa, Cape Town: *DPRU Working Paper* 2020-05; available at: http://www.dpru.uct.ac.za/working-papers.

## 3.1 HIGH POPULATION GROWTH AND EMPLOYMENT

Most African countries have very high population growth. The labour force will increase from 620 million to about two billion people by 2063, with a population growth rate of 2.2 per cent. In the next few decades, Africa will become the youngest and most populous continent.[11] The proportion of young people in the overall population is rising sharply. The youth population is projected to continue to grow until 2100. It is clear that in all countries that are part of this study, the growth of the youth population remains above two per cent until 2040 (see Graph 2). Only then will the growth rates slow down. By as early 2030, the number of young people is set to rise to 300 million.[12]

## 3.2 TRANSFORMATION OF EMPLOYMENT IN SUB-SAHARAN AFRICA: AGRICULTURE, MANUFACTURING AND SERVICES

To understand how the labour market is changing, it makes sense to look at the economic dynamics. This shows that the trend is clearly shifting towards the service sector.[13] The transformation process in SSA has its own distinct form, however. The transformation from an agrarian society to a service economy is not necessarily accompanied by an increase in the importance of the industrial sector, which, in fact, remains relatively weak (with the exception of a small number of countries). Since the 1990s, the share of industry in GDP has even been declining. Many countries are witnessing deindustrialisation or industrial stagnation, even those with long-established industries. The data used in this study show how the value added of the individual countries in SSA has changed over a period of 20 years.[14] The correlations illustrated in the following graphs compare the periods 2000–2010 and 2010–2020, demonstrating that the agriculture sector shows little change as per capita GDP increases. In most countries, agriculture sustains a share of about 20 to 22 per cent of value added. Countries with a higher per capita GDP, such as Botswana, Mauritius, Namibia, Gabon, South Africa or the Seychelles, also show hardly any change over the course of a decade. In this group of countries, the share is slightly below 20 per cent.

Graph 4 shows the structure of employment in SSA, comparing 2011 and 2019. The employment prospects are concentrated in the agricultural sector.[15] In an average African country, the agricultural sector employs 54 per cent of the working population. In Burundi, Burkina Faso, Malawi and Madagascar, more than 80 per cent of the labour force

11 ILO (2020c): *Jobs: An African Manifesto. The Dynamics of Population Growth Makes Things Even More Challenging.* Geneva: ILO.

12 ILO (2020a): *World Employment and Social Outlook – Trends 2020.* Geneva: ILO: 41.

13 Wohlmuth, Karl (2004): African Entrepreneurship and Private Sector Development, in: *African Development Perspectives Yearbook 2002/2003:* 205–34; Riddell, Roger C., (ed.) (1990): *Manufacturing Africa.* London, Portsmouth: James Curry; Bass, Hans-Heinrich (1997): Towards a New Paradigm of Informal Sector Labour Markets, in: *African Development Perspectives Yearbook* 5: 275–88.

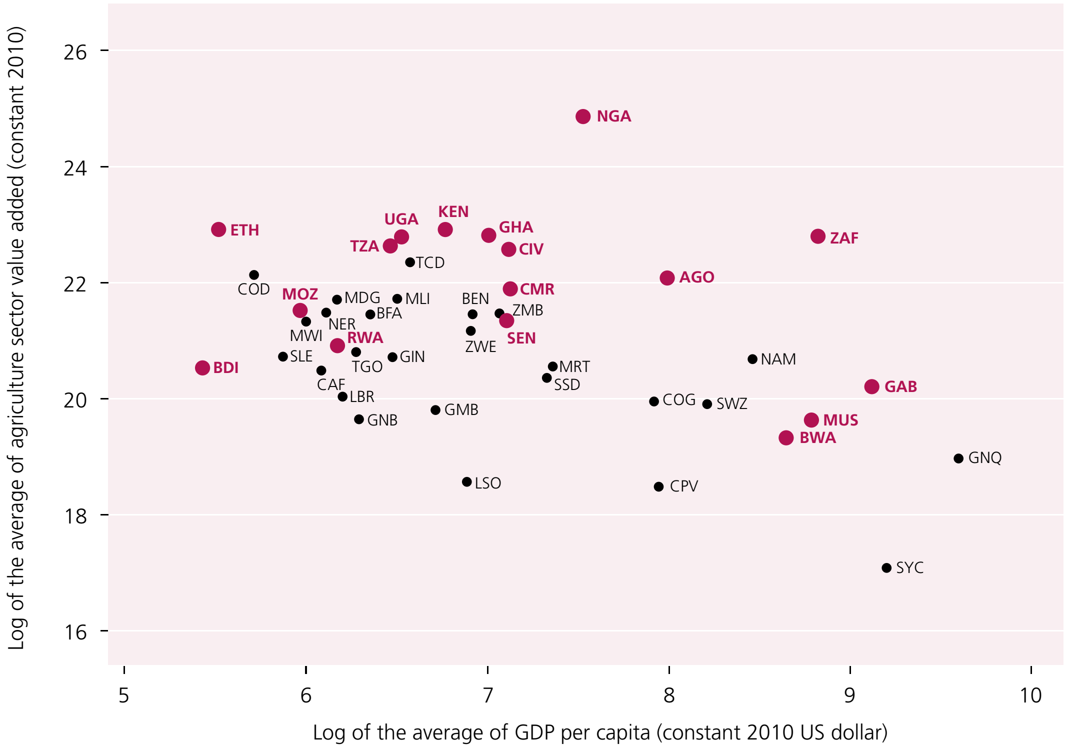
14 We deliberately use averages from two decades to exclude seasonal fluctuations. This enables us to better account for long-term trends. Data Base: World Bank. Africa's industrialisation is geographically limited, with around two-thirds of value-added manufacturing taking place in three North African nations: Algeria, Egypt, Morocco, and two in SSA: Nigeria and South Africa. Other countries face industrial stagnation or even a decline. See AfDB: https://www.afdb.org/en/news-and-events/africa-industrialization-day-unlocking-africas-value-added-industrial-potential-39116; see also interview with Carlos Lopes: https://newafricanmagazine.com/25526/.

15 The agricultural sector comprises agriculture, forestry and fishing.

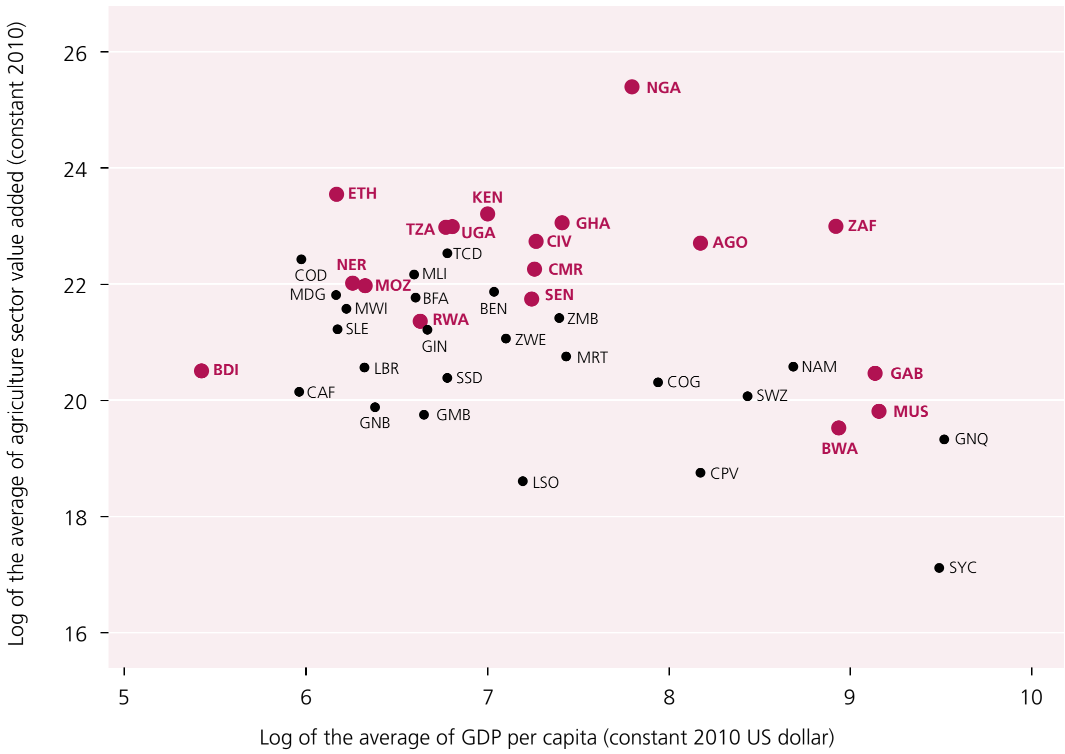
Graph 3

**Development of agricultural value added, relative to average per capita GDP (constant 2010 US dollar; modelled ILO estimate), 2001/2010–2011/2020, in thousands**

Agriculture sector value added (constant 2010) for 2001–2010

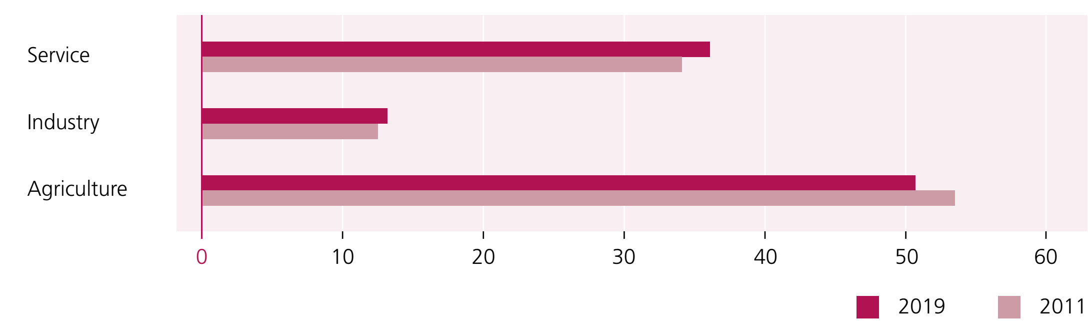



Agriculture sector value added (constant 2010) 2011–2020



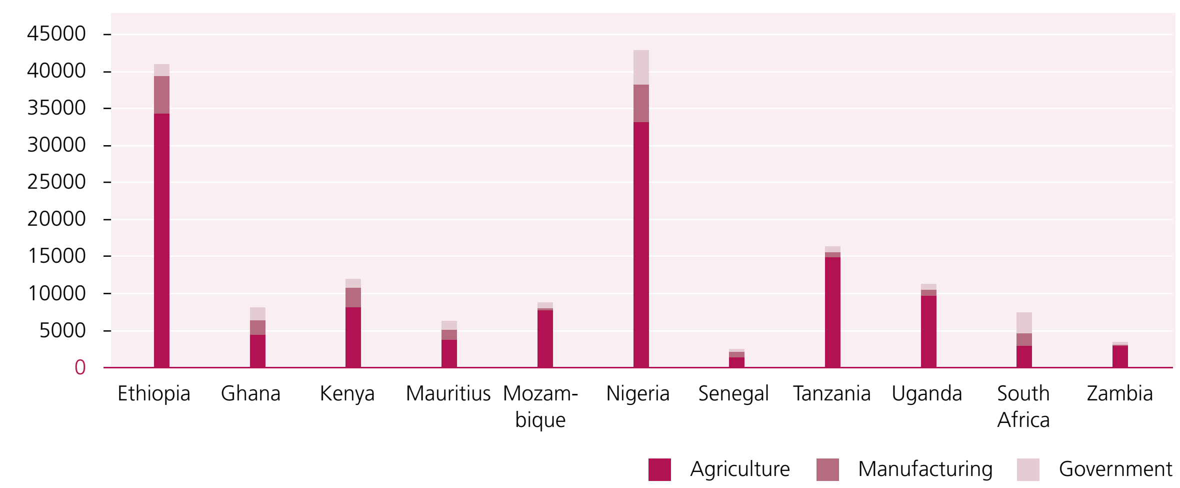

Source: Author's illustration.

Graph 4
**Employment by sectors, 2011 and 2019, in per cent**




Source: ILO (2020b): Report on employment in Africa (Re-Africa).

Graph 5
**Distribution of employment, 2018, in thousands**



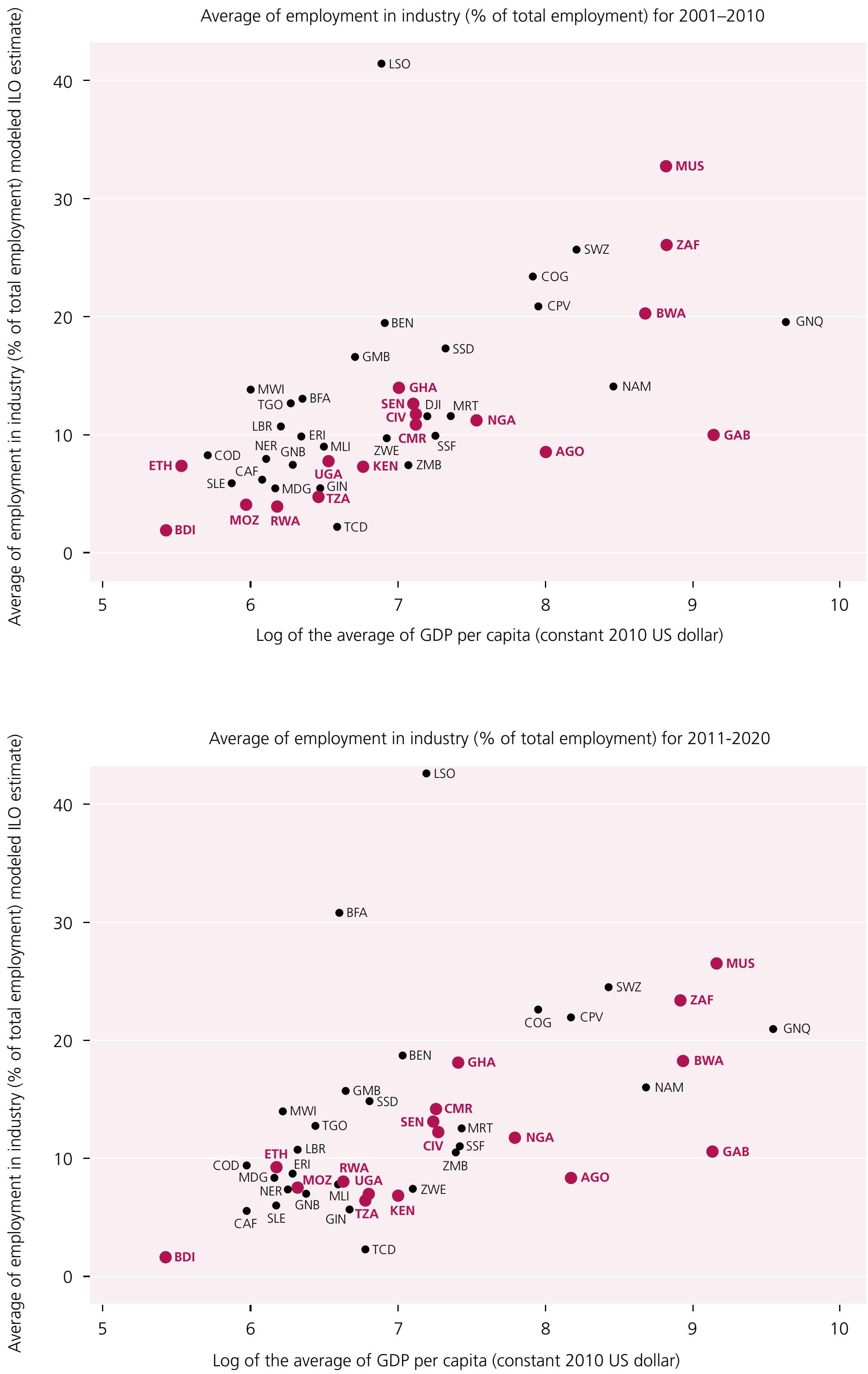

Source: de Vries, Gaaitzen, Linda Arfelt, Dorothea Drees, Mareike Godemann, Calumn Hamilton, Bente Jessen-Thiesen, Ahmet Ihsan Kaya, Hagen Kruse, Emmanuel Mensah and Pieter Woltjer (2021): The Economic Transformation Database (ETD). *WIDER Technical Note* 2/2021. DOI: 10.35188/UNU-WIDER/WTN/2021-2.

works in agriculture – in Tanzania and Ethiopia, it is more than 60 per cent and in some Southern African countries – such as Angola, South Africa, Botswana and Mauritius, the agricultural sector only employs between five and eight per cent of the population.

Correlations consolidate and expand the picture of employment in SSA. Over the long period of 20 years, employment in agriculture does not remain entirely unchanged, but the changes are rather minor. Agricultural employment dominates in the LICs. Here, only minimal changes are observed with a slight decrease in shares. In a middle group of countries, including The Gambia, Côte d'Ivoire, Benin, Kenya and Nigeria, the share of employment in agriculture falls as GDP per capita rises. Structural change is evidently proceeding faster here than in those countries that have already reached MIC levels. However, on the whole, we are observing a trend of declining importance of agricultural employment in these countries, which is in line with the basic trajectories of economic development. That said, this is not the trend we see in the majority of African countries as rural population growth is very high and rural populations are therefore also growing strongly, even if this is not reflected in agricultural employment. It can be surmised that migration to the cities in many countries is slower than many studies originally anticipated.

In some respects, there have been only marginal changes to the value added of the industrial sector, on average, over the two decades. The group of richer countries continues to hold an industrial share of value added of 19–21 per cent (with South Africa at around 25 per cent). But the share barely changes at all over the period. The group of less rich countries, with per capita GDP of below 7,000 US dollars, shows a variation of between 18 and 22 per cent. In some countries the value added by industry is increasing, but most countries apparently cannot industrialise further despite rising incomes.

Graph 6
**Average employment in industry (per cent of total employment; modelled ILO estimate).**
**Log of average per capita GDP, 2001/2010–2011/2020, in thousands**




Source: Author's illustration.

Graph 7
**Sectoral share of employment, 2010–2018, in per cent**


Source: ILO (2020b): Report on employment in Africa (Re-Africa), op. cit.

Industrial employment in Africa is very low.[16] Most of SSA has not developed a manufacturing sector beyond the production of traditional goods for domestic consumption. SSA has relatively few manufacturing employees and their numbers are only growing slowly. The share of industrial employment in the vast majority of countries is less than ten per cent. The industrialisation process in these countries is not taking off. The group of more developed countries, on the other hand, was able to further expand or maintain their industrial employment. Nevertheless, under the prevailing conditions of the last 20 years, industry has tended to have only limited effect on employment (see Graph 6), which would confirm the thesis of deindustrialisation in an early phase of the development process. In most countries, the industrialisation process is also dependent on global consumption and FDI inflows.

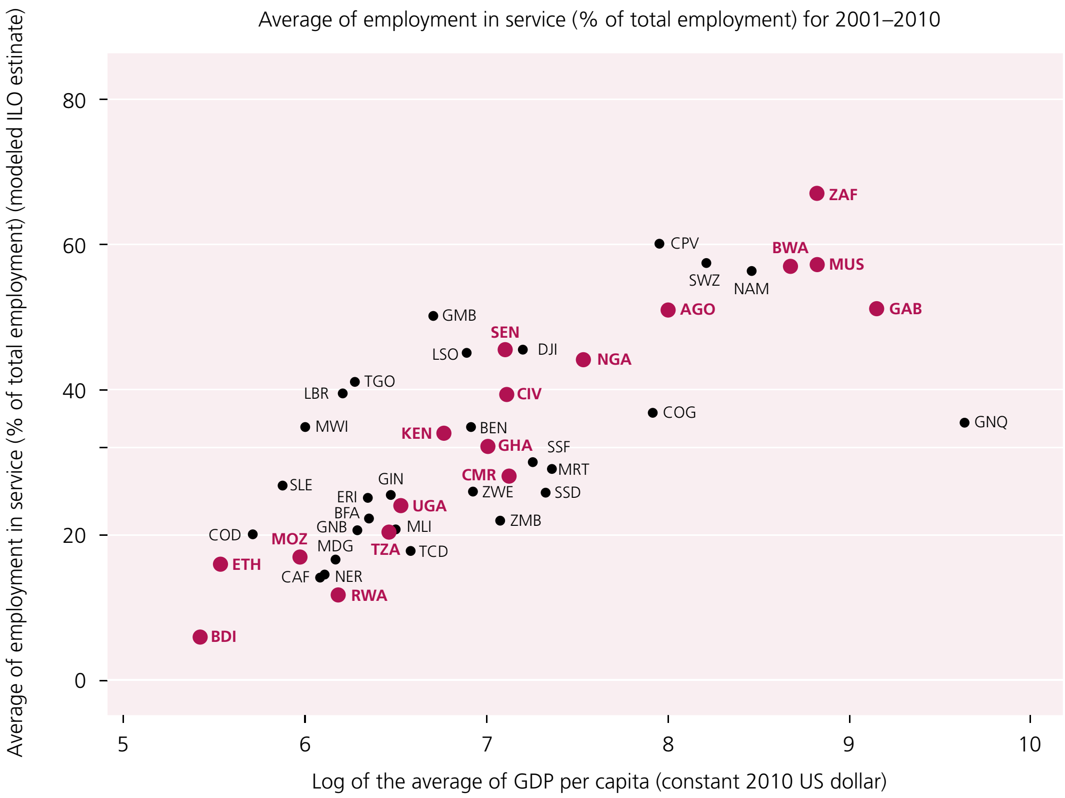
Industrialisation processes are particularly important for the development of the African labour market, as in many cases they mean better-paid jobs and higher productivity. In view of global industrial developments (with declining importance of industrial production), many African countries are entering the process as latecomers. In fact, many countries have barely developed industrially, while others have been undergoing a process of industrialisation since the 1960s. This has faltered, however, which has had clear implications for industrial employment. Several countries have started to industrialise again, but the extent to which these new industrialisation attempts will be successful depends not least on whether the necessary packages of measures can be put in place. Of particular interest is the Ethiopian path of industrialisation via SEZs and a developmental state, which aims at ensuring an increase in FDI and thus a surge in industrialisation and more jobs.[17]

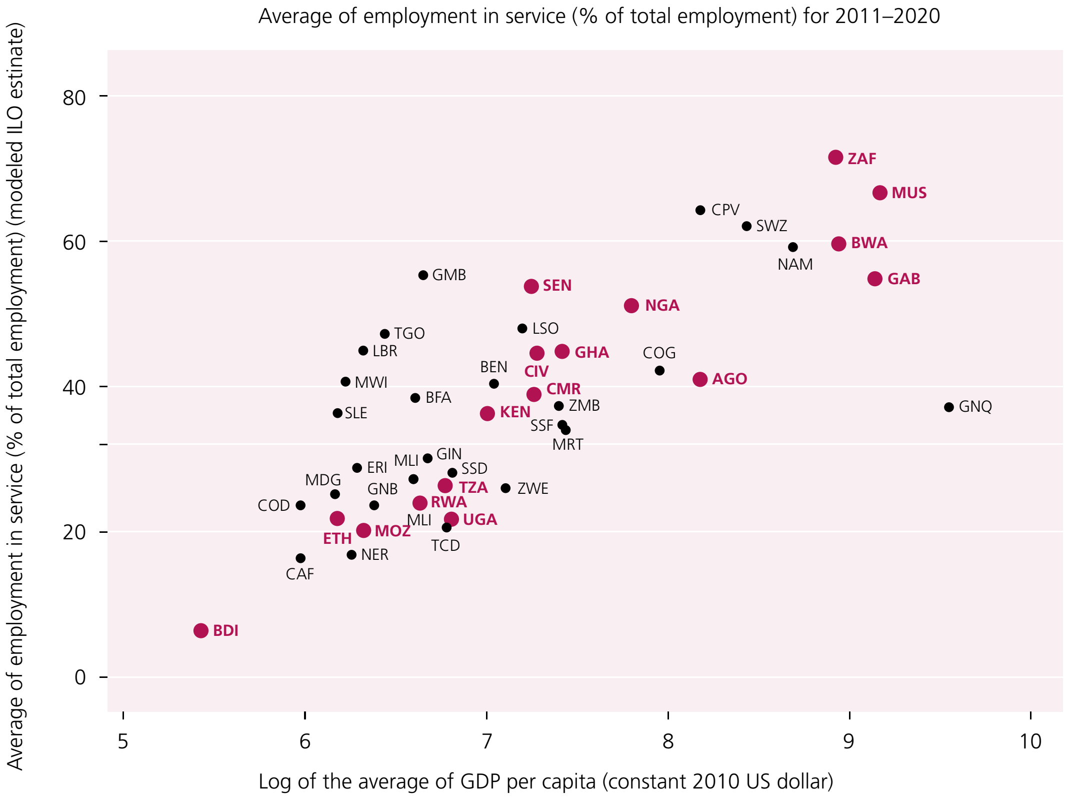
The service sector's contribution also changes very little. This is true for both middle-income countries and low-income countries. In short, change is very slow. Only the service sector shows a certain upward trend. But even this

16 Zeufack, Albert G, Cesar Calderon, Gerard Kambou, Megumi Kubota, Catalina Cantu Canales and Vijdan Korman (2020): An Analysis of Issues Shaping Africa's Economic Future. Washington, D.C.: *Word Bank Africa's Pulse* 22; available at: https://openknowledge.worldbank.org/handle/10986/34587.

17 Bhorat, Haroon and Finn Tarp (2016): *Africa's Lions: Growth Traps and Opportunities for Six African Economies.* Washington, D.C.: Brookings Institution Press; Newfarmer, Richard, John Page and Finn Tarp, (eds.) (2018): *Industries Without Smokestacks: Industrialization In Africa Reconsidered.* Oxford: Oxford University Press; Altenburg, Tilman and Wilfried Lütkenhorst (2015): *Industrial Policy in Developing Countries.* Cheltenham: Edward Elgar; Hallward-Driemeier, Mary and Gaurav Nayyar (2017): *Trouble in the Making? The Future of Manufacturing-Led Development.* Washington, D.C.: World Bank; available at: https://openknowledge.worldbank.org/handle/10986/27946.

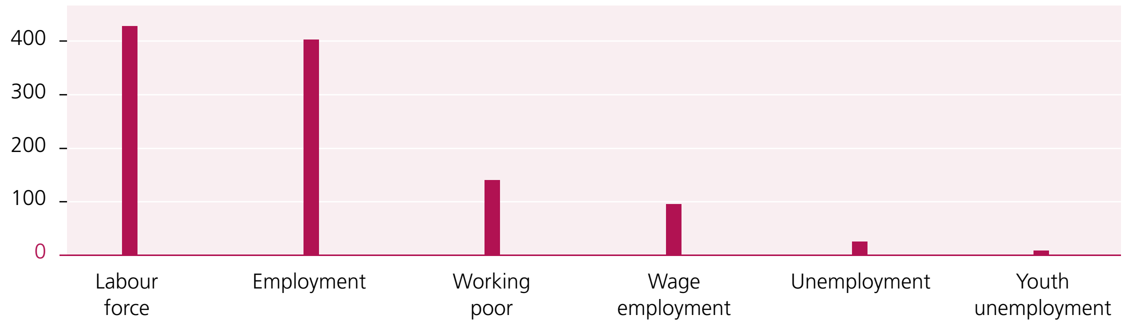
Graph 8
**Average employment in services (per cent of total employment; modelled ILO estimate), Log of average per capita GDP (constant 2010 US dollar, 2001/2010–2011/2020, in thousands**




Source: Author's illustration.

Graph 9
**African labour market, 2019, in millions**




Source: Own compilation. Data from ILO (2020b): Report on employment in Africa (Re-Africa), op cit.

is slower than is often assumed. Although structural change is sluggish, it has nevertheless resulted in immense changes in the labour market and employment situation for the vast majority of African countries.

While the value-added shares change over the course of a decade, the challenges of the transformation process are reflected more clearly in the employment figures. For example, employment shares in SSA are, on average, clearly shifting towards services, but employment in agriculture remains very high (see Graph 7). In the more advanced economies of Mauritius and South Africa, the service sector accounts for more than 50 per cent of employment, while agriculture's share was below 16 per cent in 2010.

The share of employees in the service sector is increasing, especially in the higher-income countries. Here the ratio is well over 50 per cent and in some countries even more than 60 per cent – and on an upward trend. This indicates that the service sector determines the dynamics on the labour markets (see Graphs 7 and 8). The increase is also accompanied by an absolute rise in service-sector jobs in numerous countries, including Kenya, Rwanda and Ghana. In addition to the informal service sector, a modern service sector with a growing number of modern enterprises and a well-qualified workforce is developing in almost all countries, and in this also includes a dynamic start-up scene.

The majority of Africans are employed in agriculture (about 50 per cent), a growing number are employed in the services sector (about 35 per cent in 2019) and only a small proportion of employment is in manufacturing (see Graphs 5, 6 and 7).[18] That said, there are a few countries where the share of people employed in the industrial sector surpasses that of the agricultural sector, including Mauritius and South Africa. In Mauritius, for instance, the industrial sector employs 25 per cent of the working population.[19]

## 3.3 UNEMPLOYMENT ON THE RISE?

The majority of the 456 million Africans (almost 60 per cent) are employed, most are self-employed and in precarious jobs. A total of 33 million (four per cent) are unemployed and 286 million (40 per cent) are outside the labour market. In SSA, only a small percentage of workers are wage and salary earners (17 per cent); most are self-employed in family farming or household enterprises (55 per cent). Only 10 per cent of total employment is in permanent salaried jobs in the private sector. Another 10 per cent is in government jobs (public administration and state-owned enterprises). The African countries where permanent/formal wage employment in the private sector is most prevalent are South Africa (46 per cent of total employment) and Botswana (23 per cent).

Employment growth rates are very low in all regions of Africa. In West Africa, Central Africa and East Africa, they average between two and three per cent, which is far below population growth. In Southern Africa, employment growth rates have been well below three per cent since 2000 and even below two per cent for the last five years.

Table 2 shows the main development trends of the African employment situation. The labour force participation rate is around 70 per cent. The unemployment rate has fallen to six per cent. Precarious employment is widespread. Extreme working poverty (less than 1.90 US dollars/day) has declined, but working poverty (less than 3.20 US dollars/day) has increased. Employment growth has stagnated at a rate of three per cent per year. The low unemployment does not, however, indicate sound labour markets and abundant jobs. On the contrary, it highlights the absence of paid work for many people in African economies.

Unemployment rates vary considerably across countries. Reports show that, in most African countries, less than 20 per cent of labour force entrants find wage employment, though higher rates are reported for Botswana, Nigeria and South Africa.

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**18** ILO (2020c): *World Employment and Social Outlook:* 102.

**19** For additional data and information, see Monga, Célestin, Abebe Shimeles and Andinet Woldemichael, (eds.) (2019): Creating Decent Jobs. Strategies, Policies, and Instruments. Abidjan, African Development Bank, *Policy Research Document* 2; ILO (2020b): op. cit.

Table 2
**Employment and unemployment in SSA, 2000–2019, in per cent**

| | 2000–2007 | 2008–2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|
| **Labour force participation rate** | 69.8 | 69.9 | 68 | 67.9 | 67.8 | 67.8 | 67.7 | 67.7 |
| **Unemployment rate** | 8.1 | 7.6 | 5.4 | 5.4 | 5.8 | 6.0 | 5.8 | 5.9 |
| **Employment growth** | 3 | 3 | 3.4 | 3 | 3 | 3.1 | | |
| **Vulnerable employment** | 72.9 | 71.4 | 69.8 | 69.9 | 69.7 | 69.6 | | |
| **Extreme working poverty** | 49.3 | 39.9 | 39.8 | 39.0 | 38.5 | 37.7 | 36.7 | 35.9 |
| **Working poverty** | 23.8 | 27.7 | 25.4 | 25.4 | 25.4 | 25.3 | 25.4 | 25.4 |
| **Productivity growth** | 2.9 | 1.8 | 1.5 | 0.5 | 1.2 | 1.7 | | |

Source: ILO (2020a), *World Employment and Social Outlook – Trends 2020.* Geneva: ILO; ILO (2020b), op. cit.

In Southern Africa – especially in South Africa, Eswatini, Lesotho and Namibia – there is an extremely high number of unemployed. The unemployment rate in Southern Africa is 30 per cent, compared to six–eight per cent in West or East African countries. South Africa's GDP growth rates have fallen significantly and have been lower than three per cent for the last five years, even dropping below one per cent in 2019/2020. This is coupled with a dramatic increase in unemployment and especially youth unemployment. Until 2006, South Africa was in a phase that can best be described as ›jobless growth‹. After 2006, growth dropped considerably, accompanied by rising unemployment figures. This is shown by the official reports on the unemployment rate, which was at an estimated 24 per cent in 2010 and rose to just under 30 per cent by 2020. Employment growth is very low in all sectors, with the result that those new to the labour market, in particular, have little chance of finding a job. At just above 40 per cent of the employed population, absorptive capacity is very low compared to other middle-income countries. In contrast, this share is 60 per cent in Mexico, 50 per cent in Turkey and almost 70 per cent in Brazil. Among the young, the absorption rate is even lower at just 20 per cent. An examination of unemployment by population group clearly shows a wide range.[20]

The situation in the other African countries is completely different to South Africa. Here, unemployment is often below five per cent, but this is mainly due to the fact that there is no unemployment benefit system and the unemployed have to quickly find work to cover their living expenses, be it in the informal sector, as an urban farmer, an urban farm worker, a farm helper or a family worker.

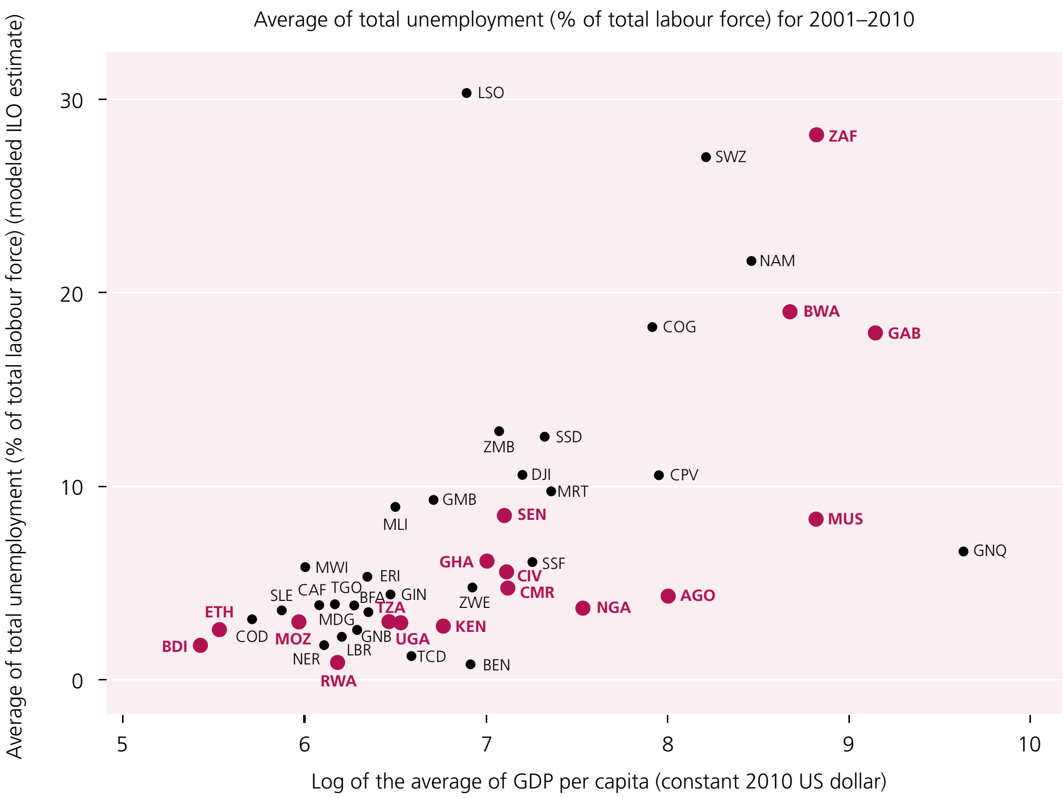
The following observations, which examine the development of unemployment relative to income levels, show clear trends over a 20-year period. The comparison of the developments in 2000–2010 and 2010–2020 illustrates how much the balance has shifted (see Graph 10). While a large group of LICs has an average unemployment rate of less than four per cent, the lower MICs already have an average rate of 10 per cent. The higher-income MICs, such as South Africa, Gabon or Namibia, have rates of more than 20 per cent. Over the ten year period being examined, however, the fundamental dynamics of growth and employment have changed. In the LICs, too, unemployment rises with increasing per capita GDP. In the lower MICs, the figures for the unemployed seem to decrease as per capita GDP increases, as is the case, on average, in the richer African countries.

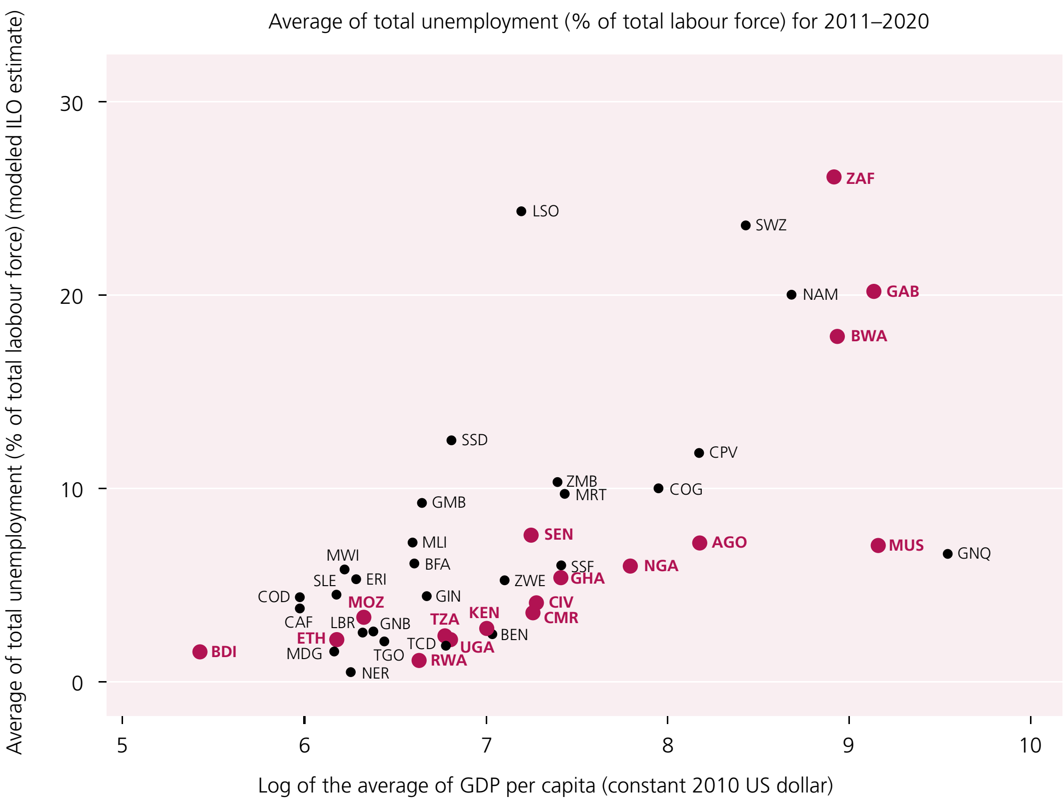
The average unemployment figures mask a major difference, however. The number of unemployed males is increasing slightly in all income groups and, with the exception of South Africa, the figures are on a downward trend in the MICs. Some countries are in a special situation and are thus outliers, such as Lesotho, which has been able to reduce its male unemployment somewhat over the 20-year period – mainly due to migration to South Africa.

Unemployment among women is more markedly differentiated. While in LICs, it is mostly slightly higher than for men, it increases especially sharply from the first to the second decade examined in countries with slightly higher incomes than LICs. But to a large extent, this is a country-by-country differentiation, subject to specific conditions. Nigeria, Cape Verde and DR Congo show different trends. Here, female unemployment is higher than male employment in the richer countries, but has decreased over the period under consideration. In other words, no clear trends for increases or decreases in unemployment can be derived from the unemployment figures, which are linked to growth and rising per capita incomes.

20 See Bhorat, Haroon and Morné Oosthuizen (2020): *Jobs, Economic Growth, and Capacity Development for Youth in Africa.* Cape Town: DPRU WP 202005; available at: http://www.dpru.uct.ac.za/working-papers. See also Danquah, Schotte and Sen (2019): op. cit.; Burger, Philippe and Frederick Fourie (2019): The Unemployed and the Formal and Informal Sectors in South Africa, in: *South African Journal of Economic and Management Sciences:* 1–12; Etim, Ernest and Olawande Daramola (2020): The Informal Sector and Economic Growth of South Africa and Nigeria: A Comparative Systematic Review, in: *Journal of Open Innovation, Technology, Market and Complexity* 6, 134: 1–26.

Graph 10
**Average total unemployment (per cent of total labour force), relative to average per capita GDP (constant 2010 USD), 2001/2010–2011/2020, in thousands**




Source: Author's illustration.

## 3.4 YOUTH UNEMPLOYMENT

Africa's employment challenge is essentially a youth employment challenge. The situation for young people is clearly distinguishable from the trend in aggregate unemployment. SSA's youth unemployment rate is at 8.7 per cent (2019).[21] Of Africa's nearly 420 million young people (aged 15–29), one-third are currently unemployed and another third are in vulnerable employment. Only around 15 per cent of young Africans are in wage employment. The situation of young people varies greatly between countries. The number of unemployed is particularly high in Southern Africa, where it has averaged around 50–55 per cent for the last 30 years, which is far higher than the average in West Africa, Central Africa and East Africa (less than 10 per cent). South Africa's situation is particularly precarious.

*Not in education, employment or training* (NEET)[22] is widespread – especially in the upper middle-income countries. Here, the number of NEETs has grown to about 30 per cent, while in the lower MICs it is 22 per cent – with a slight upward trend. In the LICs, the proportion is relatively lower at around 16–18 per cent. It is evident that as incomes rise, the number of NEETs does not fall but rather rises. This inverse development is a cause for concern. Other indicators also show that as the level of income rises, unemployment and underemployment among young people tend to increase.[23] Young women are particularly affected by these trends. The share of NEETs among young men in West Africa is around 19 per cent (2020), while among young women it is 29.5 per cent (i.e. ten percentage points higher). This is also true for all other regions in Africa (see Graph 11). In other words, young women disproportionately bear the burden of underemployment.

The example of Uganda illustrates how much the situation has deteriorated for the youth. Uganda has a rapidly growing and young population. Young people between the ages of 15 and 34 make up about 40 per cent of the population, but nearly 70 per cent of the working-age population. Estimates show that, in the 2020s, the Ugandan economy will need to create three times as many jobs each year than it did in the 2000s, when job creation was an average of 300,000 jobs per year. The one million additional jobs per year must aim primarily at providing young people with paid jobs and not knocking them back into informality.[24] The situation is also extremely strained in other countries. In Africa, only Mali and Gabon have seen their workforces grow faster than Uganda's 3.8 per cent annual average growth.

The situation in Senegal is somewhat different: informal workers are mainly employed in agriculture (23 per cent), retail (22 per cent) and manufacturing (12.5 per cent). The tertiary sector dominates. A total of 45 per cent of Senegalese aged 15 and over are employed. More than 97 per cent of jobs are considered informal. It is seen particularly critical that 41 per cent of people in the 15–34 age group are neither employed nor in the education system (NEET). This is the situation for 51 per cent of women and 29 per cent of men in this age group. At 49 per cent, the NEET rate among rural youth is higher than in the Senegal's capital Dakar with 32 per cent.[25]

A study by Lefeuvre, Roubaud, Torelli and Zanuso (2017) on developments in Côte d'Ivoire,[26] reports that young people aged 15–24 make up almost one-third of the working-age population. Significant improvements have been made in school enrolment. However, labour market challenges remain serious. As much as 40 per cent of the unemployed are young people. The youth unemployment rate is 25 per cent, while 22 per cent are neither employed nor in school or training. This concentration of young people in the informal sector is all the more critical because the share of informal enterprises with real growth potential is extremely low. The analysis by Lefeuvre, Roubaud, Torelli and Zanuso shows that the integration of young people into the labour market is not only structurally difficult, but the problem seems to be getting worse. Almost all young people (97 per cent) work in the informal sector.

The question we must ask is: Will youth unemployment continue to rise – and not only because of the rapidly increasing population and the growing youth share, but also because the unemployment rate is growing in the development process? Evaluations for 2000–2010 and 2010–2020 make it clear just how critical the situation is. First of all, as with the overall unemployment rate, there is a clear divergence between the youth unemployment rates of LICs and MICs (Graph 12).

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21 Bhorat et al. (2020): 12. See also African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development and Inter-American Development Bank (2018): *The Future of Work.* Abidjan. See Fox, Louise, Philip Mader, James Sumberg, Justin Flynn and Marjoke Oosterom (2020): Africa's ›Youth Employment‹ Crisis is Actually a ›Missing Jobs‹ Crisis. Washington, D.C.: *Brookings Brooke Shearer Series* 9; available at: https://www.brookings.edu/research/africas-youth-employment-crisis-is-actually-a-missing-jobs-crisis/.

22 The NEET rate is defined as: »The share of youth not in education, employment or training conveys the number of young persons not in education, employment or training as a percentage of the total youth population. It provides a measure of youth who are outside the educational system, not in training and not in employment, and thus serves as a broader measure of potential youth labour market entrants than youth unemployment, since it also includes young persons outside the labour force not in education or training«, ILO (2020), Indicator description: Share of youth not in education, employment or training (youth NEET rate). https://ilostat.ilo.org/resources/concepts-and-definitions/description-youth-neet/.

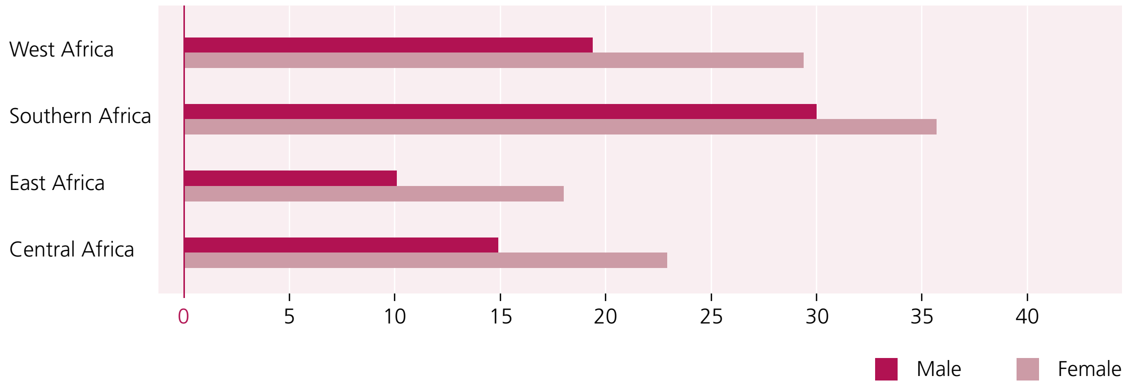
23 ILO (2020b): op. cit.

24 Merotto, Dino (2020): *Uganda: Jobs Strategy for Inclusive Growth.* Washington, D.C.: World Bank; available at: https://openknowledge.worldbank.org/handle/10986/33342.

25 https://lavoixdelavallee.wordpress.com/2020/02/02/comprendre-le-marche-de-lemploi-au-senegal-avec-leri-esi-2017/. See Mbaye Aly M. and Fatou Gueye (2018): Labor Markets and Jobs in West Africa. Abidjan: *African Development Bank Working Paper Series* 297.

26 Lefeuvre, Isaure, François Roubaud, Constance Torelli and Claire Zanuso (2017): La difficile insertion des jeunes sur le marché du travail en Côte d'Ivoire, in: *Afrique Contemporaine,* 3-4: 263–64 and 233–7; Roubaud, François (2014): L'économie informelle est-elle un frein au développement et à la croissance économiques?, in: *Regards croisés sur l'économie* 1, 14: 109–21.

Graph 11
**Youth NEET rate, by gender, 2020, in per cent**




Source: ILO (2020b): Report on employment in Africa (Re-Africa), op cit.

It can be deduced from the correlations that youth unemployment is widespread and increasing. The trends for female and male youth unemployment are similar. It can be assumed that many of the unemployed workers eventually end up in informal sectors or in rural areas with their families, as the labour market provides no or hardly any jobs.

The analysis shows that LICs had an average youth unemployment rate of about 10–15 per cent over the 2000 to 2020 period. While these rates decrease over the 20 year period studied, this does not mean that the situation for young people has improved in LICs. On the contrary, the situation for the vast majority of youth has generally worsened. They find fewer jobs in the formal sectors because there is little demand for workers in these areas. This means that the younger generation who are unable to find work in the formal sectors and in the administration have to seek informal jobs.

On the other hand, unemployment rates remain particularly high in the MICs. Here too, the number of jobs for the young is on a downward trajectory. In other words, fundamentally, despite rising per capita GDP, there is little sign of improvement of young people's situation on the labour markets.

It is evident that the countries whose per capita GDP is on an upward trajectory tend not to experience strong increases in the number of young male unemployed. This is clearly different from young women, who tend to struggle with rising unemployment when per capita GDP grows. The proportion of young unemployed females is particularly high in the MICs of Southern Africa. This is largely due to the poorer educational prospects for female youth. In contrast, both female and male unemployment remains very low in African LICs. This leaves young people with no choice but to work in family households, in agriculture or in the informal sector. The growth process with rising levels of wealth does not provide them with good job prospects in the formal sectors.

Better-educated young people should normally have better chances on the labour market, especially as the demand for qualified workers in the service sectors of urban centres is growing. A paradox thus arises. Usually we would expect the better educated to be more likely to find a job. And, to a certain extent, this is indeed the case. But the demand for better-educated workers is low, as the number of medium-sized enterprises is very small. Small and medium-sized enterprises barely grow and large enterprises do not generate much demand for labour. Moreover, the state, which often pays higher wages or salaries than the private sector, does not hire many young people. The remaining young people fall into unemployment or try to organise their lives by lowering their expectations, i.e. the better-educated youth migrate to the more dynamic sectors which need well-educated workers. The vast majority of educated youth end up in the »stagnant zone«.[27] These developments are thus rooted in the structure of the private sector and reveal a major division within society. Although developments in the African countries are very different, there is a component of structural heterogeneity that is difficult to overcome with the current employment programmes. There is hardly any evidence of a trickle-down effect. On the contrary, in fact, young, educated workers lower productivity levels because they are forced to take low-productivity jobs with low earnings. At least this is the situation in the majority of SSA countries. The picture in South Africa is quite different. Here, capital-intensive investment – including by state-owned companies – dominates, catapulting a large part of the educated and especially the less-educated labour force out of the labour market. Only a small number of foreign companies invest – mainly in capital-intensive commodity and industrial sectors with low employment effects (see Paragraph 3.5.).

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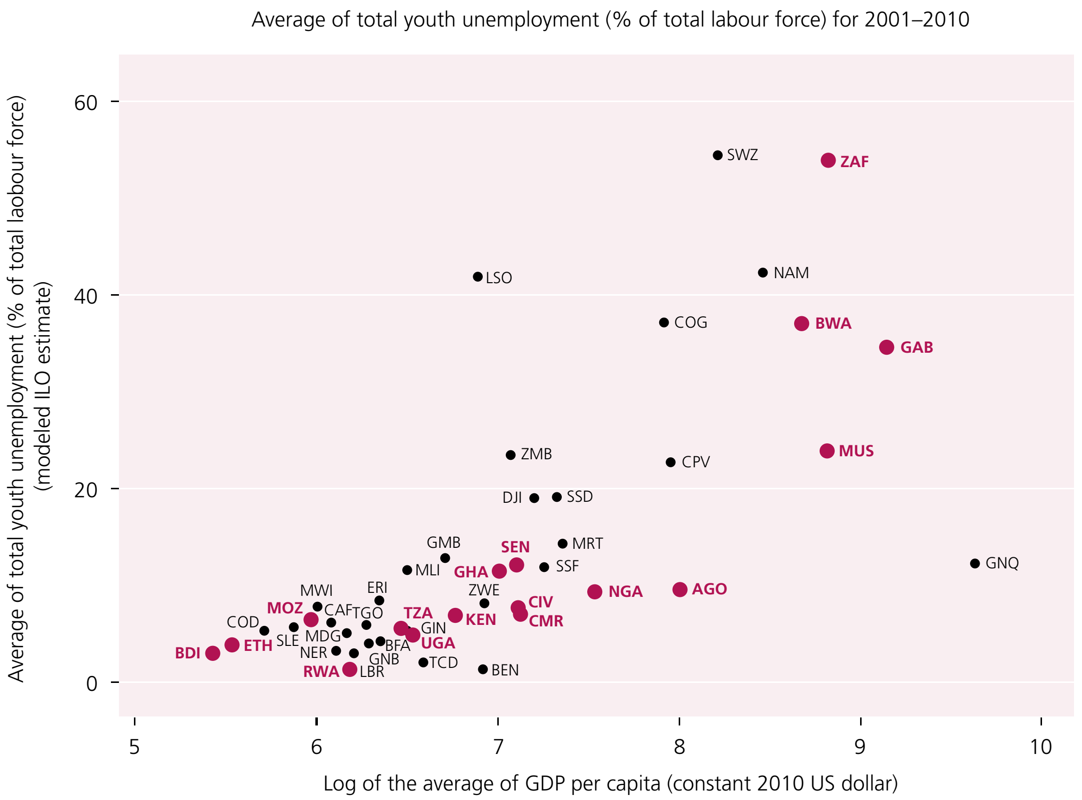
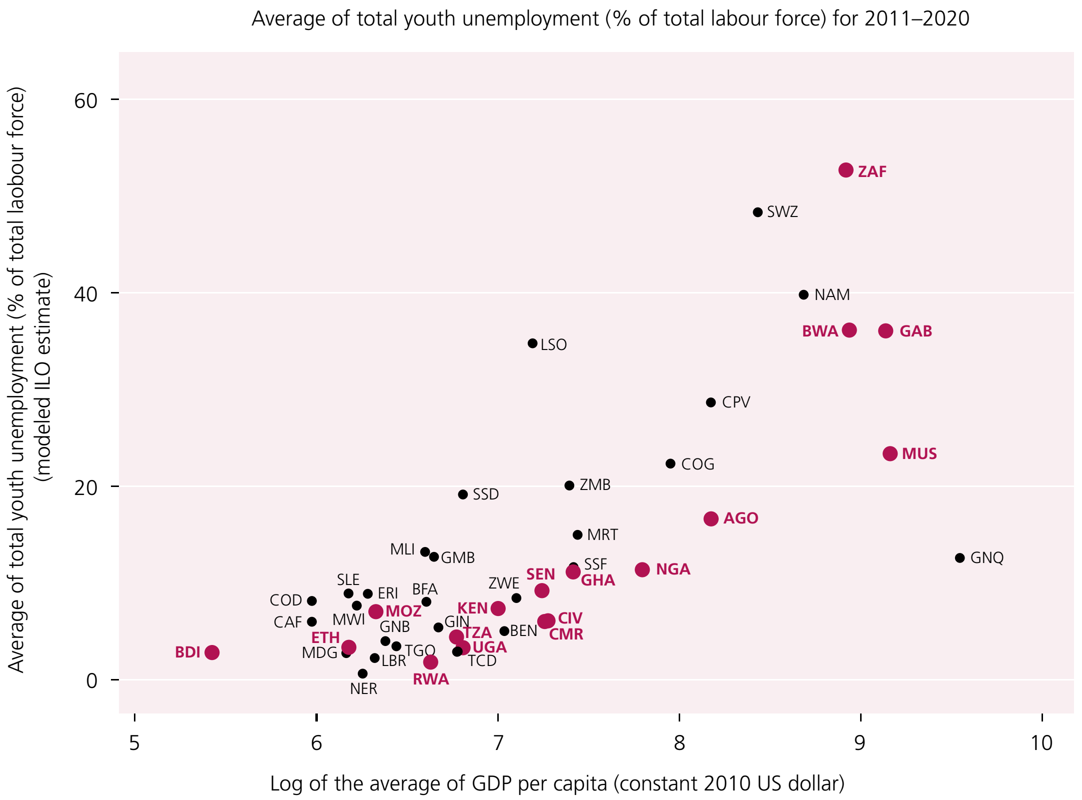
27 Taylor, Lance and Özlem Ömer (2020): *Macroeconomic Inequality from Reagan to Trump: Market Power, Wage Repression, Asset Price Inflation, and Industrial Decline.* Cambridge: Cambridge University Press. In this study, the authors examine the economy as a set of »dynamic« sectors compared with »stagnant zones«. They find that faster productivity growth in the dynamic sector forces workers to move to the stagnant zone.

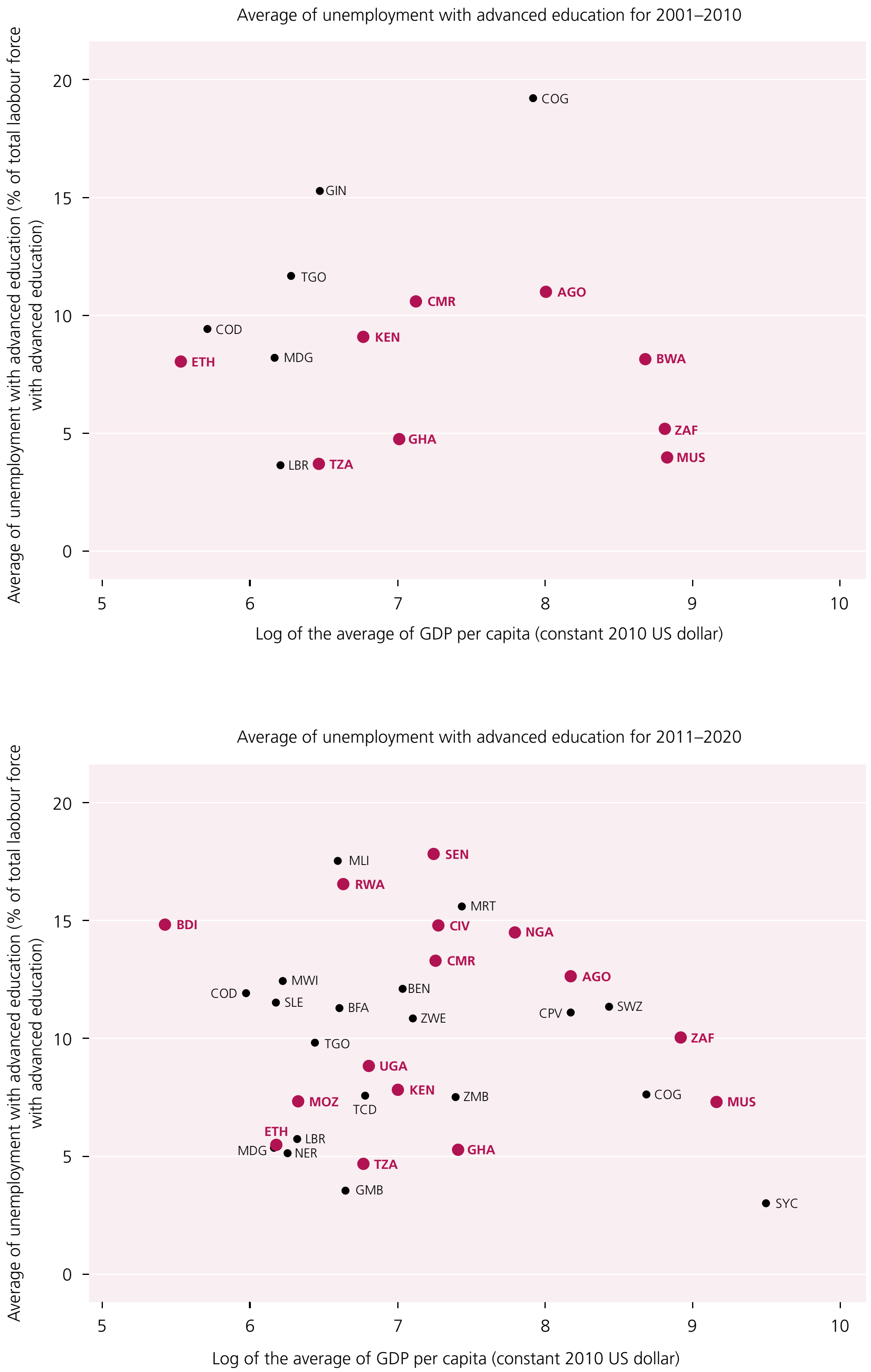
Graph 12
**Total youth unemployment (per cent of total labour force aged 15–24), 2000–2020, relative to log of average per capita GDP (constant 2010 US dollar), 2001/2010–2011/2020, in thousands**




Source: Author's illustration.

Graph 13
**Average unemployment among those with higher education (per cent of total labour force with higher education), relative to log of average per capita GDP (constant 2010 US dollar), 2001/2010–2011/2020, in thousands**




Source: Author's illustration.

Agriculture continues to dominate the employment market, and it also has to absorb unemployed youth, which increases rather than decreases the supply of labour in the countryside. The trap of unlimited supply of labour remains and is fuelled by the structural change that we are currently observing.[28] So, not only is there a transition from low-productivity agricultural jobs to low-productivity service activities, but there is a surplus of better-educated youth in low-productivity sectors – this is mostly associated with the prospect of unpaid jobs in family households.

The correlations do not necessarily show the extent to which better education opens up better job opportunities (see Graph 13). The level of education at schools and universities is simply too diverse. But, again, the results are very clear. There is much greater fragmentation of the labour market for educated youth. The higher the level of education, the more likely they are to be unemployed. Falling into the 5–18 per cent range, unemployment is clearly higher for better-educated young people than young people overall. This is particularly true for LICs and lower MICs. However, the situation in Southern African countries, i. e. the countries with generally higher average per capita GDP, is noticeably different. This is particularly striking for better-educated youth in South Africa, Namibia, Mauritius and especially the Seychelles. The youth unemployment rate in these countries is significantly lower than in countries with lower per capita GDP. However, it is also important to differentiate here. In Tanzania, Ghana, The Gambia, Liberia and also Togo, Kenya and Uganda, the average youth unemployment rate is below ten per cent. In Mali, Rwanda, Senegal and Côte d'Ivoire, in contrast, it is much higher.

## 3.5 EMPLOYMENT SITUATION OF WOMEN

The transformation process has changed labour markets in SSA. All data indicate that it is harder for women and young women to benefit from these transitions.[29] Gender inequality in labour markets manifests itself in different forms, depending on the country's level of development. Women's and men's labour force participation is very similar in low- and low- to middle-income countries. People of both genders are forced to work to support themselves and their families. But there are also considerable differences, which are most evident in the unequal access to wage labour.

The share of female labour in agriculture exceeds the share of male labour. But women have less land ownership, less access to credit, technology and other means of production, which limits their productivity and results in many more women living in extreme poverty. More than 60 per cent of rural women earn their incomes in smallholder agriculture. They are often unpaid or underpaid. They are disproportionately responsible for care work, including looking after children, the elderly and the sick. Far more women than men are illiterate.

Men have a greater advantage in that they partly produce cash crops, while women predominantly produce food for subsistence and local consumption. Men's better access to export channels thus widens the gender gap. Commodity sectors that produce in enclaves in a capital-intensive manner are predominantly male.

In low- to middle-income countries, women and men are migrating out of agriculture into urban informal sectors and, to a lesser extent, into wage labour in formal sectors. Women, like their male counterparts, have access to more economic opportunities in urban than in rural areas. This is because urban labour markets offer a wide variety of occupations, from manufacturing to services to office work. Nevertheless, given the trends, higher rates of urbanisation are not expected to lead to greater gender equality in employment.

Women are predominantly self-employed in the informal sector. Few jobs exist for women in modern industry. Men are far more likely than women to find wage employment in the process of urbanisation. The data also show that once countries reach upper middle-income levels, men are more likely to get formal jobs than women. This is also related to educational attainment, which puts women at a disadvantage.

FDI can be positively associated with gender equality in employment. Multinational companies often provide employment for women, for example in modern export-oriented agriculture or in the textile industry. In the long run, however, FDI can lead to women either losing their jobs to men or being pushed further down the production chain into subcontracted work. In addition, FDI can further widen the gender gap as technical training for men is prioritised, improving their technical knowledge and limiting women's access to technology and employment.

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**28** Lewis, Arthur (1954), Economic Development with Unlimited Supplies of Labour, in: *Manchester School of Economic and Social Studies* 22: 139–91.

**29** See https://blogs.lse.ac.uk/africaatlse/2018/05/16/africa-at-work-for-women/; https://www.ilo.org/africa/media-centre/pr/WCMS_458102/lang--en/index.htm; see Klasen, Stephan (2018): What Explains Uneven Female Labor Force Participation Levels and Trends in Developing Countries? Göttingen: *Courant Research Centre: Poverty, Equity and Growth – Discussion Papers* 246; available at: https://ideas.repec.org/p/got/gotcrc/246.html.

## 3.6 FDI, GLOBAL VALUE CHAINS, TRADE AND EMPLOYMENT

### FOREIGN DIRECT INVESTMENT (FDI)

Although it is not possible to provide more precise analyses due to a lack of data on the employment impacts of FDI, there are some indications of the orders of magnitude. For example, in its Attractiveness Reports, the consultancy firm EY reports on new jobs created by foreign direct investors (see Table 3).[30]

Between 2003 and 2014, FDI in Africa (SSA plus North Africa) is estimated to have created more than 646,000 jobs in manufacturing, 281,000 jobs in services, 159,000 jobs in the high-tech industries and 220,000 jobs in extractive sectors, i.e. an average of around 100,000 jobs per year over this period. With the increase in FDI inflows, the number of newly created jobs also increased (on average approx. 140,000/year in 2014–2018). According to the ILO from »all the foreign firms for which data are available, the manufacturing sector creates 2.75 job for every one million US dollars of FDI. Whereas the extractive sector creates only 0.6 jobs for every one million US dollars of FDI.«[31]

During the period 2014–2018, most of the new jobs created through FDI were in Ethiopia, South Africa, Nigeria, Kenya and Uganda, the majority of which were in agriculture, while industrial jobs played a less important role during this period (see Graph 14). Comparing the years 2014 and 2000, FDI created many more jobs in Ethiopia and Kenya, while the numbers tended to decline in South Africa and Senegal.

Table 3
**FDI and employment, 2014–2018**

| | Jobs created, in thousands | Investment, in bn USD | Jobs per 1 mn USD/FDI |
|---|---|---|---|
| **USA** | 62 | 30.9 | 2.0 |
| **France** | 58 | 34.2 | 1.7 |
| **Great Britain** | 41 | 17.8 | 2.3 |
| **China** | 137 | 72.2 | 1.9 |
| **South Africa** | 21 | 10.2 | 2.1 |
| **United Arabic Emirates** | 39 | 25.3 | 1.6 |
| **Germany** | 32 | 6.9 | 4.6 |

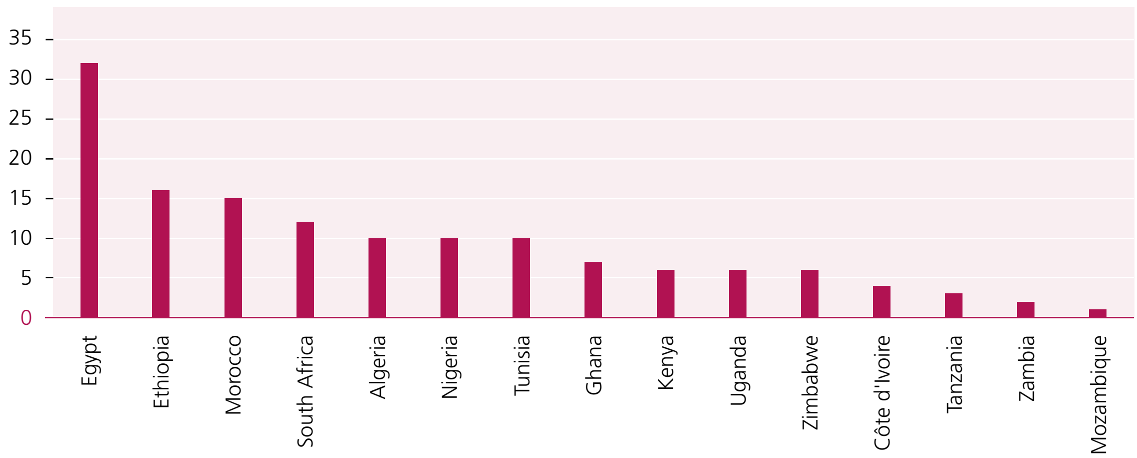
Source: Based on data from fDi Intelligence; Ernst & Young (2019): How Can Bold Action Become Everyday Action? *EY Attractiveness Program Africa,* Report September 2019.

Table 4
**FDI and new jobs in Africa, 2014–2018**

| | Projects | Jobs, in thousands | Capital, in bn USD |
|---|---|---|---|
| **2014** | 790 | 168 | 91.7 |
| **2015** | 793 | 140 | 65.1 |
| **2016** | 676 | 124 | 91.5 |
| **2017** | 655 | 132 | 82.1 |
| **2018** | 710 | 170 | 75.5 |

Source: Based on data from fDi Intelligence; Ernst & Young (2019), op. cit.

Graph 14
**FDI and jobs, 2014–2018, in thousands**




Source: Ernst & Young (2019), op. cit.

30 Ernst & Young (2019): How Can Bold Action Become Everyday Action? *EY Attractiveness Program Africa,* Report September 2019.

31 ILO (2020), op. cit.; see also Mbaye and Gueye (2018): op. cit.; see also Lay, Jann and Tevin Tafese (2020): Promoting Private Investment to Create Jobs. *PEGNET Policy Studies* 2; available at: https://www.pegnet.ifw-kiel.de/policy-studies/promoting-private-investment-to-create-jobs-a-review-of-the-evidence-13691/.

Hence, there is no clear correlation between rising FDI and additional jobs. An evaluation of the investment activities of foreign companies indicates the extent to which new employment opportunities are being generated. The analysis shows that the number of jobs created is on a downward trajectory, which is mainly due to the capital intensity of the investments. This situation is likely to become even more pronounced, as with technological developments and the increasing tendency of FDI to target large-scale investments, it is not likely to be possible to increase the employment successes per amount of investment in the future.

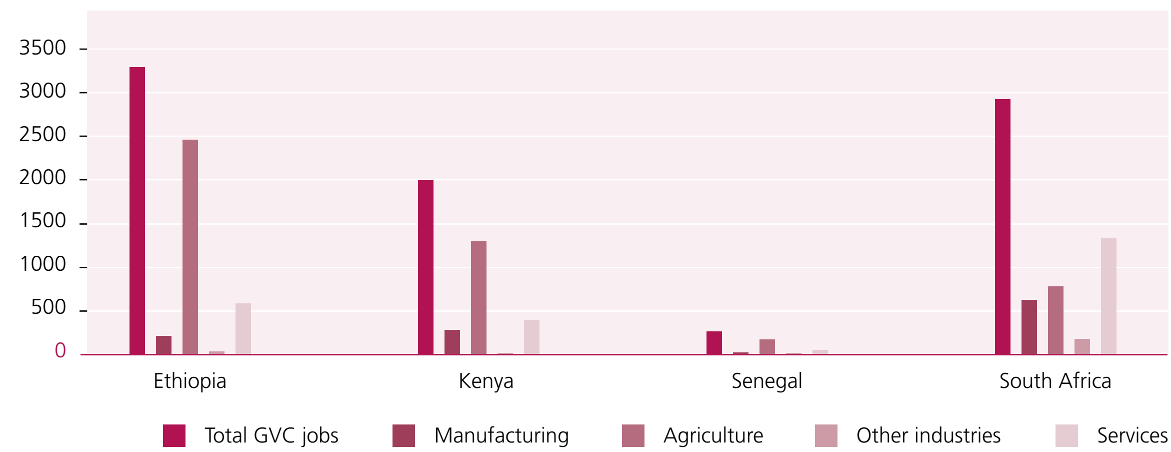
Interestingly, investments by African companies in SSA seem to create more jobs. Godard, Görg and Hanley (2020)[32] show that a cohort of African multinationals reveals strongly positive effects. Specifically, investment by homegrown African multinationals is associated with positive outcomes for employment and technology transfer.

## VALUE CHAINS

Due to rising global demand for manufacturing goods, there has been an increase in the number of manufacturing jobs in companies that are integrated into GVCs. The share of formal manufacturing jobs in total GVC jobs is still low in SSA, while the shares of agricultural and service-sector jobs in total GVC employment remains higher.[33] In some countries, industrial upgrading has taken place in high and low knowledge-intensive value chain activities. For example, Cameroon and Senegal added jobs in less knowledge-intensive industries (food and beverage, textiles and apparel, wood and paper, and metal products industries) as well as in high knowledge-intensive ones (electrical and machinery, transport equipment). The transport equipment industry in Ethiopia and South Africa and the electrical and machinery industry in Kenya also experienced an increase in employment. The food and beverage and textiles and clothing sectors recorded the highest employment growth. Boosting value-added growth in these industries is associated with positive employment growth effects.[34]

Growth and employment-enhancing effects of FDI result mainly from productivity spillovers to domestic firms and not necessarily from direct employment by FDI firms. The agglomeration benefits of locating industries in a particular area are higher in Africa in cases where domestic firms have located in the vicinity of and linked to foreign multinationals. The hyper-specialisation of the production process allows firms to focus on a small number of tasks. Therefore, firms in SSA that participate in GVCs are usually more productive.[35] Participation in GVCs can translate not only into more jobs, but also into better jobs. Companies that are part of value chains can pay higher wages and provide better working conditions. To some extent, this is as a result of the international agreements on compliance

Graph 15
**Number of workers in GVCs final goods production, 2014, in thousand**




Source: Data from Pahl, Stefan, Marcel P. Timmer, Reitze Goumar and Pieter J. Woltjer (2019): *Jobs in Global Value Chains: New Evidence for Four African Countries in International Perspective.* Washington, D.C.: World Bank; available at: https://openknowledge.worldbank.org/handle/10986/32155.

32 Godart, Olivier N., Holger Görg and Aoife Hanley (2020): Harnessing the Benefits of FDI in African Countries, in *CESIfo Forum* 21, 2: 32–7; Gold, Robert, Holger Görg, Aoife Hanley and Adnan Seric (2017): South–South FDI: is it Really Different?, in: *Review of World Economics* 153: 657–73.

33 UNCTAD (2020): *World Investment Report* 2020. Geneva: UNCTAD; Foster-McGregor, Neil, Florian Kaulich and Robert Stehrer (2016): Global Value Chains in Africa. Maastricht: UNIDO and UNU-MERIT Background Papers for UNIDO: *Industrial Development Report 2016*. IDR WP 2; available at: https://www.researchgate.net/publication/281450577_Global_Value_Chains_in_Africa.

34 World Bank (2020): *Industrialization for Jobs. Washington,* D.C.: World Bank.

35 World Bank (2020): *World Development Report 2020: Trading for Development in the Age of Global Value Chains.* Washington, D.C.: World Bank; Zeufack, Calderon, Kambou, Kubota, Canales and Korman (2020), op. cit.

with health and environmental standards, decent work, etc., they have to adhere to. Firms participating in GVCs also achieve higher productivity and wages through access to training and skills development.[36]

In SSA, GVCs have made inroads in manufacturing, services and agriculture. Many African exports are channelled through GVCs, which also act as conduits for new technologies. In principle, GVCs can benefit SSA by facilitating African firms' access to global markets.[37] They act as subcontractors and take over certain tasks in the value chain. The required inputs and services do not have to be produced locally but can be imported. Nevertheless, the integration of local companies into GVCs should be viewed with caution:

1. The participation of African companies in GVCs has remained quite limited.

2. The effects on employment are a cause for concern. This is because global disaggregation of production processes has tended to decline, limiting Africa's opportunities to integrate into GVCs. Ultimately, in many African countries, participation in GVCs has declined even further from an already comparatively low starting level.

It is true that the low-income countries in SSA have experienced very high economic growth, which is normally associated with export-oriented industrialisation and integration into global value chains. However, this is only true for SSA to a limited extent. Even in Ethiopia, which has had among the highest growth rates in SSA, the development of industrialisation, employment and trade have barely kept pace with GDP growth.

Contrary to all expectations, the positive employment effects of diversification – moving away from raw material exports and towards labour-intensive industrial production – have largely failed to materialise. It appears that the export orientation induced by foreign investment is only creating a relatively small number of jobs. Countries have to increase their exports to keep employment levels up. GVCs also tend to contribute less to job creation. This is mainly due to the rather weak linkages with the local economy.[38]

Traditionally, unskilled labour has been the main input in African value chains. Factories producing simple consumer goods, clothing, toys or food also hired workers who had few manual skills. In SSA, there is an unlimited supply of unskilled workers, making labour-intensive manufacturing particularly suitable and providing plenty of scope for expansion without encountering supply-side bottlenecks.

Against this backdrop, Africa was thus able to start stimulating labour-intensive production with very poor initial conditions. However, technological change has significantly weakened these advantages. Over the last decade, imports from low-cost Asian producers have made it difficult to build industries and have contributed to the decline of industries and job losses. And recent trends in manufacturing technology do not bode well for Africa either. Automation, robotics and 3D printing are all essentially labour saving. They increase demand for skilled labour and reduce demand for unskilled labour. Simple consumer goods can be produced cheaply by robots, so there is a risk that manufacturing plants will not even be set up in SSA or will be relocated away from Africa and back to China, Europe, etc. Reshoring to OECD countries could become more common in the future.

In other words, many if not most of the latest technologies imply that LIC's comparative advantage in manufacturing will tend to dissipate. In addition, high-value technology usually has to be imported from advanced countries, in other words, African companies have to import machinery and software to ensure competitive local production.

Rodrik[39] argues that newer technologies make factor substitution more difficult, especially in those companies whose production is integrated into GVCs. This is due to the demanding precision and quality standards associated with these technologies. GVCs also imply that the control of the production environment is shifting from local governments, producers and consumers to international firms, resulting in local firms becoming more dependent on the standards of global corporations. As production requirements increase, unskilled labour tends to be less in demand. In African horticulture, for example, standards are one of the main drivers of GVC dynamics. Along with the rise of GVCs supplying European supermarkets, there has also been a rise in standards, including quality, appearance, hygiene, safety and traceability of production, resulting in a relative decline in demand for low-skilled labour.

Pahl, Timmer, Goumar and Woltjer (2019)[40] come to the conclusion that declining competitiveness and lower labour requirements per unit of output (through the adoption of labour-saving technologies that replace routine production tasks along GVCs) means that, in SSA, employment growth has been weakened through GVC participation. The deterioration of competitiveness reduced job growth along GVCs in South Africa by 0.35 percentage points, as well as in Ethi-

36 This does not apply to Ethiopia, where extremely low wages are paid in SEZs. The country's minimum wage is not applied. See Danish Trade Union Development Agency (2020): *Labour Market Profile Ethiopia.* Copenhagen: DTDA.

37 Rodrik (2018), op. cit.

38 Rodrik, Dani (2018): New Technologies, Global Value Chains, and the Developing Economies. Oxford: *Pathways for Prosperity Commission Background Paper Series* 1; available at: https://pathwayscommission.bsg.ox.ac.uk/Dani-Rodrik-paper.

39 Rodrik (2018), op. cit.

40 Reinjnders, Laurie S. M. and Gaaitzen de Vries (2018): Technology Offshoring and the Rise of Non-routine Jobs, in: J*ournal of Development Economics* 135: 412–32.

opia (0.78 percentage points), Kenya (0.1 percentage points), and Senegal (0.22 percentage points).[41]

It is often argued that GVCs and new technologies increase the chances for developing countries to access global markets by making it easier for them to engage in the production of certain tasks without developing domestic supply chains. In this scenario, African companies are lower-tier suppliers in a chain controlled by key players. They are subcontractors controlled through the economic and technical governance of the main players in the chain. This allows them to benefit from technology and knowledge transfers, but the advantages are limited. In fact, this type of value chain governance can even undermine the economic performance of developing countries. First, they tend to be biased towards specific skills. This limitation reduces the comparative advantage of SSA countries in traditionally labour-intensive activities and reduces their gains from trade. Second, it becomes harder for LICs to exploit their labour-cost advantage in the process of globalisation.

From the above, it can be deduced that a reasonable approach would appear to be to rely less on international economic integration and dependencies and instead to expand endogenous economic development. It may be that a more proactive industrial and employment generation policy aimed at deepening the linkages between highly productive global firms, potential local suppliers and the local labour force, and improving local value added, is the best way of both managing the import of technology and strengthening local entrepreneurship at the same time.

## CHINA'S RISING WAGES

There is a flurry of excitement about Chinese investment in SSA. According to some studies, if wages rise in China, millions of jobs could be created in SSA. The expectation is that these increases would be so high that there would be a significant boost to African employment. In 2011, for example, former Chief Economist and Senior Vice President, Development Economics at the World Bank, Justin Lin[42] announced that Chinese FDI could create millions of jobs in LICs. Acha Leke and Landry Signé declared in 2019 that Africa would be the world's next great manufacturing centre as industries shift away from China to lower-cost regions.[43] Even as late as 2020, UNECA is still being swayed to the view that »the potential growth of industry is projected to leverage 666.3 billion US dollars in business-to-business spending on manufacturing and transfer 100 million labour-intensive jobs from China to Africa«.[44] If this conviction is anything to go by, China could be seen as the ›development escalator‹ outside its own borders, too, creating more jobs than all other countries put together ever did. Indeed, Chinese companies and the Chinese state have invested (FDI, infrastructure projects) and also created jobs for Africans – but to a far lesser extent than was originally trumpeted to the world (see Graph 16 for wage comparisons).

The extent to which a rise in Chinese wages has actually led to an increase in industrial jobs is illustrated by the example of Ethiopia – an important strategic partner for China. According to the Ethiopian Investment Commission, in 2020 there were about 620 active Chinese investment projects (mainly in manufacturing and the construction sector), employing around 200,000 workers (of which about 140,000 are permanent jobs and 60,000 temporary jobs).[45] Thus, while there are a large number of workers being hired in Ethiopia compared to other countries, the Chinese contributed a share of just 15 per cent of FDI-created jobs in 2016.[46] Ethiopia's manufacturing industry is the main sector attracting companies from China. In addition to creating direct employment opportunities and boosting Ethiopia's foreign exchange reserves through exports, investment is expected to create significant backward and forward linkages in the country's fast growing textile and garment industry.[47]

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41 See Pahl, Stefan, Marcel P. Timmer, Reitze Goumar and Pieter J. Woltjer (2019): *Jobs in Global Value Chains: New Evidence for Four African Countries in International Perspective.* Washington, D.C.: World Bank; available at https://openknowledge.worldbank.org/handle/10986/32155; see also Pahl, Stefan and Marcel P. Timmer (2020): Do Global Value Chains Enhance Economic Upgrading? A Long View, in: *The Journal of Development Studies 56*, 9: 1683–705; Zeufack, Calderon, Kambou, Kubota, Canales and Korman (2020): op. cit.

42 »China is on the verge of graduating from low-skilled manufacturing jobs and becoming a ›leading dragon.‹ That will free up nearly 100 million labor-intensive manufacturing jobs, enough to more than quadruple manufacturing employment in low-income countries.« Lin, Justin Yifu (2011): From Flying Geese to Leading Dragons. New Opportunities and Strategies for Structural Transformation in Developing Countries. Washington, D.C.: *World Bank Policy Research Working Paper* 5702; available at: https://openknowledge.worldbank.org/handle/10986/3466; see Altenburg, Tilman (2019): *Migration of Chinese Manufacturing Jobs to Africa: Myth or Reality?* Washington, D.C.: Brookings (5.3.2019); available at: https://www.brookings.edu/blog/africa-in-focus/2019/03/05/migration-of-chinese-manufacturing-jobs-to-africa-myth-or-reality/.

43 Leke, Acha and Landry Signé (2019): Africa's Untapped Business Potential. Spotlighting Opportunities for Business in Africa and Strategies to Succeed in the World's Next Big Growth Market, in: *Foresight Africa*. Top Priorities for the Continent in 2019. Washington, D.C.: Brookings: 76–95.

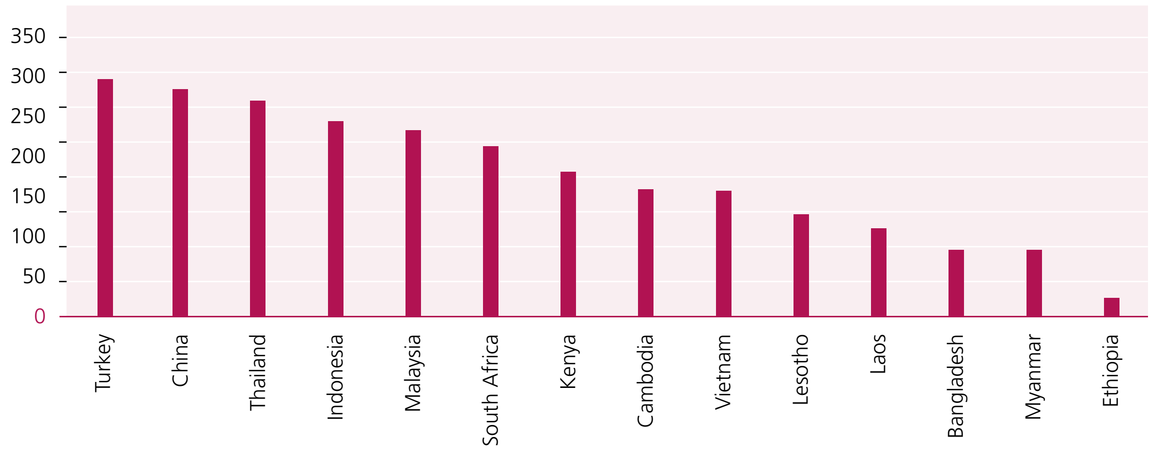
44 UNECA (2020): *Economic Report on Africa 2020: Innovative Finance for Private Sector Development in Africa.* Addis Ababa: 90–1. UNECA's statement is based on Lin (2011), op. cit. and Signé, L. (2018): *The Potential of Manufacturing and Industrialization in Africa: Trends, Opportunities and Strategies.* Washington, D.C.: Africa Growth Initiative, Brookings Institution.

45 *The Ethiopian Herald* (8.2.2020); available at: https://www.press.et/english/?p=18715#.

46 See Nicolas, Françoise (2017): *Chinese Investors in Ethiopia. The Perfect Match?* Paris: Note de l'Ifri; available at: https://www.ifri.org/en/publications/notes-de-lifri/chinese-investors-ethiopia-perfect-match; see also Oya, Carlos and Florian Schaefer (2019): *Chinese Firms and Employment Dynamics in Africa: A Comparative Analysis. London: SOAS, University of London;* available at: https://www.soas.ac.uk/idcea/publications/reports/.

47 Whitfield, Lindsay, Cornelia Staritz, Mike Morris (2020): Global Value Chains, Industrial Policy and Economic Upgrading in Ethiopia's Apparel Sector, in: *Development and Change* 51, 4: 1–26; available at: http://www.investethiopia.gov.et/why-ethiopia/why-invest-in-ethiopia?id=563https://thediplomat.com/2020/04/china-and-ethiopia-part-4-mekelle-industrial-park/; https://www.ozy.com/around-the-world/how-chinese-entrepreneurs-are-quietly-reshaping-africa/93519/.

Graph 16
**Monthly wages in textile garment industries, 2018, in US dollar**




Source: Barrett, Paul M. and Dorothée Baumann-Pauly (2019): *Made in Ethiopia: Challenges in the Garment Industry's New Frontier.* New York: NYU Stern Center for Business and Human Rights.

A large part of Chinese investment is in SEZs. In Ethiopia, this amounted to about 86,000 jobs in industrial parks in 2020 (around 29,000 in 2018) and only 74,000 in early 2021, due to the pandemic.[48] In other countries, the figures are much lower. In total, 137,000 jobs were created by Chinese investments on the African continent in the period 2014–2018 (see Table 3).

Many authors account for the possibility of increasing investment in SSA by arguing that wages in China are rising and that SSA can therefore become a destination for FDI in manufacturing. But the low-wage argument is not very convincing. A simple wage comparison – rising wages in China and low wages in SSA – makes little economic sense. In SSA, unit labour costs (ULCs)[49] are mostly high – compared to many Asian countries.[50] Most Chinese investments are in the energy and commodity sectors, i.e., they are capital-intensive and commodity-intensive investments that are not carried out because of possible wage differentials but because of the demand for commodities created by the modernisation of the Chinese economy.

So, how should we view the thesis of strongly growing FDI with high employment effects? First of all, it must be noted that, for the last few decades, China has been supplying African markets with products from its own labour-intensive, low-wage industries, thus helping to accelerate the decline of the manufacturing industry in SSA and also slowing down employment growth. Ever-cheaper products have been imported from China and elsewhere, hampering the ability of African industries to remain competitive with low wages. This has been aggravated by the fact that, for a long time, Chinese investments have been in commodity sectors in Africa, employing only few workers (see Table 3). The focus on this type of investment has also contributed to deindustrialisation. That is, the allocation of resources focused on capital-intensive sectors that generated foreign exchange and therefore favoured the political and economic decisions of African political and economic elites on rent-seeking economies. The focus on capital-intensive investments went hand in hand with the expansion of unlimited labour and a lack of employment opportunities for the majority of African workers. High wages were paid in the commodity enclaves, states generated relatively high revenues and were thus able to provide employees in public administrations with high salaries. This model was simultaneously pursued by France and the UK, as well as China, and in the long run has been instrumental in creating structural distortions for a large majority of countries in SSA.

While Chinese demand for commodities remains high, Chinese FDI in manufacturing is relatively low. This raises the question of the extent to which SSA is able to attract Chinese investment in manufacturing and create employment as a result of rising wages in China and millions of underemployed workers in SSA.[51] It should be noted that while wages in some African countries are low (see Graph 17), the cost of capital per worker is actually very high – much higher than in Bangladesh, for instance. In contrast, wages in African countries are in fact well above per capita GDP.

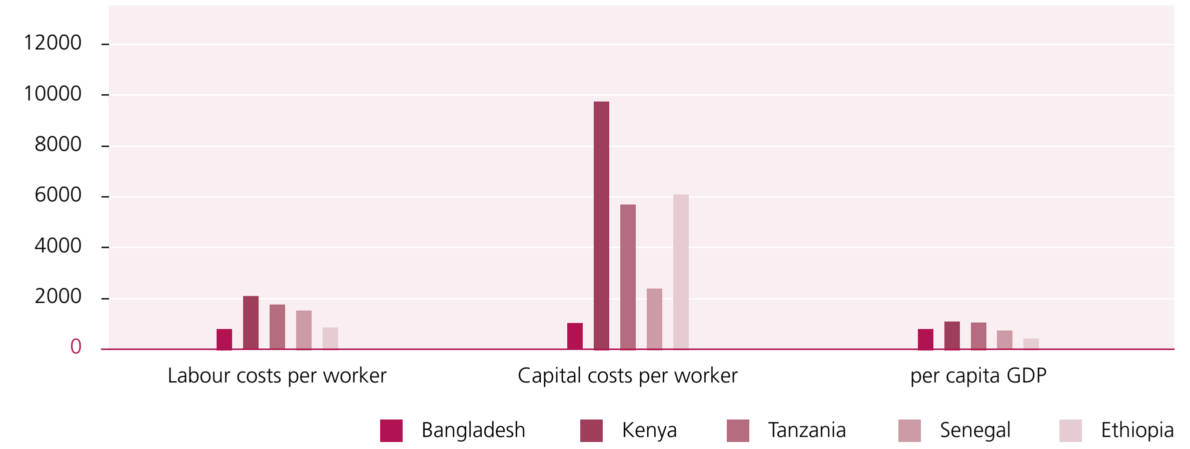
48 Cepheus (2021): *Ethiopia Macroeconomic Handbook* 2021.

49 Unit labour costs (ULCs) measure the average cost of labour per unit of output and are calculated as the ratio of total labour costs to real output.

50 Banga, Karishma and Dirk Willem te Velde (2018): *Digitalisation and the Future of Manufacturing in Africa.* London: SET, ODI; available at: https://set.odi.org/wp-content/uploads/2018/03/SET_Digitalisation-and-future-of-African-manufacturing_Final.pdf.

51 Golub, Stephen S., Janet Ceglowski, Ahmadou Aly Mbaye and Varun Prasad (2018): Can Africa Compete with China in Manufacturing? The Role of Relative Unit Labour Costs, in: *The World Economy* 41, 6: 1508–28.

Graph 17
**Labour and capital costs, per capita GDP, in US dollar PPP**




Source: Adapted from Gelb, Alan, Christian Meyer, Vijaya Ramachandran and Divyanshi Wadhwa (2017): Can Africa Be a Manufacturing Destination? Labor Costs in Comparative Perspective. Washington, D.C.: *CGDEV Working Paper 466;* available at: https://www.cgdev.org/publication/can-africa-be-manufacturing-destination-labor-costs-comparative-perspective.

To help us answer the question posed at the start of the previous paragraph, a closer look at unit labour costs in China compared to African countries is useful. A country's international competitiveness in manufacturing depends on its production costs relative to its competitors. The use of unit labour costs (ULCs) as a measure of cost competitiveness focuses exclusively on labour costs and labour productivity, however.[52] Several important findings emerge from the analysis by Golub, Ceglowski, Mbaye and Prasad (2018). First, wages in African manufacturing are very high relative to per capita GDP (see Graph 17). Second, until recently, real wages and productivity levels in manufacturing in SSA were well above China's levels, with the real wage differential being larger than the productivity differential. Consequently, ULCs in SSA economies were significantly higher than in China. The high ULCs have reduced African competitiveness and partly explain Africa's weak development of labour-intensive production. Third, real wage and productivity growth in SSA have lagged behind that of China: in recent years, Chinese wages have risen significantly, outpacing productivity growth. This has reduced China's competitive advantage in manufacturing and allowed Africa's LICs to attract some investment. That said, most Chinese industrial FDI has been in Asian countries because of their low ULCs, with a small and diminishing share of FDI flowing to SSA. Fourth, relative real wages fell faster than relative productivity in African countries, increasing their competitiveness against China. In some countries, ULCs even fell below China's. For the majority of SSA countries, however, relative ULCs remained high, and consequently, did not attract industrial investment.

The international competitiveness of some SSA countries has improved somewhat, but compared to China, African ULCs remain largely unfavourable. According to Golub et al. (2018), high industrial wages reduce competitiveness in the labour-intensive manufacturing sector.[53] In addition, inadequate and expensive infrastructure (roads, electricity, ICT, R&D) and weak institutions negatively affect the business environment for foreign investment. Above all, low-income Asian countries maintain an advantage over African countries. The ability of countries in SSA to attract FDI is therefore limited. They are unlikely to catch up in industrial manufacturing and create jobs through industrial investment. Only Ethiopia, which has adopted the Chinese model and is also under strong pressure from China, has been able to attract a very small percentage of Chinese investment due to extremely low wages. However, relative to the economic damage caused by this model of FDI-induced growth surges without effective job-creating growth, this investment is meagre. In the ›race to the bottom‹, Ethiopia has already reached the lowest level (see Graph 16) – and still cannot even be certain that this will result in a breakthrough in industrial production. This is especially true since the exports that have resulted from FDI in production are heavily dependent on imports, which in turn contribute to high foreign trade deficits.[54]

At the same time, there are global transformations. Historically, growing industries have created jobs for low-skilled workers, but this is unlikely to continue to be the case for SSA.[55] This is due to the high investment costs of creating jobs and thus the declining number of jobs, in

52 Capital and energy costs, human capital, infrastructure and institutional quality also play a role.

53 Golub, Ceglowski, Mbaye and Prasad (2018), op. cit.; see Hallward-Driemeier and Nayyar (2018), op. cit.

54 Kappel and Reisen (2019), op. cit.

55 Baldwin, Richard (2019): *The Globotics Upheaval: Globalisation, Robotics and the Future of Work*. New York; Baldwin, Richard and Rikard Forslid (2020): Globotics and Development: When Manufacturing is Jobless and Services are Tradable. Cambridge, Mass.: *NBER Working Paper* no. 26731.

relative terms, in a production process facing imminent automation. Furthermore, as a result of automation, digitalisation and protectionism, there is little evidence of Chinese producers leaving China in a large way to export from the African continent back to China or to the US and Europe. Meanwhile, China is upgrading its manufacturing technology (»Made in China 2025«) through robotisation, following the *jiqi huanren* directive (machines replace workers). It is also not insignificant that there is pressure on FDI in SSA value chains to comply with international standards and norms. The low level of qualifications in Africa and the rapid changes brought about by new technologies make it difficult for African companies to enter GVCs as subcontractors, especially since medium-sized companies are often too technologically and economically weak.

To summarize: It is by no means a foregone conclusion that rising wages in China will lead to higher Chinese FDI in SSA to produce at low wages there. This is also true for international brands, which are unlikely to relocate parts of their supply chain production from Asia to Africa on a large scale.[56] Quite the opposite in fact. Chinese FDI creates scarcely any jobs because most FDI is capital intensive. It can be stated with relative certainty that FDI from China (as well as from Europe, the USA and emerging economies) is not leading to the desired employment impacts in Africa. The growth effects for employment are limited because China's FDI flows predominantly into the commodity and energy sectors. Most of the industrial jobs created by Chinese firms in Africa were low skilled and semi-skilled.[57]

## AFRICAN CONTINENTAL FREE TRADE AREA

The World Economic Forum has identified the African Continental Free Trade Area (AfCFTA) as an exciting game changer.[58] The AfCFTA agreement connects 1.3 billion people across 55 countries. The African Union (AU) states that AfCFTA has the potential to lift 30 million people out of extreme poverty. Real incomes could grow significantly if the agreement is fully implemented. Economic and distributional gains would result from the removal of non-tariff barriers and tariffs. The AfCFTA would significantly boost African trade, especially intra-regional trade in manufacturing. The volume of total exports could increase by almost 30 per cent by 2035. Under the AfCFTA scenario, exports are expected to increase the most – especially in intra-African trade. According to calculations by the World Bank and the AU, the AfCFTA agreement should also increase regional production and productivity and lead to a redistribution of resources across sectors and countries. Output would increase most in the natural resources and services sectors, and in manufacturing, while output in agriculture would shrink.

The implementation of the AfCFTA would increase employment opportunities and wages. Aggregate forecasts show that the average gross domestic product (GDP) of the region would grow by between 0.66 and 0.97 per cent annually, and employment would grow by just as much. Real wages would increase across the board for both skilled and unskilled workers.[59] UNECA estimates that most jobs would be created in energy-intensive manufacturing: the implementation of the AfCFTA could result in welfare gains, creating more than two million new jobs, especially for women.[60] Labour market outcomes would vary from country to country, and some workers would lose jobs, while others would gain access to new job opportunities and higher wages.

The success of the AfCFTA, the AU argues, depends on flexible labour markets, infrastructure development within and between countries, sound macroeconomic policies and a business-friendly environment for domestic and foreign investors. However, these very optimistic assumptions do not sound terribly realistic. Job creation is linked to whether the shift from commodity exports to more value added and intra-African value chains can be facilitated.[61] A crucial prerequisite for this is that African firms, which will be exposed to greater competition in the AfCFTA, are able to meet these challenges. In all likelihood, non-African companies producing industrial goods and services will benefit most from the AfCFTA. That is, companies from China, Europe, the US and emerging economies located in Africa will be able to use the now larger and more open market to exploit their comparative advantages. In other words, if African companies are to benefit from the AfCFTA, there would need to be extensive support measures for company scale-up, technological upgrading, export capability, etc.. If this were to happen, the full implementation of the AfCFTA could also stimulate the development of regional value chains. Whether or not African workers will find employment opportunities through these linkages depends first and foremost on the ability of African companies to enter these markets.

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56 There are major differences between the countries of SSA and the North African countries, which have a higher degree of industrialisation and attract more FDI. Of significance, for instance, is that the region's proximity to Europe and thus lower trade and transport costs mean that foreign companies' supply chains play a bigger role in Morocco, Egypt or Tunisia than in most countries in SSA.

57 For a detailed analysis, see Calabrese, Linda and Xiaoyang Tang (2020): *Africa's Economic Transformation: the Role of Chinese Investment.* London: ODI; available at: https://degrp.odi.org/publication/africas-economic-transformation-the-role-of-chinese-investment/.

58 https://www.weforum.org/agenda/2021/02/afcfta-africa-free-trade-global-game-changer/.

59 Lunenborg, Peter (2019): 'Phase 1B' of the African Continental Free Trade Area (AfCFTA) negotiations. *South Centre Policy Brief* 63; available at: https://www.southcentre.int/policy-brief-63-june-2019/.

60 UNECA (2020): *Creating a Unified Regional Market.* Addis Ababa: UNECA.

61 Zeufack, Calderon, Kambou, Kubota, Canales and Korman (2020), op. cit.

## 3.7 DIGITALISATION

Many believe[62] that automation, robotisation and digitalisation (Industry 4.0) can have positive effects on the African job market if Africa succeeds in implementing the technological revolutions locally. However, the literature on the impact of digitalisation on SSA's labour market is inconclusive. Digitalisation and automation can contribute positively to economic growth. New technologies, such as artificial intelligence, robots, 3D printing and e-commerce, can lead to an increase in demand for and trade of new products, and also to more efficient organisation of production, which contributes to an overall increase in production and exports. Automation in manufacturing and new technologies can make production more efficient and increase productivity. The reduction in average production costs due to the application of new technologies can increase production and exports and consequently also the demand for labour. In addition, new technologies can reduce production costs, which, in turn, can attract new entrepreneurs to the market and increase the number of ›digital‹ jobs. Previous studies show that the effects of new technologies are positive and significant. The Internet is also seen as making a positive contribution to economic growth, but this effect is estimated to be minimal in SSA due to the underdeveloped digital infrastructure.[63] Digital technologies could potentially be used to improve education, health and decent livelihoods in the region, and to promote more environmentally sustainable patterns of production and consumption. African governments can contribute to a more socially and environmentally responsible use of digital technologies.[64]

But digitalisation, robotisation and artificial intelligence, as different as they are, can also threaten jobs. The use of robots, 3D printers and automation can lead to labour substitution in traditional labour-intensive (routine) manufacturing and consequently destroy jobs. In other words, new technologies could place SSA in a critical situation. Particularly at the stage when some countries seek to industrialise and establish themselves in GVCs, the pressure of digitalisation can destroy all hopes of more jobs in the modern sectors. Consequently, even if new jobs are created in digitalisation, it can still lead to an increase in informal jobs at the same time. As barriers to entry are lowered by digitalisation, competition increases, which can lead to pressure on wages and an increase in precarious work. The digital revolution also exacerbates spatial problems, with consequences for employment. The concentration of the digital economy in the larger cities increases spatial divergences. Rural areas and small towns are disconnected from digitalisation, while small hubs of companies with highly skilled jobs are emerging in economic centres.

Women have less access to digital hardware, as do most rural or remote areas and small towns, where 80 per cent of SSA's poor live. Not only do they have limited Internet access, they are excluded from most jobs in the modern service sector. Increasing automation will create new forms of social division. Those in informal jobs are particularly disadvantaged by the automation of routine tasks, and a group of better-educated and formal workers will benefit the most. The ›globotics transformation‹ will probably increase inequality within countries, as the opportunities it brings are most likely to be available to those who are already benefitting from the globalisation process.[65] In addition, the utilisation of advantages in the digital value chain is limited as the digital economy is dominated by a few large players, which makes it difficult for African SMEs to enter the market.

## 3.8 THE GREEN ECONOMY

For some decades, the human impact of climate change in SSA has become increasingly apparent. SSA is one of the most vulnerable regions to climatic shocks, since it is home to the majority of the world's poor who are unlikely to be able to escape extreme poverty in the near future, mostly due to the negative effects of climate change in African agriculture. The World Bank estimates that a million people in SSA are at risk of falling back into poverty as a direct result of climate change. Despite its low contribution to greenhouse gas emissions, Africa faces exponential collateral damage, posing systemic risks to its economies, infrastructure investments, water and food systems, public health, agriculture and livelihoods, and threatening to undo its modest development gains and face even higher levels of extreme poverty.[66] The large share of agriculture in GDP and employment adds to vulnerability, as do weather-sensitive activities, such as herding and fishing, leading to income losses and increased food insecurity.

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62 Such theses are put forward in many publications, especially by consulting firms, development policymakers and international organisations. It should be borne in mind, however, that many of the proposals are initially based on very optimistic scenarios, which are then often quietly dropped later on.

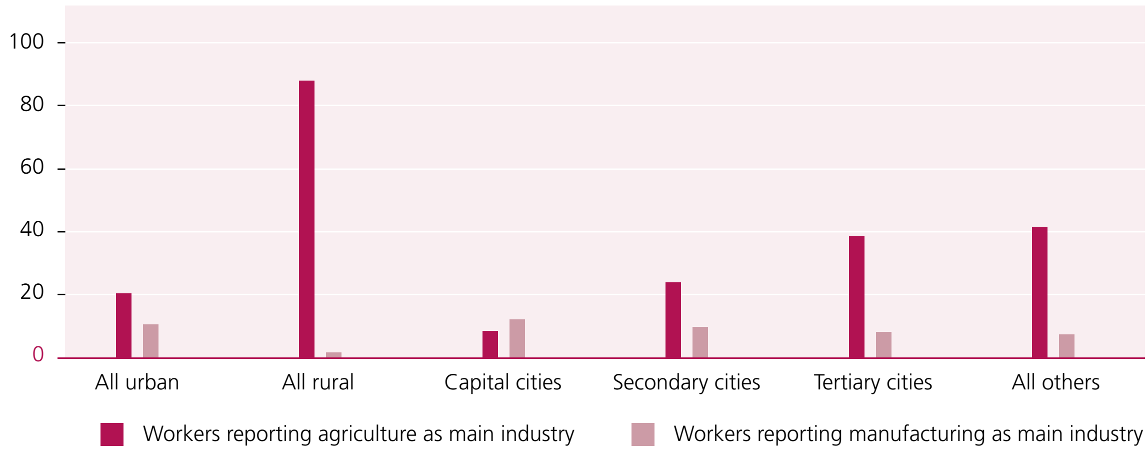
63 Myovella, Godwin, Mehmet Karacukaa and Justus Haucap (2020): Digitalization and Economic Growth: A Comparative Analysis of Sub-Saharan Africa and OECD Economies, in: *Telecommunications Policy* 44: 1–12; Frey, Carl Benedikt and Michael A. Osborne (2017): The Future of Employment: How Susceptible are Jobs to Computerisation?, in: *Technological Forecasting and Social Change* 114: 254–80; See AUC/OECD (2021): *Africa's Development Dynamics 2021: Digital Transformation for Quality Jobs.* Addis Ababa, Paris; available at: https://doi.org/10.1787/0a5c9314-en. Hjort, Jonas and Jonas Poulsen (2019): The Arrival of Fast Internet and Employment in Africa, in: *American Economic Review* 109, 3: 1032–79.

64 Fritzsche, Kerstin, Stefanie Kunkel and Marcel Matthess (2020): Digitalized Economies in Africa. Potsdam: *IASS Fact Sheet* 2; available at: https://publications.iass-potsdam.de/pubman/faces/ViewItemFullPage.jsp?itemId=item_6000438.

65 Goldin, Ian (2020): Technology and the Future of Work. Oxford: *Pathfinders Research Paper,* December 2020; available at: https://www.sdg16.plus/inequality.

66 AzzarrI, Carlo and Sara Signorelli (2020): Climate and Poverty in Africa South of the Sahara, in: *World Development* 125, January: 1–19; available at: https://www.sciencedirect.com/science/article/pii/S0305750X19303390; see also https://www.afdb.org/en/cop25/climate-change-africa; https://unfccc.int/news/climate-change-is-an-increasing-threat-to-africa.

Graph 18
**Peri-urban employment. Farmers in African cities, in per cent**




Source: Henderson, Vernon J. and Matthew A. Turner (2020): Urbanization in the Developing World: Too Early or Too Slow?, in: *Journal of Economic Perspectives* 34, 3.

Many African nations have committed to transitioning to green energy within a relatively short time frame. One promising approach to reducing climate-related risks and extreme event impacts, adopted throughout the continent, has been to reduce poverty. Value addition techniques using efficient and clean energy sources are reported to be capable of reducing poverty faster than growth in any other sector. Efficient solar-powered micro-irrigation, for example, is increasing farm-level incomes, improving yields and reducing water usage, while at the same time offsetting carbon emissions. There is a limited number of studies focusing on the effects of green policies on jobs. This literature finds that green transitions have a modest impact on overall job creation, but with a bias towards high-skilled jobs.[67]

## 3.9 URBAN DEVELOPMENT AND JOBS

In 2019, SSA's urban population reached 450 million. The share of the urban population rose from 31 per cent in 2000 to 41 per cent in 2019. Nevertheless, the majority of Africans will continue to live in rural areas and intermediary cities until 2040. Rising rural-urban migration increases the supply of low-skilled labour in the cities resulting in an expansion of the urban informal sector due to the limited capacity of the formal sector to absorb jobseekers.[68]

Although the region has experienced rural-to-urban migration for decades, the rapid increase in Africa's urban population in recent years is largely attributed to natural growth. Rural-urban migration is estimated to contribute less than 40 per cent.[69]

Urbanisation has traditionally been strongly correlated with the expansion of jobs and economic activity in the more productive industrial and service sectors – thus boosting per capita income growth. In SSA, in particular, people who move to cities are poorer, less educated, less productive and have fewer social networks.[70]

Household panel surveys from 2009–2016 show that in many African countries, only a small number of workers move from rural to urban areas and from informality to formality. The consequences of these rural-urban developments are manifold. One trend that is often overlooked is that for around 25 per cent of the urban population – and about 30 per cent in Mozambique, Sierra Leone and Tanzania – their main employment is in agriculture.[71] In SSA countries, peri-urban activities have been rising rather than falling. Secondary and tertiary cities have the highest shares of peri-urban activities (see Graph 18).

67 1. Net change in the number of jobs. 2. Industries will be more affected by the energy transition. 3. Jobs created by energy transitions. 4. Reach of social protection systems, see Malerba, Daniele and Kirsten S. Wiebe (2021): Analysing the Effect of Climate Policies on Poverty Through Employment Channels, in*: Environmental Research Letters* 16: 1–11; available at: https://doi.org/10.1088/1748-9326/abd3d3; Hallegatte, Stéphane, Mook Bangalore, Laura Bonzanigo, Marianne Fay, Tamaro Kane et. al. (2016): *Shock Waves: Managing the Impacts of Climate Change on Poverty.* Washington, D.C.: World Bank.

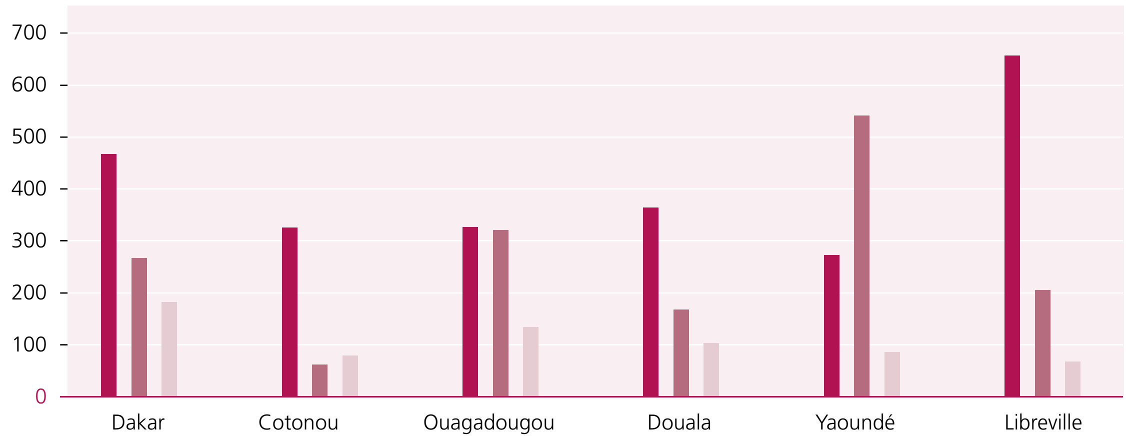
68 Zeufack, Calderon, Kambou, Kubota, Canales and Korman (2020), op. cit.

69 See Jedwab, R., L. Christiansen and M. Gindelsy (2017): Demography, Urbanization and Development: Rural Push, Urban Pull and … Urban Push?, in: *Journal of Urban Economics* 98: 6–16; Henderson, Vernon J. and Matthew A. Turner (2020): Urbanization in the Developing World: Too Early or Too Slow?, in: *Journal of Economic Perspectives* 34, 3: 150–73.

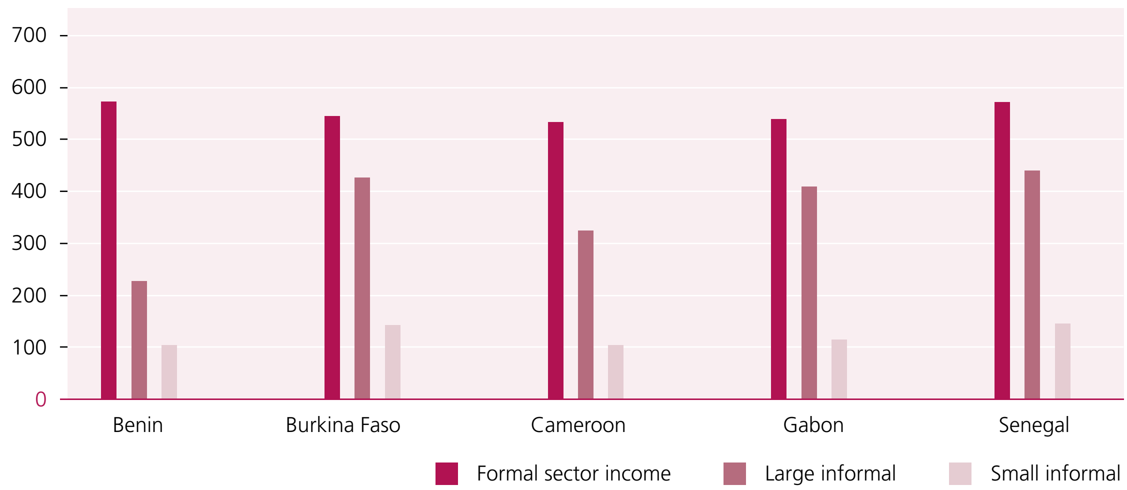
70 Collier, Paul (2017): African Urbanization: an Analytical Policy Guide, in *Oxford Review of Economic Policy* 33, 3: 426.

71 Henderson and Turner (2020), op. cit.; Hommann, Kirsten and Somik V. Lall (2019): *Which Way to Livable and Productive Cities? A Road Map for Sub-Saharan Africa.* Washington, D.C.: World Bank.

Graph 19
**Average monthly salary, 2015, in thousand CFCA**




Graph 20
**Average monthly income, 2015, in thousand FCFA**



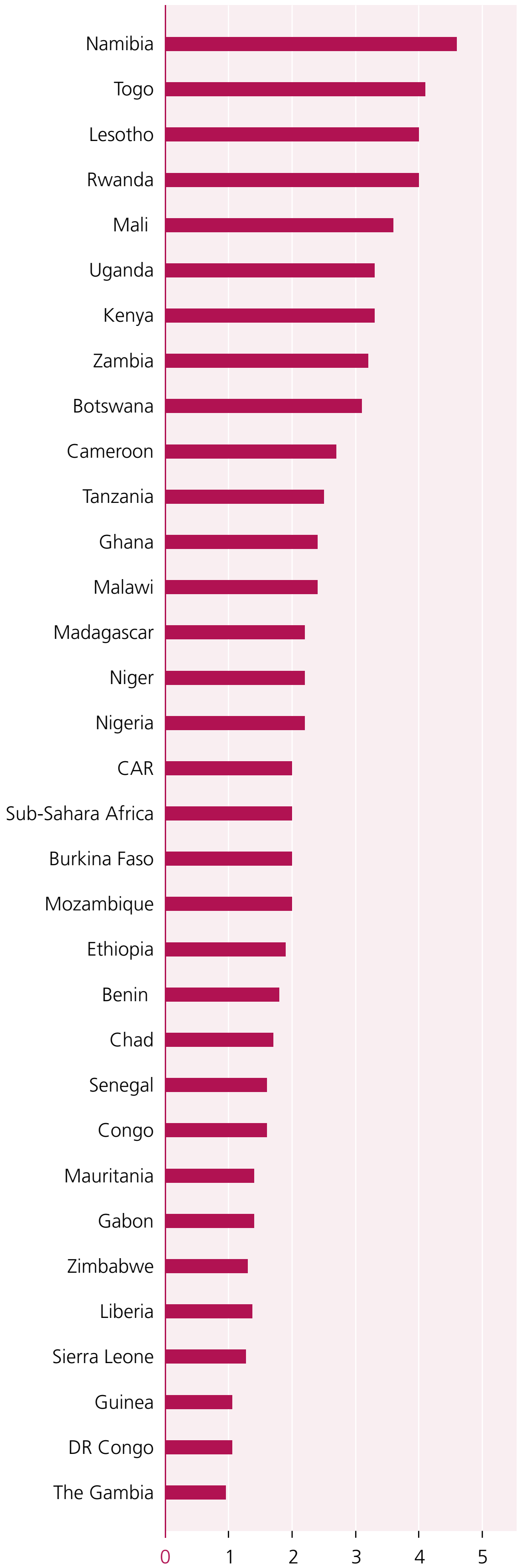

Source: Ekomié, Jean-Jacques, Fatou Gueye, Dominique Haughton, Ahmadou Aly Mbaye and Ibrahima Tall (2020): The Informal Sector in Francophone Africa, in Aly Mbaya/Stephan S. Golub/Fatou Gueye (eds.): *Formal and Informal Enterprises in Francophone Africa.* Ottawa: 79-101.

The share of urban informal employment was 96 per cent in Benin, 88 per cent in Burkina Faso, 67 per cent in Cameroon, 87 per cent in Senegal and 75 per cent in Gabon. The studies by Ekonomié, Gueye, Haughton, Mbaye and Tall (2020)[72] use examples from francophone West and Central Africa to show just how extensive informality and self-employment are. It appears that most informal sector employees do not receive a payslip, unlike their formal sector counterparts. Most small informal sector employees had no social security coverage (pension or social security benefits). Formal sector working conditions are better than in the informal sector. Holding multiple jobs is another aspect that is more common in the informal sector.

Wages are clearly much lower for informal workers and the self-employed. Their pay puts them close to the poverty line and often below it, which is why many people have several jobs to ensure their survival. The formally employed have significantly higher wages, the highest of which can be found in Libreville, the capital of Gabon. Average monthly incomes in the formal sector are about five times higher than in informal employment (see Graphs 19 and 20). It can be assumed that more than one-third of the populations in Niger, Uganda and Ethiopia earn incomes below 1.90 US dollars per day.

72 Ekomié, Jean-Jacques, Fatou Gueye, Dominique Haughton, Ahmadou Aly Mbaye and Ibrahima Tall (2020): The Informal Sector in Francophone Africa, in Aly Mbaye/Stephan S. Golub/Fatou Gueye (eds.): *Formal and Informal Enterprises in Francophone Africa.* Ottawa: 79–101.

Graph 21
**Private - public wage gap in sub-Sahara Africa, 2019**




Source: Bhorat and Oosthuizen (2020): op. cit, 16.

The extent to which the gap between public services and private sectors has widened is shown in Graph 21. In some countries, the difference is as much as two to four times the average private income, i.e. public service workers benefit from the alignment of the economy with a very small productive modern sector and a dominant informal sector. Not without reason, various authors have described the transformation of SSA as being from low-productivity agriculture to low-productivity urban society with a dominant informal (service) sector accompanying the emergence of »consumption cities«. These »consumption cities« serve the needs of a political elite, while the »production cities« address the needs of manufacturers and merchants.[73]

The wage sector in SSA, although very small, is characterised by a particularly high degree of wage dispersion. Higher wages are generally paid in public services and large companies, although in many sectors, for example on large plantations and also in the special economic zones, pay is below the country's minimum wage.

But this is not the full picture. In the transformation process, industrial hubs or special economic zones are also emerging in or adjacent to cities, and industrial clusters are evolving that are no longer only characterised by low-productivity activities. There is a small, but growing tier of innovative start-up enterprises, knowledge and ICT-based firms, often cooperating with research institutes and universities. And there is a visible dynamic of entrepreneurship in many sectors, including media, tourism, horticulture, agro-industries, business and trade services, and also in rural areas. Newfarmer, Page and Tarp (2018) refer to these sectors as »industries without smokestacks«.[74] Moreover, FDI is no longer only flowing into commodity sectors but also into industrial and service sectors. Even though these are relatively small branches of the economy, they are providing better-paid jobs. That said, many small and medium-sized towns have so far barely benefited from these trends.

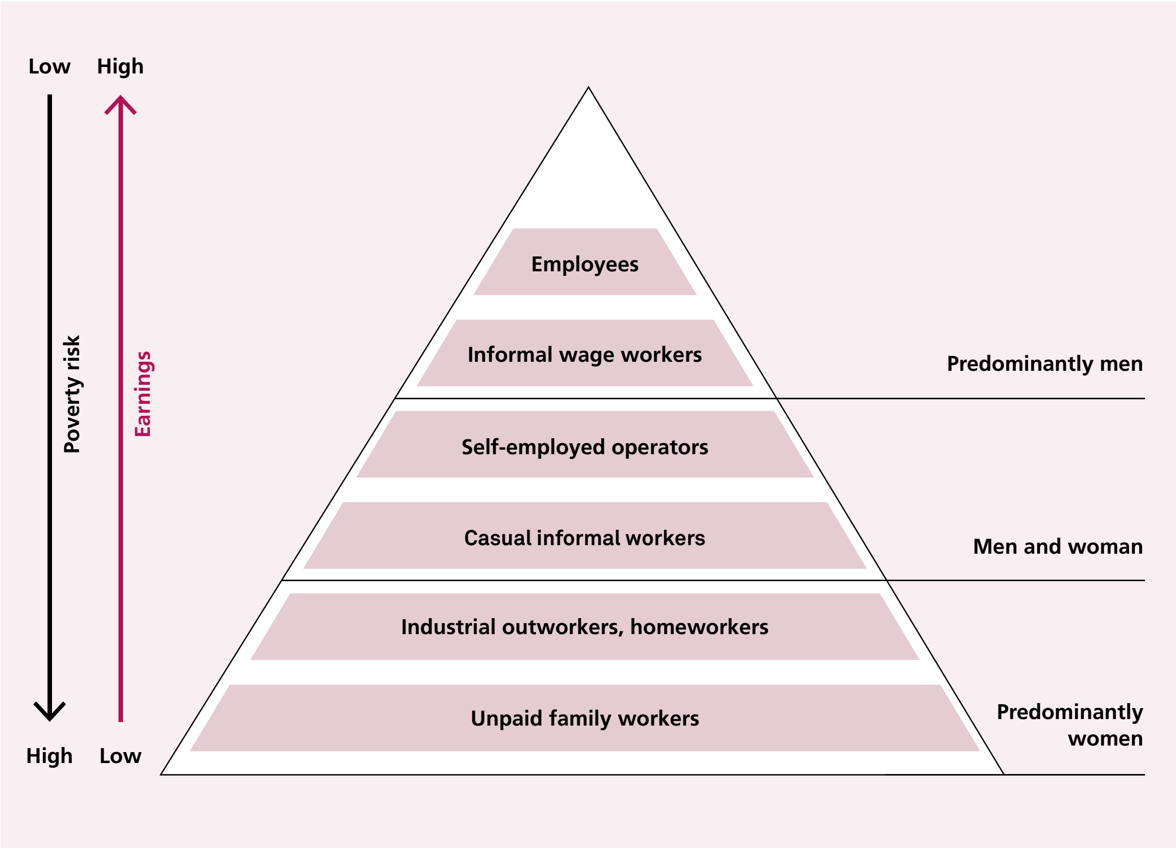
## 3.10 INFORMAL ECONOMY AND INFORMAL EMPLOYMENT

Informal employment covers a wide range, including salaried employees, self-employment or unpaid family helpers, all with very different levels of pay (see Graph 22). Men and women are also concentrated in different areas of employment, with women predominantly acting as family helpers and homeworkers, while men are mainly informal wage workers and informally employed.

73 See Henderson and Turner (2020), op. cit.; Gollin, Jedwab and Vollrath (2016), op. cit.

74 Newfarmer, Page and Tarp (2018), op. cit.

Graph 22
**Pyramid of informal employment**




Source: Based on https://www.wiego.org/blog/how-pyramid-sketch-redefined-informal-economy- percentE2 percent80 percent94-and-new-data-putting-20-year-old-idea-test.

## SELF-EMPLOYMENT

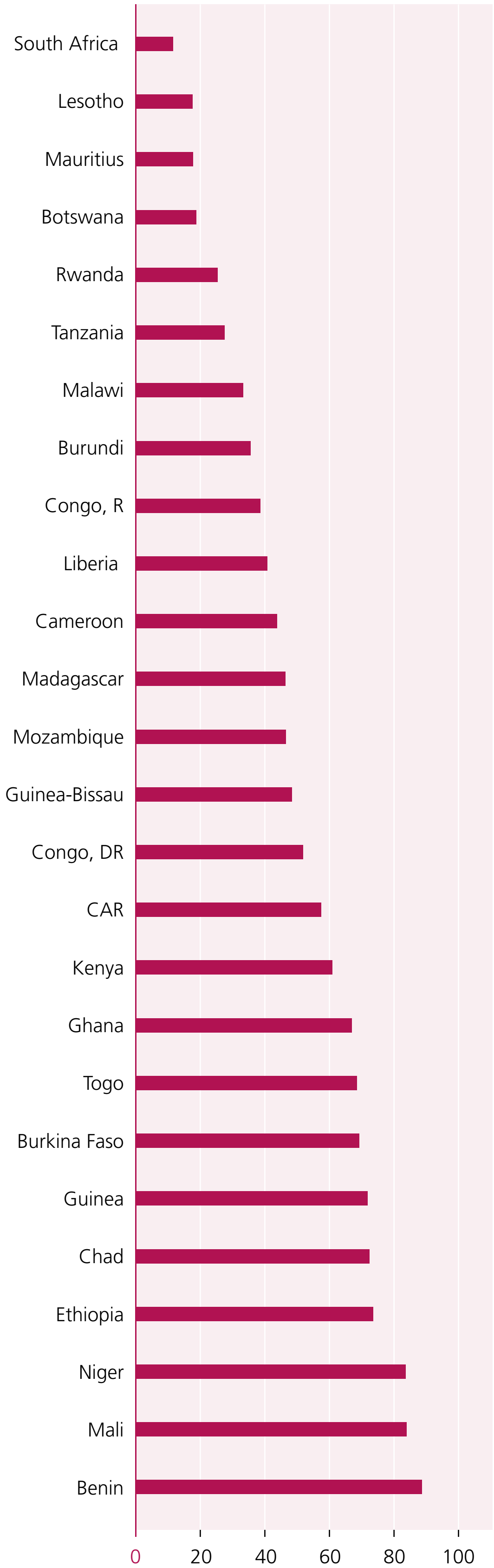
The aforementioned developments are reflected in the rate of self-employment and family work. Own-account workers are ›forced‹ self-employed, choosing to run their own businesses not because of their entrepreneurial drive, but because they cannot find a steady well-paid job in the wage sector (entrepreneurs by necessity).[75]

Self-employment rates are 85 per cent in Ghana and Madagascar, 83 per cent in Mali, and 66 per cent in Kenya. In South Africa, though, the rate is just 19 per cent, reflecting the small size of the informal sector and the ongoing efforts to limit self-employment activities such as street vending, which can be entered freely in most other countries. Self-employment accounts for half of all employment in West African cities, ranging from 44 per cent in Dakar to 63 per cent in Bamako. Above all, these high rates of self-employment are an indication of the paucity of wage employment opportunities in Africa.[76] Self-employment is particularly high in LICs, where an increasing share can be observed, partly because the modern sector (industry, service and administration) is showing barely any growth. In MIC, this share is also on an upward trajectory.

75 Rud, Juan Pablo and Ija Trapeznikova (2021): Job Creation and Wages in Least Developed Countries: Evidence from Sub-Saharan Africa, in: *The Economic Journal;* available at: https://doi.org/10.1093/ej/ueaa110 (accepted manuscript).

76 See Mbaye and Gueye (2018), op. cit.; Fields, Gary S. (2019): Confronting Africa's Employment Problem, in: Célestin Monga/Abebe Shimeles/Andinet Woldemichael (eds.): Creating Decent Jobs. Strategies, Policies, and Instruments. Abidjan: African Development Bank, *Policy Research Document* 2; See Golub, Stephen and Faraz Hayat (2014): Employment, Unemployment, and Underemployment in Africa. Helsinki: *WIDER Working Paper* 14.

Graph 23
**Self-employment in sub-Sahara Africa, as share of total employment, in per cent**




Source: Monga, Célestin, Abebe Shimeles and Andinet Woldemichael (eds.) (2019): Creating Decent Jobs. Strategies, Policies, and Instruments. Abidjan: African Development Bank, *Policy Research Document* 2.

## INFORMAL EMPLOYMENT

The informal sector (IS) contributes between 25 per cent and 65 per cent of GDP, with Mauritius and South Africa at the lower end with under 25 per cent, and Tanzania and Nigeria at the opposite end of the spectrum with 50 and 60 per cent, respectively.[77] However, the significance of the IS in Africa's economic output (per capita GDP) decreases as the level of prosperity rises. A good illustration of the importance of the informal sector is developments in Senegal, for example. As in most countries of SSA, the share of the service sector in GDP is also increasing in Senegal. Table 5 shows Senegal's declining share of agriculture in employment and the increase in the share of services. While the vast majority of informal firms are very small, large informal firms play a major role in certain subsectors, such as food imports, pharmaceuticals, cement, construction, trucking, and other services.

Table 5
**Household survey employment estimates in Senegal, 2011 and 2015, in per cent**

| | Formal / Informal | 2011 | 2015 |
|---|---|---|---|
| **Agriculture** | Formal | 0.8 | 0.3 |
| | Informal | 55.1 | 36.1 |
| **Industry** | Formal | 2.8 | 1.3 |
| | Informal | 10.7 | 7.8 |
| **Trade** | Formal | 1.2 | 1.9 |
| | Informal | 16.5 | 18.0 |
| **Other services** | Formal | 2.5 | 5.6 |
| | Informal | 10.3 | 29.0 |
| **Total** | Formal | 7.4 | 9.1 |
| | Informal | 92.6 | 90.9 |

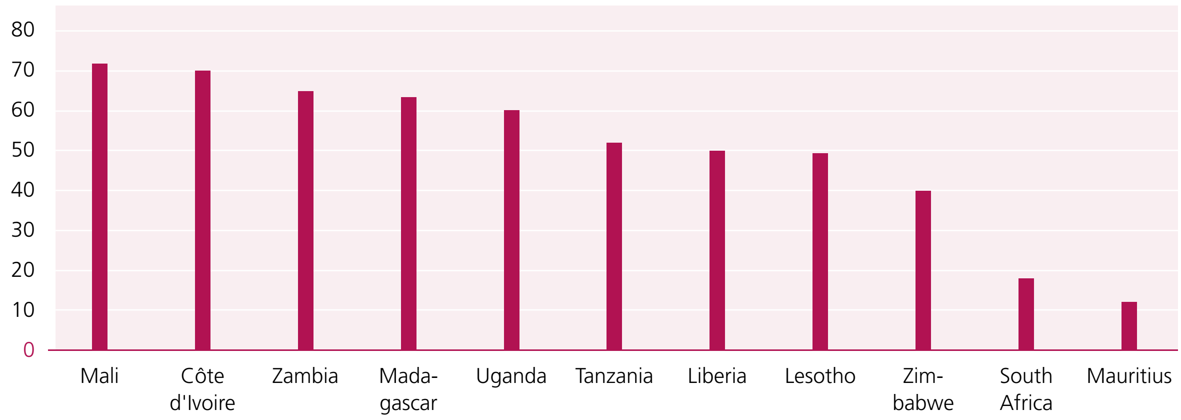
Source: Benjamin, Nancy and Ahmadou Aly Mbaye (2020): The Informal Sector in Francophone Africa: The Other Side of Weak Structural Transformation (7.7.2020). Washington, D.C.: Brookings; available at: https://www.brookings.edu/research/the-informal-sector-in-francophone-africa-the-other-side-of-weak-structural-transformation/.

In African LICs, informal employment accounts for more than 70 per cent of total employment. A total of 86 per cent of the employed population in Africa are in informal employment. In addition, 93 per cent of new jobs in Africa are in the informal sector. Graph 24 illustrates the importance of informal employment in SSA, clearly showing that it is highest in Mali, Cote d'Ivoire, Zambia and Madagascar, and lowest in the MICs South Africa and Mauritius.

When it comes to informal employment, Kenya can be considered a very interesting case. Although the data is open to interpretation, the trend is quite clear. While for-

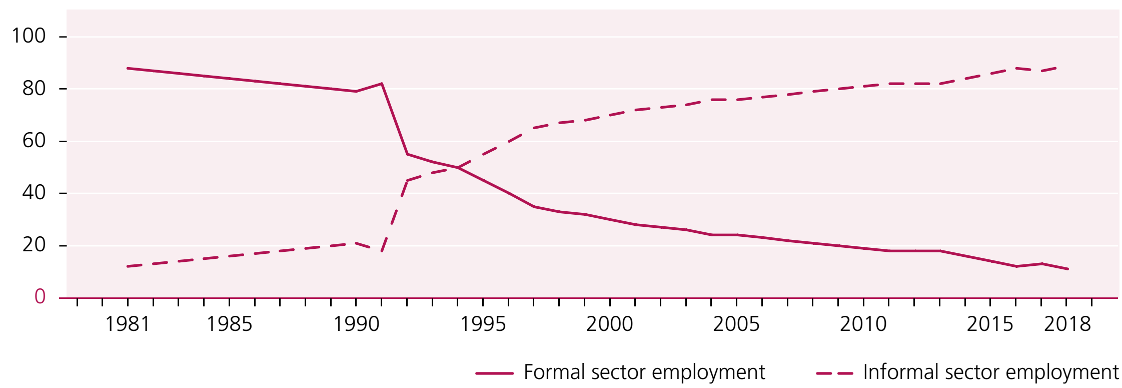
77 Adegoke, Yinka (2019): Economists Struggle to Figure out Where Africa's Informal Economy Starts or Where it Ends. (6.12.2019); available at: https://qz.com/africa/1759070/economists-struggle-to-figure-out-where-africas-informal-economy-starts-or-where-it-ends/.

Graph 24
**Share of employees in informal non-agricultural sector, in per cent**




Source: Bhorat, Haroon, Karmen Naidoo and Arabo Ewinyu (2017): The Tipping Point: The Youth Bulge and the sub-Saharan African Labor Market, in: Increasing Employment Opportunities. *Foresight Africa:* 33; available at: https://www.africaportal.org/publications/increasing-employment-opportunities-navigating-africas-complex-job-market/

Graph 25
**Formal and informal employment, Kenya, 1989-2018, in per cent**



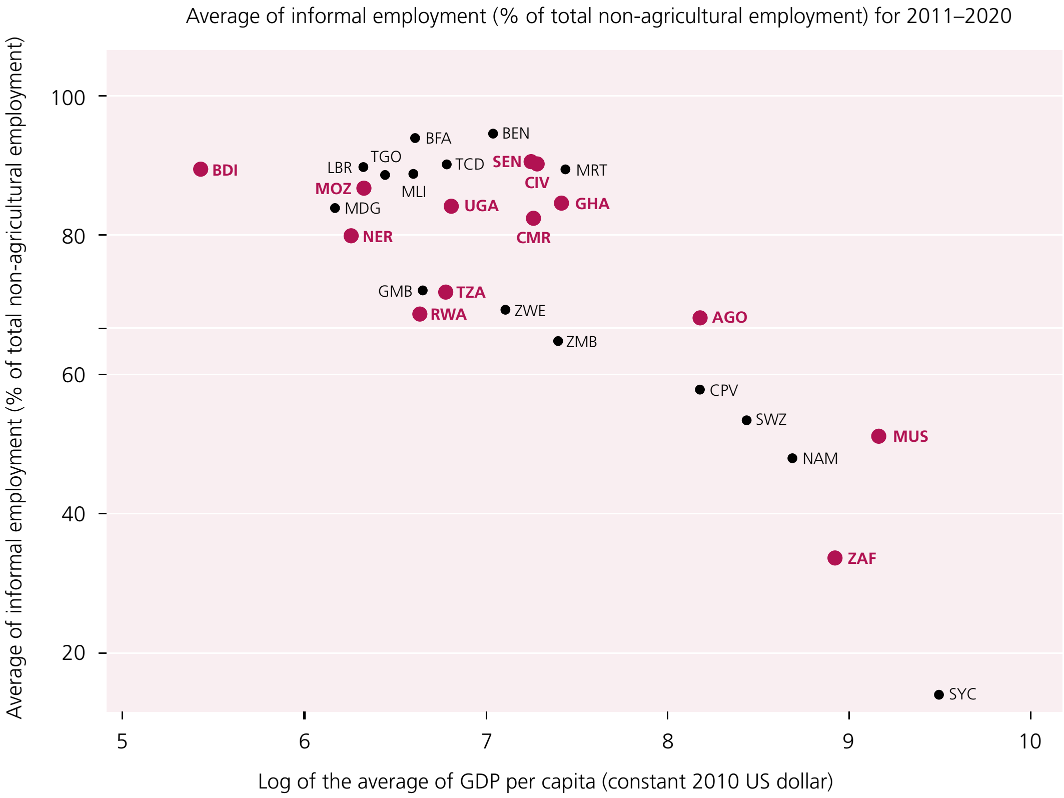

Source: Ahmad, Abdiaziz A. (2019): *Inter-Industry Gender Wage Differentials in Kenya;* available at http://erepository.uonbi.ac.ke/handle/11295/107769.

mal employment has been declining sharply over a period of about 40 years, informality has been increasing by the same degree (see Graph 25), and the gap has widened considerably. Informal employment in Kenya at the beginning of 2000 stood at 73 per cent (2018: 83 per cent) and formal employment at 27 per cent in 2000 and 17 per cent in 2018. This profound structural change is characterised by low-wage work, insecurity and the abrogation of all standards in respect of working hours, minimum wages, decent work, etc. Three out of four jobs in SSA can be described as vulnerable, with people working as unpaid family help or being self-employed. The poor quality of employment is also reflected in the high proportion of the working poor in total employment. In 2011, as many as 81.5 per cent of workers in SSA were classified as working poor.

The data in Graph 26 makes it clear that a growing informal sector is absorbing those African workers who are unable to find wage employment. An increase in the share of workers in low-wage, lower-productivity jobs means that the positive impact of productivity growth within the dynamic sectors on poverty reduction tends not to be felt.[78] This shows that poverty can increase in this process, despite migration to the cities. The growth of urban informal sectors with incomes below the poverty line leads to an average increase in poverty in urban centres and especially in small and medium-sized towns, where there are few opportunities for wage work.

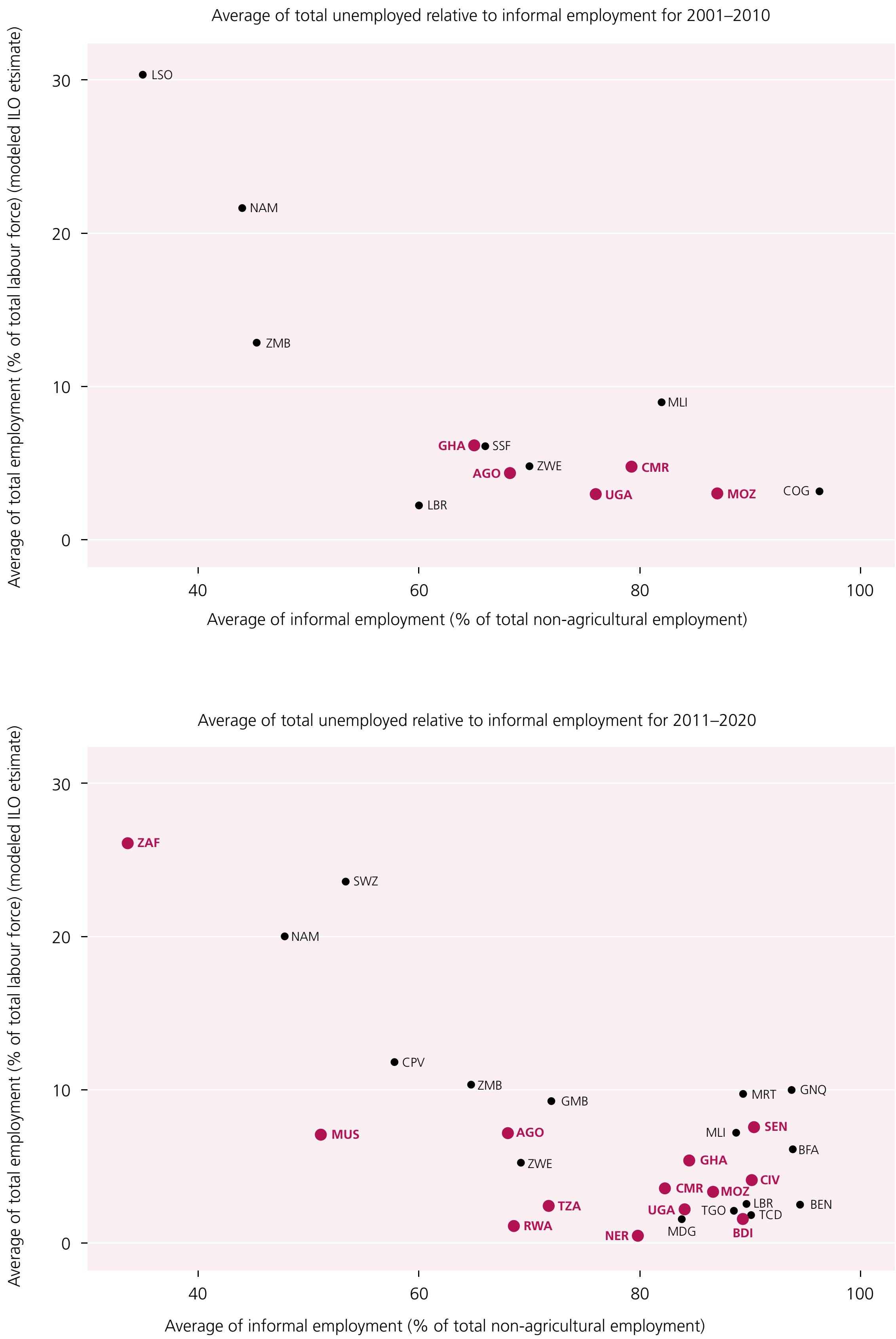
78 de Vries, Gaaitzen, Marcel Timmer and Klaas de Vries (2013): *Structural Transformation in Africa: Static Gains, Dynamic Losses.* Groningen.

Graph 26
**Average informal employment (per cent of total non-agricultural employment) and per capita GDP, Log of average GDP, 2001/2010–2011/2020, in thousands**


Source: Author's illustration.

Graph 27
**Average total unemployment relative to informal employment, 2001/2010–2011/2020, in per cent**




Source: Author's illustration.

Our analysis indicates a change in the importance of informal employment as a share of non-agricultural employment. The data for the years 2001–2010 are relatively rudimentary, as hardly any data on informal work was collected during this period. Nevertheless, a shift can be seen in comparison to 2011–2020, which is also in line with other estimates. We find a very high share of informal employment in LICs as well as in lower MICs. In countries with per capita GDP below 7,500 US dollars/year, informal employment accounts for a 65–95 per cent share of total employment (excluding agriculture). While the range varies, whether the per capita GDP is 7,000 or 6,000 US dollars/year makes a significant difference. On the other hand, informal labour in the MICs, almost all of which are in Southern Africa, is characterised by significantly lower shares (from 40–50 per cent). It is clear that the countries studied where we have data for the years 2001–2010 and 2011–2020 show a marked increase in the share of informal work over this period. There is also a significantly higher share of female informal workers. One group of countries with per capita GDP of 6,000–7,000 US dollars/year shows shares of 85–95 per cent for women (Benin, Ghana and Mozambique), while another group (including Tanzania, The Gambia and Rwanda) reports around 70 per cent. In the upper MICs, the figures are between 40 and 60 per cent for women. This means that among women, the share of informal work is significantly higher than the average.

Our analysis shows that total non-employment is inversely related to informal employment. In a large group of countries with very low unemployment rates, the share of low-wage informal employment, whether self-employment or family work, is well above 80 per cent. A second group, whose incomes are mostly relatively high, also has a high informal employment share of 60 to 70 per cent. In this group of countries, unemployment varies between about two and ten per cent. Three countries, however, must be regarded as special cases. Namibia, South Africa and Swaziland also have informal employment, which here, too, has increased over the two decades studied, but official unemployment remains high at more than 20 per cent. This means that unemployment and informal employment tend to drift further apart in higher-income countries (high unemployment, medium informal employment), while LICs or lower MICs have extremely high informal employment and low unemployment (see Graph 27).

The situation is even more striking for female and male unemployment. The higher the informal employment, the lower the unemployment. It is striking that, in a large group of LICs, women account for a share of more than 90 per cent informal employment. In contrast, in the MICs of South Africa, Namibia and Swaziland, female unemployment increased between 2000 and 2020. Women have fewer opportunities in the formal labour market and so remain in informality. From these descriptions we can conclude that the situation of women on the African labour markets is extremely fragile. Men's situation is only marginally better, but it differs and, above all, the employment situations of men and women diverge. Women are much more marginalised in labour markets and more frequently end up performing household work, rural informal work (subsistence), agricultural work and petty trade. If anything, the trend over the last two decades points to a worsening of the situation. Overall, the trend towards informal employment remains unbroken.

## FACTORS HINDERING THE GROWTH OF INFORMAL ENTERPRISES

The difficult employment situation is very closely linked to the development of the informal economy, informal and microenterprises, and SMEs. There are many factors hindering the performance of informal enterprises, including *internal factors*, such as utilisation of low-skilled workers and inadequate internal sources of funds. Another factor is poor location as the majority of informal firms are home based. This limits their expansion and interaction with other businesses, thus increasing their transaction costs and limiting their access to market information and the markets themselves. *External factors* include limited access to productive resources (financial services, business development services and economic infrastructure, and public services), and burdensome government regulations. In SSA, the majority of SMEs also lack access to formal financial services. This may force them to pursue risk-minimising strategies related to limited business growth and employment. These companies target the low-income market because it is associated with low entry barriers. This barrier is higher for those concentrated in one area as they tend to adopt a copycat strategy and thus produce similar products, which limits their growth potential and stability and is one of the reasons why informal or microenterprises experience a relatively high instance of failure.[79]

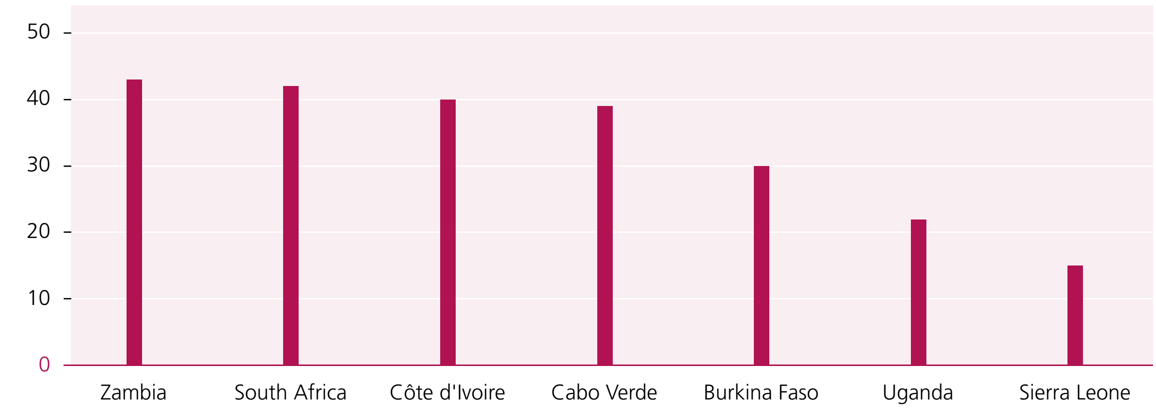
What has been less discussed in the literature is the spatial aspect of the informal sector. The results of some studies suggest that proximity to higher-density neighbourhoods and housing plays a major role in the locational choice of informal firms. As many as 97 per cent of informal firms sell to customers within a very narrowly defined zone, at nearby markets or in local street booths.

Market entry costs in SSA are very high. Setting up a business often involves bribes and unofficial expenses. Favouritism is widespread.[80] Poor electricity supply is one of the main barriers to entering and operating businesses in LICs, and less than half of all businesses use a standalone power generator to cope with power outages, meaning that there are significant fixed costs associated with entering the

79 See Akinkugbe, Oyulele and Karl Wohlmuth (2017): Africa's Entrepreneurs and the ›Missing Middle‹, in Henning Melber (ed.): *The Rise of Africa's Middle Class.* London: 69–94; McCormick, Dorothy (1999): African Enterprise Clusters and Industrialization: Theory and Reality, in: *World Development* 27: 1531–91; Ishengoma and Kappel (2006), op. cit.

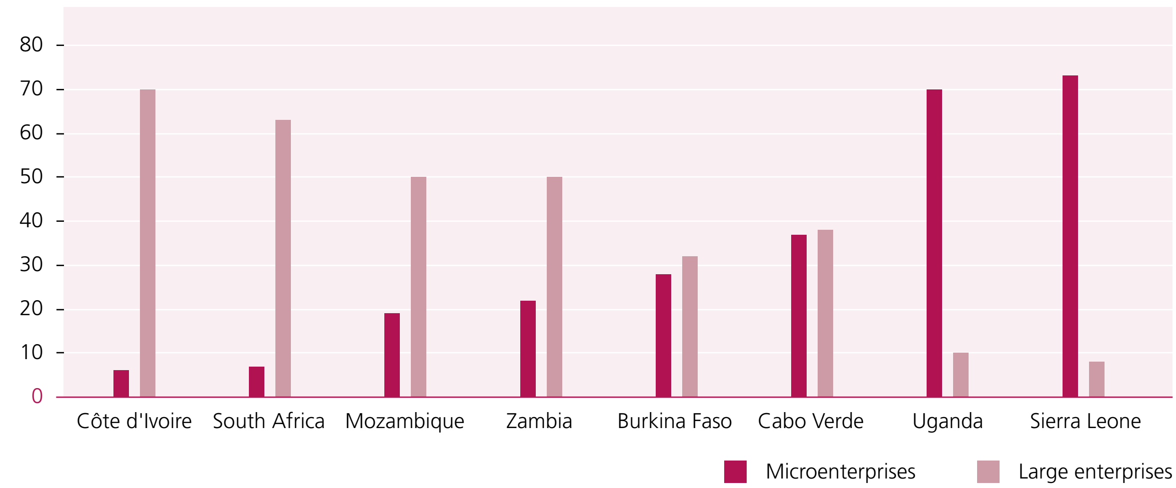
80 See Kappel, Robert and Babette Never (2017): *Favouritism in Uganda: How the Political Economy Impacts Micro and Small Enterprise Development.* Leipzig; available at: https://www.ssoar.info/ssoar/handle/document/66777; Merotto (2020), op. cit.

Graph 28
**Share of employment by largest one per cent of firms, formal privat sector, 2018, in per cent**




Source: Merotto, Dino, Michael Weber and Reyes Aterido (2018): Pathways to Better Jobs in IDA Countries. Washington, D.C.: *Job Series* 14: 31; available at: https://openknowledge.worldbank.org/handle/10986/30594.

Graph 29
**Share of employment in micro and large firms, formal private sector, 2018, in per cent**



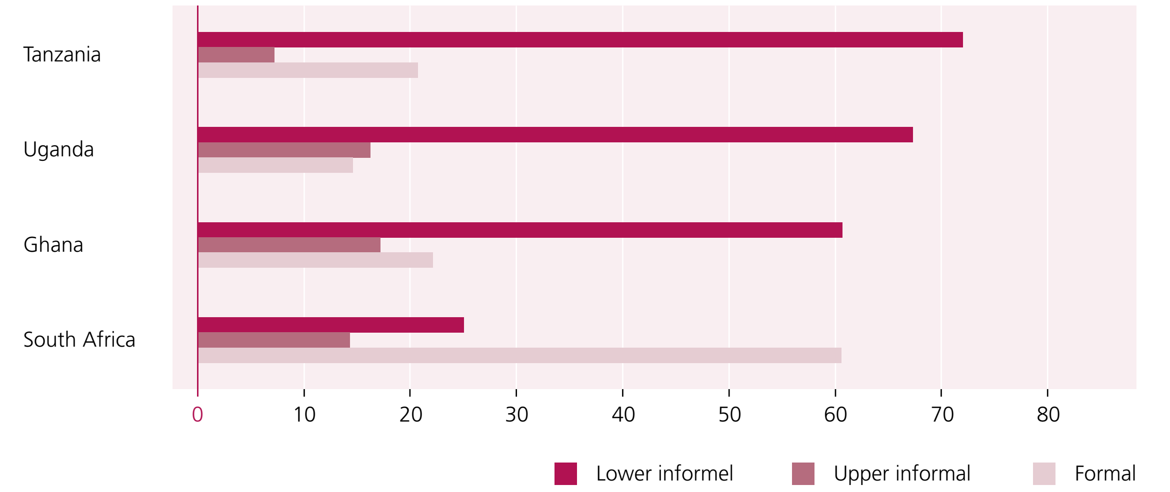

Microenterprises <10 employees. Large enterprises: >100 employees.
Source: Merotto, Weber and Aterido (2018), op. cit.

market. As a result of their inadequate managerial capabilities, the majority of informal enterprises involved in bilateral vertical linkages with formal enterprises have relatively low bargaining power. Consequently, they are more likely to be exploited. Given the unlimited supply of labour, workers' associations tend to have little influence on wage development or the improvement of working conditions. This, in turn, may lead to the exploitation of informal workers by their employers. Poor employment and working conditions also lessen the productivity of informal enterprises, resulting in lower wages.

The very small share of mediumsized (20–99 employees) or larger firms (100 employees or more) in total African employment stands out compared to other LICs or MICs. Very large firms (>500 employees) employed only five per cent of all workers. The share of employment in microfirms has also increased over time. By 2010, more jobs were in small firms, and fewer jobs were in large firms, compared to 2001. In 2010, half of all employment was also in relatively young firms. Job creation in younger firms is often more vulnerable as many do not survive the early stages.[81] Graph 28 also shows significant divergence. More than 40 per cent of wage workers in Zambia are employed by the top one per cent of the country's largest firms compared to 20 per cent in Uganda. On the other end of the spectrum, in Uganda and Sierra Leone, most workers are employed in microenterprises (see Graph 29).

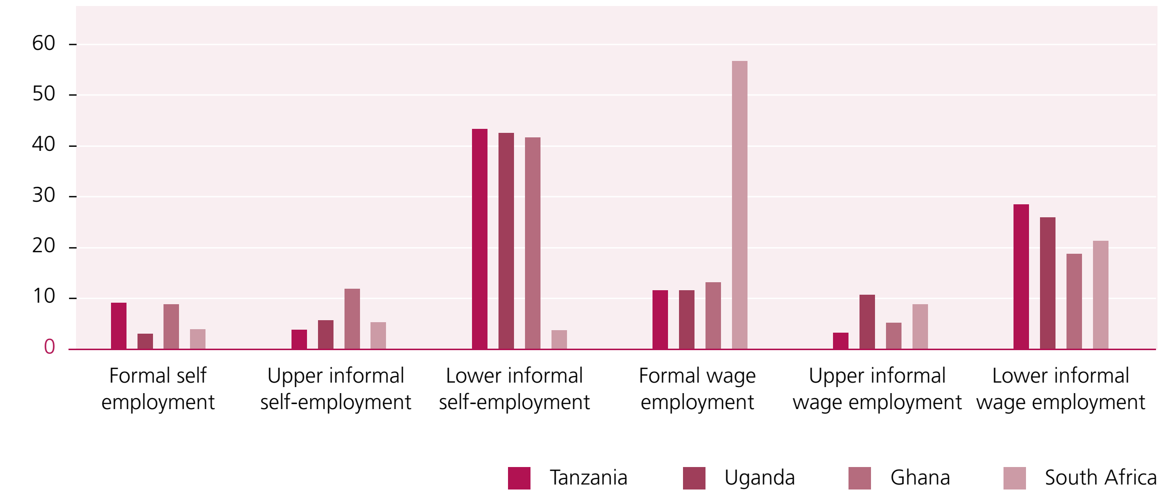
81 See Ishengoma and Kappel (2011a), op. cit. Merotto (2020), op. cit.

Graph 30
**Proportion of formal vs. informal employment, in per cent**




ource: Danquah, Michael, Simone Schotte and Kunal Sen (2019): Informal work in sub-Saharan Africa. Dead end or steppingstone?. Helsinki: *WIDER Working Paper* 2019/107; available at: https://www.wider.unu.edu/publication/informal-work-sub-saharan-africa.

Graph 31
**Proportion of employment by work status, in per cent**



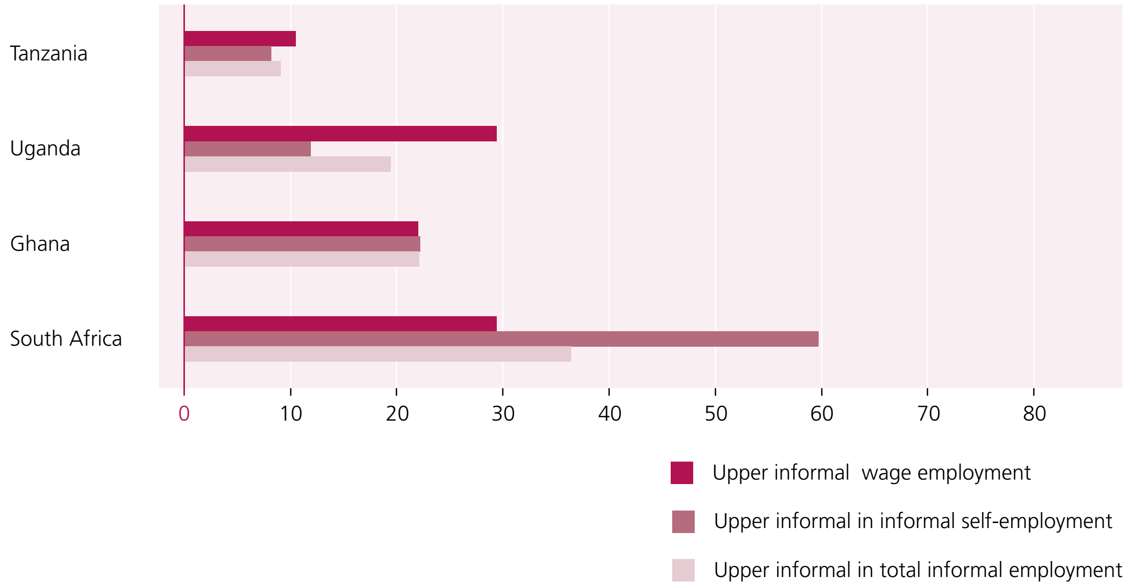

Source: Danquah, Schotte and Sen (2019), op. cit.

For some years now, this underlying trend has been overlaid by a differentiation in the informal sector itself.[82] But this development has hardly been noticed. As described above, traditional IS and modern IS diverge according to different criteria. Danquah, Schotte and Sen (2019), for example, find that a distinction between upper and lower-tier informality is emerging. They report that lower-tier formal employment is very high in Tanzania, Uganda and Ghana (around 60 to 70 per cent),[83] Formal wage employment, on the other hand, is very high in South Africa, at over 50 per cent, while in the other countries the proportion is around ten per cent. The differences are most pronounced in lower-tier informal self-employment. In South Africa, this is below four per cent and in the other countries it is above 40–45 per cent. Lower-tier informal wage employment is significant in all countries. In South Africa, the share of upper-tier informal in informal self-employment is much higher, however, suggesting that the differentiation of IS – starting from a low level – has progressed (see Graphs 30-32).

82 See McCormick (1999), op. cit.

83 Danquah, Schotte and Sen (2019), op. cit.; Ishengoma, Esther K. (2005): *Firm's Resources as Determinants of Manufacturing Efficiency in Tanzania: Managerial and Econometric Approach.* Münster.

Graph 32
**Proportion of upper-tier informality in informal employment, in per cent**




Source: Danquah, Schotte and Kunal Sen (2019), op. cit.

## 3.11 SUMMARY OF MAIN FEATURES AND TRENDS

This section seeks to summarise the main employment trends in SSA.

It has become clear from what has been presented so far how much the employment situation on the continent has changed over the last two decades. This is mainly due to the relatively high GDP growth rates up until the pandemic, the very rapid population growth – with the exception of a few countries, such as Mauritius or Cabo Verde – and thus dramatically increasing share of young people in the overall population, as well as the one-sided structural change with shifts from relatively unproductive labour in agriculture to relatively unproductive labour in the informal service sector, accompanied by only weakly developed industrial sectors. Structural change has certain parameters which – as our analysis shows – are more likely to lead to a deepening of Africa's employment crisis. As a result, many assessments of African developments to date prove to be erroneous.

The analyses highlight the following main trends:

- High economic growth over the last 15 years has decoupled from job growth. Therefore, jobless growth and growth with a rise of informality is the rule in most countries. A one per cent increase in GDP growth was associated with only 0.4 per cent growth in employment. Employment expanded by less than 1.8 per cent, far below the three per cent growth in labour force.

- The situation in African labour markets is deteriorating due to persistently high population growth. Even in the cities, population growth remains very high, which is mainly due to birth rates remain persistently strong, albeit lower than in rural areas. The growth of urban centres is not primarily due to rural-urban migration. The influx of 15–20 million people into the labour market and the low absorption capacity of the formal sectors illustrates how much the situation is deteriorating. Not even five per cent of those entering the labour market would be able to find a job in the formal sectors.

- The average figures for the per capita income (PCI) and Gini coefficients are important indicators, but they do not adequately reflect the number of precarious and informal workers. The indicator of 1.90 US dollars/day, for instance, captures the degree of informality and precarity relatively well. The majority of the population survives in the informal sector and has a PCI of below 1.90 US dollars/day, in other words, people who work are poor. Inequality is clearly on the rise, with an increasing number of people falling into precarious employment and poverty. This is reality for the vast majority in LICs. In MICs, informal employment is growing. LICs are, however, not going in the same direction as the MICs, which have a higher proportion of formal and more productive jobs. Conversely, MICs are gradually converging towards the ratios in LICs. Contrary to popular belief, when growth rates are high and wealth levels rise, the share of informal labour in total employment increases rather than decreases. Informality continues to spread.

- The number of people employed in the formal sector (public administrations, medium-sized and large enterprises, foreign companies) is increasing, but the share in total employment remains low.

- Foreign investment generates relatively few jobs. Employment created by FDI usually accounts for less than one per cent of all jobs in SSA. Public administrations are hiring, but the number of people recruited remains rather low, so that the share of formal jobs in the total working-age population is decreasing. The gap between the number of employees in the public sector and the large, more productive industrial and service companies, on the one hand, and the informal sectors, on the other, is widening. In the formal sectors, high-quality jobs are being created that offer better wages and social security. The majority of workers in these sectors have secondary and post-secondary education. Their wages are well above the countries' average per capita income. Those with mainly primary education or no formal education at all make up the large majority and have the lowest incomes and the least employment opportunities.

- The majority of the labour force are informal workers and this number is growing rapidly. The informal economy is increasingly widespread in medium-sized and small towns. Informal employment is becoming more differentiated – with an upper tier breaking away from the rest. As a result, those working in this latter upper-tier sector have a chance at earning higher incomes.

- The employment situation for the youth labour force is clearly worsening, especially for young women, young people with less education and rural workers. The shift of young people and adults away from own-account and family work into decent jobs has so far been relatively slow. The labour force participation rate for youth and women was lower in 2019 than in 2000, and median earnings have been falling. Women and youth are less likely to get a job in the formal sectors. They are pushed back into the stagnant zones, which are expanding because of the influx of women and youth into the cities.

- Entrepreneurship consists mostly of SMEs and microenterprises, and urban demand in small and medium-sized towns is only growing slowly. The growth dynamic when it comes to the size of enterprises is weak. So far, the Mittelstand – the ›missing middle‹ – has not really played a relevant role in the African economy. It is squeezed between the large enterprises that profit from the system of favouritism and use their market and lobbying power, on the one side, and, the overwhelming number of micro and small enterprises, on the other. However, industrial clusters with a tier of medium-sized industrial enterprises are emerging in the urban centres of some countries. An innovative start-up scene has also taken root. But this remains a niche in the capital cities, some industrial zones and industrial clusters, and SEZs. Labour market effects are emerging for well-educated and also semi-skilled workers. Productivity is increasing in the niche sectors.

- Although the share of industrial value added in GDP is on the decline in most countries, the absolute number of industrial workers is rising. The establishment of foreign companies in SEZs is also associated with an increasing number of wage workers. However, due to the much higher growth of informal employment, the share of formal employment in total employment is still on a downward trajectory. This process is associated with declining overall economic productivity and the trend is reinforced rather than mitigated by the emergence of more productive companies in industrial enclaves.

- Technological change in the global production of manufactured goods has a large factor bias that drives down the relative demand for low-skilled labour in GVCs. Participation in GVCs and the associated technology flows make it possible to increase productivity, the scale of production and the demand for local jobs. Due to the high capital intensity of FDI, it creates very few jobs, and the number that it does create is small compared to the total number of employees. FDI generates an average of just 150,000 jobs a year. With 20 million jobseekers, this would be just 7.5 per cent.

- Digitalisation, robotisation and artificial intelligence can create but also threaten jobs and lead to labour being replaced. New technologies could end up thrusting SSA into a critical situation. Especially at the stage when some countries want to industrialise and establish themselves in GVCs, the pressure of digitalisation has the potential to destroy all hopes for more jobs in modern sectors of the economy. The digital revolution can also exacerbate spatial problems due to the concentration of the digital economy in the larger cities increasing spatial divergences. Rural areas and small towns are disconnected from digitalisation, while companies with highly skilled jobs are emerging in the economic hubs.

- The argument that rising wages in China will lead to more Chinese FDI flowing into Africa is not substantiated. What is clear, however, is that Chinese FDI does not lead to the desired employment effects. The employment growth effects are limited because most of China's FDI is in the commodity and energy sectors. Most of the industrial jobs created by Chinese companies in Africa have been low-skilled and semi-skilled jobs, i.e. low-wage jobs.

- The economy of extraversion and asymmetry is a clear feature of resource-rich countries where multinationals dominate. Their capital-intensive investments create hardly any jobs, but they play a significant role in shaping the developments of these countries, with the result that Dutch Disease effects often arise. These distort the economies, weaken agricultural production, lead to greater dependence on imports, limit local financial markets and stand in the way of endogenous and industrial development. Income distribution in extractive economies tends to be very unequal and marginalises a large number of workers, causing the IS to expand significantly and rural areas to struggle to develop.

– The climate crisis will continue to threaten livelihoods in rural but also in urban regions and will negatively impact the majority of workers.

The study identifies employment trends in Africa. It demonstrates that the situation varies greatly between countries and also highlights significant differences across the LIC and MIC country groups. The emerging trends in the labour markets became even more apparent during the pandemic, illustrated by the crisis in the labour markets. The crisis is impacting on labour markets. There is an increase in vulnerable employment and a lower demand for jobs in the formal sectors.

But there are also new challenges. African countries are undergoing profound transformations characterised by urbanisation, technological change, high population growth and changing labour market demands. These challenges place particular demands on employment policies. The challenges in the global economy also require measures that focus more on companies, because they are the ones providing the jobs. Botswana and Mauritius have already shown that this is possible, but the conditions there were unique. These countries already started the restructuring process in the 1960s with reform measures that have proven to be relatively successful, also having a positive impact on employment. Other countries have not been as successful and many of these low-income countries are now latecomers to development, a situation that is not easy to manage. LICs often do not have the necessary human and economic resources to succeed in the transformation process and thereby mitigate the severe labour market problems.

The situation in MICs is different. Middle-income countries such as South Africa or Namibia, for instance, are in a middle-income trap.[84] Their development trajectories make it clear that their labour markets are in a very critical state. Unemployment is high and, at the same time, informal employment is on the rise and with it the share of poor people. This includes not only the urban informal poverty economy but above all rural informal poverty, which affects women and youth particularly badly. Their situation has been deteriorating for years because of growth accompanied by rising informality.

Across the LICs, there are substantial differences in development trajectories, but there is one fundamental trend and that is the extremely high numbers of jobseekers – currently with little hope of finding paid work. These individuals struggle to get jobs and, at the same time, make the situation worse for those who have been looking for wage work for longer. The markets for formal employment are largely closed to them. This is not only due to high population growth, but above all to the Africa's distinctive transformation process, which did not lead to industrialisation with productive employment and well-paid jobs. There is an unlimited supply of labour, not only in rural areas but also in urban centres and small and medium-sized towns. Since the majority of people have little education and come from poor backgrounds, they are left with only simple, low-paid jobs or unpaid, largely informal work in family households. People work hard and still remain poor. Women are hit particularly hard by this trend as their income opportunities are reduced. There has been a slight differentiation in informal work, but this process is overshadowed by the growing number of poor, low-skilled workers and households.

84 Andreoni, Antonio and Fiona Tregenna (2020): Escaping the Middle-income Technology Trap: A Comparative Analysis of Industrial Policies in China, Brazil and South Africa, in: *Structural Change and Economic Dynamics* 54: 324–40.

# 4

# POLICY INTERVENTIONS AND EMPLOYMENT SUPPORT PROGRAMMES

For many years, international organisations, African institutions, civil society organisations and development agencies have been running programmes to tackle the major challenges facing African labour markets. Barely a year has gone by without new initiatives being proposed for job creation or poverty alleviation for the African population at large, and in recent years for young people in particular (see Box 2). These programmes are diverse in their aims and approaches but the following key priorities and strategies can be derived:

1. Get the fundamentals right.
2. Support domestic firms to grow from small to medium and large enterprises.
3. Expand trade and promote FDI, integrate in value chains.
4. Facilitate urbanisation and invest in cities that provide access to public goods for the majority of people living in informality.
5. Improve skills and basic education to boost youth employment.
6. Focus on the informal sector and agriculture.
7. Create decent work.

Essentially, a distinction can be made between supply-side interventions, demand-led concepts, and concepts that start with the fundamentals. Some of these concepts will now be outlined.

The significance of getting the fundamentals right has been the focus of numerous interventions in recent decades. This approach has been propagated by the G20, IMF and the World Bank and has featured in many strategies comprising concrete reform measures. Great importance has been attached to the issue of market liberalisation, with decisive aspects being macroeconomic stability and improving institutions (getting the prices right and getting the institutions right). This mantra of the IMF and the World Bank has been adopted by governments, international organisations and many stakeholders. In addition, infrastructure investment was strongly promoted, for example through the Compact with Africa (CwA), which pursued the same line of thought. It is precisely these approaches that illustrate how little flexibility international organisations have when it comes to responding to the major challenges Africa faces. On the contrary, in fact, they have entrenched rent-seeking in commodity countries, failed to create space for diversified economic structures and largely kept the idea of industrial policy at bay.

Furthermore, the power elites[85] tended to follow the rent-seeking model until the 2000s. They have thus embedded a structure of asymmetries, structural heterogeneity and hence growth accompanied by rising informality.[86] A focus on growth is important if it leads to job creation. All macroeconomic policy measures that lead to higher local and foreign investment are therefore key. Good governance, macroeconomic stability, transparency and anti-corruption measures have rightly been emphasised. An essential component of this is also trade, including intra-regional trade, which can lead to more employment and higher productivity. The ILO, for example, stated that the AfCFTA has the potential to boost intra-African trade, promote structural change and bring prosperity to the continent's population. By promoting more labour-intensive intra-trade, the AfCFTA will create more employment.[87]

That said, the exclusive focus on fundamentals can also be viewed critically as it is partly to blame for the employment crisis on the African continent. FDI creates so few jobs and industrial development was not prioritised. The expected trickle-down effect largely failed to materialise. For some time now, international organisations have been increasingly emphasising inclusive growth, social protection, structural change and industrial development, proposing a range of measures and providing funding for such purposes.

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85 See Cheeseman, Nic, Gabrielle Lynch and Justin Willis (2021): *The Moral Economy of Elections in Africa.* Cambridge: Cambridge University Press.

86 The ILO (2020b) stated: »Economic growth does not automatically translate into new jobs. More specifically, the sectors that contribute the most to economic growth are not necessarily those which underlie substantial employment growth. Notably, most African countries depend heavily on natural resources and generate substantial revenues from extraction, but this leads to only low employment.«

87 ILO (2020b), op. cit.

Everything that has been said suggests it is time for a rethink. In response to this, some bilateral donors – the AU, AfDB, UNECA, UNCTAD, ILO and UNIDO – have formulated ideas to address the employment crisis.

As Africa's most important external cooperation partner, the EU has presented extensive documents on its cooperation with Africa – most recently »Towards a Comprehensive Strategy with Africa« (2020). The EU makes its interests clear: these include a green growth model, an improved investment climate, better education and research, job creation, digital transformation and peace and governance. However, as various studies have shown, the cooperation model envisaged by the EU is not capable of eliminating asymmetries in trade, nor of boosting employment through a strong focus on European FDI. On the contrary, the EU is sticking to a model that neither includes measures for food security and agricultural development, nor is beneficial to African industrialisation. Africa's economic development can be advanced through FDI, provided that investment is not purely for the extraction of raw materials. Investments in agriculture and the manufacturing industry, in particular, but also in the service sector, can contribute to the creation of highly qualified jobs, to technology and knowledge transfers and can thus stimulate Africa's productivity development. This is especially true if local companies can be drawn into industrial clusters and special economic zones. This, however, is not part of the EU's concept.[88]

The primary objective of the G20 Compact with Africa (CwA)[89] is to increase attractiveness of private investment in Africa through substantial improvements of the macro, business and financing frameworks. It brings together select African countries who volunteered to join the initiative, international organisations – primarily the IMF, World Bank Group and AfDB – and bilateral partners from G20 and beyond to coordinate country-specific reform agendas, support the respective policy measures and advertise investment opportunities to private investors. Nevertheless, the CwA is already a concept of the past. It is not capable of advancing the great transformation on the continent and overcoming asymmetries. The G20 CwA aimed to generate higher FDI through large-scale investment in infrastructure and improvement of the business environment for companies, and thus ultimately promote economic growth. But it transpires that the investments made under the CwA created very few jobs.

Many organisations as well as African governments have put forward agendas for supply-side interventions. For example, in its study on the future of jobs, the World Economic Forum (WEF) stated that better education was particularly important as skills gaps remain very large. Indeed various organisations recognise the value of human capital investment.[90] The ILO considers the elimination of skill gaps an important strategy, not only for decent work but also for the growth of enterprises. They identified a lack of appropriate skills as the biggest constraint on their business.

Many of policy papers published by international organisations argue that employment policies are often not designed to adapt and develop skills and do not coordinate those sectors that could add more value to the economy if the population had the specific skills. This includes the recognition that informal education remains the most important source of skills development in SSA. Enhancing the quality of apprenticeships, upgrading informal apprenticeships and increasing work-based learning programmes can boost the employability of youth by providing practical work experience and the skills required by the labour market. But at the same time it is important to train people who lack basic cognitive skills. As has been argued in this study, for most young Africans, the main issue is access to decent quality employment rather than an absence of work. Certainly, the quality and appropriateness of education and training can be improved and this will continue to bring substantial benefits. However, approaches that rely too much on supply-side interventions, which often dominate the youth employment policy debate in Africa, cannot resolve these challenges on their own. What is required is a balance of demand and supply-side interventions.[91] As Louise Fox of the Africa Growth Initiative explains: »If you run a lot of training programmes without considering employment policies, you only shift the supply curve out. So the group of people who qualify for a job increases, while only a small group gets a wage job. We should not only create qualified people, but shift the demand curve towards the outside. This requires, first and foremost, the creation of more private enterprises, especially non-agricultural and labour-intensive enterprises.«[92]

The demand side includes all programmes that focus on the development of industry, agriculture and the service sector, but also comprehensive social protection programmes. Institutions such as the FAO emphasise the role of agriculture, as this is where most people work and live.

88 Kappel, Robert (2021): Redefining Europe-Africa Relations. Brussels, Berlin: FES, *Working Paper;* available at: http://library.fes.de/pdf-files/bueros/bruessel/17306.pdf.

89 Kappel and Reisen (2019), op. cit.

90 World Economic Forum (2020): *The Future of Jobs Report 2020.* Davos; available at: https://www.weforum.org/reports/the-future-of-jobs-report-2020.

91 ILO (2020b), op. cit.

92 Statement by Louise Fox, in: Ministry of Foreign Affairs (2017): Boosting Youth Employment in Africa: What Works and Why?. Report of the conference hosted by INCLUDE. The Hague; McKenzie, David (2017): How Effective are Active Labor Market Policies in Developing Countries. Washington, D.C.: *WBG Policy Research Working Paper* 8011; Card, David, Kluve, Jochen and Andrea Weber (2018): What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations, in: J*ournal of the European Economic Association* 16, 3: 894–931. In development cooperation, capacity building and competencies play a critical role. Many development organisations start here and often draw up expensive programmes to unleash, strengthen, create, adapt and maintain competencies. Louise Fox's objection should be taken seriously that skills development must be closely linked to appropriate job activities, i. e. enterprise development.

In 2019, around half (51 per cent) of all workers were employed in the sector, typically under conditions of informality and working poverty. A progressive shift to higher value-added sectors, such as agribusiness and manufacturing, would have the dual benefit of creating more jobs in higher-productivity sectors, expanding farmers' markets and increasing their incomes. Non-farm employment would also be boosted, as an increase in farm incomes would stimulate demand for goods and services from other sectors. Another focus of many programmes is industrial policies, including sector-specific measures for inclusive growth and more jobs. African countries are increasingly interested in sectoral inclusive employment policies within integrated policy frameworks aimed at generating employment and creating more inclusive growth paths. While, in the short term, self-employment plays a key role for securing the livelihoods of a vast number of workers, any long-term strategy to promote better living and working conditions for people should focus on the development of wage employment. Some institutions identified priority sectors that effectively generate value added and employment and have large multiplier effects and linkages to the domestic economy. Incentive schemes should be designed to encourage companies to capitalise on their comparative advantages, to grow, to develop export capacity and, at the same time, to integrate into GVCs. There is a consensus in the literature that SMEs are the main drivers of employment creation, export diversification and broad-based economic development. Support for SMEs to better access local, regional and global markets would provide them with opportunities to expand their businesses. Among the key areas of support are: business development services, reliable access to electricity and limiting the constraints to enterprise development. These constraints include access to finance, corruption, inadequate infrastructure, inefficient government bureaucracy, uncertainty about government policies, lack of skilled labour and vocational training. Many organisations regard the formalisation of SMEs in the IS as an important step towards engaging more wage

Box 2

**Employment strategies of African and international organisations**

→ **African Development Bank (AfDB):** *Strategy for Jobs for Youth in Africa,* 2016–2025.[93]

*Creating Decent Jobs: Strategies, Policies and Instruments* (2019):[94] Manufacturing provides more long-term economic benefits than other activities by generating economies of scale and encouraging industrial and technological upgrading, fostering innovation and creating multiplier effects. Prudent macroeconomic policies are necessary. A strategy for the best use of SEZs, industrial parks, agro-processing zones, skill enhancement zones and apprenticeship and incubation programmes is crucial.

→ **AU:** *Harnessing the Demographic Dividend through investments in Youth* (2017).[95]

*Plan of Action on Employment, Poverty Eradication and Inclusive Development in Africa, Addis Ababa* (2014)

*African Plan of Action for Youth Empowerment* (APAYE) (2019–2023):[96] · Empower young people to make appropriate life choice. · Improve health and well-being of Africa's young people and provide them with education, entrepreneurship, employment and engagement opportunities.

*AU's Five-Year Priority Programme* (FYPP), Addis Ababa (2017): · Reduce unemployment rate by at least 25 per cent · Reduce youth and women's unemployment rate by two per cent per annum · Increase the share of labour-intensive manufacturing output by 50 per cent · Increase youth and women's participation in integrated agricultural value chains by at least 30 per cent.

*One Million by 2021 Initiative:*[97] Provide one million African youth with opportunities in education, entrepreneurship and employment by 2021.

*The Agenda 2063 for Africa:* Achieve equal prosperity based on inclusive and sustainable growth.

→ **AUDA-NEPAD:** *Malabo Declaration on Accelerated Agricultural Growth:*[98] · Create job opportunities for at least 30 per cent of youth in agricultural value chains · Support and facilitate preferential entry and participation for women and youth in gainful and attractive agribusiness opportunities.

*Driving Africa's Inclusive Growth*[99]: Dynamic, inclusive agribusiness sector that adds value to primary produce, generates employment and income, contributes to economic growth and reduction of food dependency in Africa.

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93 Available at: https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/jobs-for-youth-in-africa/what-is-the-jobs-for-youth-in-africa-strategy.

94 Available at: https://www.reconnectafrica.com/index.php?option=com_content&view=article&layout=edit&id=3949.

95 Available at: https://wcaro.unfpa.org/en/publications/au-road-map-harnessingthe-demographic-dividendthrough-investmentsin-youth.

96 Available at: https://au.int/en/documents/20200312/apaye-african-plan-action-youth-empowerment-2019-2023.

97 Available at: https://au.int/en/newsevents/20191101/africa-youth-day-2019-theme-1-million-2021-count-me.

98 Available at: https://www.nepad.org/caadp/publication/malabo-declaration-accelerated-agricultural-growth.

99 Available at: https://www.nepad.org/caadp/publication/continental-agribusiness-strategy-framework-document-driving-africas-inclusive.

→ **FAO:** *Youth Employment for Sustainability* (YES) Africa. Boosting Job Creation and Reducing Rural Poverty:[100] · Mapping of evidence-based policy, entrepreneurial opportunities and programme development for youth · Capacity development and institutional strengthening to build systemic capacity for youth employment in agriculture and agribusiness · Support upscaling of successful approaches for developing sustainable livelihoods, including small and medium-sized enterprise development and agribusiness support.

→ **ILO:** *Employment Policies for Inclusive Structural Transformation* (2020):[101] · Role of employment-intensive investment programmes in contributing to structural transformation · Developing policies for the creation of decent work · Potential of employment-intensive investment programmes (EIIPs): either public infrastructure programmes (PIPs), which increase aggregate demand within the national economy, or government-implemented public employment programmes (PEPs). · Addressing challenges of inequality, exclusion and vulnerability by creating a more inclusive labour market.

*Report on employment in Africa (*Re-Africa) (2020):[102] · Stabilisation of macro economy · Mechanising the agricultural sector · Advancing education and training aimed at improving demand and supply-driven skills · Promoting active labour market programmes · Adopting advantages of digital economy · Improve labour standards: supporting enterprises, jobs and incomes · Protecting workers in the workplace · Use of social dialogue for solutions.

*Decent Work for Africa's Development* (2003):[103] Four principles: · *Employability:* Invest in education, training and health · *Entrepreneurship:* Make it easier to start and run new businesses and to integrate existing initiatives into formal economy · *Equal opportunities:* Governments and social partners need to build new social and economic structures to strengthen role of women in economy and in labour market. · *Employment creation:* Place employment generation at the heart of macroeconomic policymaking to draw full benefits of structural policies for adaptability, employability, equal opportunities and entrepreneurship.

*Towards Decent Work in sub-Saharan Africa Monitoring MDG Employment Indicators* (2011):[104] Focus on labour-intensive industries, where African countries have comparative advantages – not promotion of capital- and technology-intensive investments, which is responsible for the persistence of commodity-dependent, job-poor countries.

*Efficient Growth, Employment and Decent Work in Africa* (2011):[105] · Domestic resource mobilisation · Understanding employment dimensions of growth through (a) gaining insights into the impediments to productive expansion of employment at sectoral level, (b) not neglecting the agricultural sector and (c) tapping into pan-African markets that should compensate for the narrowness of domestic markets and challenges of accessing intercontinental markets.

→ **IMF:** *The Future of Work in Sub-Saharan Africa*, Washington, D.C. (2018):[106] · Get connected. Governments should invest in infrastructure to provide basis for the region to leverage opportunities from the Fourth Industrial Revolution · Develop flexible education systems · Urbanise smartly. Governments should take advantage of new technologies to institute effective urban planning, formalise land markets, clarify property rights, improve service delivery and strengthen governance, accountability and social infrastructure · Boost trade integration. Move forward with trade integration through the AfCFTA and by investing in regional infrastructure · Expand social safety nets. Social safety nets can smooth transitions between jobs for individuals and buffer income volatility.

→ **UNCTAD:** *Export Diversification and Employment in Africa* (2019):[107] Countries should specialise in producing and exporting commodities for which they have comparative advantage, while importing those for which they lack comparative advantage. Export specialisation is touted as being economically preferable to diversification.

→ **UNIDO:** *Third Industrial Development Decade for Africa* (IDDA3):[108] · Creating enabling business environments and targeting sectors with potential for growth · Emphasises central role of agriculture and food value chains in Africa's growth and development and in improved food security and rural livelihoods.

→ **UNECA:** *The Ouagadougou Declaration. Political Agenda to Mainstreaming Employment in Africa's Development Strategies* (2006):[109] · Creation of an environment of good governance for investment · Promotion of the agricultural sector, infrastructure and rural development · Empowerment of women by integrating them into labour markets · Targeting and empowering vulnerable groups.

*Innovative Finance for Private Sector Development in Africa* (2020):[110] · Innovative financing of the private sector and business growth generates firm value added, gainful employment, tax revenue for governments, stable investment returns for entrepreneurs and the growth of financial institutions. These elements together boost economic growth, thus contributing to a reduction in poverty and inequality.

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**100** Available at: http://www.fao.org/publications/card/en/c/CA3857EN/.

**101** ILO (2020): *Global Employment Policy Review 2020: Employment Policies for Inclusive Structural Transformation.* Geneva: ILO.

**102** Available at: https://www.ilo.org/africa/information-resources/publications/WCMS_753300/lang--en/index.htm.

**103** ILO (2003): *Decent Work for Africa's Development Tenth African Regional Meeting.* Geneva: ILO.

**104** Available at: https://www.ilo.org/global/publications/ilo-bookstore/order-online/books/WCMS_157989/lang--en/index.htm.

**105** ILO (2011), op. cit.

**106** Available at: https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2018/12/14/The-Future-of-Work-in-Sub-Saharan-Africa-46333.

**107** Available at: https://unctad.org/webflyer/exports-diversification-and-employment-africa.

**108** Available at: https://www.unido.org/who-we-are/idda3.

**109** Available at: https://www.uneca.org/archive/cfm2006/pages/political-agenda-mainstreaming-employment-africa-development-strategies.

**110** Available at: https://repository.uneca.org/handle/10855/43834.

→ **World Bank:** *Creating Jobs for Africa's Growing Population* (2017):[111] · Sector-specific reforms focusing on labour-intensive sectors such as agribusiness, construction and microenterprises, targeted support for vulnerable regions, regional trade integration to help develop manufacturing, and greater economic diversification have the potential to spark rapid job growth · Longer-term reforms should focus on strengthening institutions, improving infrastructure, accelerating technology adoption and enhancing job skills.

*The Future of Work in Africa: The Roles of Skills, Informality, and Social Protection in Unleashing the Promise of Digital Technologies for All* (2019):[112] · SSA countries could benefit from well-harnessed technological adoption · Supportive policies and investments to put lower-skilled and lower-educated workers in a position to benefit from digital technology adoption.

The change in focus is most evident in the policy for boosting employment in Africa. This requires an integrated approach that addresses the demand side (macro level) and supply side (micro level), as well as linkages between these two in the labour market. This must then be supported by sufficient resources. The key challenges are:

1. There are not enough jobs for Africa's working-age population (demand).

2. Many jobseekers do not have the skills needed by employers (supply).

3. It is difficult to connect skilled youth to employers (linkages).

Lastly, but equally important, programmes for social protection in Africa have been discussed repeatedly. The pandemic made the need for these measures all too clear. Many organisations assert that sustainable economic and social development in Africa requires effective social protection policies, including cash transfers, public works, nutrition programmes and social policies that reduce poor people's risks and increase their willingness to invest in education or other productive assets, which help them to overcome poverty.

**111** Available at: https://www.worldbank.org/en/topic/competitiveness/publication/creating-jobs-for-africas-growing-population.

**112** Available at: https://www.worldbank.org/en/region/afr/publication/africa-future-of-work.

# 5

# SUMMARY AND MAIN FINDINGS: EMPLOYMENT REFORM STRATEGIES: WHITHER AFRICA?

So far, this paper has identified employment trends and discussed employment policy measures. In the following, the study goes on to develop the building blocks for reforms. It is clear that, with the complexity of the economic situation on the continent, simple solutions will not suffice. It is also quite apparent that no one currently knows where the many millions of decent jobs needed in Africa might come from. We are far from finding adequate solutions, especially as SSA's employment problems have deepened rather than diminished, despite high economic growth and the emergence of vibrant industrial and service sectors in the urban hubs. The challenge of generating more and better employment will be the most serious concern for African policymakers in the future, and it will become even tougher as the impact of the climate crisis increases. This study has also shown that employment measures are particularly difficult to implement. It is crucial that we avoid overly simple solutions and refrain from unrealistically optimistic expectations. Short-term action is always necessary, but, at the same time setting the course for securing long-term employment opportunities for the population is of the essence.

Policies now need to be shaken up to reverse the trend towards more inequality and even more severe employment crises in SSA. A small number of good jobs are available because of the growth model being pursued. But most of the jobs created are not enough to live on, and more and more people are falling into the precariat. These developments are rooted in fundamental problems resulting from the structural heterogeneity of the region's economies, problems which have been exacerbated rather than mitigated.

African foreign trade relations with the European Union, the US and China foster fragmentation. Most African countries have comparative advantages in markets for commodities and agricultural products. Because of its capital intensity, however, commodity production hardly creates any jobs. Imports consist mainly of capital and consumer goods due to the lack of industrialisation and food imports due to the food crises. These developments are caused by the distortion of agricultural markets by high subsidies in Europe, the USA and also China. The consequence of this fundamental misallocation of resources is the falling demand for labour.

Foreign direct investment creates very few new jobs. The vast majority of SSA's population has little chance of securing a formal job. FDI distorts economic structures, leading to a non-inclusive allocation of resources. These developments must be seen in the context of the generally low level of education and the rudimentary Mittelstand, which, in view of the many distortions, is not in a strong position to compete with cheap imported goods.

Past reforms have far from solved the employment crisis. The measures contained in the Washington Consensus and the G20 Compact with Africa, for example, bear the hallmarks of a model that has already contributed to inequality, social division and further marginalisation of SSA in the 1980s and 1990s by focusing on a better economic environment, inflow of FDI, commodity production and energy.

The potential for endogenous development and employment for the majority of the population are far from exhausted.

In the current debate, the major challenges of technology and climate change as well as the importance of global standards, standards of decent work, sustainable development goals (SDGs), etc. tend to be viewed too optimistically. Climate change is exacerbating the situation on the labour markets. Millions of people are losing their jobs, as livelihoods in rural agriculture, for instance, are threatened by rising temperatures and increased climate shocks. The technology push through digitalisation and robotisation allows only a small tier of African companies to participate and hire new people, but the job losses are greater than the benefits given the capital intensity of the investments. New technologies open up opportunities for SSA's economic development, but even if they are successfully implemented, they are not employment intensive. On the contrary, they make the cleavages in African societies even more pronounced.

The many informal enterprises and the majority of small businesses, in particular, are losing out in this process and more and more people find themselves in precarious employment.

Overall, we are seeing an expansion of the stagnant zones, where a large part of the population is informally employed and live in precarity. There is a stark difference between this and work in the small industrial and service sectors as well as the well-paid jobs in public administrations. Stagnant zones and prosperous zones are diverging due to the model of extraversion and the rent-seeking orientation of the power elites.

Global standards – like decent work, labour rights, minimum wages, etc. – stipulated by organisations such as the ILO, as well as national and regional measures can contain social crises and help mitigate social degradation. However, they are insufficient and governments often fail to implement them, enabling internationally operating companies to use these weaknesses for wage dumping (e.g. by circumventing or not complying with minimum wage, environmental and labour standards).

Of utmost importance is the extent to which employment growth has been decoupled from productivity growth, despite all the rhetoric about inclusive growth that international organisations engage in. Employment growth has been stable at three per cent per year since 2000, but productivity growth has been well below two per cent throughout this period. This is a consequence of the major transformations the continent has been undergoing for so long. Trends point to a significant increase in informal employment and a poverty economy, as about a quarter of all workers are working poor, vulnerable employment is widespread and extreme working poverty alone accounts for more than 35 per cent of the population. The data on the employment situation illustrate the direction in which the transformation process is going, with vulnerable employment and a high degree of informal economy in all probability set to determine SSA's prospects. Precisely because economic growth is decoupled from employment growth and because populations are rapidly growing – and only weak countertrends are discernible – we can expect these processes to intensify and bring increasing poverty and imminent political unrest in their wake. If the strategies that have been pursued for more than 30 years are continued, the inequalities in income and employment will deepen further and we will only see small islands of globally integrated economic activities with very few highly qualified jobs and only a moderately growing tier of medium-sized enterprises emerge in the metropolitan areas and the economic centres. Decoupled from this are the stagnant zones of precarious work, dominated by informality and widespread poverty.[113]

For some time now, the extent of globalisation has been so great that it has turned the African continent and labour relations upside down. Even though many advanced countries have been pursuing a renationalisation strategy and protectionist measures in recent years, globalisation has continued to proceed apace, not least due to new automation technologies, artificial intelligence, digitalisation and robotisation. These developments represent not only opportunities but above all challenges for SSA, as the continent is lagging behind technologically and the possibilities of digitalisation and automation depend very much on the engagement of external actors. There is therefore a danger of SSA being even further detached from the global market, of not being able to catch up and thus being stuck at the lower end of development. Then there are the oft-promised benefits of FDI, of financial flows from the more developed countries and the emerging economies. In reality though, FDI can do little to solve SSA's employment problems. On the contrary, it actually exacerbates an already critical situation.

The whole approach to employment in SSA requires a fundamental rethink. The focus must be on the future of work in SSA and making sure that people have access to decent jobs and livelihoods. Also needed are regulatory measures to mitigate the major social crises of poverty and informal work and, as a matter of urgency, the potential for employment creation through endogenous development must be addressed, too. This requires national and regional development strategies and the development of enterprises that have so far been prevented from growing by lack of support or even exclusion. Another important reform step would be to reduce the privileges for foreign companies. In almost every country in SSA, foreign companies are offered better conditions than local ones, for example in terms of taxation and access to finance and the Internet.[114] Favouritism is part of the toolkit of the political economy of African states that have adopted the model of extraversion, which is the easiest way to grab rents and consolidate power relations. The model of extraversion and integration into the world market have not had the expected impact in Africa. On the contrary, in fact, the many far-reaching reform measures, such as the Article IV Consultations for the countries of SSA conducted by the IMF Executive Board, or the controversial Ease of Doing Business Indicators, the pure liberalisation strategies, the focus on finance, financing and financial flows, and the many false incentive systems have led to the disintegration of economies and misallocation of resources. In view of the employment crisis, which has been deepening for some time – further exacerbated by the consequences of the pandemic – the tide must be turned, approaches must be radically shaken up. Not only in Africa but also in Europe, the USA and China, all of which are contributing to the worsening situation and to mounting employment crises. The Washington institutions, the Geneva organisations and the governments in Washington, Paris, London, Beijing and Berlin, in Addis Ababa, Johannesburg, Abuja, African Governments, the development organisations and the business associations are all in urgent need a wake-up call. More of the same is simply not an option; a fundamental change of direction is required to create sustainable jobs in SSA and to eradicate poverty and hunger.

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113 Taylor and Ömer (2020), op. cit.

114 See Koivisto, Aliisa, Nicholas Musoke, Dorothy Nakyambadde and Caroline Schimanski (2021): The Case of Taxing Multinational Corporations in Uganda. Helsinki: *WIDER Working Paper* 51; available at: https://www.wider.unu.edu/publication/case-taxing-multinational-corporations-uganda.

In the following section, this study seeks to bring all these aspects together and translate them into proposals. It should be borne in mind that structural adjustment and stabilisation policies have not proven sustainable in the past. The ideas of market liberalisation pursued by international organisations since the 1990s are ineffective in the face of labour market distortions. In other words, ›getting the institutions and markets right‹ will not solve Africa's problems. This also applies to the G20 Compact with Africa, which focuses on institutional reforms, infrastructure development and FDI but fails to put employment problems centre stage.

Industrialisation concepts, the promotion of SMEs, training measures, etc. are therefore important building blocks for an effective strategy to address the growing employment crisis. That said, many of these concepts should also be viewed with caution, as they have often not had the desired success. Many industrialisation plans ended in failure, and SEZs were also mostly only moderately successful. Attempts to strengthen SMEs often ended badly. Therefore, new ideas are needed, and these should particularly focus on addressing connectivity issues in cities, urban-rural linkages, linkages between local and international enterprises, integration of vocational education and training with enterprises, research efforts, etc. Special attention needs to be paid to structural change in rural areas, as this is where the majority of the poor and informally employed live and work.[115]

## MULTILATERAL MITIGATION

A new multilateral agenda is also needed to support Africa's efforts at the global level.[116] Over the past two decades, there have been growing calls for reform of the current multilateral system. Multilateralism fit for the 21st century must prioritise the welfare of the worst off, help create decent jobs for people in the informal sectors and eliminate precarious and vulnerable work.

Ensuring fair trade relations, implementing ILO standards, developing codes of conduct for companies, ending wage undercutting, pursuing education efforts and strengthening African integration efforts can all contribute to the achievement of this goal. Governments around the world have already embraced the idea of prioritising the worst off in the 2030 Agenda's principle of »leaving no one behind«. The international community should now systematically apply this principle to eliminate Africa's major employment crisis as well. To have a realistic chance at achieving this goal, civil societies and trade unions would have to be more involved in negotiations at the global level. Global governance must also move beyond the exclusive clubs of governments, regulators and technocrats to a bottom-up, inclusive form of multilateralism with the active involvement of civil society.

## FOREIGN DIRECT INVESTMENT, INTEGRATION IN VALUE CHAINS AND DIGITALISATION

FDI and GVCs feature prominently in the discussions and therefore warrant closer examination. Participation in GVCs can generate more and better-paid employment by reallocating resources to more productive activities and by creating backward and forward linkages in GVCs. Not only can the integration of local entrepreneurs into GVCs create more jobs and employment opportunities for the large number of unskilled workers, greater specialisation in higher-skilled activities in the value chain is also necessary to boost productivity. Inclusive growth is achieved when enterprises become part of GVCs as subcontractors and relatively low-skilled workers are employed. Upgrading local industry can become an important source of productivity growth and of more productive and better paid jobs. In my view, incentive schemes and connectivity are particularly important as they induce effects that contribute to inclusive growth by deepening linkages between key players in value chains (VCs) and local SMEs, between farmers and urban consumers, and between FDI and local enterprises. Backward linkages between key players in GVCs and local enterprises enable knowledge and technology transfer and create jobs for skilled labour.[117]

The interactions between players within the value chain are characterised by learning processes. Two important forms of interaction have been identified:

- Targeted partner promotion: the lead firms in value chains actively and specifically transfer knowledge and promote suppliers' competencies as part of their value chain governance. Such processes could be accelerated through incentive systems, such as tax relief for the companies involved in VCs, training measures or government procurement of the companies involved. In addition, industrial clusters could be promoted, which can lead to spillovers. Special economic zones that are not organised as enclaves but integrate local entrepreneurs into VCs as subcontractors for FDI, generate more and better employment. For subcontracting to be successful, however, local enterprises must be strengthened, and reducing constraints on SMEs is particularly important here. This includes, above all, the improvement of infrastructure (roads, electricity, water, etc.) so that local SMEs can come out of their isolation from the markets and become part of the VC.

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115 See Merotto, Weber and Aterido (2018): op. cit.; Lay and Tafese (2020), op. cit.

116 Maihack, Henrik and Manfred Öhm (2020): *Time for a Post-Coronavirus Social Contract!*. Berlin: Friedrich-Ebert-Stiftung; available at: library.fes.de/ pdf-files/iez/16387.pdf. https://www.fes.de/referat-afrika/neugikeiten-referat-afrika/zeit-fuer-einen-post-corona-sozialvertrag.

117 Criscuolo, Chira and Jonathan Timmis (2017): The Relationship Between Global Value Chains and Productivity, in: *International Productivity Monitor* 32: 61–83.

– Spillovers in formalised partnerships: in special cases, lead firms enter into development partnerships with suppliers in SSA and, where appropriate, local R&D institutions, for example to adapt international technology to local conditions. In these cases, besides the intended learning and upgrading processes, downgrading, unplanned technological spillovers and spin-off effects may also occur.[118] Through demonstration effects and learning by observing, the companies at the lower end of the chain can acquire skills and knowledge that the lead firms consider to be their core competencies. Not only could these measures generate technology and knowledge transfers but they could also strengthen the local SME sector.

The oft-invoked argument that FDI will relocate due to rising wages in emerging economies and that this will lead to a surge in industrialisation and a significant increase in unskilled wage employment should be viewed with caution. There is evidence that some of the unskilled jobs created by FDI in Africa's SEZs over the past few decades have been replaced by more skilled labour and capital. Especially for the production of simple industrial goods (textiles, shoes, simple consumer goods), albeit less so for agricultural production, automation tends to lead to a reduction in the demand for jobs in routine work processes. Further, studies suggest that LICs need to upgrade their workforces to meet the demands of today's global production systems. In GVCs, customised parts and components are exchanged between the companies that are part of the value chain. As a result, GVCs typically involve longer-term relationships between firms, which are particularly conducive to the transfer of the information and technology needed to produce a product or provide a service. To control production, multinational key players in a GVC set product specifications and requirements for flexibility, quality and speed of production. In addition, there are increasingly demanding international standards that address consumer health and safety, as well as broader social, environmental and ethical implications of the production process. Compliance with these international standards is crucial for successful participation in GVCs. New technologies could erode the comparative low-wage advantage of LICs and MICs. Accordingly, GVCs' potential for attracting unskilled workers does not seem to be increasing.

In this context, proposals that focus on the potential of »industries without smokestacks« are also important. The growth of such industries could promote the possibilities of inclusive growth, too, especially since they also have the capacity to boost knowledge, which in turn can be expanded if it creates a virtuous circle of learning, diversification of capabilities and knowledge spillovers. Sectors with growth potential include high-value agriculture, tourism, ICT and creative industries, for instance, all of which can create more jobs and form the core of competitive industries. Substantial contributions to overcoming the employment crisis can be made if linkages to local farms and enterprises are systematically created, through for example, alternative tourism, which, unlike mass tourism, relies on the involvement of local hotels, restaurants and communities.

The challenges of digitalisation have implications for policymakers. Digitalisation has not only positive effects, but can also lead to the disappearance of jobs. In order to minimise the number of jobs lost, numerous integrative strategies must be pursued, promoting the use of the Internet and the use of mobile phones that the wider population can afford. The development and use of Internet infrastructure will enable businesses to grow. On the supply side, SSA governments should provide better regulatory frameworks that promote competition and address existing market imperfections. On the other hand, in addition to improvements in telecommunications infrastructure, major efforts must be made to improve access to electricity, transport and water. This will help ensure that the inequalities in access to ICT etc. do not continue to increase. While many African countries have digitalisation strategies, these tend to focus only on the digital sector. Most strategies aim to expand the coverage of communication infrastructure networks, promote hubs and tech clusters and implement regulatory reforms to attract leading companies. They target only specific sectors and tend to overlook the potential of digitisation to transform non-digital sectors. New digitalisation strategies can close the spatial, social and competitive gaps in the labour market and bring digital solutions to the non-digital economy by: i) spreading digital innovation beyond major cities, ii) helping informal workers increase their productivity and iii) empowering businesses to compete digitally.

## AGRICULTURE AND URBAN DEVELOPMENT

Most poor people in LICs are self-employed farmers who produce food for their own or local consumption, often in remote areas. As urban middle-class incomes grow and food consumption patterns change, one of the biggest challenges will be to ensure that poorer people are able to diversify their labour and income by moving into higher-value goods and services. Growing urban demand for food can have a positive impact by adding value to local as well as regional value chains through incentives and tax relief, thus creating more rural wage worker jobs.

More farmers selling their produce in growing regional food markets and the promotion of value chains between small farmers and agribusinesses will create more and better-paid farm and off-farm jobs (such as storage, transport and refrigeration centres). Not all agricultural job transformation strategies are equally effective at reducing poverty. To harness the employment potential of the food system, African agriculture needs to move to market-oriented and

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**118** See Maskell, Peter and Anders Malmberg (1999): Localised Learning and Industrial Competitiveness, in: *Cambridge Journal of Economics* 23, 2: 167–85. Smarzynska Javorcik, B. (2004): Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages, in: *The American Economic Review* 64, 3: 605–27.

integrated food systems. One promising approach is to increase the labour productivity of the more commercially oriented smallholder farmers. This can be an effective strategy because not all smallholders are equally capable of adopting new technologies, marketing their staple foods and adapting their production to changing urban consumption demands. Poorer farmers can earn more as wage labourers on more commercially oriented farms and especially in the rural non-agricultural economy. It should be noted, however, that large-scale commercial agricultural development is more capital intensive and therefore achieves at best limited employment effects, in other words, this type of rural transformation process could potentially exacerbate rural employment problems. In this respect, targeted mitigation measures for the poorer rural population need to be initiated.[119]

Strengthening rural areas through infrastructure development can also be problematic. Such a measure would reduce transport costs and improve connectivity, but it can also lead to high job losses, a loss of competitiveness of rural enterprises, insecurity and poverty. This can happen as a result of local entrepreneurship coming under undue pressure and ultimately even being expelled from the market. Therefore, mitigation measures are needed to help businesses adapt. This is something that needs to be taken into account when designing and implementing measures. Peri-urban areas and the rural areas located in the areas surrounding big cities can benefit by supplying food to the urban centres. The extent to which these areas expand further out depends on how far transport costs can be reduced. Improved access of rural peripheries to urban hubs may even worsen the situation in rural peripheries and medium-sized and small towns due to the improved infrastructure leading to a reduction in transport costs. This means that access to markets is easier, allowing stronger companies to gain an advantage. Small and medium-sized enterprises in rural areas face increased competition from urban companies, and local rural businesses may be displaced as they are no longer competitive. In other words, the generally held view that improved access of low-income regions (rural areas) to core markets (urban hubs) would also benefit the development of those rural regions (and small towns) because of spillover effects may turn out to be wrong. In recent years, many decision-makers have focused on promoting rural areas through better infrastructure. This may also prove to be successful. But on closer examination, there are problems with this approach. Referring to the periphery-centre case, Paul Krugman writes: »Improved access might actually, not help, peripheral industry.«[120] Even the improvement of the transportation system, cheap transport and connectivity do not lead to the development of industries, higher wages and more jobs – neither in rural nor urban areas. Indeed, the exact opposite may be the case. To achieve this, additional measures are needed, such as promotion of industry, mitigation measures for rural enterprises, training measures, local industry clusters, etc.

## EXPORTS AND JOBS

How can companies increase local demand for jobs?

1. By increasing exports. The vast majority of companies find this difficult, however. Very few are even able to sustain their existence, let alone operate on export markets. Larger companies are more likely to be active in exports, occasionally investing in neighbouring countries and thus creating linkages to the local economy. A small proportion of medium-sized enterprises also operate across borders. Large companies as well as SMEs can benefit from the AfCFTA and the opening of European markets to African exports. These activities have definitely expanded in recent years.

2. Another possibility is to become more competitive so as to replace imports. Given the supply of cheap imports of products and services from China, India and also neighbouring countries, although not impossible, this path remains difficult, mainly due to the low productivity of enterprises, the quality of products and the orientation of African SMEs towards local markets. Most companies operate in a very small radius, exhibit flea market behaviour and are prevented by high transport and transaction costs from serving the urban markets that have purchasing power – e. g. the consumer demand of the middle classes. But they are also at a great advantage because they know the local and national markets, they know the consumption habits of the population and they have locational advantages and social networks that compensate for the disadvantages when it comes to the price and quality of their products.

3. They would also need to be able to shift production to higher-value goods and services. This is a necessary move, but one that comes up against many obstacles, not least the limited (management) skills of the companies and the restrictions that most of them face.[121] The repeated calls for SMEs to get more competitive, without saying how they can do this, is getting rather tired after decades of repetition, particularly given that micro and small enterprises and the self-employed have seen very little attention in recent decades. On the contrary, in fact, the focus has been on promoting the settlement of foreign and large national companies – mostly with little effect on employment.

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**119** See, for example Ba, Mamoudou, Amar Anwar and Mazhar Mughal (2021): Non-farm Employment and Poverty Reduction in Mauritania, in: *Journal of International Development* 33, 1: 1–25.

**120** Krugman, Paul R. (1991): *Geography and Trade.* Cambridge, Mass.: MIT Press: 96.

**121** Ishengoma and Kappel (2006), op. cit; Collier (2017), op. cit.

## INFORMALITY AND INFORMAL WORK

Several experts[122] have recommended two-pronged strategies, which, besides promoting the modern business sector, at the same time also increase productivity and incomes in peasant and informal microenterprises. Linkages are a particularly important tool of equalising growing divergences. By providing special support to certain economic sectors, thereby adding value to local value chains, SMEs, farmers and also workers can be pulled along. This includes strengthening supply relationships and knowledge transfer between the modern and informal economy, as well as public employment programmes that can serve to support households, IS microenterprises and also agriculture. Public employment programmes have positive secondary effects by providing local infrastructure and the like, which in turn increase the employment opportunities of the working poor and the productivity of the local economy.

These programmes need to be steered and supported by incentive schemes, such as tax breaks for participating enterprises, targeted support through training, and the development of industrial clusters that facilitate linkages. Merely supporting education in IS or training enterprises through measures that do not lead to upgrading of enterprises and workers are measures that largely proven unsuccessful. Incentive systems are the better option, including the establishment of funds that provide targeted support for the integration of local businesses into value chains based on competitive criteria. In any case, these criteria should also apply to foreign companies, as they often operate in enclaves without broad-based backward linkages. In order to provide quality jobs for Africa's growing young population, one of the most popular World Bank recommendations has been to promote both the informal sector and encourage informal businesses to formalise their operations. This concept has been repeatedly emphasised by numerous organisations, but the successes have so far been rather limited. Since the informal sector is the most dominant part of the economy, promotion should certainly start here. But it is proving difficult to accelerate the process of moving from lower-tier to upper-tier informal enterprises and employment. It is likely that a few measures could eliminate the longstanding bottlenecks and improve opportunities for all enterprises. These measures include regular and low-cost access to electricity and water and better and affordable public transport systems that significantly improve connections between urban hubs and small and medium-sized towns, as well as connections with the countryside, thus establishing connectivity. This task is all the more urgent as many of the self-employed spend a lot of time getting to their work and customers. Connectivity would change the economic divisions within cities as well as the flea market behaviour of businesses in the IS. Furthermore, there is a clear need to reduce the many constraints that particularly affect SMEs. The majority of informal firms are excluded from vertical linkages. Governments need to encourage these linkages, firstly by reserving a significant percentage of public contracts for SMEs and secondly, by designing subcontracting regulations to reduce the exploitation of informal firms by large companies. Lastly, reliable and free public healthcare would allow workers in the informal sector to spend more on scaling up businesses and increasing purchasing power.

## ACCELERATING TRANSFORMATION

Sub-Saharan Africa needs an accelerated economic transformation to create more and better jobs.[123] Two key aspects of this transformation are important. The first is sectoral reallocation of resources, which increases productivity by shifting resources from less efficient to more productive activities. Sectoral reallocation policies include measures to develop the market, promote foreign trade and FDI. These restructuring policies are all the more important in the context of ongoing climate challenges. It is precisely the dramatic consequences of climate change that can jeopardise the African transformation towards sustainable development, employment and poverty reduction. The aforementioned restructuring policies involves shifting resources towards modern sectors of the economy, i. e. economic activities characterised by greater value added (e.g. through GVCs). Participation and upgrading along GVCs would require job creation for skilled labour and for the unskilled labour force through greater specialisation in the low-skilled activities in the value chain. Deeper and more inclusive trade, such as under the AfCFTA, would help if it succeeds in reducing tariffs and non-tariff barriers, improving intra-African infrastructure, reducing trade costs and attracting foreign as well as regional investment. The AfCFTA can serve to develop regional value chains. The second aspect of the economic transformation involves spatial integration policies that redistribute resources through improved rural-urban integration, regional (inland and coastal) connectivity and the development of cities that promote production in tradable industrial and service sectors. Segmented markets and disconnected value chains have led to severe mismatches between supply and demand in markets across SSA.[124]

There are not enough companies in the industrial sector to absorb the people entering the labour market and to pay them well if productivity increases.

122 Altenburg, Tilman (2017): Arbeitsplatzoffensive für Afrika. Bonn: *GDI Discussion Paper* 23; available at: https://www.die-gdi.de/discussion-paper/article/arbeitsplatzoffensive-fuer-afrika/; Altenburg, Tilman and Brahima Coulibaly (2018): Meeting Africa's Employment Challenge in a Changing World. Bonn: *GDI Briefing Paper* 18; available at: https://www.die-gdi.de/en/briefing-paper/article/meeting-africas-employment-challenge-in-a-changing-world/; Merotto, Weber and Aterido (2018), op. cit.

123 Zeufack, Calderon, Kambou, Kubota, Canales and Korman (2020), op. cit.

124 Fox, Louise, Cleary Haines, Jorge Huerta Muñoz and Alun Thomas (2013): Africa's Got Work to Do: Employment Prospects in the New Century. Washington, D.C.: *IMF Working Paper* 201; available at: https://www.elibrary.imf.org/view/IMF001/20832-9781484389195/20832-9781484389195/20832-9781484389195.xml?redirect=true.

There is a lack of SMEs, medium-sized companies and also large companies that create jobs in sufficient numbers. The ›missing middle‹ is a major barrier to job growth. This should not detract from the fact that there has been a slight increase in jobs in the modern IS or upper-tier informal sector, however.

All the calls to look for new solutions, especially in urbanisation, simply avoids addressing the immense problems facing rural development (even though this is where the majority of Africans and the poor live) and neglects the importance of the IS, where most people work. It is also sidesteps the particularly serious and growing problem of youth and female unemployment. Of course, strategies to develop smart-tech / high-tech service enterprises, industries without smokestacks, green industry, or even simple latecomer or FDI-induced industrialisation are not without merit. They are important because they meet consumer demand, at the same time as boosting productivity and providing jobs for the better educated. But they are not fitting solutions to the manifold problems of the labour market.

And another caveat: there is no evidence that focusing measures on the IS and SMEs will solve the employment problems of youth, women and farmers. Nor does the transformation process only lead to the creation of start-ups and growth of companies – it also brings company closures with considerable job losses in its wake. Larger companies exhibit a higher net employment rate, but they cannot create enough jobs. SMEs, upper-tier enterprises, the middle class and also small enterprises therefore matter most, even though they are not currently the main driver of employment growth due to the constraints they face. Governments' employment strategies should give higher priority to wage labour in SMEs than to the self-employed – growing and more productive upper-tier companies not only hire jobseekers, they also promote the necessary transformation process.

The employment problems in SSA differ substantially from country to country. The labour markets in Uganda are different from those in Ethiopia, Nigeria or Togo. Because of the polarisation that can be observed, there is a need for new employment initiatives, new ideas and a better understanding of emerging development trends. This study sought to highlight at least three major challenges that employment policy has to address.

1. The number of jobseekers will continue to grow significantly in the coming decades.

2. The previous growth model of jobless growth and growth with rising informality aggravates the situation on the labour markets, not least because these developments are linked to the spread of poverty. There is therefore a need to realign and link growth with jobs, i. e. jobs for the increasing number of better-skilled workers and the vast majority of jobseekers with lower skills. Supply and demand-led measures, as well as linkages are the most important.

3. The dynamics of labour markets are not well enough understood, given the relatively poor data on employment, unemployment and informal work in most African countries. In order to be able to govern more effectively, the statistical foundation for a more thorough knowledge of the labour market needs to be laid.

That said, some conclusions can be drawn from the evidence so far: a pure growth model, a focus on institutions, market deregulation and competitiveness are not sufficient to address the employment crises in SSA. Economic growth needs to be shaped in a way that ensures employment opportunities and better well-being. This will require accelerated and sustained structural transformation, which would include a shift in investment away from resource extraction towards higher value-added sectors, such as manufacturing and specific types of services. It is not only a matter of industrialisation, but also of having a clearer understanding of the endogenous potentials, the possibilities of internal market development, without falling into the trap of a concept of isolation or delinking. Most countries are very precariously integrated into globalisation, they are not converging and are falling further behind in global rankings. This makes it all the more difficult to address the major employment crisis.

The sharp divide between workers in SSA is widening and will continue to do so as a result of the Internet and the technological revolution: the divide between the skilled and the less skilled, between the small tier of blue and white-collar workers in public administrations, between the better-educated academics and ordinary workers in multinational companies, between urban and rural, within cities and between informal enterprises and the favoured medium and large enterprises, between those who are well qualified enough to continue benefiting from globalisation and those for whom the only jobs left are the ones no one wants. Sub-Saharan Africa was left behind in the globalisation process and became a peripheral region in the world economy. The gap is widening – exacerbated by the global race for resources and markets. The process of innovation, the leadership and dominance of the large capital groups driving technological progress is accompanied in SSA by the advancement of a very small stratum of society and the downgrading of businesses, livelihoods and ways of life. The persistent laggardness of SSA is evident. The African transformation process is reaching its limits – the climate crisis, the technology revolutions and the drifting apart of the world clearly indicate this. African countries are at a critical juncture both economically and socially. It is high time that states and the society reverse the trend towards greater inequality and worsening economic prospects for the overwhelming majority of Africans.

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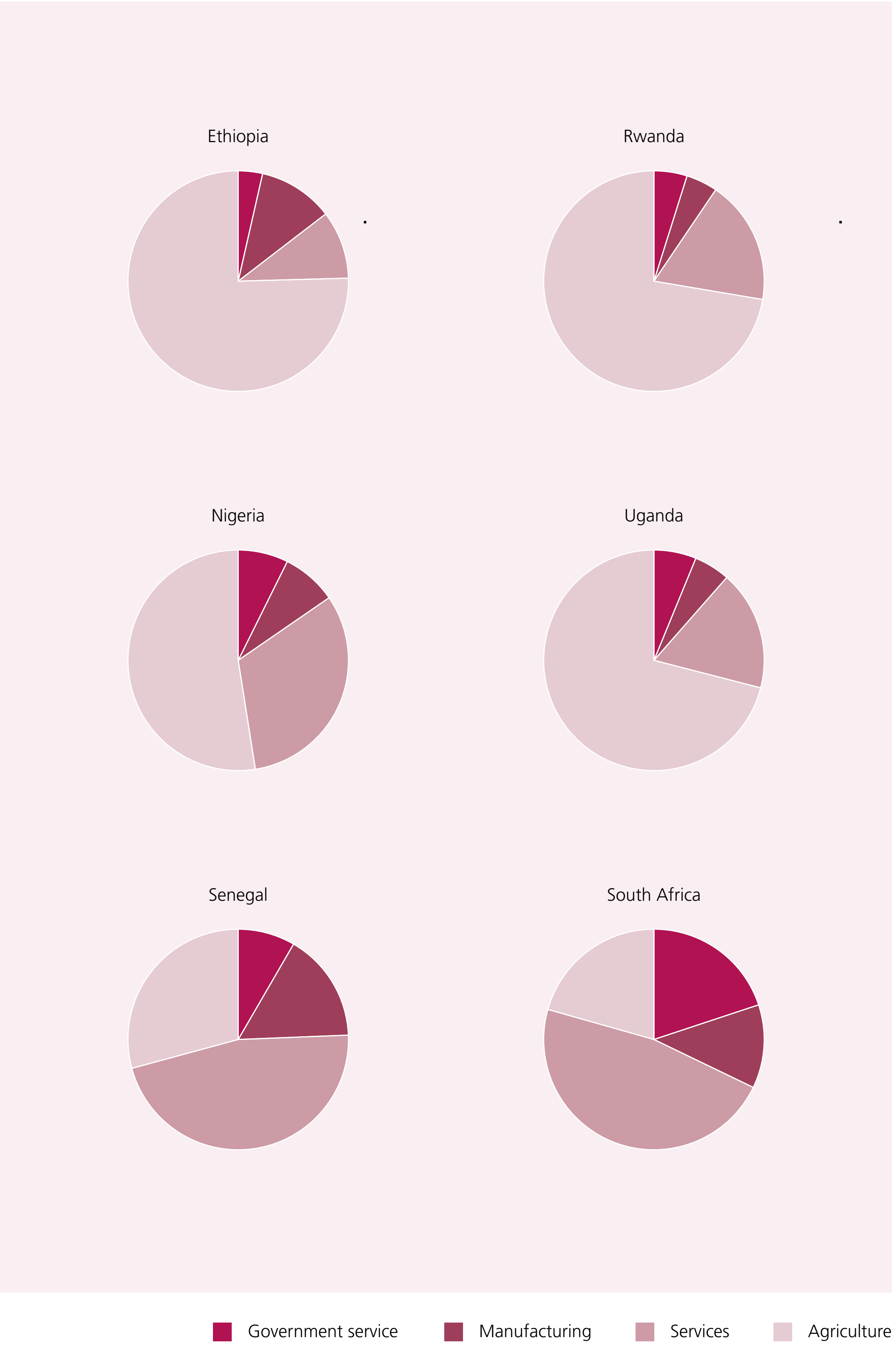
# ANNEX

Annex Graph 1
**Employment structure, 2018, in per cent**




Source: de Vries, Arfelt, Drees, Godemann, Hamilton, Jessen-Thiesen, Kaya, Kruse, Mensah and Woltjer (2021): op.cit.

# LIST OF ACRONYMS

| | |
|---|---|
| AfCFTA | African Continental Free Trade Area |
| AfDB | African Development Bank |
| AU | African Union |
| AUDA-NEPAD | African Union Development Agency-New Partnership for Africa's Development |
| CFA | Franc de la Coopération Financière en Afrique |
| CwA | Compact with Africa |
| FDI | Foreign direct investment |
| FES | Friedrich-Ebert-Stiftung |
| GDP | Gross domestic product |
| GVC | Global value chain |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| LIC | Low-income countries |
| MIC | Middle-income countries |
| NEET | Not in education, employment or training |
| PCI | Per capita income |
| SME | Small and medium-sized enterprises |
| SEZ | Special economic zone |
| SSA | Sub-Saharan Africa |
| ULC | Unit labour costs |
| UNECA | United Nations Economic Commission for Africa |
| UNCTAD | United Nations Conference on Trade and Development |
| UNIDO | United Nations Industrial Development Organization |
| VC | Value chain |

# LIST OF AFRICA ISO CODE

| | |
|---|---|
| DZA | Algeria |
| AGO | Angola |
| BEN | Benin |
| BWA | Botswana |
| BFA | Burkina Faso |
| BDI | Burundi |
| CMR | Cameroon |
| CPV | Cape Verde Islands |
| CAF | Central African Republic |
| TCD | Chad Republic |
| COM | Comoros |
| COG | Congo |
| COD | Dem. Republic of the Congo |
| DJI | Djibouti |
| EGY | Egypt |
| GNQ | Equatorial Guinea |
| ERI | Eritrea |
| SWZ | Eswatini |
| ETH | Ethiopia |
| GAB | Gabon Republic |
| GMB | Gambia |
| GHA | Ghana |
| GIN | Guinea |
| GNB | Guinea-Bissau |
| CIV | Ivory Coast |
| KEN | Kenya |
| LSO | Lesotho |
| LBR | Liberia |
| LBY | Libya |
| MDG | Madagascar |
| MWI | Malawi |
| MLI | Mali Republic |
| MRT | Mauritania |
| MUS | Mauritius |
| MYT | Mayotte Island |
| MAR | Morocco |
| MOZ | Mozambique |
| NAM | Namibia |
| NER | Niger Republic |
| NGA | Nigeria |
| STP | Principe |
| REU | Reunion Island |
| RWA | Rwanda |
| STP | Sao Tome |
| SEN | Senegal Republic |
| SYC | Seychelles |
| SLE | Sierra Leone |
| SOM | Somalia Republic |
| ZAF | South Africa |
| SSD | South Sudan |
| SDN | Sudan |
| SWZ | Swaziland |
| TZA | Tanzania |
| TGO | Togo |
| TUN | Tunisia |
| UGA | Uganda |
| COD | DR Congo |
| ZMB | Zambia |
| TZA | Tanzania |
| ZWE | Zimbabwe |

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# AFRICA’S EMPLOYMENT CHALLENGES

## The Ever-Widening Gaps

The study identifies three major challenges. 1. The employment situation has worsened since 2000 and the number of jobseekers will continue to rise sharply for decades to come. The situation is particularly serious for young people, rural populations and women. Every year, some 20 million people seek jobs that are available neither in rural nor urban areas. 2. The growth model of jobless growth and growth with increasing informality that has been pursued so far aggravates the situation on the labour markets. 3. The climate crisis is exacerbating the employment problems on the continent.

It is time to reverse the trend towards rising inequality and declining employment for the overwhelming majority of Africans. The drivers of hope – foreign direct investment (FDI), Chinese involvement, open trade, digitalisation, the green revolution, more education and further urbanisation have not proven to be sustainable. Not least because FDI in the commodity sectors and industry is capital intensive and has little impact on employment. However, in most countries, this solution is strongly favoured by African governments and the power elites, who benefit from FDI as a source of tax revenue and income for their administrations.

There is a critical need for reform. What matters most is that FDI and value chains increasingly integrate local entrepreneurship. There must be a focus on endogenous development: promoting local industry can lead to higher productivity growth and create more productive and better-paid jobs. To harness the employment potential of agriculture, it needs to move towards market-oriented and integrated food systems. Local demand for jobs can be increased by companies increasing their exports abroad and successfully replacing imports of simple consumer goods. This study emphasises the need for an accelerated and climate-friendly economic transformation in SSA to create more and better jobs.

Further information on the topic can be found here:
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