

OUTPUT II : Main Report
Youth Employment in Africa:
Challenges and the Way Forward

PART 1 The Employment Challenges in Africa

Chapter 1 Labour Markets and Youth Employment in Africa⁶

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1.1 Labour market policy and the youth

The youth period is a critical time when important decisions are made about, amongst other things, whether to stay in school or enter the labour market. It is also a period of habit formation with potential longer-term consequences for the individual—for example through smoking, drug use or sexual activity patterns. All of these decisions can dramatically impact the future trajectory of lives. While more young adults complete primary education and survive childhood diseases than ever before, they must be equipped with advanced skills beyond literacy to succeed in today's competitive economy and, at the same time, to stay healthy, they must confront new disease burdens such as sexually transmitted diseases and obesity (WORLD BANK, 2007). Young adults face these important decisions at a time when they are particularly vulnerable as they face stricter budget constraints, and because they transition from one set of institutions (school and parental home) to another (work environments, and peer networks or even families of their own), they may lack social capital and access to information.

As suggested in the World Development Report 2007 on *The Next Generation*, the transition from school to work is one of several transitions that young adults have to successfully accomplish to embark on a productive life. It is an especially critical transition as delayed labour market entry can lead to degrading of skills and become a blockage to other transitions through its effects on a young adult's economic resources. Employment creation is however not a sufficient condition for ensuring productive lives, as some employment has the potential to place youth at added risk. As an example, promoting rural-urban migration for jobs in urban areas may have the negative side effect of increasing young males' HIV risks.

About 20 percent of Africa's population is between 15 and 24 years of age. Investing in their health and future human capital has the potential to positively affect poverty reduction well into the future through better skilled, healthier and active labour market participants, reduced fertility and lowered disease burdens.

This chapter focuses on policies that target labour markets in Africa and explores how such policies can play an enabling role in facilitating successful transitions from school to productive lives. We discuss whether this is a role that should be played by labour market policies and whether making labour markets more youth-friendly is likely to be a sound investment for African governments. The aim is to provide a set of concrete

⁶ We thank Grant Bridgman for excellent research assistance.

recommendations that can shape policy formulation and research. This is a challenging task as labour markets differ widely across African countries and no set of policy recommendation will fit all countries. Our hope is that the recommendations are sufficient to provide a framework for thinking about policy interventions and how they interplay with country contexts.

The remaining of this chapter is divided into 3 sections. In the second section we define the scope of labour markets in Africa and review available statistics on labour market characteristics across Africa. At the end of the first section, we look at 4 country case studies (Ethiopia, Ghana, Kenya and South Africa) to contextualise the intersection between labour markets and labour institutions and policies. Section 3 reviews the microeconomic evidence on labour market policy, focusing on three areas: preconditions for labour market entry; transitions from school to work; and labour demand. Section 4 concludes

1.2 Stylized facts about labour markets in Africa

1.2.1 Definitions

Throughout this chapter, we refer to labour markets in the “plural”. This is not merely because our paper spans Africa. Even within countries the allocation of labour across economic opportunities is best understood as involving the interaction of a set of labour markets. As we will highlight further below, families and even individuals may interact with several labour markets on a daily basis if not seasonally or less frequently.

To illustrate this, we imagine the example of a woman – here named Sarah Kamara - working in rural Liberia, earning less than \$1.25 a day. Sarah works on her family’s land to grow rice and beans, and works on her neighbour’s land as a labourer when she needs extra income. During the months when there is little agricultural work to do Sarah collects gum from rubber trees in the forest. Throughout the year she braids women’s hair for money and cares for her elderly mother. Apart from the semantic difficulty of defining Sarah’s trade, there are real difficulties faced by policy makers trying to address labour markets in which there are many people like Sarah Kamara. More than two thirds of the employed in Africa are self-employed.

The definition of the term ‘labour market’ that we adopt in this chapter is:

The place where labour services are bought and sold. In some labour markets, people are paid employees, selling their labour services to an employer in exchange for a wage or salary. In other labour markets, people are self-employed (also called own-account workers), in which they sell their labour services to themselves. As used here, “labour market” is a comprehensive term including both paid employment and self-employment. (Fields, 2010:3). It should however be noted that this is a practical and approximate definition, as some exchanges of labour services for wages, for example, can occur in contexts without space such as over the internet, the telephone, and other technology mediated forms of exchange. Importantly, this definition includes subsistence farmers and the self-employed, both in the informal and in the formal sectors, providing this chapter with an intentionally broader scope.

Using the formal definition of the International Labour Organisation (ILO), we furthermore take the **employed population** to be defined as all persons above a specified age who supply labour for the production of goods and services. When measured for a short reference period - like yesterday, last week or the past month - it refers to all persons who worked for pay, profit or family gain during that period. It also includes all persons who had a job or enterprise but were absent from that job or enterprise during that period on a temporary basis, including persons who were sick, on vacation, maternity leave, strike, or were temporarily laid off (ILO website).

The **unemployed population** consists of persons above a specified age who are available to and want to, but do not, supply labour for the production of goods and services. Measured for a short reference period (like the above), it relates to all persons not in employment who would have accepted a suitable job or started an enterprise during the reference period if the opportunity arose (ILO website). In some country contexts this definition is further refined to distinguish between those unemployed who are actively looking for work and those who are inactive job seekers. Under a 'strict definition' of unemployment, only those who have actively looked for ways to obtain a job or start an enterprise in the near past are perceived as unemployed, while those who did not actively look for work are viewed as discouraged job seekers (Abel et al, 2013). In this paper we use a 'broad definition' of unemployment to include both active and discouraged job seekers in the unemployment population.

Many people in the employed population in Africa work but remain poor and therefore may not have the necessary resources to actively look for a better job. As such, they are trapped in low productivity work where their productive assets (mainly their own human capital) are not fully utilized. While they are employed, it needs to be recognised that they are not optimally employed. The ILO refers to these individuals as the **underemployed population**. They are a subcategory of the employed population and are identified by comparing their current employment situation with an "alternative" employment situation that they are willing and available to carry out and where they would be more productive (ILO website).

1.2.2 The youth population in Sub-Saharan Africa

The youth population⁷ in sub-Saharan Africa has grown to four times its size since the 1950s and is projected to double within the next 50 years (WORLD BANK 2007). On current projections, as shown in table 1.1, another 50 million young adults will be added to the current population of 250 million young adults each decade over the next 40 years.⁸ In many, high-fertility sub-Saharan African countries, the youth cohort is not only increasing in its absolute size, but also relatively to the rest of the population. The countries where the youth population is expected to increase significantly include Chad, the Democratic Republic of Congo, Eritrea, Ethiopia, Kenya, Mozambique, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, and Uganda.

In other countries – for example, South Africa and Mauritius - fertility rates started to decline a decade, or more ago, and a demographic transition is already underway that

⁷ Here using UN definition of the youth population as 12-24 year olds, as presented in the World Development Report 2007.

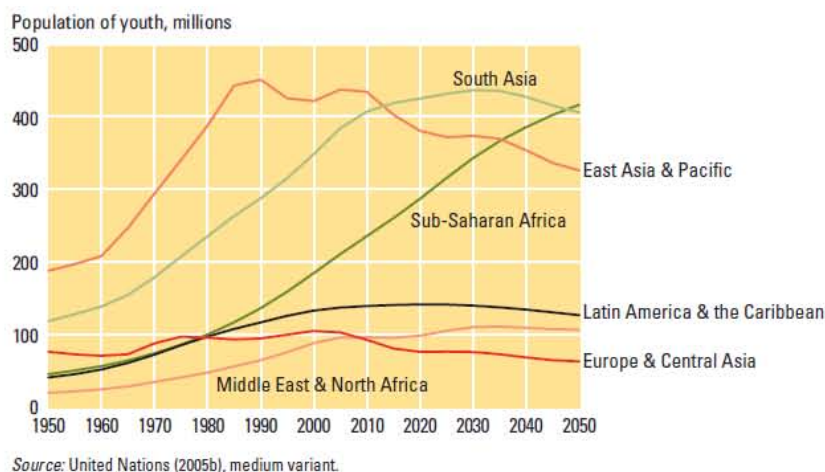
⁸ Estimates adopted from the World Development Report 2007, Figure 1.5, p.33

may offer an opportunity for a demographic dividend. Figure 1.1 below illustrates the trends in population growth of young people across the world. While most regions have embarked on demographic transitions towards lower fertility and population growth rates, sub-Saharan Africa, as a region, stands out as the exception.

The absolute and relative increases in the youth population, in many African countries, could well aggravate difficult employment conditions for young people unless the pool of economic opportunities is expanded.

Figure 1.1 Trends in population of young people across developing countries, 1950-2050

Figure 1.5 Trends in the developing world's population of young people vary significantly across regions



Source: World Bank, World Development Report 2007

1.2.3 Stylized facts

Below we discuss 5 stylized facts about labour markets in Africa and highlight differences and similarities across countries.

1.2.3.1 Most people work in agriculture

Using statistics from the World Bank's World Development Indicators, we observe that agriculture remains the chief employment sector in countries like Burkina Faso, Ethiopia, Madagascar, Mali, Rwanda, Tanzania and Zambia where employment in agriculture makes up between 66-85% of total employment. Other African countries have seen a decline in agriculture employment as a share of total employment. Over the past two decades, Gabon, Namibia and South Africa more than halved their share of agricultural employment to non-agricultural employment, with Ghana, Mauritius, Senegal and Uganda experiencing smaller, but significant reductions. Some of these countries have benefitted from growing mining and extractive industries. These sectors are themselves not highly labour intensive and most new jobs have emerged in

services and manufacturing. In Algeria, Botswana, Cameroon, Egypt, Gabon, Ghana, Kenya, Liberia, Namibia, Niger and Senegal, agriculture provides between 20-60% of all employment.

1.2.3.2 A large informal sector, with an overrepresentation of women

Using our broad definition of labour markets, a vast majority of the labour market participants are engaged in informal employment. According to Schneider, Beuhn, and Montenegro (2010), Sub-Saharan Africa has the largest informal sector in the world, when its share in total GDP is considered. The informal sector comprised 38% of total GDP Sub-Saharan GDP in 2005. The Middle East and North Africa (MENA) region is not far behind, with 27% of total GDP coming from the informal sector. Its role is also significant in terms of the number of Africans whose economic lives are dependent on informal sector employment. As a share of total employment, “vulnerable employment” – defined by the ILO as all unpaid family workers and own-account workers – make up more than 75% of the workforce in countries with high agricultural employment according to data from the World Development Indicators, including in Burkina Faso, Burundi, Ethiopia, Madagascar, Mali, Mozambique, Rwanda, Sierra Leone, Tanzania and Uganda.

The above employment estimate takes account of employment in agriculture and self-employment in the private sector. It is therefore likely to be a slightly overestimated figure for employment in the informal sector. The estimate does not include any labour services considered to fall outside of the economy, such as housework and childrearing by women in their own homes. A higher share of women is employed in the informal sector than men. Close to or more than 90% of all employment for women is in the informal sector in Benin, Burkina Faso, Burundi, Ethiopia, Madagascar, Mali, Mozambique, Senegal, Sierra Leone, Tanzania, and Uganda.

The gender differences in informal sector participation are evident in many countries. For example, in Kenya, 50% of men and 78% of women work in the informal sector; in Ghana, 65% of men and 85% of women work in the informal sector; and 73% of men and 90% of women work in the informal sector in Senegal. Lesotho, Mauritius, Morocco and Tunisia are the only countries for which data is available where males are more likely than females to work in the informal sector, with 73% for males and 63% for females in Lesotho; 47% for males in Morocco and 65% for females; and 23% of males and 14% of females in Tunisia.

A few countries in Southern Africa have considerably smaller and declining informal sectors, including Mauritius where 17% of males and 14% of females are in the informal sector; in Namibia where 17% of males and 26% of females are in the informal sector; in South Africa, where 8% of males and 12% of females are in the informal sector; and Swaziland, where 14% of males and 30% of females are in the informal sector. The North African countries have informal sectors that make up between 22% of male employment in Egypt and Tunisia to 34% in Algeria and 47% in Morocco. Female participation in the informal sector is the same as the male participation rate in Algeria and higher than males in Egypt (49% for females compared to 21% for males).

1.2.3.3 Prevalence of non-wage employment

Another way of reflecting the above two stylised facts is to look at the predominance of non-wage employment. As shown in Figure 1.2, non-wage employment is by far the most common means of economic activity in Africa, covering the employment of over

70 percent of male workers and over 80 percent of females (WORLD BANK, 2012). This stands in contrast to other regions in the world where non-wage employment makes up a much smaller share of employment, at 40 percent in Asia and the Middle East and 60 percent in Latin America.

Non-wage labour includes self-employment in the informal and formal sector and subsistence farming. Such labour is a particularly vulnerable form of economic activity because it is risky and low-pay.

Figure 1.2 Share of wage and non-wage employment



Source: World Development Report 2013 team.
Note: Data are for the most recent year available.

Source: World Bank, World Development Report 2013

1.2.3.4 Underemployment and Working Poor

Given the above facts it is argued that developing countries have an employment problem, rather than an unemployment problem (Fields, 2010; Ranis, 2013). Many individuals are employed but trapped in daily economic activities with low returns that do not fully utilise their labour. According to Ranis (2013), much of the underemployment is in rural areas and is dominated by female youth who lack the opportunities to migrate to the urban areas.

The urban informal sector is characterized by the same average product sharing nexus, but at somewhat higher income levels (Ranis, 2013). The urban informal sector however has the advantage of reducing search costs for new employment opportunities as living in urban areas provides better access to information about jobs available in the cities. In addition, there are factors pushing the youth out of rural areas. For example, the youth may decide to migrate from rural areas to avoid ethnic frictions and also because of the desire to be urbanized (Leibbrandt and Mlatsheni, 2004).

Those youth who remain in agriculture often do not possess titles to their land, potentially a significant problem since titles are often required to access credit.

It is not straightforward to estimate the extent of underemployment as such estimates rely on information about an individual's potential productivity. Individuals may not have perfect information about their actual opportunities and could over-or-underestimate their productivity and willingness to work harder. Such information is therefore prone to biases beyond the problems encountered in collecting standard employment and unemployment data. A Gallup poll estimates that 29 percent of all men in Sub-Saharan African countries are underemployed and 34 percent of women (Marler, 2011).

Addressing underemployment requires not only creating more jobs, but more importantly, making existing modes of employment more productive and more profitable. The primary mechanism of achieving this, according to Bertrand and Crepon (2013), must be through increases in labour productivity as is discussed in more details in section 2 below.

1.2.3.5 Unemployment

In addition to challenges of underemployment, many African countries have rising levels of unemployment for pockets of their populations – especially women and youth. According to the International Labour Organization, less than a quarter of the 73 million jobs added in Africa from 2000 to 2008 went to youth workers, though youth constitute over 60% of the unemployed population (AfDB, 2012).

As suggested by Pace et al. (2013), countries in Africa fall into three groups. In countries with well-structured labour markets and a large formal sector, measured unemployment tends to be high and underemployment is low. This is particularly true of countries in Southern Africa, where unemployment rates exceed 15 percent in Botswana, Namibia and South Africa. Lesotho has both a large informal sector and high unemployment. Unemployment is also high by international standards in North Africa, especially in Algeria and Tunisia. Unemployment is relatively low in lower income countries – falling in the range of one to five percent – while the informal sector is large. Ethiopia is among a cluster of countries – among them Burkina Faso, Ghana, Tanzania, and Uganda – which share similar labour market structures. Kenya, Mali, Zambia and Zimbabwe comprise a third group with relatively large informal sectors and unemployment rates in the range of five to 15 percent.

With a few exceptions, unemployment rates are higher for females than for males, and often twice as high for young adults as for older labour market participants. These high unemployment rates for females do not receive the policy attention that they require as most countries have been primarily concerned with ensuring that young males are absorbed in productive activities. Unemployment of young women is linked to higher fertility rates and HIV risks and therefore ought to be treated with equal urgency at least.

According to data from the World Development Indicators, unemployment is not a uniform problem across all African countries. Benin, as an example, only has 0.7% unemployment for women and 0.5% for males across all ages. These rates peak at 2.3% for women at 20-24 years and 2.6% for males at 25-29 years. In contrast, 32% of 14-19 year olds females are unemployed in Zambia, 51% in Botswana and 67% in South Africa. Similarly, 29% of 15-19 year old males are unemployed in Zambia, 34% in Botswana and 62% in South Africa. In all of these countries, unemployment rates fall below 10% for older workers. As noted by Abel et al. (2013), age-related relative risk

differences in unemployment, in the South African context, go beyond cohort effects. Many poorly educated job seekers do find work eventually. However, “eventually” seems to be from as late as age 30 and above.

Unemployment in Ethiopia shows a different pattern, with high unemployment rates for women across the life span of their working age. It peaks at 37% for 20-24 year olds, but is close to 30% for all women between 25-34 years and remains high at between 20 and 25% for women between 35-60 years. Unemployment rates for males in Ethiopia reach 23% for 15-19 year olds, but fall to and below 10% from the age of 25-29 years and older.

The North African countries -- including Algeria, Egypt and Tunisia -- have particularly high unemployment risk for females and only after age 35 years does this risk begin to decline. In Tunisia, 30% of women between 15 and 29 years are unemployed, which declines to 20% for 30-34 year olds. Males face only marginally lower rates at 27-29% between 15 and 24 years, which then declines to 20% for 30-34 year olds. In Algeria, 40% of females between 20-24 are unemployed and 31% between 25-29 years. Male unemployment is 23% for 15-19 year olds and 19% for 20-24 year olds. In Egypt, 48% of women between 15-19 years are unemployed and 56% of 20-24 year olds. Young males' unemployment rates peak at 17% between 20-24 years of age and then fall below 7% for 25-29 year olds.

As can be seen, there are differences in the age distribution of the unemployment problem across African countries. In some countries, the early labour market entrants (15-19 year olds) are at greatest risks which are directly linked to their exit from the schooling system before they gain job related skills. This is particularly evident in countries with a lower prevalence of self-employed individuals. In other countries, unemployment rates are higher for the older youth (25-29 year olds) as these exit further training institutions and spend more time searching for good jobs.

While unemployment rates are particularly high for the very young labour market entrants, they still make up a relatively low share of population of unemployed as most people enter labour markets only in their early or late 20s (as we shall see below).

1.2.4 Not all jobs are equally good

In their two-paper series on the “The Economic Lives of the Poor” and “What is Middle Class about the Middle Classes Around the World?”, Duflo and Banerjee (2006, 2007) review household survey data from 13 developing countries to describe the consumption choices, health and education investments, employment patterns and other features of the economies of people living on less than \$2 per day (the poor) and those whose daily consumption per capita is between \$2 and \$4 or between \$6 and \$10 (the middle class). They find some differences, but surprisingly many similarities, in how poor people live across the world and between the poorest people and the middle class in poor countries. Interestingly, they point out that the key distinction between the middle class and the poor is who they work for, and on what terms. Having a regular, salaried job, is according to them, the most important difference between the poor and the middle class. Poor people are more often employed as casual labour on farms, a construction site, a truck or a shop, on short-term contracts with no job security. The hours worked by the poor often fluctuate tremendously over time with the availability of jobs, and they frequently migrate temporarily to find a job. This makes it harder for them to acquire occupation specific skills and generate assets and savings. In addition,

these jobs do not come with health or retirement benefits which add to the risks the poor have to bear (Duflo and Banerjee, 2010). The poor may work more hours over the course of a day when they work, but the middle class accumulate more work hours over time as they have more stable, higher paying jobs, which they often had to go to some trouble to find. This, rather than their propensity to take risks and run businesses, seems to be at the core of their (relative) economic success.

In many countries, some of the best jobs are in the public sector. Public sector employment is a very small share of Africa's employment and only makes up 2% of employment in Madagascar, 4% in Mali, 5% in Cameroon and 7% in Zambia. South Africa and the North African countries have higher rates, with the public sector providing 8%, 16% and 26% of employment, respectively, in Morocco, South Africa and Egypt. South Africa and Egypt are the only countries where the share of females who are employed in the public sector is larger than the share of males compared to total female and male employment (ILO database).

1.2.5 Children and youth in the labour market

Child labour is still prevalent in many African countries. In Benin, data from the World Development Indicators, suggests that more than 3 in 4 children between the ages of 7-14 years are engaged in economic activity for at least one hour the previous week, which is the ILO definition of child labour (ILO website). The rates are 76% for females and 73% for males. In Burkina Faso, Cameroon, Chad, Ethiopia, Ghana, Mozambique, Sierra Leone and Zambia about half or more of boys and girls between 7-14 years are involved in economic activities. These children may contribute to family businesses or do farm labour. Some child labour is seasonal and some children work while also attending school. If economic activities become a pull factor for school drop-out or poor school attendance, it can undermine to longer term human capital development and make these children extra vulnerable market labour participants in later years.

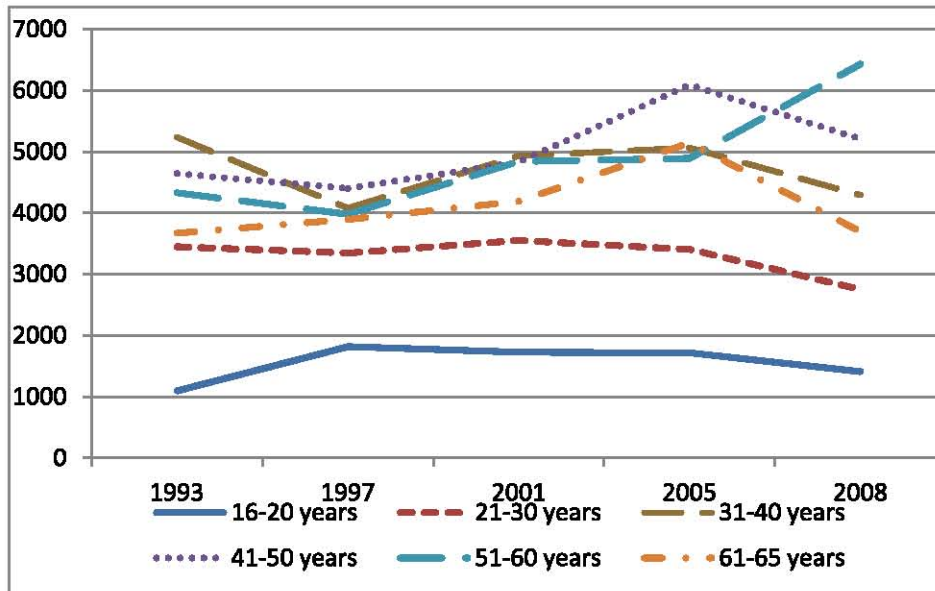
In most countries - where data is available - the young adults between 15-19 years tend to be economically inactive as they are still in school. By the age of 20-24 years, 75-80% of the population is economically active amongst males in Benin, Cameroon, Ethiopia, Madagascar, Mali and Tunisia. A big labour market entry only materialises in the 25-29 year age group for males in Algeria, Egypt, Mauritius, South Africa and Zambia, and even later in Gabon and Liberia where 78-80% of the male population in an age cohort is economically active only after age 30-35 years.

Economic participation rates of females vary by country. It is as low as an average of 14% in Algeria and 25% in Tunisia, and as high as 60-64% in Cameroon, Madagascar and Liberia. The age when women begin to work also differ considerably across countries. In Madagascar, a full 70% of young girls between the ages of 15-19 years are economically active. In Benin, Cameroon, Ethiopia and Zambia, young women enter the labour force in greatest numbers before the age of 25 years. Gabon and Liberia have relative low levels of female economic participation rates and most women only enter the labour force by the age of 30-35 years.

Added to the relatively higher unemployment risks for young adults, it has also been recognised that they tend to be more likely to find casual, low-paid work when they do find work. As an illustration thereof, Abel et al. (2013) show average wage differentials across age cohorts in the South African economy. What is striking here is the low wage earned by 16-20 year-olds as compared to the other age cohorts. This is likely because

this age group participates more in casual and part-time labour, or is paid low wages due to their lack of experience and education. In the late 2000s, there was a clear decrease in the real wages earned in all age groups except age 51-60. As a result, most real wage increases since 1993 have been cancelled out.

Figure 1.3 Average real wages per month in South Africa, by age, 1993 – 2008



Source: Leibbrandt *et al* (2010) using PSLSD (1003), OHS (1997), LFS (2001, 2005), NIDS (2008).

1.2.6 Labour market policies and institutions: case studies

African governments have responded to the crisis of youth employment in different ways. This section builds on four case studies published in Hino and Ranis (eds) "Youth Employment in Africa" (Routledge, 2013).

These case studies communicate the diversity in Africa's employment challenges and some common lessons. Two of the case studies look at high-growth countries (Ethiopia, Ghana) and two representative countries with modest growth (Kenya, South Africa). Ethiopia has grown at 11% per annum between 2005 and 2010. Ghana has grown at 8.5% per annum between 2006 and 2011. Both Ethiopia and Kenya are low-income countries, while Ghana graduated to become a lower middle income country in 2006 and South Africa is classified as an upper middle income country. Kenya has the highest poverty ratio with 46% of the population living below a poverty line, compared to 30% in Ethiopia, 29% in Ghana and 23% in South Africa. Together the four countries account for 23% of the population in Sub-Saharan Africa.

There are distinct differences across the countries. Ethiopia is a largely rural economy. It has one of the world's highest labour market participation rates for males, most of whom are self-employed in agriculture in the informal sector. Unemployment is low and limited to urban cities. Only 16% of the population lives in urban centres, though there

are positive signs of an emerging formal labour market in urban centres. Underemployment, on the contrary, is high and potentially more important policy priority than unemployment. According to Page et al. (2013), Ethiopia's underemployment challenges are intertwined with issues of growing landlessness for the rural poor and an economy that has undergone insufficient structural change despite 15 years of robust growth. Other similarly rural economies in Africa - like for example Tanzania, Rwanda, Sierra Leone and Uganda - compare to Ethiopia though Page et al (2013) maintain that Ethiopia's development strategy has been unorthodox in its strong focus on agricultural-led development. In contrast to other countries, this has avoided some of the traditional African biases in favour of small, urban middle classes, but has constrained the development of a manufacturing and export oriented industries.

Ghana is another example of a country that has experienced sustained and high economic growth rates (at 7% per annum since 1992) but where the recent growth has not translated into an equally fast growth in job creation (2-5% pa over the same period). Aryeetey et al. (2013) attribute this to the decline in the relative shares of the economy of labour intensive sectors, like agriculture and manufacturing, and the dominance of mining and quarrying, finance, insurance and business, and transportation, storage and communication in recent growth. Like Ethiopia, Ghana has a large informal sector that accounts for 86% of total employment, but contrary to Ethiopia, agriculture employment only accounted for 42% of total employment, while services make up 43% and manufacturing 15%. Ghana also has a larger urban population than Ethiopia and slightly higher levels of unemployment. A new unemployment phenomenon is occurring for the educated youth as young adults with secondary or tertiary education have considerably higher unemployment rates, 15% and 33% respectively, as they are reluctant to enter the informal sector but unequipped to gain formal employment (Aryeetey, 2013).

Kenya has relatively high unemployment rates (15% on average, 24% for young adults) and high levels of underemployment in the informal economy which accounts for 80% of employment. Contrary to the Ghanaian case study, education attainment in Kenya is associated with improved chances of employment in the informal sector and additional hours of worked. While the informal sector in Ghana and Ethiopia absorbed any excess labour that were willing to work, the Kenyan case study seems to suggest that selection issues pertain to employment in the informal sector where the better education are more likely to find employment than those without any or less than primary education. .

In Abel et al. (2013), the unemployment challenges in South Africa are discussed. Despite modest economic growth (3.3% per annum), declines in agriculture, mining and labour intensive manufacturing, accompanied by a sharp rise in labour market participation – especially by low-skilled Black women – resulted in narrowly measured unemployment rising from 13% to 25% between 1994 and 2011. Compared to other developing and middle income countries, very few South Africans are self-employed, and the supply of labour is directed primarily at jobs, in the formal sector. Strong labour unions have kept wages from falling in the formal sector despite the massive influx of new labour market participants. Three out of four unemployed are below the age of 34 years, which is the official definition of youth in South Africa. There is mixed evidence on the role of South Africa's elaborate social grant system. Social grants have been a major factor in the reduction of poverty in post-Apartheid (with much smaller effects of education and job creation), and may have played an enabling role in opportunistic

migration behaviour. Social grants may also be negatively affecting job search behaviour.

These case studies highlight a number of common challenges.

First, economic growth in sub-Saharan Africa has been relatively strong over the past decade but driven largely by growth in services (finance, insurance and telecommunication) and extractive industries. These sectors are relatively capital intensive compared to agriculture, manufacturing and tourism. As emphasised by Page et al (2013) between 2004 and 2008, North and sub-Saharan Africa had some of the most employment-intensive growth in the world. Average employment elasticities of growth were 0.7 and 0.5, respectively (AfDB, 2012). Globally the growth employment elasticity is estimated to be about 0.3, and it ranges from a low of 0.2 in East Asia to a high of 0.9 in the Arab Middle East (Kapsos, 2005). There is, however, a strong negative relationship between the rate of growth and the employment intensity of growth across Africa (Figure 2.8). The region's fastest growing economies – Ethiopia, Rwanda, Tanzania and Uganda – have its lowest elasticities of employment creation with respect to growth.

All of the four case studies called for further investments in strategic, labour-intensive sectors. This is not labour market policy but it seems to be central to the demand for labour over the longer-run. There however remain very few success stories of industrial policies on the continent that have successfully nurtured labour-intensive manufacturing with South Africa's automobile industry possibly being an exception. Creating formal, decent jobs for the underemployed and unemployed youth is a very tall order and should not be the only focus of labour market policies.

Outside of the South African context, labour market regulation has had limited scope and reach in economies where 80% or more of total employment is in the informal sector. Some forms of active labour market policies – including public works, SME support and skills development programmes – exist in some form in all of the countries, but these policies lack breadth and depth.

1.2.7 Summary

We lack statistics on economic participation, employment and unemployment in a larger number of countries in Africa to draw a full picture of labour markets in Africa.

Using the broad definition of labour markets as inclusive of all wage employment and self employment in the formal and the informal sector, this section has shown some of the similarities and differences in labour market compositions across Africa. With a few exceptions, most employment in Africa is in non-wage employment in the informal sector and many of these jobs are in the rural areas. Many of these jobs are low productivity employment and the people who have them are probably best regarded as underemployed. They could be more productive in other activities if given the opportunity. In addition to problems of underemployment, unemployment is emerging as an additional challenge, especially within pockets of the population such as the youth and women. Identifying strategies that can increase the productivity of the underemployed, while also addressing the high unemployment risks of vulnerable populations is Africa's emerging, double labour market challenge.

1.3 Evidence on Labour Market Policy

1.3.1 Policies for young adults

In this section, we review available evidence on how to improve school to work transitions for more young people in Africa. Following the World Development Report 2007 on “The Next Generation”, improved transitions from school to work and then within the work can be facilitated through actions in three areas:

- *Avoiding transitions from school to work that are too early.* Young children and adolescents can be exploited when they start full-time work prematurely, which is why many countries have agreed to international conventions banning the worst forms of child labour. Starting too early also prevents youth from acquiring enough basic skills in school—skills that would make them more marketable to more types of employers. As most employment in Africa takes place in the informal sector and in non-wage employment with very limited opportunities for on-the-job training, missed opportunities in skills development prior to labour market entry are particularly hard to remedy.
- *Breaking into the job market.* Across all societies, starting an independent livelihood is not easy, especially because the key to opening opportunities is one’s track record—in work habits, job-related skills, and repaying loans. No wonder that unemployment rates for youth are systematically higher than for older generations. This gap can have enormous costs in forgone skill building.
- *Moving to new jobs and up the skills ladder.* Especially in poor countries, many young people are not idle—they are working, but earning very little. Changing jobs to earn higher wages or getting into the formal sector is one way to move up the skill ladder. For too many, however, where they begin in work is where they end up. Accumulating skills on the job—ease barriers to start work and facilitate mobility.

Not all of these actions fall tightly under the ambit of labour market policy and our review will focus mainly on reviewing the microeconomic evidence on labour market interventions, while acknowledging that these cannot be considered in isolation from macro interventions that are responsible for achieving economic stability, growth and inclusive participation in economic opportunities across age and ethnic groups. Our earlier discussion of industrial policy provided one example. Another is provided by policies that open the economy to free trade can be an example of macro interventions that tend to be youth friendly (WORLD BANK 2007).

1.3.2 Ready to work: Labour market entry and human resources

The four country case studies, discussed in section 1.2, all emphasised the role of improved education policy as a necessary, if not sufficient, condition for better functioning labour markets.

Cross-country studies have found a strong relationship between the level of cognitive skills in a country and economic growth in that country (Hanushek and Woessman,

2008), suggesting that building the human capital of young adults is a prerequisite to sound labour market policies.

As argued by Bertrand and Crepon (2013), improving the skills of the workforce may help undo some of the constraints to labour demand in the formal economy by improving the potential productivity of those looking for work and even moving the marginal product of workers above regulated minimum wages. Better education may enable self-employed youth in the informal sector to envision better ideas for new products or better ways to run their businesses, which may in turn create the need to hire additional workers. Broader access to a better educated workforce may be a strong driver of firm productivity and firm growth; this may subsequently create more dynamism and competition within industries, which have been shown to be strong drivers of growth and job creation. Finally, higher education levels may foster a more engaged and informed populace that pushes to change the set of policies and practices that are contributing to the structurally low level of labour demand observed in African countries.

The social returns to having a skilled and well equipped population go beyond the private returns to the individuals, who may under-invest in their human capital formulation as a result. This is particularly the case in Africa where many more young adults complete primary education than ever before and need to put these new education gains into productive use. As many of them come from poorer families and have parents who themselves have limited, if any, education, these young adults face particularly severe credit constraints, imperfect information constraints, have to confront negative social norms, and may be uncertain about future access to good jobs if these are allocated based on ethnic, clan or family ties.

1.3.2.1 High returns to starting early

The production of human capital is slow and should start at birth to build fundamental cognitive and non-cognitive skills. Early investments are particularly important as there is strong evidence to show that skills formation in early childhood have substantial and sustained effects on future educational attainment and labour market outcomes. Furthermore, if these capabilities are not acquired at an early stage, they can be exceedingly hard and much more costly to remedy in later stages in life.

Sound policies include better access to fertility services to enable access to birth control and promote healthier births, as well as access to health care and better food. Nutrition deficiencies are a widespread problem in Africa, with severe consequences on children's learning capabilities. Investments in iron and folate supplements in Nigeria, deworming of school children in Kenya, multivitamin fortified snacks and drinks given to South African school children, and in-utero iodine supplementation in Tanzania have all been shown to substantially expand cognitive function, school outcomes and even labour market participation (see Delisle, Chandra-Mouli, and de Benoist, 2000 for more details).

1.3.2.2 Quality education

Many more children today enroll in primary schools across Africa than ever before, but too many of them learn very little as education quality has lagged behind gains in school access.

Current school systems often fail poor students as they have inappropriate curricula and do not accommodate the learning needs of children who fall behind. Many children get promoted from grade to grade without mastering basic skills, leaving them lost and unprepared for the lessons they are taught. A strong evidence body suggests that improving general school quality – by having more teachers or textbooks, improving incentives for teachers and students, etc. – may not necessarily help these children if they do not have acquired basic literacy and math skills that are necessary to follow classroom instructions. Efforts to curb teacher absenteeism and remedial education programmes have shown promising results in several African countries (J-PAL website).

In many countries, returns to education are particularly large after completing full primary or secondary education. As an example, in South Africa, individuals in the 20-34 year age group who only had primary education or less than that faced unemployment rates of 48 percent, despite having had 15-20 years to generate work experience. In comparison, only one in three 30-34 year olds were unemployed amongst individuals with some secondary education, but not a complete Matric degree. This falls to one in five for individuals with a Matric degree and 12 percent for individuals with tertiary education. Recent econometric work by Branson *et al* (2012) show that these effects cannot be explained away as generational effects.

Uniforms, scholarship programmes and other interventions can help disincentivise school dropout at the end of primary and secondary education. As an example, a conditional cash transfer programme in Malawi provided transfers to 13- to 22 year old girls and women as an incentive to stay in school, or return to school if they had dropped out. The programme increased the re-enrolment rate of drop-outs by two and a half times and cut the dropout rate almost in half.

1.3.3 Self-employment: a stepping stone or a trap

Given the importance of the informal sector and self-employment in many African countries, it is important to discuss the particular factors that may constrain the ability of these workers or entrepreneurs to expand and succeed. The vast majority of these entrepreneurs are self-employed in one-person businesses and the only pathways out of poverty for them is to grow their own business, to use their work experience in the informal sector as a stepping stone to formal sector employment, or to generate enough assets to start more lucrative, formal businesses.

1.3.3.1 Growing a business

Most micro entrepreneurs are not in the business of growing their business, and their self-employment activities are instead a means of sustaining a daily subsistence. When comparing poor households to their middle class counterparts in a cross-section of countries, Duflo and Banerjee (2010) observe that occupational patterns of the middle class seem surprisingly similar to those of the poor, with some few notable differences.

In rural areas, the middle class are more likely to be wage earners (in public sector jobs) and no more likely than the poor to own land and run businesses. The businesses that they have however tend to be in the rural, non-farm sector whereas agricultural production is where the predominant share of poor household's enterprises can be found.

In urban areas, the broad occupation patterns are remarkably similar between the poor and the middle class. The share of entrepreneurs stays roughly the same as does the number of non-family employees that these micro firms employ (on average 0.5-1). The business assets of the middle class are not much larger than those of poor entrepreneurs and their level of specialization are not remarkably different too. They however tend to be run by women who benefit from more stable income sources from wage earning household members.

While firms are generally undercapitalized, even the businesses of the middle class lack the potential to grow into larger businesses even if access to capital improved. As suggested by Duflo and Banerjee, it is possible that the threshold for growing business is much higher and even middle class families (defined as those earning \$4-10 per day) cannot afford such investments. Providing credit or training to development managerial skills may not have great, positive returns if they target enterprises of poor and middle class firms that do not have the growth potential.

1.3.3.2 Access to microfinance and business support

Providing greater access to credit, can in theory, enable youth to invest in the capital and labour inputs that are necessary to start or maintain their small businesses. The profit earned from output sold could then be turned into loan payments and further investments in business production. In this way microcredit would allow youth to directly alleviate the problems of low demand in the formal sector by creating labour demand themselves.

While microfinance has been extensively studied in the developing world, few randomized controlled trials have specifically examined its effect on African youth. Bertrand and Crepon (2013) synthesize the current state of knowledge and conclude that the empirical literature on microcredit shows mixed and inconclusive results on employment outcomes and enterprise development.

This is unsurprising as argued by Teal (2000) who notes that lack of specialization of firms is the real constraint to economic development in Africa. The families who could afford investments in firms with higher growth potentials, don't require microfinance and may already have access to better paying formal wage jobs and therefore lack incentives to embark on starting up new businesses. With highly stratified societies, social network effects may prevent families from starting businesses that are in competition to their peers. For poor and middle class households, it may be a better investment to ensure that their children access improved health care and education than to grow their businesses.

1.3.3.3 Supporting the informal sector

One aspect of informal sector uncertainty relates to the weak protection of property rights in many African countries. Increased property rights for microenterprises can increase investments and subsequently lead to productivity gains, as shown by Besley (1995) for investments in agriculture increased with land titling in Ghana. Field (2007) shows that introducing well-defined land titles in urban Peru led to substantial growth, an increase in the number of hours worked per person by 13.5-23.3 hours. Taken together these imply that firms may be encouraged to invest more if they were protected from eviction from their current location through a formal process.

Such policies need to go beyond merely encouraging firms to formally register. Experimental evidence by De Mel et al. (2012) in Sri Lanka finds that information and reimbursement for the modest direct costs of registration are not effective at increasing firm registration. They show that registration is spurred only when the information is combined with incentive payments of approximately two-month's profit. While about half the firms registered because of the incentive payment, formalization did not provide firms with benefits such as increased access to credit, obtaining government contracts, or participating in government programmes. The authors do however find an increase in trust in the government because of formalizing. While there is evidence that documents the general benefits of formalization, it is not clear how to best promote this in the informal sector in Africa. Key to such programmes should be efforts to secure property rights.

One potential way for informal sector firms to grow is to encourage them to hire workers. With limited access to credit and limited information, firms may be unable to hire workers even when the marginal productivity of an additional unit of labor in microenterprises is higher than the market wage. De Mel et al. (2010) show that a wage subsidy equivalent to approximately half the cost of hiring a low-skilled worker induced 22% of eligible microenterprise owners to hire a worker in Sri Lanka. Among those hiring workers, 64% of the owners reported that this was the first paid employee they had ever hired and 86% expected to continue to employ the worker after the subsidy was removed. The median enterprise expected sales to increase by 25% as a result of hiring the employee. If these expectations are realized, they suggest that a short term wage subsidy could have long-term effects on enterprise size and productivity. Even though this has not been empirically tested, a programme that subsidized the hiring of youth workers could be piloted and evaluated in the Ghanaian informal sector. However, more research is needed to understand how to best design such programmes.

1.3.4 Growing the rural economy

We have emphasized the fact that more than two thirds of Africa's labour force is engaged in agricultural activities, with many women doing subsistence farming. For a young adult who grows up in villages away from cities and who fails to achieve a level of education that can open up opportunities to go to secondary education and who lacks family networks and financial resources that can enable access to apprenticeships or migration to cities as casual labour, farming is left as the only option. It is not to an occupation of choice but an occupation of necessity, due to its hard, physical work.

At the same time, Africa has yet to benefit from its "green revolution" as there is little evidence of technological improvements with consequent improvements in productivity and efficiency. Many technologies have been developed that hold potential to increase the productivity and profitability of agriculture in Africa, but these are not adopted and used in practice. Many plausible barriers may constrain technology adoption and rigorous research is underway to test ways to overcome barriers.

Most of this research is focused on adoption of new technologies. The focus is wide and includes training and information programmes for coffee farmers in Rwanda (Duflo, Keniston, and Suri); information infused into social network (Beaman et al.); incentives for farmers to use fertilizers (Duflo, Kremer, and Robinson, 2011) and

access to weather insurance in Ghana (Karlan and Udry) and access to credit and/or storage facilities in Sierra Leone (Casaburi, Glennerster, and Suri).

Many farmers grow crops only for personal consumption or local markets even though involvement in export markets is more profitable. When farmers participating in an RCT in Kenya were randomly offered services that help them manage savings, connect to transportation services, and reach exporters, income increased by 32% for first-time growers of export crops a year after the start of the programme. However a year after the programme began, farmers failed to meet new EU production requirements, defaulted on their loans, and switched back to selling in local markets. This failure highlights the extensive risks small-scale farmers face in producing for an export market (Ashraf, Gine, and Karlan 2009).

1.3.5 Breaking into the labour market

Job search means different things in different contexts. In predominantly rural economies, most households live outside of cities and are largely self-employed, with supplementary earning from migrant remittances and casual labour. They depend on information and some cash resources to optimise their supply of labour across a combination of local production, seasonal migration and sending some household members into urban areas to find work to send remittances to the rural household. For the migrants and the urban poor, their challenges are different. They are less affected by the seasonality of work and their main challenge is to gain a footing in more stable and higher return economic opportunities.

1.3.5.1 Spatial barriers to job search

Formal work opportunities are almost exclusively based in city centres where it is too expensive for young job seekers to reside and they therefore have to travel to and from work opportunities. Longer distances to jobs induce bigger costs to become employed. High transportation costs to reach employment areas or employment agencies may exceed the benefits of searching for a job. The costs of relocation near job opportunities may also prevent the unemployed from searching actively, as does the distance that may need to be travelled to informal market for trading opportunities for the self-employed. As such, the high living costs in many African cities may therefore act as a detriment to more flexible labour markets.

As an example, the average distance of African townships from the central business districts (CBDs) of the seven largest South African cities is 28 km. This spatial segregation adds to the cost of job search, particularly through transport costs and time. NIDS data shows that people with employment spend on average R215 (\$30, 7 percent of average net salary) per month on transport to and from work (NIDS, 2009). The mean amount spent by the actively searching unemployed on transport costs related to the job search was R106 in the previous week, although 43 percent did not spend anything. The main sources of funding for these transport costs were co-resident family members (80 percent), savings (11 percent) and friends (7 percent) (NIDS, 2009).

There is very little evidence on how to improve the rural, informal labour market. It is often – in policy and research – perceived to be the residual that may disappear only if and when we fix the formal labour market.

Unemployed youth have had less time to build up savings to finance relocating and may have young children. Ardington et al. (2009) find that for multigenerational households in rural South Africa, relaxing credit constraints significantly increases the likelihood of migration and employment for prime-aged workers. The results hold for developing countries outside of Africa as well, as Bryan et al. (2012) find that providing incentives to seek work elsewhere during seasonal famines in Bangladesh increases migration. According to Bryan et al., the additional income makes migration in the face of uncertainty possible for households who otherwise would not be able to support the migrant job searcher.

This body of work presents evidence that relaxing the credit constraints (through saving options or cash transfers) that hinder migration improve the allocation of workers to jobs and help address the spatial mismatch that exists between labour supply and demand. Other policies should also be investigated to reduce that mismatch. Access to a better public transportation system, or better infrastructure for roads, or transportation subsidies, should also be considered.

1.3.5.2 Job search and matching

Unemployment can exist in tandem with job vacancies if employers and job seekers lack ways of exchanging information about their skills needs and skills offerings. The small formal sectors may have formal job advertisement and application processes, but most jobs outside of governments and large private businesses are filled through family ties and social networks.

Youth and employers alike face substantial barriers to information. Formal sector firms often struggle to fill vacancies. For example, in Egypt even though 1.5 million youth are unemployed, 600,000 job positions were lying vacant in the formal sector (AfDB et al. 2012). Unemployed youth may lack information about the types of jobs available and the skills desired by employers; as a result, they may prepare poorly for the labour market (AfDB et al. 2012, van Eekelen, de Luca, and Ismail 2001). Information barriers may also affect the take-up of programs designed to help youth better prepare for jobs: in a large-scale youth survey conducted in Egypt, only 18% of respondents report being aware of projects to help the unemployed (van Eekelen, de Luca, and Ismail 2001).

Interventions targeted at improving access to information about the labour market could facilitate faster entry into the labour market for youth, especially when there is a strong spatial or social mismatch between firms and workers. Providing youth with more information about wages, necessary skills, jobs and training opportunities available could help facilitate entry into the labour market. For example, with the spread of cellular phones, better information systems could be developed to help guide job seekers living in remote locations about the location of job vacancies. More evidence is needed in this area to identify effective policies that reduce barriers to obtaining information for labour market entrants and labour market participants.

Developing the proper labour market institutions that promote information flows between employers and youth could substantially help in this regard. Public employment services currently only exist in 23 African countries, and reach at most half of the youth that are seeking formal sector employment. In Morocco, public employment services have only found employment for 9% of those registered with the service, and in Algeria only 11% of those registered have found employment through public employment services (AfDB et al. 2012).

In South Africa where job advertisement requirements are legislated, a national job seekers database has more than xxx entries. Still, informal networks remain the most frequently used strategies in job search, along with going from door to door to ask for work or to hand out CVs in shopping malls (Noble *et al*, 2008). These strategies are particularly prone in new labour market entrants that do not have an extended network to help them in their job search.

A number of factors may prevent more effective job search, including search costs; imperfect information and potential employer biases against young who lack an established track record.

1.3.5.3 Reservation wages and public sector wage biases

Another manifestation of informational problems is with respect to reservation wages. In particular, there is evidence from several African countries that young people, especially the most educated ones, have unduly high reservation wages, which may retard their entry into the workforce. Using structural modelling, Levinsohn and Pugatch (2009) find that educated youth in Cape Town, South Africa, tend to value their own abilities more than potential employers do, and choose to remain unemployed if their reservation wage exceeds their offered wages. Arguably, providing these educated young people with better information about the typical level of compensation of their peers should contribute to a downward adjustment in their reservation wages and reduce the sub-optimally long length of their job search.

One factor that explains youths' upwardly biased reservation wages is the gap in compensation between public and private sector jobs. In Tunisia, employment for college graduates is primarily driven by jobs in public administration. The availability of such jobs relies on budgetary allocations, and there has been an overall decline in the number of public sector jobs. College graduates often remain unemployed for long periods of time, preferring to wait for a high-status job in the public sector rather than settle for a job below their expectations (Stampini and Verdier-Chouchane 2011). Boudarbat (2005) uses labour supply data and structural estimation to arrive at the same conclusions regarding the high unemployment rate of educated youth in Morocco, where the unemployment rate was 5.6% among uneducated workers but 32.2% for university graduates. He finds that university graduates, like in Tunisia, largely preferred employment in the public sector even though employment opportunities in the public sector were relatively scarce. The unemployment duration of university graduates increased when the wage differential between the public and private sectors increased.

At the macro level, this suggests that inflated public sector wages can distort labour supply towards the public sector. Reducing the incentive for young adults to wait for a well paying public job, instead of generating work experience in the private sector, could add more dynamism to formal labour markets in countries in North Africa and South Africa. At the micro level, this suggests that information campaigns that reset young educated people's expectations about public sector jobs could be particularly beneficial. Such information campaigns would help adjust reservation wages downwards.