
Chapter 12. Promoting the Informal Sector, Apprenticeship, and Entrepreneurship

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12.1 Introduction

The informal sector has been the other main source of job growth in most countries in Africa. Stylized facts about the informal sector in Africa suggest that this sector comprises small units with one or two workers, largely based on kinship and specializing in narrowly defined products, such as furniture or repair of certain parts of automobiles. These units create jobs typically through apprenticeship. Once the apprentice acquires necessary skills, they move out and set up equally small units. Jobs in this sector are associated with low productivity, low incomes and vulnerability.

As will be shown in this chapter the story of the informal sector in Africa is complex, and at times puzzling. To understand this sector and the policies for dealing with this informality calls for explicit recognition of its existence and complexity. The route to creating non-vulnerable jobs in the informal sector with decent pay in the short-run as well as in the medium and long term will need to be understood.

To improve the quality and pay of existing jobs, increase productivity levels and enable them to informal sector enterprises to grow in size and acquire more efficient forms of organization they will require better access to infrastructure (electricity, roads, and water), training opportunities, financial services and business premises in areas where informal sectors are concentrated. The business environment will also need to be made more secure to better protect people working in the informal sector.

This chapter reviews policies to encourage and assist operators in the informal sector, and recommends those which have been shown to be effective by rigorous research. The chapter also reviews studies employing randomized experiments and other research-based projects that have been piloted in Africa, and recommends those that could be scaled up as government policies and those that might be piloted to generate additional evidence on employment generation in the informal sector.

Many young people in Africa aspire to become entrepreneurs. And, entrepreneurship is believed to be a promising avenue for turning energy and dynamism of the youth into a demographic dividend. Many African countries have implemented initiatives designed to spur entrepreneurship. The initiatives include entrepreneurship training, and development of curricula for technical and vocational education. This chapter reviews these programs, evaluates their effectiveness, and recommends new initiatives.

The nature of the informal economy in Africa, in terms of its scope, and activities has evolved over time, sometimes slowly and other times quite rapidly. This aspect of the informal sector justifies the importance of defining concept itself, and understanding the extent and trend of the informal economy in Africa. Pertinent questions in this endeavor include: What constitutes the informal economy? How has it changed over time? What are its labor force characteristics? What is the potential of the sector in generating

employment and addressing the problem of poverty? What are the returns to education and employment in the sector? Is the sector a viable option for employment; and what does existing data suggest about the changes, and the driving forces for the sector's expansion? What can be done to make the small enterprises operating in the informal environment to be vibrant, productive, and sources of sustainable employment, especially for the youth?

12.2 Definitions and the status of the informal sector

12.2.1. Definitions and Concepts

The informal economy denotes a diversified set of economic activities, enterprises, and workers that are not regulated or protected by the state (WIEGO, 2012). The concept has been expanded beyond the original confines to self-employment in small unregistered enterprises to include wage employment and unprotected jobs.

The informal economy is seen in several perspectives depending on the types of components that are considered. Some components of the informal economy are viewed as businesses which deliberately avoid regulation and taxation, other components are viewed more positively as a source of livelihood for the working poor while still other components are viewed more dynamically as a reserve of entrepreneurial talent that can be harnessed to cushion the actors against crises or can even play a dynamic and transformative role in the economy (citation ...). The emphasis in this chapter is placed on the options for making the informal economy play more effectively the role of transformation of the economy. In this context, the informal economy has grown over time and has even taken new forms that are complex and characterized by various forms of linkages to the formal economy and has been featuring in discussions of growth, poverty and inequality.

The adoption of the structural adjustment programmes in Africa in the 1980s became associated with erosion of real wages in the formal sector and loss of jobs through privatization of the often overstaffed public enterprises. These changes came to be associated with the expansion of employment in the informal economy. As the public service shed off formal jobs and employment on public enterprises shrank or shut down, some of the workers who were laid off found means of livelihood in the informal economy (reference??). Some of the workers who did not lose jobs but suffered erosion of their real wages resorted to informal earnings activities to supplement the eroding formal-sector incomes (ref??).

During this period some formal sector enterprises resorted to informalization of the workforce in order to retain their competitive position. In response to global competition, some formal firms tended to hire most workers under informal arrangements or to contract the production of goods and services to backyard economic activities in the informal economy (informal enterprises or self-employed producers). There is increasing recognition that the informal economy is linked to the formal economy and contributes to the overall economy. Enterprises in the informal economy have increasingly been recognized as important in supporting the working poor and reducing poverty and inequality. The resurgence of interest in the informal economy has attracted studies on the size and composition of the informal economy, identifying drivers of informality and their implications on productivity, growth and quality of life.

Some of the informal economic activities are a response of formal firms to reduce labour costs and increase competitiveness through subcontracting chains or by avoiding costs associated with organized labour and state regulation of the economy (such as taxes and social legislation). Other informal sector enterprises may choose to remain informal in response to a hostile legal system and regulatory framework or may choose to operate informally – after weighing the costs-benefits of informality relative to formality.

Based on such characteristics, the informal sector comprises informal own account enterprises as well as enterprises of the informal employers. The distinction between own account enterprises and enterprises of informal employer is based on whether or not the enterprises of informal employers employ workers on a continuous basis as contrasted with the employment of employees on an occasional basis and the employment of unpaid family helpers. Enterprises rendering professional or business services (e.g. doctors, teachers, lawyers) are included in this definition if they meet the requirements of informal own account enterprises or informal employers.

12.2.2. Status, Characteristics and Significance

12.2.2.1. Categories and characteristics

The sector has diverse employment categories with majority of workers exposed to decent work¹⁹⁰ deficits. The employment categories in the sector range from wage workers to non-wage workers. Among the wage workers are employees of informal enterprises, domestic workers, casual workers without fixed employer, industrial home workers, temporary and part time workers and unregistered workers; while the non-wage workers include employers, such as owners of informal enterprises and owner operators of informal enterprises and the self-employed who encompass heads of family businesses, own account workers and unpaid family workers (Chen, 2007..??). These employment categories are nuanced with a number of workers belonging to more than one economic activity.

The informal economy is not a homogeneous set of activities; the informal economy as a whole is more heterogeneous and complex than the sum of the components would suggest.

As already noted, some components of the informal economy choose - or volunteer - to operate informally in order to avoid registration and taxation, while others do so out of necessity or tradition. Some of those informal economy entrepreneurs would welcome efforts to reduce barriers to registration and related transaction costs, especially if they were to receive the benefits of formalizing such as enhanced access to resources such as financial, infrastructure or business premises. Some informal wage employment is due to the informalization driven by employers in the formal economy wishing to avoid regulation and taxation initiating casualization of labour in order to avoid payroll taxes and employer's contributions to social security or pensions. Sometimes this behaviour is done through mutual consent of the employer and employees who prefer to receive greater take-home pay instead of incurring a wage reduction due to employer's contribution to social security. The consent of such employees may be induced by the manner in which social security systems are managed and the extent of transparency of the terms and conditions of the social systems. Some informal entrepreneurs are obliged to work informally during economic crises or downturns in order to survive the

¹⁹⁰ Decent work pillars include: protection of workers' rights; social protection; education; economic support; voice and representation (ILO 2002)

pressures of competition. In this sense, informalization of employment relations can be seen as a feature of contemporary economic growth and to a certain degree, a consequence of globalization.

Categories of informal sector entrepreneurs include street vendors in many African cities (known as the *machingas* in Dar es Salaam) who walk selling goods from formal businesses (local industrial and agricultural goods (e.g. vegetables) or imports of manufactured goods, mainly from Asia); drivers of taxis, or motorcycles working on contract on some agreement with the owners or working for themselves as owners (entrepreneurs); and providers of personal services such as barbers and cobblers. There are also informal enterprises such as small kiosks or stalls that sell goods of every conceivable kind; small workshops and garages that repair motor vehicles, bicycles and motorcycles; enterprises making furniture, tanning leather and making garments or selling or producing goods from their homes. Some of these home-based workers operate on their own account, while others function on a piece-rate basis for a contractor or a firm. There is a large group of individuals who operate alone in temporary spaces selling anything that has a market price, ranging from magic, old clothing, vegetables to low quality industrial goods such as watches, radios and farm implements.

The other important feature in the informal economy participation is the fact that some businesses are highly concentrated in a few types of economic activities. Table 12.1 shows that most of the labour force participation in Tanzania is in retail trade and printing. This suggests limited skill spread in sectors of direct production. The other interpretation from the information presented in the table is that participation is likely to be driven by lack of formal sector jobs or unemployment.

In the case of Tanzania, for instance, the 2009 Diagnosis Report on the Property and Business Formalization Programme (MKURABITA) reported that 97% of all businesses in Tanzania and 86% of all urban properties in Tanzania are extralegal (PHDR, 2011)¹⁹¹. The report found that the new Business Activities Registration Act (BARA) of 2007, which is supposed to facilitate registration, effectively excludes most household enterprises because of the prerequisite for businesses to have a fixed premise before being issued a license.

12.2.2.2. Gender balance

In terms of the gender balance, SMEs in the informal sector environment has become a major employer of the female labor force in Tanzania. The 2008 baseline survey of the sector by ILO shows that the ownership of the informal sector enterprises is almost equally divided between male and females, with men owning 52% of the enterprises, while women own 48%. The survey further shows that about 57.4% of the total informal sector labor force is in male owned enterprises while 42.6% is employed by female owned enterprises. There is a wide variation in the sectoral distribution of the informal sector activities, with 65% of the informal sector enterprises being in wholesale and retail trade.

12.2.2.3. Employment: Nature and significance

While the labor force in most African economies has continued to increase, the performance of the economies, especially the formal has not been adequate to create employment for the growing labour force. This has led to the increasing importance of

¹⁹¹ Poverty and Human Development Report. Ministry of Finance. Dar es Salaam, 2011.

the informal sector as a source of employment opportunities and earnings. According to the ILO's *World Employment Report 1998-99*, "the lack of jobs in the formal sector of the economy as well as the lack of skills in a large part of the labor force has resulted in the growth of a substantial informal sector in which most workers are in low-paid employment under unregulated and poor working conditions". Due to failure especially by the formal sector to create employment for the growing labor force, the issue of employment opportunities in Africa has become an important policy concern. Data from a number of sub-Saharan African countries show that growth in employment opportunities has been concentrated in the non-wage sector, with the most important source of growth being in the non-farm self-employment sector (Kingdon, Sandefur and Teal 2005). Non-farm self-employment has become the major source of employment.

The informal economy comprises half to three quarters of the *non-agricultural* labour force in developing countries. In developing regions, self-employment comprises a greater share of informal employment outside of agriculture (and even more inside of agriculture) than wage employment. Specifically, self-employment represents 70 per cent of informal employment in sub-Saharan Africa compared with 62 per cent in North Africa, 60 per cent in Latin America and 59 per cent in Asia.

The concept of self-employment, however, is problematic and more complex than it is often presumed. Matteo Rizzo and Marc Wuyts have shown that the self-employed reflect pervasive labour markets in Africa within the informal sector, both in urban and rural production. They argue that much of what is defined as self-employment is in fact wage labour. To illustrate this point, they use a case study on labour relations in the urban informal public transport sector of Dar es Salaam. The distinction they make is often missed in official labour and employment statistics (Rizzo and Wuyts, 2013)¹⁹².

The informal sector has become increasingly important in the Tanzanian economy as a source of employment and incomes. Most employment has expanded in the micro enterprises and household based activities. During the last two decades, the informal sector has seen its share in total employment rise from 16% in 1980, to 77% in 2006. Between 1990/91 and 2000/01, employment in the informal sector increased by 484,201 or a growth of over 48,000 jobs annually. In comparison, the estimate from the current survey shows that the informal sector employment increased by 816,176 during the five-year period 2000/01-2005/06, equivalent to creation of 163,235 jobs on average annually (URT, 2002).

There are a significant number of smaller enterprises, which do not fit into the conventional enterprise recognition in Tanzania. According to the informal sector survey of 1991, small enterprises operating at that time in the informal sector alone numbered more than 1.7 million businesses, engaging about three million persons, accounting for about 20% of the country's labour force (URT, 2003). A recent survey of the manufacturing sector has shown that out of the 25,000 manufacturing enterprises operating in the country, 88% are microenterprises that engage 1-4 persons (60.3% engage 1-2 persons and 27.7% engage 3-4 persons) (NBS, 2008). By June 2008, of these 25,000 enterprises, only 5,520 (22%) were registered formally.

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Matteo Rizzo and Marc Wuyts. *The Invisibility of Wage-Employment in Statistics on the Informal Economy: Causes and Consequence*. Paper presented at the REPOA Annual Research Workshop. REPOA Dar es Salaam, 3-4 April, 2013.

Table 12.1: Percentage distribution of employment in the informal sector in Tanzania, by sex and activity

Industry	Main Activity			Secondary Activity		
	Male	Female	Total	Male	Female	Total
Cattle, Beef & Dairy & Small Animals	1.9	.5	1.3	.7	.9	.8
Crop Growing	2.2	.3	1.5	93.9	95.0	94.4
Agricultural & Forest Services	.5	.4	.5	.2	.0	.1
Fishing	1.5	.3	1.0	.4	.0	.2
Mining & Quarrying	1.0	3.0	1.8	.0	.0	.0
Grain mill Products & Food Canning	1.6	3.0	2.2	.0	.1	.1
Manufacture of Wearing Apparel, Spinning, Weaving & Finishing	3.0	4.5	3.6	.1	.4	.3
Furniture making & Manufacturing of Non-a Mineral Products	5.6	.4	3.5	.2	.0	.1
Electricity & Water	.0	.0	.0	.1	.0	.0
Construction	11.6	.0	6.9	.6	.0	.3
Retail Trade-Agric Products, Meat & Chicken	21.9	18.9	20.7	.6	.5	.5
Retail Trade-Processed food (Maandazi, Scones etc)	3.6	20.5	10.5	.1	.3	.2
Retail Trade-Clothing, Textiles & Footwear	4.7	6.0	5.2	.2	.1	.2
Stationery, Photograph & General Retail	21.7	14.5	18.8	.4	.5	.4
Restaurants & Hotel	4.3	24.2	12.4	.3	.4	.3
Transport & Communication	3.5	.0	2.1	.2	.0	.1
Finance, Insurance & Business Services	.2	.0	.1	.2	.0	.1
Public Administration	.1	.0	.1	.4	.1	.2
Non-Profit making Public Institutions	.0	.0	.0	.0	.0	.0
Social & Community Services	3.0	.5	2.0	.2	.5	.3
Education Services	.6	1.1	.8	.9	.3	.6
Repair of MV, Footwear & Other Repair Services	5.5	.1	3.3	.1	.0	.1
Domestic Services	.0	.0	.0	.1	.7	.4
Other Personal Services	2.0	1.6	1.9	.1	.2	.1
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total in Numbers	520,530	356,850	877,380	718,995	631,915	1,350,910

Source: Labour Force Surveys 2006

Labor force participation in the informal sector-related activities in Tanzania is not only significant but also increasing. The small size of the economy coupled with downsizing of the formal sector amid economic reforms of the 1980s partly set forth for a modest formal economy. This led to extraordinary expansion of the informal sector and SMEs related activities especially for job seekers in urban areas. Table 12.2 shows that paid employment has stagnated at about 10 % over the past 15 years. On the other hand, informal employment has predominated over the entire period.

Table 12.2: Percentage Trend of Employment in Tanzania, by Type

Type of Jobs	1990/91(%)	2000/01(%)	2005/06(%)
Paid Jobs	8.6	6.9	9.0
Self-employed with employees	0.8	0.9	1.5
Self-employed without employees	6.6	7.4	10.7
Unpaid family helpers	0.5	3.8	4.1
On own farm	83.5	81.0	74.6
Total	100.0	100.0	100.0

Source: Labour Force Surveys 2006

This sector employs the largest share of the workforce, with some studies projecting its contribution at 60% of the economy. Hence, development process of Tanzania is manifested in very high rates of informal sector employment, low wages and the rise of part-time and temporary jobs. According to the ILO's World Employment Report 1998-99, informal employment accounts for 56% of employment in Tanzania. There is huge earnings gap between the informal and formal sectors.

The informal sector is the second largest source of employment after small-scale agriculture (Ministry of Labor, 2010). The importance of the sector is further reflected in the fact that about 26% of the total households in the country are engaged in some form of SME activity (CSAE, 2006). The sector is therefore an important source of livelihood for a majority of the country's population.

With increasing unemployment in Tanzania, particularly in the formal sector, a large proportion of the surplus labor in the economy is continuously joining the informal sector. However, despite its rising significance as a source of employment, some of its characteristics raise questions regarding its viability.

(Is it possible to compare briefly the size of the informal sector in Tanzania with sizes in other African countries. The comparison can be in a paragraph rather than in a table).

12.2.2.4. Productivity and Remuneration

The issue of earnings and returns to labour in the sector is also important for policy in determining the welfare contributions of the sector. It has been argued that despite the proliferation of informal sector activities, many of them do not grow, they are characterised by small size of activities, few workers, and working in makeshift structures. A significant proportion of those counted as employed are also underemployed in the informal sector. The sector is therefore increasingly operating as a sponge for easing open unemployment and transforming itself into an underemployment sector.

The other empirical work that examined the size of micro (informal) along with SMEs in Tanzania was the study by UNIDO and the Centre for the Study of African Economies (CSAE) in 2003 and updated by the economics department of the university of Dar-es-Salaam in 2010. In both surveys three firm size categories are identified: small with less than 30 employees, medium with employees from 31 to 99 and large with more than 100 employees. In principle, the informal sector is covered within the less than 30 employees. The data reported in Table 11.3?? shows that real earnings increase with

firm size. The mean real earnings in medium size firms are about 35 per cent higher than the mean of real earnings in small firms. The results also indicate that the mean real earnings of workers in large firms are 75 per cent higher than the mean real earnings of the workers in small firms. The productivity is low and rather than declining, the sector seems to gain momentum in employment provision, contributing about 30% of GDP.

Access to labor market among other things is directly related to access to labor income.. Consequently, policies addressing labor market issues should be an important component of growth policies. In almost all the developing countries, the informal economy provides a significant percentage of employment and earnings. This, notwithstanding, policies relating to the sector are not well informed by research evidence. This has meant that in some cases, policy initiatives are undertaken without due considerations to their employment and social implications.

12.2.2.5. Linkages and Interactions

Not all informal enterprises are staffed by poor entrepreneurs, nor are all working poor engaged in the informal sector enterprises. However, there is significant overlap between working in the informal economy enterprises and earning low incomes. Low income earnings are more likely to be found in informal enterprises yet these may be an important source of survival. There is a hierarchy of earnings and poverty risk across the various segments of the informal economy.

Although the informal economy enterprises are often associated with low productivity, they account for survival of many families and contribute significantly to economic growth in African economies. Improvement of individual earnings within enterprises in the informal economy and their contribution to overall growth can be improved if drivers of productivity in the informal economy are better understood. This may call for a rethinking of the definitions and measures of productivity in the informal sector enterprises. The informal economy enterprises provide a cushion during crises to those who lose jobs in the formal sector.

To understand the linkages between informal enterprises and formal firms it is important to consider the nature of the production system through which they are linked based on the allocation of authority (over the work situation and the outcome of work done) and economic risk between the informal and formal firm (Chen, 2007)¹⁹³. The linkages that informal enterprises have with formal firms are commercial relationships but the degree to which that relationship is regulated varies from one context to another. Chen (2007) has categorized the various types of production systems and the associated commercial relationships into individual transactions, sub-sector networks and value chains as follows:

- individual transactions, whereby some informal enterprises or own account operators exchange goods and services with formal firms in what might be characterized as open or pure market exchange;
- sub-sectors, where many informal enterprises or own account operators produce and exchange goods and services with formal firms as networks of

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Martha Alter Chen: Rethinking the Informal Economy: Linkages with the Formal Economy and the Formal Regulatory Environment. DESA Working Paper No. 46. ST/ESA/2007/DWP/46. July 2007.

independent units involved in the production and distribution of a product or commodity;

- value chains, where some informal enterprises and own account operators produce goods within a value chain whereby the terms and conditions of production in value chains are determined largely by the lead firm, usually in the formal economy.

Existing empirical literature gives insights into the nature of employment in African countries. Kingdon, Sandefur and Teal (2005) present a classification of African economies as ones facing structural unemployment, high search unemployment and economies with high informality and low unemployment. Kenya fits in the last category since the measured unemployment is very low, standing at 6% of the working age group and employment is dominated by informal sector activities. One of the important aspects of the increasing informalisation of the labor force is that it has proceeded in parallel with expansion in educational opportunities. Given this scenario, some studies have questioned whether the combination of increased education opportunities and informalisation has benefited any category of the labor force between men and women (Atieno and Teal 2007). Of importance is the link between educational attainment, employment and the associated returns.

12.2.2.6. The Politics of Informal Enterprises

Some authors view the informal sector in sub-Sahara African countries as a poverty sector, not just in the sense of low incomes, but also because this is where the unemployed, unskilled worker, the landless labourer, and the migrant from the marginal small holdings go to survive (see e.g. Jamal and Weeks cited in Muller (2005¹⁹⁴). Other authors view the informal sector as a place where a substantial part of operators (half of the households) are in fact members of the middle and upper classes, and the remaining are from lower classes, with both classes using the informal sector to gather additional income and to supplement their official income. (Lugalla, 1995 cited in Muller, 2005.)

The informal sector is no longer considered clandestine, stagnant or marginal. This change in attitude can be attributed to the political dynamics of the informal economy (Muller, 2005). It is a source of additional income even for political actors and an important component to the national economy. Forces within the informal sector have proven successful in establishing social security institutions, such as savings societies and cooperatives. These institutions have proven the ability of the informal sector to provide services the state failed to deliver. Due to the large percentage of the population participating in the informal economy, this sector has attracted an array of political and economic interests. These interests have manifested themselves as political instruments often used by state actors in achieving certain aims. These different political forces present within the informal sector stem from the flexibility and mobility of the informal economy that enables it to respond rapidly to the changing market conditions and customer demands as well as from the highly exploitative characteristic of this sector in which those with firmly established networks have the upper hand. This power has its origins in the heterogeneity of the informal sector. It is vital to understand the heterogeneous nature of the informal sector (Muller, 2005) before designing policies to improve its performance.

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Metter Muller. The Political Dynamics of the Informal Sector in Tanzania. 2nd Module Project. International Development Studies. Roskilde University Centre. 2005.

12.3. Operating and Policy Environments

The policy debates on the informal sector enterprises will do well by focusing on formalization of the informal economy entailing registration, taxation, organization and representation, legal and regulatory framework, incentives and support to promote productivity and productive employment. It is important to ensure that formalization offers the benefits and access to support services that come with being formal with a view to increasing productivity and income earnings in these enterprises. The benefits would include facilitating enforceable commercial contracts; simplification of legal ownership of businesses; enjoying tax breaks and incentive packages to increase their productivity and competitiveness and enhancing voice in policy, e.g., through membership in trade associations. The main policy objectives should be to create more jobs, preferably decent or formal jobs – through labour-intensive growth and to increase the productivity and competitiveness of informal enterprises and their translation to higher incomes. Increasing the productivity of informal enterprises and the incomes of the informal workforce also requires changes in the wider institutional and policy environment.

In short, there are two broad ways to increase the productivity of informal enterprises and the incomes of the working poor in the informal economy. The first is to support the positive aspects of the informal sector through measures that enhance access to resources and markets, legal services, and rights for protection from harassment by agents of government. The second is to reduce risk and the cost of doing business through measures that address unfair competition and correct policy or institutional biases that work against informal enterprises.

The macroeconomic and business environments should be supportive of informal enterprises, including the low productivity enterprises and remove biases of existing policies against such informal activities as well as designing and implementing policies that are targeting support to the informal sector enterprises. This requires ensuring that macro policies create demand for the goods and services produced by informal enterprises and workers. Tolentino (1995) notes that macroeconomic framework and policies directed at providing support to MSEs development are likely to determine and influence the demand for their products and service.

A biased policy framework against MSEs can, among others, restrict access to essential inputs such as start-up and working capital, machinery and equipment, and raw materials (Mead and Liedholm, 1998).

Following the implementation of liberalization policies in African countries during the last two decades, the African business environment has witnessed various changes. Such changes, among others, involve the opening of business opportunities within the private sector (Kristiansen, 2002b). In pursuit of these business opportunities, however, MSEs seem to be hindered by formal procedures and bureaucracy. Despite the implementation of various economic adjustment programs, there is a growing shade of opinion that small businesses are still at a severe disadvantage (Helmsing and Kolstee, 1993; English and Henault, 1995; Kristiansen, 2002b). While various studies (Levy, 1991; Parker et al, 1995; Kristiansen, 2002b) have been conducted in the past in relation to small business environment in Tanzania, most of them focused on identifying the various factors that affect the environment for MSEs.

The creation of an enabling environment is partly dependent upon a favourable overall policy framework, which allows the development, and promotion of enterprise and entrepreneurship respectively. The success of a policy framework in turn is dependent on the use of stable, well-designed policy instruments and mechanisms, and policy areas that combine to create an overall policy environment for MSEs. So far the Tanzanian government has taken a number of initiatives to encourage the establishment and growth of MSEs. First, market enlargements in Tanzania as a result of the liberalization process since the late 1980s are regarded to be the main reason for growth of small businesses during the last decade (Trulsson, 1997; Bagachwa, 1993). Secondly, the government has attempted to create a level playing field through macroeconomic intervention using various economic reform programs and reduction of discriminatory practices against MSEs. A recent and probably significant effort by the government is the formulation of the micro, small and medium enterprise policy document.

Although the new policy document for small business development attempts to address a significant number of key issues, it lacks any policy or program link between microenterprise development programs such as support for self-employment and small and medium enterprises (SME) development programs, particularly one which promotes the graduation or growth of an enterprise from micro to small and eventually medium. In addition, though this document covers micro, small, and medium enterprises, more emphasis appears to be on SMEs than on microenterprises. Despite being the majority as data seems to suggest less weight seems to be attached to the role of the smaller MSEs in terms of job creation, service provision and productivity.

Existing literature also provides an overview of a variety of instruments through which government policy can influence MSE activity (Tolentino, 1995). They include monetary and credit policies, taxation, regulatory and control policies such as registration requirements and procedures, permits and licensing laws, trade and export policies, and education policy particularly promoting the development of a skilled and educated work force.

The enterprises operating in the informal economy need new or expanded legal frameworks to protect their rights and entitlements as entrepreneurs and their employees, including the right to work (e.g., have access vending in public spaces in an organized manner), business or commercial rights, and property rights. The legal and regulatory framework may need to be simplified and bureaucratic procedures streamlined to encourage informal enterprises to register and extend legal property rights for the assets held by informal entrepreneurs in order to unleash their productive potential by enhancing their access to resources. The steps taken to bring informal enterprises under the formal regulatory environment would increase the tax base and reduce unfair competition by informal enterprises.

While it is not clear to what extent administrative and legislative burdens hinder business growth, Bridge et al. (1998) find it reasonable to assume that anything that absorbs time and resources that would otherwise be devoted to business development is likely to have a deleterious effect. Bridge et al. also argue that it is indisputable that government policies have a major impact on the trading performance of small businesses. Policies therefore seem to be important in underpinning the development of entrepreneurship as they influence the performance of MSEs in the broader economy. Furthermore, policies underpin the formation of legislation and regulations, which in turn determine governments' activities (White, 1999: 21).

Despite these efforts many observers find that small businesses are still at a severe disadvantage competitively (Kristiansen, 2002b). Laws, regulations, multiple taxes and bureaucracy in addition to problems in generating business ideas and picking business opportunities are still mentioned as problematic in the country (Satta, 2003).

There is need to reduce the cost and complex nature of the legal and regulatory framework for operating businesses in Tanzania. This complexity increases bureaucracy and promotes rent seeking behaviours. In recognition of the large proportion of unregistered small enterprises in Tanzania (estimated at over 90%) it is unlikely that the SME promotion programme will reach these enterprises (IIDS, 2010)¹⁹⁵. Yet it is recognized that the small informal enterprises are vital for industrialization of Tanzania. As a result, one of the proposals of the Integrated Industrial Development Strategy 2025 is to establish Industrial Villages at rural cities to accommodate Micro and Small scale manufacturing enterprises forming industrial clusters and to grant formal sector identities to such enterprises upon their enrolment to Industrial Villages (IIDS, 2010).

12.4. Access to Information

The enterprise environment in Tanzania also exhibits significant gaps in information about the MSE sector and its potential for development. Most of the interviewed entrepreneurs (91%) indicated that relevant information to MSE sector development is not readily available. Several studies point to the important role information plays in small businesses' growth. Stiglitz (1989) and Kristiansen (2002a), for example, consider information to be one of the areas where market failures are most apparent and that these failures are easily regressive, continuously marginalizing micro and small entrepreneurs. Several recent studies also identify access to information as one of the important factors behind entrepreneurial success (Kristiansen, 2002b). Among the wide-ranging demands for information in Tanzania are a broad profile of this sector, including its characteristics, problems, products and services produced; profile of owners, including aspects such as gender and age; communities involved in enterprise development; and markets in which MSEs operate. Information availability is also necessary for an appropriate identification and description of the providers of MSE development services, as well as evaluation of the performance and impact of business development services.

The gap in information seems to result from the absence in the past of any comprehensive and systematic assessment of the MSE sector dynamics. This has resulted into limited and unreliable availability of information with regard to the needs, problems, potential and opportunities to this sector.

12.5. Organization and Voice

Evidence suggest that activities in the informal sector are family business and sometimes regarded as a mean for supplementing income or a survival strategy for the urban dwellers who cannot find jobs in the formal sector. Having small sized

¹⁹⁵ IIDS. Integrated Industrial Strategy 2025. Ministry of Industry and Trade. Dar es Salaam. 2010.

enterprises points to having very static organization structure where the owner might be the manager and the worker at the same time, labor contracts are likely to be implicit with no legal and labor standards, collective bargaining is also hard to implement when there are very few employees. Finally the small sized enterprise in Tanzanian urban informal sector denies more advantages of large size in the labor market. It is known that workers in large firms are, on average, more educated, and more likely to have job training than workers in small and medium firms. Productivity and profit are likely to be low if firm size decline.

Creating a business environment that is marred by uncertainty is a disincentive for investing in setting up and developing enterprises that can graduate into the larger and more formally organized enterprises that can benefit from policy support rather than be forced to remain small and informal to avoid detection by the government.

To achieve inclusive growth, a more conducive environment is needed for micro, small and medium enterprises to enable them to raise their productivity and productive employment. As the majority of these manufacturing enterprises in Tanzania are operating informally in the regions, Local Government Authorities need to take into account and provide support to these enterprises.

The formalization of these enterprises may contribute significantly to the transformation of the economy, if complementary initiatives are undertaken along with formalization.

Parallel to information gaps, few recognised national or regional business associations that can represent the MSE sector exist (URT, 2003). Among other problems, the absence of these organisations makes it difficult to obtain a collective general opinion from the MSE sector on the policy environment and what should eventually be done to facilitate enterprise growth.

12.6. Access to Education and Training

Education is a strong determinant of good employment over a lifetime youth unemployment remains high on account of a lack of job offers and skills mismatches between what education provides and what employers need (African Economic Outlook, 2012)¹⁹⁶. To overcome skills mismatches, education systems must become more comprehensive and linked to labour market needs, especially the practical skills that small firms or self-employment require. In most of Africa youth are aiming for wage employment in a large formal sector firm, but most will end up in the informal sector. Vocational and technical training systems are an important tool especially when done in cooperation with firms (African Economic Outlook, 2012). This is the challenge that will need to be addressed.

12.6.1. Level of Education

Findings from the integrated labor force survey of Tanzania suggest that primary education is the dominant level of education among the self-employed in the informal sector for both main and secondary activities (see Table 12.3). This is a similar situation in the SMEs Based on the standard definition, operators who have completed

¹⁹⁶ African Economic Outlook 2012. Promoting Youth Employment. ADB, AECD, UNDP and UNECA. 2012.

primary school constitute 64 percent in the main activities and 53 percent in the secondary activities, while those who have not completed primary education comprise 16 percent and 21 percent respectively. When the National definition is used, the same pattern is observed. In relative terms, it can be seen that the percentage of males and females with primary education is nearly the same in the main activities 65 percent; while in secondary activities the percentage of females with primary education is lower 49 percent against 57 percent. A significant percentage of females in the secondary activities, about 30 percent have never gone to school.

Table 12.3: Percentage distribution of self-employed persons in the informal sector by education level

Educational level	Main Activity			Secondary Activity			
	Male	Female	Total	Male	Female	Total	
None	8.0	14.2	11.0	14.9	30.4	22.2	
Primary not complete	16.9	14.5	15.7	23.6	18.7	21.3	
Primary complete	65.1	63.2	64.2	56.8	48.7	53.0	
Secondary+	10.0	8.1	9.1	4.7	2.2	3.5	
Total	100.0	100.0	100.0	100.0	100.0	100.0	
Total	679,743	623,776	1,303,519	671,248	603,943	1,275,191	

Source: Labour Force Surveys 2006

12.6.2. Skills Structures and Gaps

Regarding the human resources availability and skills gaps are found in areas related to commercial agriculture and horticulture to serve the fast growing tourist industry. The skills that are in short supply include basic design skills, e.g., for drawing human figures, dressmaking, slumping glass, cutting and sewing cloth and hospitality skills.

Many other skill gaps have been identified by SMEs, such as lack of planning, writing and communication skills in business context. Other essential skills include book keeping, and project appraisals. Within this area, stakeholders have suggested the need for increased training in computer skills, book keeping and recording, office technology and computer skills, including usage of internet and web designs.

12.6.3. Apprenticeship

Formal and informal job training, learning by doing acquired through work experience, on the job training and job tenure are among different forms of skill formation that exist in Tanzania for informal as well as SMEs.

At firm level there is apprenticeship that is undertaken in two ways. The first way is through an agreement between training providers and employers whereby after attending training a trainee spends the last one or two years of training as an apprentice. The second form of apprenticeship is through a system whereby school leavers pay companies to learn from master craft persons or technicians. This form of apprenticeship is undertaken in private firms (VETA, 1997).

12.6.4. Training Courses

Job training attended outside the firm is another source of job-related training among workers in the Tanzanian informal and SMEs enterprises. Small Industries

Organization (SIDO) is one of the major providers of this form of training. SIDO provide special courses for supervisors and managerial personnel in order to expose them to new skills such as financial management, planning and cost accounting. The organization has 15 Training centers where entrepreneurs are trained in specific production fields. These centers also offer training in basic industrial skills such as machine shop, electrical or foundry practice; or training in trades, such as carpentry, fitting, turning or sheet-metal work. The confederation of Tanzania Industries (CTI) and Tanzania Chambers of Commerce also support job training for their members.

The new Vocational and Training Act of 1994 for instance aims at facilitating the development of a flexible and a multi skilled training system that is capable of meeting the skills demands for workers with different educational backgrounds, including post secondary school graduates.

12.6.5. Entrepreneurial Skills

A number of studies in developing countries also place the acquisition of professional business skills among the necessary conditions for entrepreneurial success (Nafukho, 1998). In Tanzania, however, it appears that no deliberate measures have so far been taken to promote entrepreneurial skills and competencies in training institutions. Currently only few institutions offer short-term programs.

The enterprise culture in Tanzania is still linked to a defunct system that lasted for 20 years in which enterprise culture was suppressed in favour of building a socialist society. Thus, most enterprises remain at the micro/informal level and very few graduate into medium sized and large businesses. During that past era, the education system was not designed to inculcate entrepreneurial knowledge, skills and preferences. In recent years, however, there has been a proliferation of higher learning and technical training institutions. However, courses have largely focused on “employability” in large public or private enterprises, not on self-employment or employment in small enterprises. In recent years, however, the Vocational Education and Training Authority (VETA) has changed its curricula to include some aspects of entrepreneurship to prepare its students, but most graduates from technical institutions remain unemployed. Some higher learning institutions are also including training and mentoring in their entrepreneurship curricula. The University of Dar es Salaam has formerly introduced a policy for entrepreneurship development as well as an Entrepreneurship Centre. However, institutional capacity is still limited and few youth are reached through these programmes. More aggressive initiatives in this area are needed to build an entrepreneurial culture in the country.

A scoping study of entrepreneurial education and training in Tanzania has found that the formal curriculum in the education system is rapidly evolving with an increasing number of institutions running courses and programmes in this area (IMED, 2012)¹⁹⁷. However, it was also found that most of the educational institutions are integrating entrepreneurship in their curricula without sufficient clarity of the rationale, objectives, means and resources. The study found that informal curricula are diverse and courses offered in the market present an opportunity to build on their established positions. However, they face the challenge of insufficient number of competent and experienced trainers. It is suggested that a national strategy for entrepreneurship education and skills development be developed.

¹⁹⁷ IMED. Scoping Study for Entrepreneurial Curricula in Formal and Informal Education in Tanzania. A study for the ILO Dar es Salaam. March 2012.

12.7. Access to Capital and Other Financial Services

12.7.1. Special Funds

The government initiated funds that have been directed to informal sector activities include the Women Fund established in 1993/94 with the aim of providing small loans with soft conditions and the Youth Development Fund established in 1993/94 with the aim of providing small loans with soft conditions to the youth for developmental projects. A loan guarantee Fund for Export trade established in 2002/2003 with the aim of guaranteeing banks to give loans to farmers, businessmen and cooperative societies which exported commodities. A Fund to guarantee banks for improving loan provision for small and medium sized projects was established in 2005/06 under the Bank of Tanzania. A Fund for agricultural inputs was established in 1994 with the aim of giving loans with softer conditions for the importers and distributors of agricultural inputs to individual farmers, groups and all other activities in simplifying the availability and distribution of agricultural inputs; and A Fund to support small entrepreneurs was established in 2000 with the objective of supporting Tanzanians in the villages obtain capital with softer conditions through financial institutions and building the capacity of entrepreneurs who have received loans. Many other initiatives also exist, but many of them in small scale, uncoordinated, and focus mainly on finance. Promoting the informal sector, and specifically with intent to achieve an orderly growth of small and medium enterprises, a more integrated approach is needed. Elements of such an approach are outlined below.

12.7.2. Access to Financial Services

Access to finance has and continues to be a barrier for small enterprises. To increase access to finance, the Government of Tanzania since the early 1990s has implemented a series of reforms that have liberalized the banking sector and reduced the dominant role of the state. However, micro and small business sector remains substantially under-served by banks. According to the FinScope Survey (2009), the number of people holding bank accounts is low (8.3% of rural dwellers and 22.1% of urban residents). Only 20% of those running their own business and about 18% of people in informal employment have bank accounts. As a consequence, most informal sector enterprises finance their activities using their own funds, loans from friends and family, money lenders, relatives, or rotating savings and credit groups. The Household Enterprises Survey (2011) finds that household enterprises are even more vulnerable because they are largely left out of the financial sector either as savers or borrowers. Despite rapid growth of credit lending, the proportion of HEs with access to financial services is dismally low. In 2006, only 6% of household enterprises reported having received credit from banks (World Bank, 2011)¹⁹⁸.

Major constraints to access to finance by MSMEs arise from their limited managerial capacity demonstrated by a lack of planning, accounting and reporting systems; regulatory framework, lack of appropriate identification systems for prospective borrowers and weaknesses in the banking system in servicing SMEs (PHDR, 2011).

¹⁹⁸

World Bank. (2011b). *The household enterprise sector in Tanzania: Why it matters and who cares?* Policy Research Working Paper 5882. World Bank, Africa Region, Poverty Reduction and Economic Management Unit, November 2011

12.8. Access to Infrastructure

Hallberg (2000:9) for example, argues that a well-developed physical infrastructure that includes reliable transportation, warehousing and port facilities, and communications networks has an influence on MSEs development.

For many agricultural producers and rural based enterprises, the most pressing infrastructure issue is availability of roads. The network of trunk roads is of strategic importance for the country as it enables market linkages with neighbouring landlocked countries and to connect producers in rural areas with urban centres, thereby reducing the time and cost of transporting agricultural products to markets and facilitating the flow of agricultural inputs and industrial goods to rural consumers.

The railways and ports are also important in exploiting new opportunities for agricultural and resource production in regional and international markets, for tourism and for servicing landlocked states. Energy shortage is another acute problem for enterprises. Although endowed with diverse energy sources, including natural gas, hydropower, coal, wind power and solar power, Tanzania's energy sources are largely untapped. The main source of energy in Tanzania is still biomass (fuel-wood and charcoal) which accounts for about 85.5% of total energy consumption. The relatively high cost for businesses associated with maintaining a reliable supply of electricity via use of private generators during blackouts puts pressure on Tanzanian firms to increase product prices to recoup these costs, thereby becoming less competitive against similar products from firms in other countries. This area needs urgent attention. Many micro and small enterprises cannot afford alternative generation of power and must suspend their operations when power is not available.

Access to technology by informal sector firms is limited. A study of informal economy enterprises in Tanzania (Mtwara and Lindi) found that most of them produced goods of low financial value, utilized low technology and realised low value addition (ILO, 2011)¹⁹⁹. However, there are some useful lessons to be learnt from a comparative study across countries. The technological dynamism of small-scale enterprises in certain industries in developed countries suggests that such potential can be harnessed. This can be reinforced by the potential of the technological and market access of clustering and the economies of agglomeration.

The ICT systems in Tanzania are still inadequate to meet domestic business demand. Basic ICT infrastructure is limited and fragmented. Connections to high-speed and cheap networks are currently limited to urban areas and a few semi-urban communities. ICT investments need to be scaled up to provide efficient support to small enterprises in both urban and rural areas.

Many informal sector enterprises operate in premises which are informal and are subjected to uncertainty and are under threat of removal at short notice. In the case of Tanzania, recent studies, including the 2011 Household Enterprises (HE) Survey found that MSMEs in urban areas (where most businesses are concentrated) experience

¹⁹⁹ ILO. Informal Economy Enterprises in Mtwara and Lindi: Status of Key Economic and Business Issues in Southern Tanzania. ILO and United Nations Tanzania Delivering as One. Dar es Salaam. 2011.

difficulties in accessing plots for constructing business premises due to bureaucracy, corruption and the very limited number of surveyed plots (PHDR, 2011). Therefore, most businesses in the informal sector operate along the streets where they work under poor working conditions and where they face potential loss of livelihood due to eviction or harassment by authorities. Local government authorities, who are supposed to plan business premises for them, often subject business operators to forceful eviction, seizure of goods, and / or demolition of their temporary business structures for business operations, claiming that they are enforcing existing regulations. This problem of uncertainty, in turn, makes it hard for these enterprises to access credit, since few lenders will extend credit to a business that has no fixed premises or address. Furthermore, the insecurity that these operators face tends to undermine their motivation to expand their businesses. Some informal sector entrepreneurs have now resorted to using mobile structures.

The market for business development services is limited and market failure precludes access of informal sector enterprises to the BDS market. Deficiency of institutional capacity and orientation throughout the public service limits the role of government in stimulating the growth of the BDS market. Local government units dealing with MSMEs for example see their roles as that of controlling and policing (PHDR, 2011). Some private business development service providers are also operating in Tanzania but most small enterprises cannot afford their services. Concerted efforts are needed on this front.

12.9. Conclusion

The main goal should be to transform informal enterprises in such a way as to promote their capacity to grow, create productive employment and increase their productivity and competitiveness while promoting their capacity to generate higher incomes for the operators in the sector. What the informal economy needs is a set of interventions that can introduce a level playing field and promote more equitable linkages between the Informal and formal economies while balancing the relative costs and benefits of working formally and informally (Chen, 2007). The regulatory framework is expected to promote socially responsible corporate practices and for organizations of informal enterprises in policy making. Formalization of enterprises should be associated with simplification of licensing and registration while extending incentives to these enterprises, encouraging enforceable commercial contracts; legal ownership of their place of business and means of production; and incentive packages to increase their productivity and competitiveness.

The policy conclusion is that a range of interventions need to be examined and implemented to reduce the cost of doing business in the informal sector enterprises and to introduce policy interventions that are tailored and targeted to meet the specific constraints, needs and risks of informal sector enterprises and the entrepreneurs and workers in those enterprises. It is necessary to revisit economic and social policies in terms of their impact on the informal economy enterprises and put in place mechanisms to monitor the impacts, both positive and negative, of different policies on different categories of the informal enterprises. Most importantly, interventions should target strengthening organizations of informal enterprises and promoting the

representation of these organizations in rule-setting and policy-making processes in a sustainable manner.

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Chapter 13 Growth and Employment

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13.1 Introduction

Africa is home to the youngest population and the fastest growing labour force in the world. The region has 200 million people aged between 15 and 24 (ILO, 2011a) and a labour force of 340 million out of a total population of about 854 million (World Bank, 2012). Over the next decade, out of the 400 million people to be added to the labour force globally, about 11 per cent will likely be from Africa. By 2040 Africa's labour force is projected to reach 1.1 billion overtaking that of China or India (UNECA and AUC, 2012a). On the other hand, at 8.2 per cent in 2011 unemployment rate in the Sub-Saharan Africa was 37 percent higher than the world average of 6.0 per cent; although significantly less than the very high unemployment rate of 10.9 per cent in North Africa during the same year. The unemployment rates are particularly high among the youth, at 12.8 percent in the Sub-Saharan Africa (SSA) and 27 percent in North Africa in 2011 (see Table 13.1). Unemployment rates are also high among females (8.8 per cent) than among males (7.7 per cent) in SSA. Sub-Saharan Africa, North Africa and Middle East together would need to create at least 15 million new jobs every year to prevent unemployment rates from rising further. These developments pose serious policy concerns because although labour force participation rates are generally high across the continent, particularly in Sub-Saharan Africa, unemployment rates are still unacceptably high and a large number of employed people cannot lift their families out of poverty.

Over the last decade unemployment rates in SSA declined from 9.2 percent in 2000 to 8.2 percent in 2011 (ILO, 2012). Likewise in North Africa overall unemployment rate declined from 13.6 percent in 2000 to 10.9 per cent in 2011. Over this decade, growth rose significantly in SSA and North Africa and was largely resilient to shocks from the global financial crisis. This might have helped to reduce unemployment marginally but not adequately as unemployment rates remain unacceptably high.

This chapter discusses the growth-employment relationship in Africa, with a greater emphasis on SSA, over the last decade. We draw significantly from data and analysis from three studies, inter alia, UNECA (2010); AfDB (2012) and ILO (2012) which study in great deal the problems of unemployment and underemployment in Africa and other regions. We give an account of the unemployment problem in Africa and propose strategies that the countries can pursue to reduce the problem, particularly youth unemployment. Review of development experiences in Asia and Latin America serve as useful lessons for African countries to take decisive actions in promoting pro-decent job creating growth. Such growth is important in two ways: first, it will help reduce Africa's unemployment problem particularly for youth and women in general, and second, it will contribute towards poverty reduction.

After the introduction, the chapter is organized as follows: section 13.2 discusses unemployment as a challenge to African economies in which we assess the magnitude

and structure of unemployment. This is followed in section 13.3 by an assessment of the relationship between economic growth and unemployment in Africa and factors behind the observed trend. Section 13.4 discusses strategies for reducing unemployment, followed in section 13.5 by a proposal of the ways Africa-Asia Partnership can be used to tackle Africa's unemployment. Section 13.6 concludes.

13.2 Magnitude and Structure of Unemployment

Unemployment is a major problem in Africa. During the period 2005-2010 unemployment rate in Africa (Sub-Saharan Africa and North Africa) was around 9.2 per cent well above the world's average rate of 5.9 per cent (Table 13.1). During the period, youth unemployment rate was 12.8 per cent, twice the 6.5 per cent for adults. Analysis of unemployment rates between North Africa and Sub-Saharan Africa (SSA) indicates that unemployment is more severe among North African youth and females than those in SSA. In the period 2005-2010, about 24.3 per cent of youth and 17.1 per cent of females in North Africa were unemployed. In SSA, unemployment rates were 12.8 per cent for youth and 8.8 per cent for females, surprisingly, comparing favorably with the world's average unemployment rates of 12.4 per cent for youth and 6.2 per cent for females. Due to the global economic and financial crises, in North Africa, unemployment rates for women and youth are estimated to have increased from 16.2 per cent and 23.0 per cent in 2010 to 19.0 per cent and 27.1 per cent in 2011 respectively.

Table 13.1 Unemployment rates in SSA and North Africa (%)

	2000	2005	2006	2007	2008	2009	2010	2011p
Total								
World	6.3	6.2	5.8	5.5	5.6	6.2	6.1	6.0
SSA	9.2	8.3	8.2	8.1	8.1	8.2	8.2	8.2
North Africa	13.6	11.5	10.5	10.1	9.6	9.6	9.6	10.9
Males								
SSA	8.5	7.8	7.7	7.6	7.6	7.7	7.7	7.7
North Africa	11.5	9.0	8.2	8.1	7.5	7.3	7.4	8.2
Females								
SSA	10.0	9.0	8.9	8.8	8.8	8.7	8.7	8.8
North Africa	20.8	19.6	18.0	16.1	16.0	16.5	16.4	19.0
Youth								
SSA	14.2	12.9	12.8	12.8	12.8	12.9	12.8	12.8
North Africa	28.8	27.2	25.2	23.8	23.0	23.6	23.0	27.1
Adults								
SSA	7.3	6.6	6.5	6.4	6.4	6.4	6.5	6.5
North Africa	8.7	6.5	6.2	6.2	6.0	6.0	6.3	7.0

Source: ILO, Global Employment Trends 2012

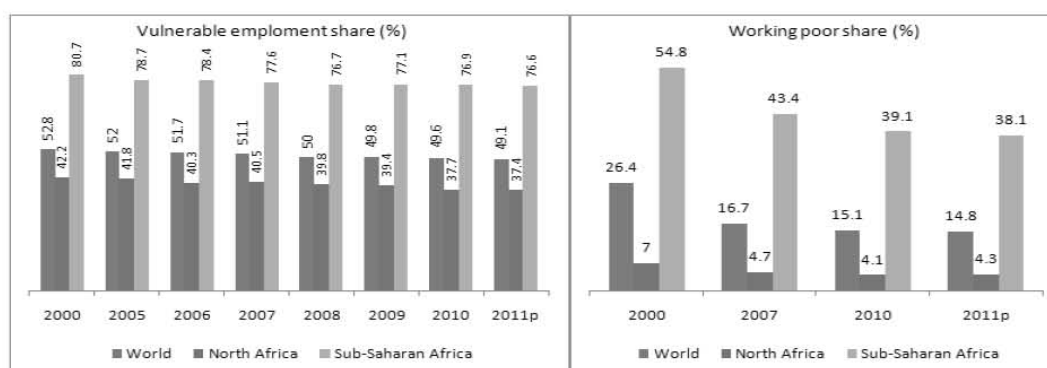
Note: p=Preliminary estimates

The declining unemployment trend in SSA suggests that the sub-region is creating jobs at a faster rate than the growth of its labour force. However, African countries with low unemployment rates tend to have large informal sectors and mask a larger problem of underemployment. The informal sector pays low wages, provides little incentives for skills development and job security. This situation creates a class commonly known as

the “working poor” i.e. employed individuals whose living standards fall below a basic needs threshold (UNECA, 2005). It is estimated that over 75 per cent of the labour force in Africa is employed in the low-productivity informal sector (UNECA, 2010). Page (2013) indicates that with the exceptions of Botswana, Nigeria and South Africa—the countries with very high youth unemployment rates—less than one-fifth of African young workers find wage employment. Over 70 per cent of youth in the Republic of the Congo, the Democratic Republic of the Congo, Ethiopia, Ghana, Malawi, Mali, Rwanda, Senegal and Uganda are either self-employed or contributing to family work. Also, Africa’s fastest growing economies which include Ethiopia, Rwanda, Tanzania and Uganda, have the lowest employment intensity of the growth in the regions (AfDB, 2012). This suggests that the effects of unemployment in SSA may be felt way beyond what figures portray, mainly due to the prevalence of less productive and low-value informal activities²⁰⁰. This point can be appreciated when we analyse the capacity of the economy to create jobs, the shares of working poor and vulnerable employment, as well as poverty indicators.

The share of the working poor to total employment in SSA, has been declining over the last decade (from 54.8 per cent in 2000 to 38.1 per cent in 2011), but it is still very high when compared to the world’s average share of 14.8 per cent in 2011 (Figure 13.1). Likewise, in SSA vulnerable employment defined as the sum of own account work and unpaid family work stood at 76.6 per cent of the employed in 2011, being 30.4 percentage points above the world’s average of 56.2 per cent (ILO, 2012). In North Africa, both vulnerable employment and working poor shares are relatively low compared to their counterparts in SSA because of their more diversified sources of employment (Figure 13.2). A high incidence of vulnerable employment in Africa is often associated with a large share of workers in agriculture which in most cases is for subsistence (ILO, 2012).

Figure 13.1 Shares of vulnerable employment and working poor in Africa



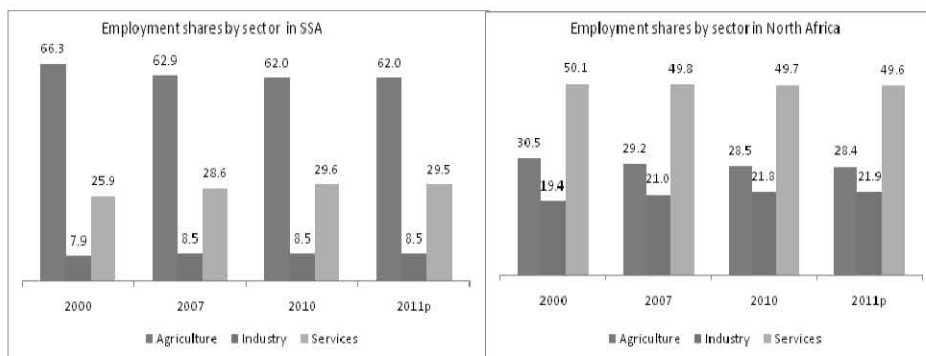
Source: ILO, Global Employment Trends 2012

The majority of the population in SSA is employed in the agriculture sector, followed by services and industry. Agriculture provides employment for about 62 per cent of employed people, whereas industry provides about 8.5 per cent of the employment (Figure 13.2). The majority of the employed people in the agricultural sector are daily

²⁰⁰ UNECA (2010) notes that the unemployment statistics do not reflect the extent of labour underutilization in Africa, since they do not, for example, reflect discouraged, underemployed, and seasonally underemployed workers.

income earners, small-scale farmers and sometimes unpaid family workers. The high exposure of the agricultural sector to natural incidents such as drought and other environmental changes increases the vulnerability of employees in this sector. Due to high unemployment rates for women and youth, at the times of economic crises and unfavorable weather, these two groups of the society together with their dependents who in most cases include disabled and the elderly are most affected in Africa.

Figure 13.2 Sectoral employment shares in SSA and North Africa (%)



Source: ILO, Global Employment Trends 2012

Note: p=Preliminary estimates

According to UNECA (2010), women workers dominate the informal sector, concentrated in activities such as unpaid agricultural work, food processing, street vending, petty cross-border trading, marketing of processed and semi-processed agricultural products and household domestic duties. Only a small percentage of women work in the formal sector. Women's share in wage employment in the non-agricultural sector varies from 28.2 per cent in Morocco to 43.1 per cent in South Africa (UNECA, 2010). As a reflection of a relatively low women participation rate in formal employment, the employment-to-population ratios for men and women, reported in Table 3.2, show that participation rate is higher for men than women. In North Africa, although women's participation rate has been rising gently, it is 30.4 percentage points lower than the world's average rate of 48.4 per cent. Women's unemployment problems arise from a variety of factors including cultural prejudices, educational discrepancies between males and females, and a lack of marketable skills.

High unemployment rates are not limited to "unskilled and uneducated" workers alone. During the period 2005-2006, unemployment rate among secondary school leavers in Africa was 27 per cent and that among university graduates was 11 per cent (ILO, 2008). Wage and salaried workers account for 48.3 per cent of all employment at the global level, but this proportion is as low as 22.9 per cent in Sub-Saharan Africa (ILO, 2012). In addition, even if paid work can be found, the risk of low-wage employment is substantially higher for young workers both in developed and developing economies (Grimshaw, 2011). This is partly due to the fact that entry-level jobs are more likely to be low-paid, reflecting limited experience of young workers (ILO, 2012).

Unemployment is increasingly becoming a major challenge in the urban areas, given very fast migration from rural areas into urban centres. About one third of African population now lives in urban areas and it is expected that about half of the population will be in urban areas by 2020. Rapid urbanization, largely driven by youth migration, leads to higher work force densities that offer opportunities for the development of clusters if the potential can be exploited. Urbanization also benefits the rural economy through higher demand for agricultural products. This opportunity should be exploited effectively taking note of the fact that lack of demand for labour is the key factor constraining promotion of employment in Africa. The African Economic Outlook Country Experts survey of 2012, suggests that lack of demand for labour is the biggest obstacle to youth employment in African labour markets, while supply factors follow in importance (Figure 13.3).

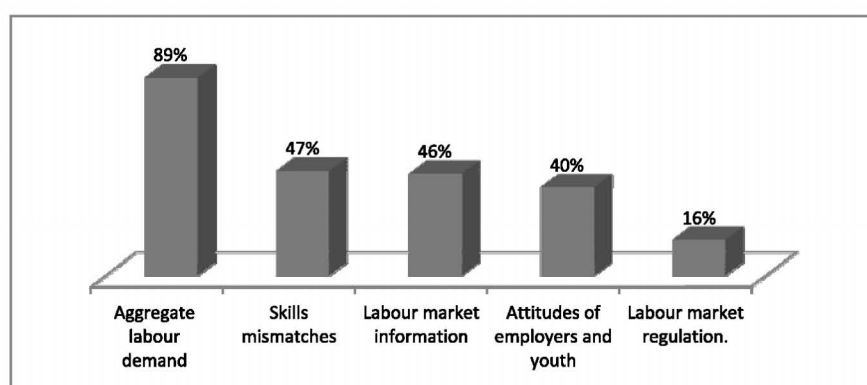
Table 13.2 Employment-to-population ratios in SSA and North Africa (%)

	2000	2005	2006	2007	2008	2009	2010	2011p
Total								
World	61.2	61.1	61.2	61.2	61.0	60.3	60.2	60.3
SSA	63.3	64.1	64.2	64.4	64.5	64.5	64.4	64.5
North Africa	41.8	43.2	43.2	43.8	44.1	44.1	44.2	43.6
Males								
World	73.8	73.4	73.4	73.6	73.4	72.6	72.6	72.7
SSA	70.4	70.0	70.1	70.3	70.4	70.3	70.2	70.4
North Africa	66.3	68.4	68.1	68.1	68.6	68.7	68.6	68.0
Females								
World	48.6	48.9	48.9	48.9	48.6	48.1	47.8	47.9
SSA	56.4	58.3	58.5	58.6	58.8	58.8	58.7	58.8
North Africa	17.5	18.2	18.6	19.8	19.9	19.8	20.0	19.6

Source: ILO, Global Employment Trends 2012

Note: p=Preliminary estimates

Figure 13.3 Challenges faced by African youth in the labour market



Source: African Economic Outlook Country Experts Survey 2012

Africans should worry about unacceptably high unemployment because it makes it difficult to reduce poverty rates and also it reduces the pace of economic growth as important resources remain idle and are not put to work to tap their potential. Additionally, high unemployment reduces incentives and the ability to invest in human capital and leads to skill loss, and increases poverty and income inequality. High unemployment especially among young people together with its negative effects on real income may pose a serious threat to social stability. Furthermore, high unemployment may force households to adopt coping strategies, such as reducing the consumption of high-protein foods and micronutrients, which increase malnutrition and hunger and give rise to adverse effects on both health and education. Such impacts on health and education are likely to amplify other coping strategies, including the temptation for parents to encourage children to participate in income-generating activities to compensate for income loss.

With very high proportion of the people living on less than a dollar a day in the informal sector, the costs of inadequate employment are high as it tends to worsen the situation. Guarcello et al.(2007) conclude that long spells of unemployment or underemployment in informal work can permanently impair future productive potential and therefore employment opportunities. For the few that manage to obtain a formal sector job, which offers increasing wages, initial unemployment can have significant negative effects on lifetime earnings (OECD, 2010). Risks to stability are also eminent in fragile states due to the lack of adequate employment. Grievances among the young are most likely to be expressed violently if non-violent political channels are not adequate or responsive, and if they then occur they impair growth. Collier et al. (2003) argue that a conflict in one country is likely to reduce the annual rate of growth in a neighbouring country by an estimated 0.5 percentage points. Thus, without urgent action to modernize their economies, African countries risk wasting the tremendous potential offered by their youth. Maximizing the impact of a stronger private sector and economic growth on youth employment requires focused policies and strategies based on a sound understanding of the issues that the young face not only in finding decent employment opportunities but also holding on to.

13.3 Growth Without Jobs

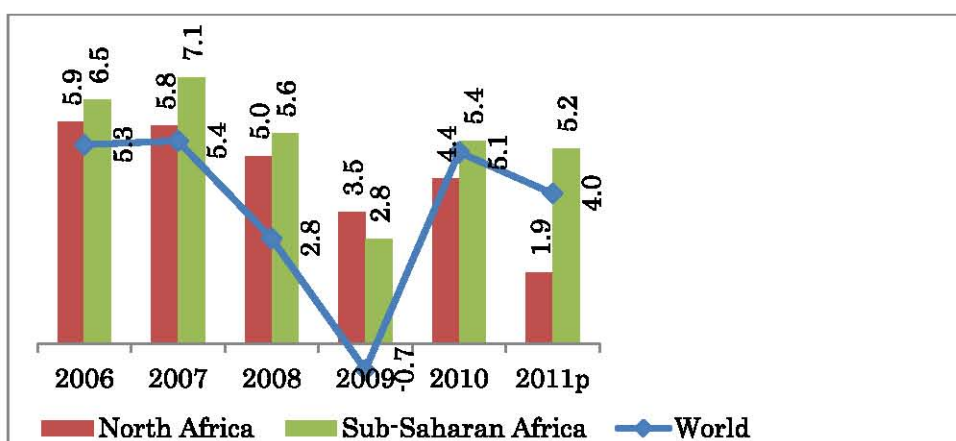
13.3.1 The Disconnect Between Growth and Employment

Africa has continued to experience high unemployment rates, despite the impressive economic growth recorded in the last decade. Specifically, real gross domestic product (GDP) grew by an average of 5.6 per cent between 2002 to 2008, making Africa the second-fastest growing continent in the world after Asia (UNECA and AUC, 2012b). The region was also quick to recover from the global recession following the financial crisis of 2008. Sub-Saharan African economies grew at 5.3 and 5.1 percent during 2010 and 2011, respectively, having recovered from the low 2.8 percent growth in 2009. The key drivers of this impressive growth include higher accumulation, mainly physical capital and labour force growth as well as productivity growth (Ndulu et al 2007). Increased accumulation was made possible by various factors including increased commodity prices; foreign direct investment (FDI); debt forgiveness; increased aid; enhanced access to international finance and remittances; stable and better management of the macroeconomic environment; and a stable political and institutional environment within which to do business (UNECA and AUC, 2010). Of course,

because of the heterogeneity of African economies, the relative importance of various growth drivers differs across countries, and this, may explain the observed growth and unemployment differences across countries.

Furthermore, the high growth and macroeconomic stability dividend (including fiscal space and build up of reserves) enabled the continent to be resilient to the recent global economic and financial crises. SSA's economic growth fell to 2.8 per cent in 2009, below 5.6 per cent recorded in 2008 but was well above the world's growth rate of -0.7 per cent in 2009 (Figure 13.4). The growth of the economy in North Africa slowed to 3.5 per cent in 2009 and increased to 4.4 per cent in 2010, before decreasing to 1.9 per cent in 2011, mainly due to political unrest in North Africa and the economic slump in the developed economies. The intensity and persistence of the social and political turmoil in North Africa prompted capital flight and decline in private investment (UNECA and AUC, 2012b). Growth across the continent is expected to accelerate to 4.5 per cent in 2012 and 4.8 per cent in 2013, mainly at the back of the recovery of North African economies, sustained improvement in other regions and stable export prices (AfDB et al. 2012). The growth projections for Sub-Saharan Africa for 2012 and 2013 are 5.0 per cent and 5.1 per cent respectively (IMF, WEO 2012).

Figure 13.4 Real GDP growth in SSA and North Africa (%)



Source: ILO, Global Employment Trends, 2012

Note: p=Preliminary estimates

Although job growth was strong during the decade preceding the global economic crisis, it was nowhere near enough to absorb rapidly the growing labour force. As an illustration, throughout the last decade of commodity-driven growth, SSA countries reduced unemployment by merely 0.8 per cent and paid employment was only 20 percent in most countries (UNECA and AUC, 2010). ILO (2011b) estimates that during the period 2000 to 2007, the working age population of Africa grew by 21 per cent (2.6 per cent per year), whereas the number of jobs grew at 23 per cent (i.e. 2.9 per cent per year). However, in absolute terms, while the working-age population grew by 96 million, the number of jobs grew only by 63 million, implying a gap of 33 million jobs. Furthermore, for 2000-08, ILO estimates that Africa created 73 million jobs, but only 22 per cent (or 16 million) for young people aged 15-24. As a result, many young Africans

find themselves unemployed or, more frequently, underemployed in informal jobs with low productivity and pay. Out of the total unemployed people in Africa, 60 per cent are young people and youth unemployment rates are double those of adult unemployment in most African countries. As shown earlier, the problem is particularly acute in middle-income countries (MICs). As an example, in 2009, when youth unemployment rate in North Africa was over 23.4 per cent the ratio of youth-to-adult unemployment rates was estimated at 3.8, whereas in South Africa, youth unemployment was 48 per cent and the ratio of youth-to-adult unemployment rates was estimated at 2.5 (AfDB and AUC, 2012). Among the employed young, the proportion of work in informal sector is significantly higher than that of adults.

13.3.2 Factors Behind the Disconnect Between Growth and Employment in Africa

Despite this very encouraging growth record, unemployment especially for youth in the continent is still unacceptably high. There are a number of reasons to explain this apparent disconnect between high growth performance and persistence of both unemployment and poverty. We take up these factors in the next sections.

13.3.2.1 High reliance on capital-intensive sectors

Growth of employment to a large extent depends on the degree of structural transformation towards job-creating sectors. This is because the growth rate of aggregate employment in an economy is the weighted sum of the growth rate of employment in the various sectors of the economy, with the employment shares of these sectors as the weights. Employment growth in each sector also depends on the growth rate of that sector and the output elasticity of employment in that sector. In sum, it can be said that the growth of employment in an economy depends on the sectoral composition of employment, sectoral growth rates and the output elasticities of employment in the various sectors. At aggregate level, employment growth in an economy depends on the aggregate growth rate as well as the sectoral composition of aggregate growth. Therefore, to speed up the growth of employment in an economy, large sectors with high employment elasticities (or in other words more labour-intensive) should be the engine of growth.

Africa's inability to generate enough jobs despite the impressive growth record could partly be attributed to the sectoral composition of output growth. The major source of economic growth in Africa has been the growth of natural resource-extraction sectors, which by their nature are capital-intensive and, with a few exceptions, have limited linkages to the domestic African economies. Value-added in the mining sector, which employs less than 10 per cent of the labour force, grew at over 10 per cent per year, while agriculture, manufacturing and services with combined employment of over 80 per cent of the labour force, grew at less than 2.5 per cent annually in the last two decades (UNECA, 2010). The combination of small size and low employment elasticities implies that growth based on rapid expansion of natural resource-extraction sector will not generate high employment growth unless the proceeds from natural resources are reinvested in diversification of the economies towards more labour-intensive sectors.

Excluding Nigeria and South Africa, the share of industrial activities in GDP in Sub-Saharan Africa increased from 25.1 per cent in 1990 to 30.2 per cent in 2010, boosted

by economic activity in the extracting industries and construction in the years leading up to the global economic crisis (World Bank, 2011). The share of manufacturing activities in GDP decreased during the same period, from 12.2 per cent to 9.8 per cent. While agriculture's share of GDP decreased from 27.4 to 23.8 per cent during the last decade, the share of mining rose by a similar percentage, shifting the structure of GDP from one primary activity to another (UNECA, 2010). This experience contrasts sharply with that in fast-growing developing countries, where the structure of the economy has shifted towards the manufacturing and services sectors. While this lack of structural change may have positive growth effects in the short run, such dynamics may not provide the foundations needed for a more diversified and dynamic economy. The persistent concentration of investment and growth in the capital-intensive extractive sector results in low labour absorption and, limits growth because extractive sector is largely an enclave economy with few if any linkages to the rest of the economy.

This situation may have also contributed to the slow achievement in poverty reduction in Africa. Indeed, Africa's average growth rate of around 5 per cent is perceived as falling short of the 7.0 per cent widely believed to be the minimum rate at which the continent must grow to reduce poverty and improve living conditions. Table 3.3 indicates that SSA still hosts a very big number of people living on less than US\$ 1.25 a day. In the last two decades, SSA was able to reduce the share of its people living on less than US\$ 1.25 a day by only 3.7 per cent, from 593 million people in 1987 to 571 million people in 2008. This record for SSA compares unfavorably with that of East Asia and Latin America and the Caribbean who reduced the share of the people living on less than US\$ 1.25 a day by about 66 per cent and 25 per cent respectively.

Table 13.3 People living on less than 2005 PPP US\$ 1.25 a day*

Region	Percent of Total								Actual No. of People (Millions)		% Changes 1987-2008
	1987	1990	1993	1996	1999	2002	2005	2008	1987	2008	
East Asia & Pacific	54.7	56.1	50.7	35.9	35.6	27.6	17.1	14.3	845	284	-66.4
Latin America & Carib.	12	12.2	11.4	11.1	11.9	11.9	8.7	6.5	49	37	-24.5
South Asia	55.3	53.8	51.7	48.6	45.1	44.3	39.4	36	593	571	-3.7
SSA	54.4	56.5	59.4	58.1	57.9	55.7	52.7	47.5	593	571	-3.7

Source: World Bank, World Development Indicators 2012

Note: *=Poverty rates at International Poverty Line

13.3.2.2 Low productivity

The literature shows that there is a connection between technology, capital investment, growth and employment. The reason for the link is that workers produce more when they have access to new knowledge, as well as better production methods embodied in new production equipment. As these workers produce more at a given wage rate, firms that employ them make more profit. Higher profit levels induce these firms to hire more workers. As it will be discussed later, partly due to lack of technical change in Africa,

worker productivity has been relatively low, compared to the more developed countries such as those in East and South Asia and Latin America. Based on growth decomposition work (Bosworth and Collins, 2003; Ndulu and O'Connell, 2008) slightly less than half of the growth difference between SSA and other regions is explained by slower capital (physical and human) accumulation and slightly more than half by slower productivity growth. Investment in SSA yields half as much growth as in Asia (Ndulu and O'Connell, 2008). Despite improvement in the last decade and a half, relatively lower productivity levels remain a big differential factor with other regions. The poor productivity of micro-enterprises and agriculture has undermined their ability to generate decent jobs and reduce unemployment in Africa (UNECA and AUC, 2012b).

13.3.2.3 Delayed Demographic Transition

Unemployment observed in Africa today can partly be attributed to the changing age-structure of the population as embodied in the theory of demographic transition. The model of transition depends on the changes in birth and death rates. Bloom et al. (2001) argues that a demographic transition in which mortality rates declines first, followed by fertility rates, leads to a situation in which the population first gets younger and then the baby boom becomes a boom in the workforce. Africa still experiences a delayed demographic transition because of very high fertility rates.

While total fertility rates fell sharply outside of Africa, rates remained virtually unchanged within Africa for two and a half decades after independence (Ndulu et al. 2007). Africa embarked on a slow demographic transition only in the mid-1980s, thus experiencing very high population growth rates. As a result, Africa has the fastest-growing and most youthful population in the world as well as the youngest population estimated at 200 million people aged 15-24. With the highest growth rate of the labour force (aged 15-64), the number of young people in Africa is expected to double by 2045 (World Bank, 2011). As for SSA, in 2010, about 54 per cent of the population was aged between 15 and 64 and it grows at 2.8 per cent each year. Since over 42 per cent of SSA's population is under-15 years of age, that number is expected to grow significantly in the coming years. The 2011 Report on the Status of Youth in Africa by the UN's Economic Commission for Africa concludes that many African countries are now experiencing a 'youth bulge', which suggests that this population will peak by 2025 and in 2035 will begin to decline. The high and increasing unemployment in Africa reflect two important issues: first, high population growth associated with high fertility rates and second, failure of the economies to absorb the rapidly expanding labour force.

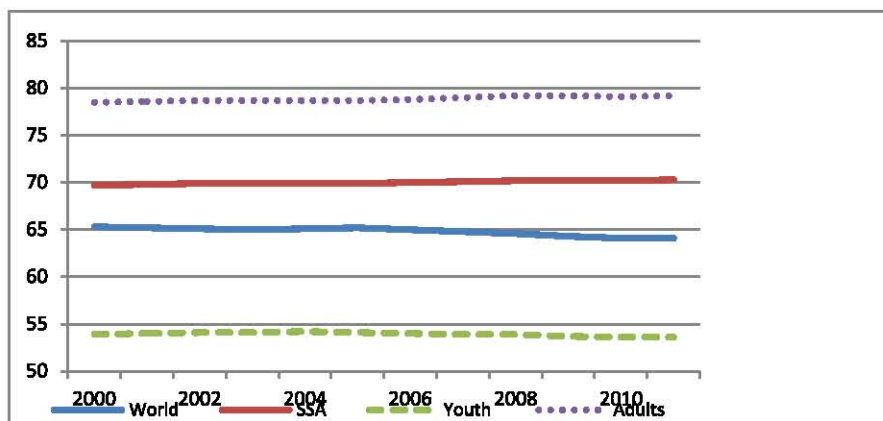
With current demographic trends, the pressure to create new jobs will increase over the coming decades. The problem is likely to be compounded by the fact that Africa's youth population is not only growing rapidly, but also getting better educated and with good health. Table 13.4 summarizes mortality rate and health expenditure in SSA compared with more developed economies of East and South Asia and Latin America. Although infant and under 5 mortality rates per 1,000 live births is higher in SSA than those recorded in the more developed regions, it declined by about 30.9 per cent and 27.6 per cent in the period 1990-2010, thanks to elevated government expenditure on health. This has enabled young people to have better chances of surviving into old age partly due to improvements in nutrition and health status of people entering the labour market each year (UNECA, 2010).

Table 13.4 Mortality rates and health expenditure

	Infant mortality rate		Under 5 mortality rate		Adult mortality rate		Health expenditure	
	Per 1,000 live births		Per 1,000 live births		per 1,000 Males	per 1,000 Females	Total % of GDP	Public % of total
	1990	2010	1990	2010	2006-10	2006-10	2010	2010
East Asia & Pacific	42	20	56	24	157	105	4.7	53.4
Latin America & Carib.	43	18	54	23	181	98	7.8	50.2
South Asia	86	52	120	67	239	166	3.8	30.0
SSA	105	76	175	121	379	346	6.5	45.1

Source: World Bank, World Development Indicators 2012.

The quality of labour force, proxied by enrolment in primary education, has also improved overtime. In 2010, enrolment in primary education in SSA was 100 per cent (World Bank, 2012a). Access to education and improvement in health status of the people contribute to increases in labour force-participation rate. As depicted in Figure 13.5, labour force participation rate in SSA is more driven by adults than youth, probably attributed to the fact that adults tend to be more experienced and sometimes more skilled than youth. As a result, a large segment of youth is left with no option other than engaging in informal activities.

Figure 13.5 Labour force participation in SSA (%)

Source: ILO, Global Employment Trends 2012

Note: p= Preliminary estimates

Although rapid growth of the labour force is potentially a positive driver of growth, it is also possibly a negative force if employment opportunities do not keep pace as it has been the case with Africa. The negative force relates to the growing potential instability

from rapidly rising youth unemployment. Africa should turn this potential risk into an opportunity since the youth are likely to be the drivers of innovation in the region with appropriate human capital and technological investment. Youth also constitute a large portion of the Africans in the Diaspora as they migrate in search of opportunities. Therefore, while strategies should be tailored to enable Africa to exploit the talents of the swiftly increasing reservoir of human capital, the strategies should also seek to address the fundamentals of the slow transition, like how to speed up reduction in fertility and the appropriate actions needed to increase employability of youth and expand opportunities to engage in a growing private sector.

13.3.2.4 **Employability**

The high unemployment rates in Africa are an indication of severe underutilization of the productive resources, a situation that slows the African economic growth. Equally important, is the quality (i.e. skills and health) of Africa's labour force. Africa has relatively less skilled human capital (compared with other regions) that would have contributed to higher growth and employment generation. Having a large population of skilled people increases the probability of generating innovation and technical change. Atardi and Sala-i-Martin (2004) argue, for example, that if African countries had primary school enrolment rates equal to those of OECD countries, their per capita income growth rate would have been 2.5 points higher than that recorded during the 1970 to 2000 period. The positive impact on growth would have been even higher had Africa's education system produced enough (among others) engineers, scientists, economists, entrepreneurs and information and communication technology (ICT) experts. Evidence elsewhere suggests that countries which invested in education and improved the health status of their people were able to raise labour productivity, and thus, contributed to growth in a more effective way.

African youth face varied challenges when searching for employment. These include lack of education and skills, labour demand, labour market information, attitudes of employers and labour market regulation. AfDB (2012) concludes that education is a strong determinant of good employment over a lifetime, but also paradoxically there is correlation with higher unemployment among youth. The main reason for this paradox is skills mismatches between what education provides and what employers need. Mismatches are also significant at the secondary school level mainly because education does not provide enough practical skills. Given that broad unemployment is much lower among adults with secondary education than among those with primary education or less, mismatches seem to be a serious problem for young people with secondary education (AfDB, 2012).

Africa Economic Outlook (AEO) Country Experts survey of 2012 about the major challenges youth face in labour markets suggests that about 54 per cent cited a mismatch of skills between what job seekers have to offer and what employers require to be a major impediment. Another 41 per cent identified a general lack of skills among job seekers as a major obstacle. Due to skills mismatches, ILO (2011c) indicates, for example, that in Egypt about 1.5 million young people are unemployed, while at the same time private sector firms cannot fill 600,000 vacancies. In South Africa the figures stand at 3 million young people in NEET and 600,000 unemployed university graduates versus 800,000 vacancies. Unemployment among those with higher education is much higher among youth in MICs than in LICs, suggesting that mismatches between the skills young people have and what the education system offers are greater as countries grow wealthier (AfDB et al., 2012).

AfDB et al. (2012) points out what could be the underlying cause for skills mismatch—that is, the poor quality of education and the absence of linkages between education systems and employers. A general lack of targeted education and frequent major discrepancies between candidates' profiles and the skills required for a job. For example, a shortage of technical and mechanical employees or electricians coexists with a surplus of workers in audits, sales and communication, whereas in manufacturing many of the positions that go unfilled are at a level that does not require tertiary education and does not pay the salaries that university graduates expect. The implication of this is that higher education systems in Africa have not been diversified enough to meet the needs for a variety of levels of skills and education. This may be due to historical reasons where at the tertiary level, the focus was to train young people for public sector employment, with little regard for the needs of the private sector. At the same time tertiary education in technical fields tends to be significantly more expensive than in the social sciences, which makes expansion of such faculties more challenging for public education institutions. Where such market skills needs are taken into consideration youth unemployment is much less. Graduates in technical fields such as engineering and information technology have less problems finding employment than those from the social sciences or humanities (AfDB et al., 2012). At the same time these latter fields have much higher enrolment and graduation numbers and consequently much higher unemployment numbers.

During the period 2008-2010, about 70 per cent and 73 per cent of graduates in SSA and North Africa majored in social sciences respectively, compared to 53 per cent Asia (AfDB et al., 2012). Only 12 per cent majored in science and 4 per cent in engineering, manufacturing and construction in SSA. In North Africa, graduates who majored in engineering, manufacturing and construction were 10 per cent, being much higher than those in SSA. These figures imply that the most difficult sectors in which to find candidates with tertiary education are those that need specific technical qualifications, such as the extractive industries, logistics, the chemical and pharmaceutical industries, manufacturing in general and agri-business. During the period, hardly 2 per cent of students specialized in agriculture in Africa the same level as in OECD countries. The low number of graduates in the area of agriculture poses a great challenge to the development of this key sector.

Youth in Africa have a comparatively very low educational profile both at secondary and tertiary levels, compared to other regions in the world. More than half of the youth population (about 133 million young people) in Africa is illiterate. This means that African youth have a relatively high probability of not been employed. This development notwithstanding, based on the current trends, 59 per cent of people aged 20-24 will have had secondary education in 2030, compared to 42 per cent today (AfDB et al., 2012). With very high population growth in Africa, this will translate into 137 million of people aged 20-24 with secondary education and 12 million of people with tertiary education in 2030. However, the expected large expansion notwithstanding, large gaps remain in the quality of the education provided. World Bank (2012b) indicates that a large number of African countries (including Mali, Niger, Ethiopia, Senegal, Côte d'Ivoire, Nigeria and Angola) have literacy rates of less than 75 per cent, suggesting that the increase in the number of higher education graduates has often been at the expense of quality. This is much so because expenditure per student has been decreasing throughout Africa, partly due to a sharp rise in enrolment. In the period 1999-2009, the number of higher education graduates in low-income sub-Saharan African countries almost tripled, from 1.6 million to 4.9 million, and it is expected that this figure will reach 9.6 million in 2020 (World Bank, 2012b). Although

governments expenditures as a share of GDP has been relatively high in Africa compared to other comparable regions of the world that has not been translated into more human capital partly a reflection of inefficient education system.

13.3.2.5 Lack of coherent growth and development strategies

The structural changes that took place in Africa failed to promote job creation because of a lack of employment-focused macroeconomic and sectoral strategies. This has given rise to a number of problems. First, there is a mismatch between demand for and supply of labour in terms of both size and qualifications, resulting in a qualification deficit as well as high unemployment. Second, there has been a shift in investment and labour demand in favour of services sectors, particularly travel, at the expense of the manufacturing sector. Third, there have been rapid increases in employment in the informal sector and dwindling formal wage employment. The informal sector is characterized by low productivity and income as firms lack access to credit, technology and export services. African young people have low skills profiles that do not necessarily match the demands of the labour market. In 2010, only 36 per cent and 6 per cent of respective groups of students were enrolled at secondary and tertiary education levels respectively, lower than the world's averages of 68 per cent and 27 per cent in the same order (World Bank, 2012a).

The impact on employment was further compounded by government downsizing, which has led to a decline in the public sector's share in total employment. Since in African economies, the State has traditionally been the main employer, the reforms have shifted demand for labour towards enterprises that look for individuals with specific and practical skills. Reducing the size of a government means that the public sector could not grow as fast as the population—thus reducing the ability to create new job opportunities. Although the private sector has been growing, it started at a too small a base to have a big impact. Absence of policies that subsidize capital through interest rates and credit, trade and exchange rate policies, while decreasing the cost of production through labour market regulation have constrained development of the formal private sector (UNECA 2005). Also, opening up of the economies has attracted huge imports of cheap manufactured goods, especially from emerging economies such as China (UNECA, 2010). The challenge is for the domestic investors to compete with these cheap imports and increase investment in manufacturing.

The limited role of the public and the private sector in creating employment in Africa suggests that the informal and rural sectors are likely to continue to play an important role as the absorber of young people in need of an income. Informal entrepreneurs and the rural non-farm sector show potential. Currently, in Africa, 53 per cent of youth in rural areas are not in agriculture, but engaged in other activities (AfDB et al. 2012). Youth in rural non-farm employment are much better off than youth in farming. Therefore, linkages between urbanization, the rural non-farm sector and agriculture are important and work to strengthen rural economies in Africa.

13.4 Strategies for Reducing Unemployment

As indicated elsewhere in this chapter, Africa has huge unexploited potentials. Despite such potentials, youth unemployment is very high in Africa. Further, Africa's contribution to global GDP is about 1.4 per cent (2007), and its share of world

merchandise exports is about 3.5 per cent, which is rather small compared to the region's global share of population of about 12 percent. Africa's share of international tourist arrivals remains marginal at about 3.3 per cent of total international tourist arrivals despite of huge tourist attractions in the continent. Effective exploitation of these potentials can spur the region's growth and reduce unemployment. What do African countries have to do to exploit these potentials for sustained growth and unemployment reduction? The previous section identified lessons Africa could draw from successful emerging economies in designing their strategic interventions in dealing with the challenges of unemployment. In this section we highlight some of the key strategic actions the region could pursue.

13.4.1 Structural transformation for growth and jobs

If high-quality growth occurs in labour-intensive sectors including agriculture, manufacturing, construction, textiles and services, the associated increase in employment will have a positive effect on working poor and unemployed youth. African economies can work towards structural shift to labour intensive manufacturing to avoid depending on a few primary commodities with the attendant high risk from volatility in the world market prices. Adding value to these commodities and diversification into manufactures, particularly for coastal economies with location advantages in terms of access to markets could be an important option. These countries can pursue manufactured export-led growth akin to the main Asian model to take advantage of the rising wages in East Asia to compete more effectively in the export markets of labour-intensive manufactures. Other countries particularly in the land-locked resource-poor countries, such as Rwanda, can pursue in earnest the less transport - dependent trade in services exploiting information technology. African countries could as well work to connect the informal sector to the formal sector via development of SMEs as well as promoting value addition to agriculture (Ndulu et al., 2007).

As African countries structurally transform their economies, they should continue to promote macro-economic stability, with special attention on creating as much additional fiscal space as possible. As learned from the recent crisis, African countries that entered the crisis with high level of macroeconomic stability were able to weather the storm with less economic damage. The countries should also keep an adequate level of infrastructure investment to support private sector activity in general and enhance competitiveness and diversification in particular. Improving infrastructure would help in the fight against poverty and unemployment by improving access to basic services such as electricity and clean water. Africa can be a more integrated market if appropriate investments are made in ports, railways, and roads. Investment in energy and other utilities which stimulate investments including small and medium size investments deserve to be given high priority.

13.4.2 Investment in agriculture

The rural sector has potential as an engine of inclusive growth and youth employment. Although rural youth face tougher conditions than urban youth and have higher rates of vulnerable employment and working poor, in several countries rural economies are showing strong potential for economic growth and poverty reduction. For many households farming is an important part of their livelihood, involving many young workers. About 47 per cent of all working youth in rural areas primarily are engaged in agriculture, while another half of the rural young also engage in non-farm activities (which include public services, installations and repairs, transport and clerical work,

sales work, manufacturing and construction) largely to supplement their incomes (AfDB et al., 2012).

One of the biggest challenges of agriculture is low productivity and difficulties in reaching profitable markets. African agriculture is also very much constrained by its dependence on rain. This is notwithstanding the fact that Africa is home to huge expanses of water resources and irrigation potential. The other key challenge is ensuring sustainable agriculture. This entails making sure that in the course of expanding agriculture and raising productivity, the key sources of water are well protected and deforestation is avoided.

During the 2003 AU Summit in Maputo, African governments committed to allocate a minimum of 10 per cent of national budgets for agriculture, and more for rural development. Most African governments have not yet achieved this objective. Most countries are averaging only about 4.5 per cent. Given abundance of land, Africa can be a major food exporter. Modernization and enhancement of production in agriculture would help in improving supply response to attain food self-sufficiency and enhance food exports to neighbouring countries and beyond. As agricultural productivity increases, savings and labour become available for households to diversify and invest in small-scale activities outside agriculture, such as simple services (repairs, hairdressing), manufacturing (handicrafts, sewing and textiles etc.) and sales. At the same time an increase in rural incomes also translates into an increased demand for non-food products, creating an opportunity for the provision of such goods to become viable and profitable. Haggblade et al. (2009) estimate that an increase of agricultural value added of one US dollar translates into an additional 30 to 50 cents value added in the rural non-farm economy.

While priority is being placed on agriculture, a major component of strategy must be based on value addition through processing of agricultural products and other natural resource based products. Improvement of the investment and trade environment should be accorded high priority including for small and medium enterprises. Measures should be taken towards raising the level of productivity and reducing cost of production and cost of doing business in general. Measures to improve the quality of products to make them more acceptable in the market should also be taken with greater and better coordinated support from governments.

13.4.3 Enhancing employability

The literature indicates that competitiveness does not necessarily depend on the endowment of resources, but rather on the technological capacity to process them and the quality of human resources and organisational efficiency. Adopting a strategic development orientation that emphasises processes and building technological capacities to become competitive in these processes is thus the key factor. Investing in education in Africa should remain a priority. Greater emphasis should be given to improving the quality of education and responding to labour market demand, now that access has improved. For instance, public expenditure in education could be allocated to filling gaps in teachers training, laboratories and libraries. Improving human capital stocks could help alleviate the shortage of skills that constrains investment in some sectors such as manufacturing.

On quality and relevance of education to reduce the skills mismatch, the strategy should be to develop the skills that many formal employers are looking for. Universities must educate with an eye to African markets, improving education in technical fields

and agriculture. This approach also requires more and better guidance to students to steer them towards employment in the private sector, away from enrolment in traditional public sector entrance subjects in the arts, humanities and social sciences.

The literature suggests that changing economic structures in Africa are putting mounting pressure on education systems to go beyond primary education. More recent evidence, suggests that returns are not continuous in years of education but linked to the level of education attained—that is, returns to education are positive and strongly convex so that the marginal returns to education are lowest for the individuals with the least education. Teal (2011) concludes therefore that giving priority to investment in primary education may have little impact on incomes unless the individuals affected by the reforms proceed to higher levels of education. The fact that so many children and young people do not proceed from primary to secondary education despite the strong convexity of returns to education suggests that strong barriers are in place, such as high costs and poor quality of primary schools that do not prepare adequately for secondary school, this calls for the need to address the constraints.

Promoting technical and vocational skills development (TVSD) is equally important. TVSD has huge potential to providing young people with more applied skills and better chances in the labour market. Skills can be obtained either through structured and specialized institutions or through on-the-job practical experience, or both – the so-called “dual” training. According to Fares and Puerto (2009) programmes that combine on-the-job and in-class training provide a combination of soft skills (behavioural skills) and hard skills (technical or administrative skills) can have a significant positive impact on employment and earnings of programme participants. Dual training, such as internships or apprenticeships, allows young people to apply the theories learnt in class in real environments, to develop professional skills, such as time management and professionalism, and to gain practical experience (Angel-Urdinola et al., 2010). Experiences in Africa show that TVSD have not been very successful, mainly due to their limited outreach and funding. TVSD accounts for less than 5 per cent of training among youth in Africa (AfDB, OECD and UNECA, 2008). Where they exist, TVSD systems in the continent suffer from a shortage of qualified staff, obsolete equipment, ill-adapted programmes and weak links with the job market. Given the importance of the informal sector, TVSD systems must therefore adapt to its needs in terms of skills and course structure. Governments must find ways to recognize these (i.e. TVSD) and combine them with formal education. Vocational and technical training systems are an important tool especially when done in cooperation with firms so governments should seek cooperation with the private sector to provide high quality technical education at both secondary and tertiary levels.

13.4.4 Addressing Demographic Factors

The literature links declines in fertility rates in Africa to income growth, urbanization, girls' education, and reduced infant and child mortality rates. Long term strategies should be geared towards addressing the challenges facing these areas.

If mortality and fertility decrease, a young population can become the engine for the national economy. The experience of the Asian Tigers is proof of this. At the beginning of their impressive development, these countries had a demographic starting point similar to that of many Sub-Saharan countries today and their level of development at that time was just as low. The development boost of the Asian Tigers was made possible by two fundamental changes: a demographic bonus was created because the number of people of working age increased in relation to the number of dependent

young and old people. In order to create such a favourable age structure, the many children and adolescents have to grow up, mortality in the working age group must decrease, and fertility must decline so that the upcoming young generations (and the related burden) will shrink.

Education must be recognized as the key factor for development. It prepares the way for the demographic bonus because mortality and fertility will decrease with the population's rising standard of education. Also, the human capital increases through education. Education therefore becomes the most important tool to achieve the demographic dividend. Therefore it is necessary to create equal education opportunities for girls, to expand secondary education in particular because it is crucial for a decrease in fertility and an economic upswing, to establish vocational training as a hinge between school and the working world, and to provide micro-credits to improve the education of adult women and to empower them. At the same time, this will promote entrepreneurship. The human capital, which decidedly improves through education and lower numbers of children, must also be utilized by the national economy.

As long as mortality, especially child mortality, and fertility remain as high in Sub-Saharan Africa as they currently are, a demographic bonus cannot emerge and therefore no opportunity for economically favourable development will arise. Investments in health and family planning, as well as in education can be identified as the most important starting points to attain a demographic bonus. The national governments and the various partners of development cooperation should see it as their job for the health sector, to strengthen the health systems, to establish and expand basic health care, to make disease prevention possible through simple means, to carry out vaccination campaigns for children, to improve sexual and reproductive health, to offer sexuality education, to facilitate the access to contraceptives and to find advocates and use the media to create knowledge about health issues and acceptance of contraceptives.

13.4.5 Dealing with the rapidly growing urban poor

Urbanization is progressing very rapidly in Africa. About one third of African population now lives in urban areas and it is expected that about half of the population will be in urban areas by 2020. It is also true that a good number of those migrating to the urban areas are young people looking for work and most often have neither the capital nor the skills for engaging in gainful business. As a result, the overall youth unemployment has increased very substantially and with it political agitation related to unemployment. It is therefore imperative that the other leg of inclusive growth focuses on providing gainful work and income source to the growing number of the urban unemployed, particularly the youth. There is no doubt that creating formal jobs at a pace that will absorb the growing number of migrants to the urban areas is a tall order.

The best chance we have to absorb this growing segment of the population is through self employment, mainly in the small and medium scale enterprises (SMEs) and the informal sector. Deliberate efforts, therefore, should be made to address constraints faced by these enterprises so that they can expand the job opportunities and absorb the growing number of unemployed.

In Sub-Saharan Africa, electricity and finance are the biggest obstacles to firms, and the complexity of obstacles increases with a country's income level (AfDB et al, 2012). Very few small and micro-enterprises manage to grow into large firms in Africa. To

foster job creation governments must focus on removing the barriers that are specific to small and micro-enterprises and support their growth into productive firms and enhance their long-term competitiveness internationally. At the same time, for many young people entering self-employment is the only viable alternative given a lack of opportunities for wage employment. These young people face specific challenges and need special support to develop their businesses.

Young people can benefit from specific programmes that support their entrepreneurial activities. Support for young entrepreneurs ranges from measures that provide job seekers with financial and technical assistance to create their own businesses, including microcredit and entrepreneurship training and mentoring, to measures that improve their chances to expand. Puerto (2007) concludes that self-employment programmes are relatively cheap and can create permanent and value-added jobs, as long as projects are carefully selected and supported, and entrepreneurs have access to credit and markets. However, well targeting of activities to support is paramount. This is important because experiences elsewhere in Africa have shown that where firms and young entrepreneurs are not chosen carefully, based on their skill, drive and business plans, providing credit can be wasteful and harmful due to possible collapse of firms as a result of using credit or simply do not pay the money back (AfDB et al., 2012). In Tunisia, for instance, only around 50 per cent of young entrepreneurs have repaid their loans, mainly because of the lack of clients (MDGF, 2009).

13.5 Africa-Asia Partnership

13.5.1 Partnerships in Job Creation

The most important ways in which Africa interacts with the rest of the emerging economies are through trade and investment. The share of emerging economies in Africa's extra-regional trade stood at 32.5 per cent in 2008, being 13 percentage points higher than in 1995 (UNECA and AUC, 2011). The direct effect of this trade is that African economies enjoy lower consumer prices, cheaper machinery and inputs, and higher export revenues, although non-competitive firms may go out of business. Higher export revenue would allow African countries to increase domestic investment and employment creation, but the net impact on African economies will depend on the structure of each economy and the specific nature of the interaction.

FDI into Africa from emerging countries is estimated to have doubled to about 10 per cent of the total in 2005-2010 compared to about 5 per cent in 2000-2004. However, the bulk of the demand is still for unprocessed goods with low value addition, which heightens the risk of a lock-in to a primary export trajectory as well as reducing the opportunity to increase value addition and export earnings (UNECA and AUC, 2011). Likewise, the availability of concessional loans from emerging partners has increased access to finance for several countries in SSA. Going forward, the effect of these loans in promoting pro-poor growth and employment will greatly depend on the extent to which they are directed to finance projects that enhance domestic capacities to repay while generating employment, especially for the youth.

Trade and FDI are essential channels of technological transfer to Africa. Nevertheless, Africa is failing to attract foreign private R&D projects and manufacturing investments owing to its limited technology base and intellectual capital (UNECA, 2010). Africa will

need to take decisive steps to ensure that it benefits from global technological knowledge to meet current and emerging challenges, including unemployment. While at national level African countries will need to put in place policies and strategies to integrate science, technology and innovation (STI) in all sectors and government department as well as increase investment in the education sector, at the international level, working under a unified framework would help Africa garner maximum gains in the terms of trade, FDI, technology transfer and loans, especially from emerging large economies such as China and India (UNECA and AUC, 2012a).

African countries will therefore need to put in place a unified framework for negotiation and cooperation with not only the new partners but also old partners. African countries will also need to build capacity to enhance, rationalize and maximize gains from the partnership. This would help in harnessing linkages to ensure that cooperation is directed to sectors where domestic investment, jobs, regional integration and productive capacities are enhanced. UNECA and AUC (2011) notes that this could be done by using strategic incentives and policies that both encourage and obligate foreign investors to use domestic inputs, labour and partnerships in pursuit of their goals. Deliberate efforts to pursue joint ventures with Asian firms could as well be part of national policy frameworks. These would serve as guidance on how partnerships are to be used as part of long term policies for industry, agriculture and human capital, as well as help correct past mistakes. Coordination and prior planning is particular important because it enables proper budgeting for maintenance costs and prioritizing consistently with a country's development strategy—this is most so for large infrastructure investments. Some African countries including Namibia, Cameroon, Morocco, Cape Verde, and Equatorial Guinea have taken measures in that direction. For example, in Morocco, Chinese operators are actively encouraged to invest in the country to counterweigh Chinese imports and ease the commercial deficit, whereas Cape Verde has concentrated on modernizing productive capacity and infrastructure (AfDB et al., 2011). Likewise, China has set aside a significant fund for funding African infrastructure.

Equally important in promoting employment in resource-rich African countries, is for the countries to leverage their bargaining power with emerging partners to kick off a structural transformation of their economies. This should go hand in hand with building analytical capacity to monitor financial flows, setting priorities and development engagement strategies with emerging partners. The emphasis should be put on the need for the new partners to increase investment in Africa's manufacturing industry and promote the creation of value-adding activities, particularly in close proximity to the source of raw materials. Initially labour-intensive manufacturing would constitute the low hanging fruit in light of increasing labour costs in emerging economies.

13.5.2 Knowledge Exchange

Foreign investors invest in high-productive sectors such information technology (IT), semi-conductors, pharmaceuticals and green technologies prefer to locate in economies with abundant supplies of scientists, engineers and other highly skilled workers. East Asian countries are attracting high-quality FDI not only because of the availability of skilled workers, but also because those talents are available at relatively low wage rates (UNECA and AUC, 2010). Given their lack of technological capability, African countries attract FDI in low-end activities such as tourism, agriculture, mineral extraction, and trade. These activities do not generate substantial value added and their employment-generating capacities are very limited. Availability of high skilled labour at low rates will help Africa attract FDI in high-productive sectors. This, together

with the ageing populations in advanced economies and rising wages in Asia, will likely make the demographic transition in Africa an opportunity for Africa to become the next global centre for manufacturing, information and communications technology (ICT) and service industries.

Africa should therefore exploit the partnership with Asia in improving the skills and knowledge of its people, particularly through knowledge exchange programs. One of the options could be through the establishment of special economic zones in Africa. However, benefiting from knowledge transfers through this approach depends on how they are set up. African countries must strategically engage zone developers by inviting local investors into the zones, building links to research and development institutes, planning the long term transfer of shareholder relations, as China did with the special zones it created (AfDB et al., 2011). In addition, special zones must be a part of a larger regional development plan, to make the zones benefit Africa.

13.6 Conclusion

This chapter discusses the growth-employment relationship in Africa with a greater emphasis on Sub Saharan Africa over the last decade. In this chapter, we give an account of unemployment problem in Africa and propose strategies and policy actions that the countries can implement to reduce the problem particularly youth unemployment. Pro-decent job creating growth is important in two ways: first, it will help reduce Africa's unemployment problem particularly for youth and females, and second, it will contribute towards poverty reduction initiatives—that is, reduce the number of people living on less than a dollar a day in line with the Millennium Development Goals (MDGs).

It is shown in the chapter that unemployment is still a big problem in Africa not only to unskilled but also skilled people. The problem is more severe among youth and females, as well as in middle income countries (MICs), which also suffer most during bad times including global economic and financial crises. This is not to say that less developed countries, most of which are in the Sub-Saharan Africa (SSA), are cushioned from the unemployment problem. Although hard numbers tend to suggest that SSA is creating enough jobs for its growing labour force, this may not be realistic given the fast growing informal sector. Normally informal jobs pay low wages, and provide little incentives for skills development and job security. It is not surprising therefore for the SSA to have more incidences of poverty and vulnerable employment than in MICs.

Africa has continued to experience high unemployment rates, despite the impressive economic growth recorded in the last decade. The chapter presents an account of the possible reasons which include: little structural transformation of the economies so that the major source of economic growth in Africa has continued to be the growth of natural resource-extraction sectors, which by their nature are capital-intensive and, with a few exceptions, have limited linkages to the domestic African economies. While this lack of structural change may have positive growth effects in the short run, such dynamics may not provide the foundations needed for absorbing excess labour and limits growth. Other factors which undermined Africa's ability to generate decent jobs and reduce unemployment include low productivity, high fertility and participation rates as well as lack of coherent growth and development strategies, in particular,

employment-focused macroeconomic and sectoral strategies. This situation has led to: a mismatch between demand for and supply of labour in terms of both size and qualifications; a shift in investment and labour demand in favour of services sectors at the expense of the manufacturing sector; rapid increases in employment in the informal sector; and dwindling formal wage employment. The impact on employment was further compounded by government downsizing, which has led to a decline in the public sector's share in total employment. Although the private sector has been growing, its impact is not big, partly due to a lack of policies that promote private investment in the industry sector, in particular manufacturing.

The limited role of the public and the private sector in creating employment in Africa suggests that the informal and rural sectors are likely to play an important role as the absorber of young people in need of an income for the foreseeable future. Linkages between urbanization, the rural non-farm sector and agriculture seem to be important and work to strengthen rural economies in Africa, as well as help reduce youth unemployment problem. In order to attain the objective, strategies should be tailored to address peculiar problems inherent in weak structural transformation of the economies, low agriculture productivity, delayed demographic transition, youth employability and rapidly growing urban poor. This chapter has suggested strategies that if implemented can help promote employment opportunities for the youth and the general population in Africa. However, some of the issues discussed (including low productivity, limited human capital, skills mismatch, high fertility, poor health and lack of quality education) are deep rooted in the structure of African economies. Thus, in addition to macroeconomic policies that promote labor-intensive growth, sectoral and microeconomic interventions are needed to effectively address the various aspects of labor unemployment in Africa

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Chapter 14 Youth Policies and African Development

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14.1 Introduction

Several African countries have made progress in developing youth policies, as embodied in the African Youth Charter, a regional framework for youth development, as well as in other Africa reports—including the African Youth Report (UNECA, 2009), and the United Nations 1995 World Programme of Action for Youth to the Year 2000 and Beyond (UN, 1995). However, overall, progress towards concrete action is slow and what has been proposed is not adequate to meet the African youth employment challenges.²⁰¹

The development of youth policies in Africa has been influenced by a large number of reports by various bodies—including regional member states, international organizations and development partners. At the regional level, the major influence seems to have come from the African Youth Report (UNECA, 2009). However, partly due to data constraints, the report provides an in-depth and up-to-date analysis of only a few of the key issues that affect the African youth—namely, education, employment, health, HIV/AIDS, and participation in political and decision-making processes. These priority areas are broadly consistent with the objectives of several initiatives on youth development in Africa. The 2009 Report recommends a coordinated approach by all stakeholders, including the United Nations and its development partners.

In recognition of the necessity to deal with the problems and challenges facing the youth in Africa, the AU member States declared 2008 as the “Year of African Youth” and implored member states to develop policies in a coordinated effort to deal with the issues affecting the youth. Also, some countries, including Algeria, Ghana, Kenya, and South Africa have used the African Peer Review Mechanism as another vehicle to address the youth unemployment problem. The 2001 New Partnership for Africa’s Development (NEPAD)—a programme of the AU adopted in Lusaka, Zambia, on 11th July 2001, included the goals of achieving the millennium development goals (MDGs) that explicitly concern the youth.²⁰² Through the initiatives of NEPAD, African youth leaders have established networks to coordinate efforts to advance the goals of the MDGs and other development partners.

²⁰¹ The African Charter was adopted at the Seventh Ordinary Session of the Assembly of Heads of State and Government of the African Union in Banjul, Gambia, in July 2006.

²⁰² NEPAD is a radically new intervention, spearheaded by African leaders to pursue new priorities and approaches to the political and socio-economic transformation of Africa. Its objective is to enhance Africa’s growth, development and participation in world affairs.

In February 2010, the 14th AU Assembly established the NEPAD Planning and Coordinating Agency (NEPAD Agency) as a technical body of the AU to replace the NEPAD Secretariat. The NEPAD Agency is a key outcome of the integration of NEPAD into the AU.

Internationally, there have been several initiatives on youth development. Member states that are parties to the MDGs, including African countries, resolved to “develop and implement strategies that give young people everywhere a real chance to find decent and productive work.” The Africa youth charter report identified 10 priority areas for youth development and the UN General Assembly agreed on five emerging issues.²⁰³ Also, in 2006, the meeting of the UN Office of the Special Advisor on Africa on the youth in post-conflict countries focused on the social and economic integration of youth through job opportunities and the re-integration of ex-combatants into civil societies.²⁰⁴ The 2007 World Bank Development Report focused on youth issues. And, almost all of the recent poverty reduction strategy papers, a program initiated by the IMF and World Bank in 1999 to encourage African countries to develop integrated poverty reduction strategies, have focused on youth empowerment, in line with several UN resolutions.²⁰⁵

14.2 Youth policies and social concerns

The frameworks for youth policies noted above have identified a dozen factors affecting youth employment which can be grouped broadly into economic, health, political and social issues, which we discuss in turn.

14.2.1 Economic issues

The economic issues relate to economic instruments for addressing the youth unemployment problem. An integrated employment strategy should promote labor intensive growth, while at the same time ensuring that quality jobs that become available are matched to the youth with the right skills and training. Thus, national youth policies should foster a pattern of growth that boosts effective demand for human capital. In South Africa for example, the growth elasticity of employment was 0.7 between 2004 and 2008, suggesting that growth had only a small impact on job creation (see South Africa: 2011).²⁰⁶

As already noted, even when job opportunities are available, the youth must have the skills to exploit them. In this respect, several policy actions have been suggested in various reports that could improve the quality of the youth population. First, the policies should improve access to good education and increase graduation rates. The need for quality education is illustrated by South African, engineering graduates who were found to be unemployable in the automotive industry because of the low quality of training they had received (Gyimah-Brempong and Ondiege, 2011). Second, youth policies should promote activities that increase investments in school infrastructure, textbooks, learning materials, curricula reforms, school equipment, nutrition, health, and training of teachers. Research evidence shows that interventions in these areas are associated with improvements in learning and labor productivity (Baird et al., 2011; Pitt et al., 2012; Glewwe et al., 2010; Schultz, 2005). It is important, however, to note that interventions that increase skills in settings where the bulk of occupations are brawn-

²⁰³ See Table 14.1.

²⁰⁴ See United Nations (2006).

²⁰⁵ See UNECA (2009, p. 46) for a partial list.

²⁰⁶ We note, however, that in a recent study by Leautier and Hanson (2012) high economic growth had differential impacts on job creation across countries in Africa.

intensive – as in much of African agriculture, may have little impact on labor productivity (Pitt et al., 2012).

The third economic issue with regard to employment creation is that in order to minimize a mismatch between skills and job requirements, formal schooling should be combined with work-based training.²⁰⁷ Moreover, to reduce the mismatch further, it may be necessary to over-haul the educational curricula as well as the pedagogical methods at primary and tertiary levels of school systems. Fourth, because most African governments face severe fiscal constraints and sustained job creation is arguably the domain of the private sector, governments should establish mechanisms to encourage public-private partnerships designed to identify job generating activities.

While employers everywhere seek workers with problem-solving and scientific skills, educational systems in Africa routinely graduate students without these skills. For example, in 2009, only 18, 14, and 24 percent of tertiary students in Botswana, Ethiopia, and South Africa, respectively, were enrolled in applied subjects such as physical and biological sciences and engineering and technology.²⁰⁸ The educational systems should be reformed so that they can produce graduates with skills that fit demand requirements of employers. One way to achieve this aim, is to establish linkages between industry and school systems.

Although active labor market programs are an important part of African governments' efforts to increase employment opportunities for the youth, the youth may not have the skills needed to take advantage of the available work opportunities. There is evidence that remedial training programs can improve human capital of the youth. These programs include assisting the youth who do not complete school or have inadequate formal education through schemes such vocational training, on-the-job training and apprenticeships. An notable example of this, is the Egypt-Germany Initiative, a dual education system to empower the youth implemented over the period, 1995 to 2002²⁰⁹ For such programs to be effective, however, coordination of skill-building partnerships between public and private sectors is necessary. Although the overall evidence on the impact of training programs on employment is inconclusive (see, for e.g., Kluve, 2006), some evidence from the World Bank (2007c) indicates that training is effective in increasing employment opportunities for women, and generally for low-skill individuals, such as the African youth. Several strategies exist to create employment opportunities for the youth (World Bank, 2007c).

- *Direct public sector employment:* Public works have the potential to help the unemployed youth gain labor market experience (Kluve, 2006). Moreover, by providing short-term employment at low wages, public works can be of some value to people without income and skills.²¹⁰ As we show later, Ghana has established the National Youth Employment Program to engage youth in selected civil activities.
- *Job search assistance:* Employment bureaus are some of the organizational mechanisms used to reduce friction and skill mismatch in labor markets.

²⁰⁷See, for e.g., Chingunta (2002).

²⁰⁸The data were calculated from the UNESCO Institute for Statistics (2009).

²⁰⁹ See Kanyenze, Mhone, and Sparreboom (2000).

²¹⁰ Examples include a program in Senegal funded by the AfDB and the World Bank in 1989, and programs by the Youth Business International (2008).

Currently, provision of these services in Africa is dominated by the public sector and tends to target the disadvantaged, the long-term unemployed, and discouraged workers.

- *Self-employment:* Micro-credit and start-up loans can serve as catalysts for self-employment. However, there is evidence that employment effects of these interventions are short-lived (World Bank, 2007c), and that businesses started through micro-credit schemes suffer high failure rates. An example of an institution that facilitates business start-ups through micro-credit and other mechanisms is the Youth Business International (YBI), a global network of independent non-profit initiatives based in the United Kingdom. YBI works in partnership with governments, businesses and multilateral and civil society organizations to help young people establish their own businesses. In 2008, 90 young entrepreneurs were assisted in three accredited member countries (Kenya, Nigeria, and South Africa) and in two pilot member countries (Ghana and Uganda).²¹¹
- *Wage or employment subsidies program:* This sort of intervention increases employment opportunities through an employer subsidy that reduces the cost of labor, encouraging employers to hire more workers or through an employee subsidy that raises wages, increasing the attractiveness of the employment offered. World Bank (2007c) suggests that programs of this kind have had short-term successes in transitional and developing economies.
- *Competitive labor markets:* Reducing subsidies on capital imports, and easing labor market rigidities can improve the functioning of labor markets, increasing employment but little evidence exists on impacts of factor market liberalization on employment in Africa.

14.2.2 Health issues

The youth in Africa are burdened by diseases, such as HIV/AIDS, malaria, tuberculosis, nutritional deficiencies, disabilities, substance addiction, premature death, and tend to engage in behaviors that are potentially harmful to health (WHO, 2010). Several interventions exist to address these issues, notably, the policies to create jobs²¹² and change behavior²¹³. The behavior change interventions include provision of health education and other services that promote healthy life styles.

²¹¹ See Youth Business International (2008).

²¹² See, for e.g., UNECA (AYR, 2009).

²¹³ The Advocates for Youth (a [nonprofit organization](#) and [advocacy group](#) based in [Washington, D.C., USA](#), dedicated to [sexuality education](#), the prevention of [HIV](#) and of [sexually transmitted disease](#), [teenage pregnancy prevention](#), youth access to [condoms](#) and [contraception](#), equality for lesbian and gay, and [youth participation](#)) launched a 3-year initiative in 2001 called the Youth Leadership in Fighting the Epidemic (YouthLife), which partnered with four youth-led non-governmental organizations (NGOs) in three countries severely impacted by HIV/AIDS: the Youth Health Organization (YOHO) of Botswana, the Youth Action Rangers of Nigeria (YARN), and the Township AIDS Project (TAP) and the South African Centre for Organisational Development (SACORD) of South Africa. Their activities included skills-based training, advocacy program implementation, organizational development, and youth participation in policy making.

One area that has received less attention in health policies is the vulnerability of the African youth to environmental hazards, such as harmful chemicals and biological agents (WHO, 2008). The environmental hazards include polluted water, air, soils and households. Among the substances polluting the environment in which the youth live, play or work include chemicals, electronics, smoke, uncollected garbage, and waste matter produced at home (Chaves et al., 2013). There is need to provide health education to the general public, stressing health hazards of different pollutants and the measures households can take to keep home compounds clean.

14.2.3 Political and social issues

There is evidence that lack of good governance (that avoids conflict and marginalization) is predictive of poor economies, where unemployment is the norm. Moreover, evidence exists that participation of the youth in political processes is positively correlated with youth voice in public affairs and with growth (World Bank, 2009). A study by Karikari and Gyimah-Brempong (2011) confirmed previous evidence that growth associates with the quality of governance. One reason for this correlation is that growth provides the resources to invest in good governance, which promotes youth participation in political processes, stimulating further growth. Indeed, youth participation in politics – which is desirable in its own right, reinforces and is reinforced by growth²¹⁴ However, evidence on magnitudes of these correlations is lacking.

Efforts to enhance youth's participation in political affairs in Africa have generally not been successful. The few interventions that have been implemented to increase youth involvement in politics²¹⁵ include quotas for political appointments in government, programs to train the youth in functions of government.

14.3 Implementation of Youth Policies

There is limited information on the extent to which policies formulated to empower the youth in Africa have been implemented. This is a crucially important issue because unless legislations and policies designed to benefit the you are implemented, the resources used to bring them into existence are merely wasted. We provide anecdotal evidence on this issue from selected countries to illustrate the point that African countries are at different stages of implementing policies that benefit the youth.²¹⁶

²¹⁴ The potential links between education, income and democracy is what social scientists in the middle of the last century referred to as the “modernisation hypothesis.” However, the empirical evidence on te link between education and democracy is unclear.

²¹⁵ See for e.g., UNECA (2009).

²¹⁶ Apart from the cases discussed for the three countries there is limited information on national youth policies of Botswana, adopted in August 1996; Guinea's policies on youth, culture and sports, declared in April 1993; Malawi's first youth policy in 1995; Namibia's first youth policy in 1993; Nigeria's first youth policy in 1983; and Sierra Leone's national youth policy in 2003. See African Youth Policy Update Number 1, at <http://blog.developmentpartnership.org/?p=4> (last accessed on October 17, 2011).

14.3.1 National Youth Policy in Ghana²¹⁷

In 2009, three years after the African Youth Charter, Ghana did not have a national youth policy. Ghana officially launched its national youth policy on August 12, 2010 as part of the International Youth Day celebration. The youth policy vacuum is prevalent in other African countries as well. Although the key issues affecting the youth have been articulated in UN conventions on many occasions, few countries have implemented policies to address these issues²¹⁸

The youth in Ghana constitute a quarter of the country's population.²¹⁹ It has been estimated that of about 250,000 young people entering the labor market annually, only 2 percent (5,000) get jobs in the formal sector, with the rest being openly unemployed, discouraged from labor force participation or subsisting in the informal sector in low productivity activities. The problem of youth unemployment in Ghana, as in other African countries is getting worse over time.

Ghana needs a national youth policy that promotes all priority areas that affect the youth. A concrete youth employment policy will help address concerns of several stakeholders, particularly development partners in Ghana and elsewhere in Africa, who believe that helping the youth is not a top priority of African governments. It is noteworthy that Ghana's 2012 budget has line items dedicated to programs that target the youth. In particular, the budget provides for expansion of the school feeding programme to cover an additional 500,000 students, increasing the number of beneficiaries to about 1,500,000 from its current level of 1,040,000. Moreover, the National Youth Employment Programme will be expanded to create 500,000 new jobs over the next four years.²²⁰

Ghana has in place various policies and programs for empowering the youth, such as the National Youth Council, the National Service Council, and the Youth Bridge Foundation which are potentially useful allies to the government in its efforts to develop and implement interventions to generate employment for the youth.

14.3.2 Gambia's Third National Youth Policy²²¹

In 2009, Gambia launched its Third National Youth Policy for 2009-2018. This immediately followed the Second National Youth Policy of 1999-2008 that was charged with the mandate to advocate for youth development and create opportunities for the youth. The new policy seeks to invest in the youth as a strategy for achieving sustainable development. The overall objective of the policy is to get the youth involved in all aspects of national development, thus addressing the problem of their marginalization.

²¹⁷ This section is based partly on <http://allafrica.com/stories/200907061784.html> (last accessed on October 17, 2011).

²¹⁸ To our knowledge 32 African countries have ratified the AYC, as of April 2012 (see Table 1).

²¹⁹ The proportion is based on a youth definition of 18 to 35 years.

²²⁰ See Ghana (2011).

²²¹ This section is based partly on <http://thepoint.gmafrica/gambia/article/natioanl-youth-policy-2009-2018> (last accessed October 17, 2011).

Like many African countries, the Gambian youth face several challenges, including lack of opportunities for productive employment, low quality education, poor access to quality health care and limited participation in political affairs. The youth in Gambia account for at least 47 percent of the population and has unemployment rate of 22 percent. Furthermore, contrary to situations in many other African countries, the majority of the Gambian youth reside in urban areas, with unemployment rate among males exceeding the female rate.²²² There is a high incidence of drug abuse and criminal activity among the urban youth. The dire unemployment situation facing the youth in Gambia is perhaps best exemplified by the general belief in the country that the Gambian youth suffers from the “Babylon” syndrome—the desire to migrate out of Gambia by any means necessary. The prevalence of HIV/AIDS is very high among the 16 to 35 age cohort, and far exceeds prevalence rates observed in older cohorts.

The population and housing census of 2003 indicated that the government has promoted initiatives to achieve universal access to basic education for all school-going ages. Schooling coverage was extended through a variety of policies, including construction and maintenance of school facilities, abolition of school fees at grades 1 to 6, and free education for girls at grades 7 to 9. These policies coincide with an increase in the gross enrolment rate of 25 percent at the upper primary level, and a doubling of enrolment in secondary schools. However, despite this progress, problems of poor retention of pupils, gender disparities in enrolment, and low quality education persist.

14.3.3 Kenya’s youth development through an agenda for peace²²³

Kenya moved closer to a National Youth Policy when it adopted the national youth agenda in 2002 “to promote youth participation in community and civic affairs and to ensure that all development programs are youth-oriented”²²⁴ The agenda emphasized investment in activities that empowered the youth in areas of health, education, quality training, sports, recreation, and use of media. The youth in streets, with disabilities, with HIV/AIDS, those out of school, and without employment were to be the focus of attention.

A research conducted in Kenya (Nairobi Peace Initiative-Africa, n.d) after the post-election violence in 2007 – on how the youth challenges in the country could be addressed through a broad peace agenda – provides insights into connections between peace and youth activities. The study found that durable political stability in the country is hard to achieve without effectively addressing marginalization of the youth. It appealed to stakeholders (the state, private entrepreneurs, civil society, faith-based organizations, and donor agencies) to invest in the youth and empower them to be productive and accountable citizens. About 75 percent of the Kenyan population is below age 30, and makes the country one of the youngest in the world.²²⁵ Like the youth in other African countries, the Kenya youth has little access to higher education and must contend with negative peer pressure²²⁶ to engage in life styles that are not

²²² The youth is defined as those aged between 13 and 30 years, but those falling outside this range could be included in the policy’s programs and activities under special circumstances.

²²³ The discussion here is based primarily on NPI-Africa (undated).

²²⁴ See Kenya Government (2002).

²²⁵ The Kenyan government defines the youth as those between 15 and 30 years or between 15 and 35 years.

²²⁶ See the World Bank (2005) and Kenya’s Ministry of State and Youth Affairs (MSYA, 2007).

conducive to human capital formation. The policies to empower the youth must address negative peer pressure, and risky life styles.

The Government of Kenya has made notable efforts to address problems facing the youth. In 2005, the government created the Ministry of State and Youth Affairs, which quickly formulated a National Youth Policy in 2006 and a five year youth strategic plan in 2007. The NPI-Africa study found that while the youth were aware of the existence of the youth ministry, many felt that the ministry did not address their problems. In particular, the ministry did not stem a sense of hopelessness amongst the youth which dragged them to criminal activity.²²⁷ The findings of the study confirmed what many observers in the country believed—that the youth participated in the 2007-08 post-election violence out of hopelessness. The study revealed the complex relationship between peace and youth; the vulnerability of youth to manipulation into criminal activity by politicians; and prevalence of hopelessness that can drive the youth to violence or criminal activity. In addition, the study showed that youth empowerment initiatives will do little to promote peace if they are perceived as irrelevant to the challenges facing the youth. This observation highlights the importance of youth participation in (and education about) programs designed to benefit them.

14.3.4 Subsidies to enhance youth employment in South Africa²²⁸

According to the late President of the African National Congress, Oliver Tambo, “a nation that does not take care for its youth has no future, nor does it deserve one.” As a result of South Africa’s unique history, the youth policy for that country has been an integral part of social justice and a prerequisite for equitable development. Post-apartheid South Africa has adopted a series of youth policies including the 2000 National Youth Policy (NYP), the National Youth Development Framework (NYDF) of 2002-2007, and the NYP for 2009-2014. In addition to these interventions, the South African government passed the National Youth Commission (NYC) Act of 1996. The NYP for 2009-2014 focuses on education and health – and is generally designed to ensure that the youth have access to quality social services. As in the case of Kenya, the groups targeted for special attention by the national youth policy include female youth, youth with disabilities, unemployed youth, out-of-school youth, rural youth, and youth at greatest risk of HIV/AIDS. The current South African national youth policy specifies interventions to achieve each of its objectives. The policy will be implemented jointly by the government, the private sector and non-governmental organizations. The policy calls for the establishment of a youth directorate in every government ministry. Given the high rate of youth unemployment in South Africa, the policy has employment creation as its main purpose.

Consistent with the National Youth Policy, the new South African growth strategy calls for the state to “provide bold, imaginative and effective strategies to create millions of new jobs that South Africans need. ... and to develop a multi-pronged strategy to tackle youth unemployment.”²²⁹ The South African Government has published a discussion

²²⁷ It has been reported that some parents stop supporting their children financially after they finish form four, which is the last stage before entering university. Also, the youth are not granted access to assets, such as land, until they get married; see Mbatia (1987). The other stakeholders include faith-based and community based organizations, non-governmental organizations, the private sector, banks and other financial institutions.

²²⁸ The discussion here is based primarily on South Africa (2008) and South Africa (2011).

²²⁹ South Africa (2011, p.5).

paper for public comment on the merits and demerits of using subsidies to address the youth unemployment problem. Although subsidies have been used to create employment in many parts of the world, they are new in Africa as a mechanism for creating large scale employment.²³⁰ A key motivation of this program is the recognition that while the supply of quality labor is a critical component of job creation, stimulating demand for such labor is equally important, i.e., it cannot be left to market forces. According to the Quarterly Labour Force Survey, a publication of Statistics South Africa, in the third quarter of 2010, about 42 percent of the South African youth aged less than 30 years were unemployed compared to 17 percent for adults over 30 years, implying a ratio of youth to adult unemployment of 2.5. The unemployed youth tend to be uneducated and inexperienced. Furthermore, the bulk of the youth lacks tertiary education and has never worked, indicating that the subsidy program must tackle three supply side aspects of the youth unemployment problem – lack of skills, low quality skills, and lack of work experience. That is, the employment subsidy should not be limited to stimulating demand for quality labor – as designed, but must also be extended to address supply side labor market constraints.

The national employment subsidy program will be operated by the South African Revenue Service. Individuals can use this program for a maximum period of two years, receiving a maximum annual subsidy of approximately US\$1,500, which is about 50 percent of the average income of the targeted youth cohort.²³¹ The program is expected to subsidize a net of 423,000 new jobs at a cost of approximately US\$ 625m in tax expenditure and is expected to substantially improve long-term employability of the youth.²³² One daunting challenge of the job subsidy program is that it must find a mechanism for providing job experience to a large number of young people who have never worked. This point is reinforced by the evidence that unemployed youth with experience in South Africa are three times more likely to find a job compared to youth without work experience.²³³

14.4 Challenges

Implementation of youth policies in Africa faces many challenges, a few of which are outlined below. The challenges concern implementation aspects of data, budgets, technology, personnel, and monitoring and evaluation..

14.4.1 Data limitations

The availability of sufficient and reliable data is obviously pertinent in the formulation and implementation of effective youth policies. For instance, the available unemployment data do not take into account the large proportion of underemployment

²³⁰ For instance, Australia used the “Special Youth Employment Training Program” for 15-24 year olds from 1976 to 1985 (see Richardson, 1998), and the United States used the “Targeted Jobs Tax Credit” program for disadvantaged youths from 1979 to 1994 (see Katz, 1996).

²³¹ The subsidy will be available to new hires between 18 and 29 years for two years and for existing workers between 18 and 24 for one year.

²³² The number of total new jobs to be created is projected at 432,000, which is higher than the true estimate because some young workers would have been employed even without the subsidy.

²³³ South Africa (2011, pp. 34 and 36).

youth, especially in rural and slum areas and this complicates design of an effective program. Moreover, the extent of unemployment due to skill mismatch is also not well known (Leibbrandt and Mlatsheni: 2004; Boateng: 2002, 2004). Another problem is that low labor force participation by women generally tends to bias downward the reported unemployment rate. Evidence is lacking on causes of different types of unemployment (e.g., frictional, structural, or cyclical), and this information gap constrains implementation of active labor market programs, as it is not clear what can be done to improve labor markets.

Given the scarcity of funds for youth employment programs, it is important to implement only the cost effective programs. Lack of evidence on returns to education is a limitation in determining the cost-effective programs. Equally lacking, is information on the distribution of educational skills across regions and youth groups, an aspect that constrains implementation of equitable programs. However, even when the needed evidence is available, a socially optimal allocation of educational resources might be thwarted by other factors, the most important of which is vested interest. For example, a policy of allocating resources to educational levels where the returns are highest, or of re-directing such resources to the most disadvantaged groups (e.g., rural residents, women, marginalized youths) could be resisted by groups that stand to lose from the policy (World Bank, 2005). Thus, in addition to generating evidence on efficiency and equity outcomes of resource allocation, there is need to establish mechanisms for building consensus in resource allocation – to avoid tensions that can disrupt social cohesion.

In light of the importance of reliable and accurate data for policy making and the current data paucity on youth in Africa, the steps taken by the African Union to develop an African Youth Statistical Database is commendable.²³⁴ The database is expected to include relevant indicators to measure progress on youth development and empowerment. The database will be used as the platform to generate evidence on performance of youth programs across African countries.

14.4.2 Low growth rates

The outcome of active labor market policies depend on the overall growth rate of an economy. A poor performing economy cannot generate quality jobs. Thus, the crucial step in employment creation for the youth is to implement policies that boost economic growth. This is a major challenge for many countries in Africa where growth rates have been low for decades. Moreover, in order to secure decent work for the youth, investments must be made to promote social protection, including the strengthening of occupational safety standards, and expansion of employment-based insurance schemes. Also imperative, is establishment of institutions that forbid all forms of discrimination, prevent labor exploitation and eliminate child labor (ILO: 2002). Efforts in these directions may complicate the policy of creating more jobs for the youth as they are likely to increase the cost of employment to employers. All this indicates that tradeoffs may be necessary between the number of jobs created and the range of fringe benefits accompanying the jobs.

²³⁴ See Monitoring & Reporting on the Implementation of the AU Youth Decade Plan of Action 2009-2018: Peer Review and Stakeholders Technical consultations on conceptual and practical framework of an African Youth Empowerment and Development Index (17 November, 2011).

On the issue of economic growth and job creation, the study by Leautier and Hanson (2012) is informative. They argue that the agricultural sector is well suited to play a crucial role in dealing with Africa's unemployment problem for several reasons. To start with, since the sector employs the largest proportion of the population, including the youth, investments in the sector are likely to boost youth employment. Furthermore, investment in the agricultural value chain would increase labor productivity and wages in smallholder agriculture, helping reduce poverty, as vulnerable farmers in Africa are concentrated in smallholder agriculture. It is worth noting that the Food, Agriculture and Natural Resources Policy Analysis Network (FANRPAN) at its 2011 Regional Food Security Policy Dialogue advocated for active engagement of the youth in the agriculture value chain.²³⁵

14.4.3 Youth policies are not integrated into national development policies

Lack of integration of youth policies into national development initiatives have led to the creation of poorly functioning youth ministries. The special ministries tend to operate on separate tracks from mainstream government departments (Chingunta, 2002). For example, a department of education pursuing mainstream government agenda would specialize in formal education and formal labor market initiatives, such as the development of skills through national youth service schemes for formal sector employment. On the other hand, an education department implementing youth policies would be developing skills for informal sector employment.

African governments should develop comprehensive and integrated youth empowerment policies in areas of education, health, employment and political participation. For example, all youth should dialogue on a common platform on issues that affect them. In this connection, the IIED project on youth participatory governance in Africa is an initiative in the right direction.²³⁶ Perhaps, an effective way to harness the energy, passion and talents of the youth for development is to mainstream youth policies. In other words, government policies, expenditures, strategies, and actions should be evaluated for impacts on the youth. Since African governments have made progress in mainstreaming gender issues, they can also succeed in mainstreaming youth policies.

14.4.4 Insufficient information on program costs and budgets

Programs for youth development require substantial resources to implement. Yet, full information on costs and sources of funds for youth programs in Africa is not available. For example, improving access to education involves making education affordable, which often means abolishing tuition fees, subsidizing non-tuition costs, such as uniforms and meals, and hiring additional teachers and administrators to support instruction. The direct and indirect costs of these kinds of interventions are not available. Moreover sources of funding for active labor market policies, such as public works are not well documented. Due to incomplete accounting records for youth development programs, African governments are hard placed to determine

²³⁵ See <http://www.trust.org/alertnet/blogs/climate-conversations/enticing-africas-youth-to-agriculture/> (last accessed on October 17, 2011)

²³⁶ See "IIED, Program 64: Young Citizens: Youth Participatory Governance in Africa" (Institute for Development Studies, 2011).

sustainability of on-going programs, such as the Kenyan Jua Kali voucher scheme started in 1997.

14.4.5 Limited capacity to monitor and evaluate programs

In order to know whether projects are achieving intended purposes, it is important that they be monitored continuously and regularly evaluated. African governments lack capacity to monitor and rigorously evaluate development programs. To date, no reliable assessment has been conducted on the few existing active labor market programs on the continent. A well implemented program should have performance indicators and benchmarks that can be monitored and measured regularly. In this regard, the World Bank's (2007) approach to youth employment inventory is instructive, as it provides guidance on project monitoring and evaluation.

14.5 The Youth Is a delicate Asset

As previously noted, youth empowerment programs in Africa have fallen short of youth expectations. The youth response to these deficits have included withdrawal from the labor markets, non-participation in political affairs, emigration, and engagement in desperate activities, such as political agitation or joining rebel groups. Nonetheless, empowered youth is an immense resource for development.

Youth unemployment, in all its various forms (Boateng, this volume) is at the core of the economic challenges in Africa. To effectively tackle this problem, African governments must significantly invest in nutrition, health and education of the youth. However, it is recognized that this is a long term employment creation strategy. In the short-run, a combination of policies that create demand for youth with low skills and upgrade skill will be required. To that end a mix of policies that encourage labor intensive growth and provide on-the-job-training are the appropriate. However, this combination of policies can be designed and implemented only if youth empowerment policies are integrated into national development programs.²³⁷

Given the diverse economic and political contexts of African countries, no single approach will simultaneously build human capital of the youth and create youth employment. Since approaches to generating employment for the youth will differ across countries, this issue is considered below in light of a World Bank's (2006) framework on youth development.

14.5.1 Youth development: Improving investment climate

An important obstacle to economic growth in African countries is poor investment climate, which can be improved by reducing costs of doing business. While a high proportion of the costs to businesses include expenses on energy and transportation, there are also outlays in reducing and mitigating risks that are induced by negative

²³⁷ The World Bank (2007b) suggests that demographic variables are consistently predictive of the observed difference between growth in the Sub-Saharan Africa region and other developing regions.

youth activities—including crime and political agitation. The role of investment climate to economic growth in Africa has received a lot of attention since 2003.²³⁸

The destabilizing effects of violence and political instability in Kenya after the 2007 election is a testament to how crucial political stability is to African development. In Senegal, a youth group swore to render the country 'ungovernable' if the incumbent won the election as he was violating a two-term limit for presidential office enacted in 2001.²³⁹ Threats of this kind can damage the investment climate with adverse consequences for trade and aid.

14.5.2 Youth development: expansion of infrastructure

The infrastructural deficits in Africa have been a deterrent to growth in Africa for a long time – the associated decline in growth has been in the order of 2 percentage points a year. Moreover, US\$17 billion a year is lost in Africa due to inefficiency of the existing infrastructure, which is mainly due to poor maintenance and mismanagement of the resources allocated for that purpose.²⁴⁰ Many African countries lack quality roads and steady supply of electricity. The neglect of infrastructural investment in the 1990s by African governments left a gap that could not be filled by the private sector. The adverse effect of this neglect on development is an important lesson of the need to ensure adequate financing of infrastructure financing in Africa over the coming decades.²⁴¹ It has been estimated that sub-Saharan Africa needs a massive infrastructural financing – of about US\$18 billion – to promote the economic growth necessary to reduce extreme poverty on the continent by 50 percent, and another US\$18 billion per year to achieve its millennium development goals.²⁴² Since there are obvious challenges in marshalling investment expenditure of this magnitude; establishment of public-private ventures for that purpose should be given serious consideration. The option of engaging the youth to construct new infrastructure through an innovative public works program is also worth considering.²⁴³

14.5.3 Youth development: Harnessing innovation

A key determinant of economic growth is investment that builds skills to exploit new information and communication technologies. This is an attractive business venture for the youth because they can learn more easily than older cohorts the skills needed to use use new technologies. In recent decades, one of the remarkable features of

²³⁸ The reports rank countries on their overall "ease of doing business" and analyze reforms to business regulation by looking at the extent to which countries are improving their business environment. The 2012 *Doing Business* report provides information on procedures and costs of getting an electricity connection to a business premise in Africa.

²³⁹ The Wall Street Journal, February 27, 2012, p. A11.

²⁴⁰ Africa's infrastructure gap is estimated at over US\$90 billion annually, more than twice the current infrastructure expenditure, based on the five main economic infrastructure sectors—information and communication technology, irrigation, power, transport, and water and sanitation; see Cecilia Briceño-Garmendia, *Africa's Infrastructure: Time for Transformation*, World Bank (2010).

²⁴¹ The 1995 Copenhagen Social Summit was part of the motivation for the shift.

²⁴² See Wormser (2004).

²⁴³ The Chinese government has used the youth to staff its massive infrastructure project; see A. Banerjee, E. Duflo, and N. Quan, *On the Road: Access to Transportation Infrastructure and Economic Growth in China*, NBER Working Paper No. 17897.

globalization has been a substantial increase in the number of people – particularly the youth – moving across national boundaries. This phenomenon has gathered strong momentum among African youth in the last two or three decades with educated African youth seeking their fortunes in OECD countries or in the oil-rich Gulf states, with the median age of migrants being about 27 years. The United Nations estimates that for most West African countries, the proportion of migrants under 20 years moving to countries outside Sub-Saharan Africa exceeded 40 percent.²⁴⁴ An important characteristic of international migration is its selective nature – because it involves mainly young people with good education relative to schooling levels in sending countries. Because emigrants from African countries have to compete for skilled jobs in destination countries, only the adventurous or the most entrepreneurial are likely to emigrate, leaving behind their youth counterparts who are less equipped to tackle the African development challenges. Clemens and Patterson (2007) note that about 50 percent or more of the physicians trained in African countries are working in OECD countries while the health care systems in their home countries are under-staffed, or operated by less skilled health professionals.

Innovations in technology could help overcome shortages of skilled workforce in African countries because wages in ICT-intensive sectors are generally more competitive than in traditional sectors, and this wage differential can help retain highly qualified youth in Africa. African countries have struggled to deal with “brain-drain”—i.e. how to retain the few skilled professionals they produce since independence in the early days of the second part of the 20th century. In addition to devising mechanisms to keep qualified Africans in the continent, policy makers should also consider implementing policies to attract African professionals in Diaspora to return home. Over the coming several decades, Africa will be in a unique position to use international trade to create jobs for the youth by exploiting latent comparative advantage in the relative size of its youth population in the world stage. Since by about 2045 (see Chapter 2), Africa will have the most numerous youth population in the world, the opportunity cost of youth labor in Africa will be lower than anywhere else in the world, enabling the continent to have a global competitive advantage in commodities that use youth labor intensively. Investments in technologies that empower the youth to embrace and exploit new technologies will enable Africa to realize this latent advantage in global trade and create decent jobs for its youth.

Some studies have recommended promoting youth development through an integrated rural and agricultural policy and investment. The idea is that policies and programs that promote modernization of agriculture and enhance its productivity through innovative and entrepreneurial interventions would make rural areas attractive to urban youth as places to work and live.²⁴⁵ Moreover, a large number of decent jobs can be created in agriculture by supporting chains of activities that add value to agricultural products.²⁴⁶ In particular, investments in agro-based activities such as storage, processing, packaging, transportation, and marketing of farm produce would promote agricultural value-addition in rural and urban areas.

²⁴⁴ See United Nations (2011).

²⁴⁵ See Leautier and Hanson (2012). See also Kararach, Hanson, and Leautier (2011), and Proctor and Lucchesi (2012).

²⁴⁶ The concept of value chain involves the full range of activities required to bring a product or service from the conception stage, through the various phases of production (involving transformation of inputs into products and services), to delivery stage and to the final disposal stage after use (see Kaplinsky and Morris: 2000).

14.5.4 Youth development: enhancing institutional quality

Building institutional capacity involves strengthening competencies of individuals and organizations, i.e., making both individuals and organizations more effective. The strategies to enhance institutional quality include refining or formulating the rules that people and organizations must follow in pursuit of their objectives, promoting voice of disadvantaged groups as an agency of restraint, and fighting corruption. In particular, involvement of the youth in governance processes is important. In the context of this chapter, governance means a system that ensures that there is order, minimal conflict, and mutual gain in the perpetual process of development. Thus there are three essential elements of governance: conflict avoidance and resolution mechanism and, the means for maintaining order and for ensuring mutual gain. Williamson (2010) views the firm as a governance structure that provides mechanisms for conflict resolution, for maintaining order, and for ensuring mutual gain in non-market exchanges – just as would be the case in a market-based exchange without transactions costs. In light of Williamson (2002), one key function of government is to ensure that in the process of development there is order and peace and that everyone benefits. As argued throughout this chapter, creation of decent jobs (especially for the youth – the numerous population group), through a comprehensive process of human capital formation and stimulation of labor intensive growth would enhance good governance in Africa, i.e., promote order, peace, and social equity and stability.

14.6 Conclusion

Several models, including demographic theories have been proposed to explain the poor economic performance of African countries.²⁴⁷ Africa is the youngest continent in the world with about 70 percent of the population at age 30 or below, and will maintain this position over the next decades: by about 2045, Africa is projected to have the most numerous youth population in the world. Indeed, with a large proportion of the population below age 15, the youth population in Africa is expected to grow rapidly in the near future. Although, the plight of the African youth has been neglected for a long time, African governments still have the opportunity to harness this resource and use it to develop the continent.

This chapter has examined a range of policies that can be implemented to make the youth a powerful force for development in Africa (Hamaguchi et al. (2013). However, important preparatory activities are needed before reforms to harness the development potential of the African youth are implemented. In particular, there is need to improve the quality and scope of data on the youth and their aspirations. One of the problems that studies on African youth face is lack of data to conduct the needed analysis on this issue. It is recommended that African governments gather and store quality data on youth populations and make it available to researchers. In this regard, the steps taken by the African Union to develop an African Youth Statistical Database are noteworthy.

There is need to integrate youth policies into national development initiatives to avoid fragmented, uncoordinated and poorly managed youth empowerment programs. Even with the limited data, research shows that the African youth suffer from chronic poverty, open unemployment, disguised unemployment, and underemployment. The cluster of

²⁴⁷ See World Bank (2007).

economic problems afflicting the youth are best addressed by an integrated policy framework that enhances five pillars of development process—human capital; a predictable macroeconomic environment, including the investment climate; social infrastructure; entrepreneurship and innovation; and institutional capacity. Integration of youth policies in national development blueprints would make them part of the core business of national governments and eliminate risks of their marginalization as the economies move forward. Finally, youth policies must address the real challenges facing the young people in Africa. There is need to establish monitoring and evaluation systems that collect data on costs and effectiveness of youth empowerment programs so that their performance can be evaluated at country levels. The country level monitoring and evaluation systems should be coordinated at the continental level, where a mechanism for sharing country experiences should be established.

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