

A rapier not a blunderbuss: Why the EU must do better in supporting African job creation

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Key messages:

- Sub-Saharan Africa will need to create 18 million jobs each year until 2035, to accommodate young labour market entrants.
- The AU-EU Summit of November 2017 was right: this is a top priority, for Africa, and for development cooperation.
- The EU has the desire and the instruments needed to support the efforts African countries themselves will need to lead.
- But the EU needs an approach which is smarter and better targeted: a rapier not a blunderbuss.
- Supporting structural transformation is the long term priority, helping the creation of new jobs in sectors with higher productivity, with special attention to youth and women, and making low carbon development central.
- Quality education and business-oriented skills development are needed, better linked to investment promotion.
- However, the informal sector also needs support.
- And special programmes, including more social protection, are needed for the most vulnerable.
- Every country needs a strategy – but different countries need different strategies.

The imperative need for more jobs in Africa

Sub-Saharan Africa will need to create 18 million jobs each year until 2035, to accommodate young labour market entrants.¹ Whilst population growth is expected to flatten or be negative in other regions, the African population is expected to increase substantially. In addition, many people are underemployed. The AU-EU Summit of November 2017 was right: this is a top priority, for

Africa, and for development cooperation.

GDP growth is often regarded as a key driver of employment growth. The good news is that GDP growth in sub-Saharan Africa has been fairly strong, at around 4.5% annually since 2000. In 2018, 6 out of the 10 fastest growing economies are likely to be in Africa.² However, the poor have benefitted less from growth than in any other world region.³ In the past decade, job creation has lagged behind working-age population growth by a third. Lack of productive employment

has broken the link between growth and poverty reduction.

The prime concern is underemployment, with very low productivity and precarious employment conditions for people on family farms, reselling goods as street vendors, offering services as day labourers, or setting up micro-businesses such as hair-dressers. In sub-Saharan Africa, 84% of the workforce are occupied in jobs without regular and regulated payment, mostly in agriculture and micro-enterprises. Only 8% work in formally registered private firms, another 8% in the public sector.

The informal sector suffers from low productivity: only 25% that of small firms in the formal sector and 19% of medium-sized firms.⁴ Productivity is closely related to people's living standards. Whilst distribution matters too, in developing countries in particular, the "pie" of income generation needs to grow substantially in order to enable a decent living standard for everyone.

Thus, productive and secure jobs are needed for three groups of people:

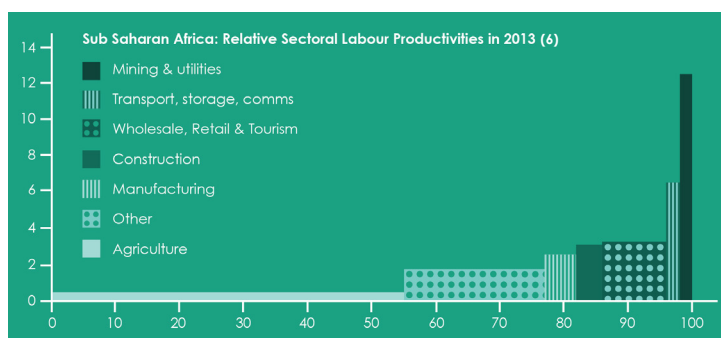
- a) The currently unemployed;
- b) New entrants to the labour force, particularly the young and women; and
- c) Those (and this is the largest share) currently in less productive occupations.

Space for further expansion of public sector employment is very restricted. The private sector will need to create the majority of the required new productive jobs. This is impossible without a profound modernisation of African economies that lifts the level of productivity in all parts of the

economy.⁵ At the same time, Africa must build low carbon economies resilient to climate change.

There are two ways of increasing aggregate country level productivity. One is to increase the average productivity *within sectors*, mainly through use of better technologies or improvement of production processes. The other is through *structural change*: by movements of labour (and capital) from low-productivity activities to other activities where average productivity is higher. Such reallocation can be a strong driver of growth given the large productivity differentials between sectors of sub-Saharan economies, as shown in Figure 1. This would include moves from subsistence agriculture, petty trade on the roadside and artisanal production, to new activities in manufacturing, modernised agriculture and agri-food processing, mining, modern services in finance, transport, tourism, wholesale and the like. As the figure shows, replacing an average

job in agriculture with an average job in mining, utilities or manufacturing may increase productivity by a factor of ten or more. Those countries that managed to reduce poverty



significantly in the last decades – Asian countries in particular, including China, Vietnam, Thailand and Malaysia as prime examples – followed this route.

Africa's dilemma is that the segment of large or medium-sized enterprises applying modern management and production techniques that could serve as a seedbed for structural change is still very small. In the successful Asian economies, exports of labour-intensive manufactures boosted high-productivity employment. This may not work as well for Africa in the future, although there is still

1 IMF (2015), Regional Economic Outlook: Sub-Saharan Africa; April 2015

2 World Bank (2018), The Changing Wealth of Nations 2018: Building a Sustainable Future. Washington, DC

3 Fosu, A. K. (2015), Growth and Institutions in African Development. Routledge Studies in Development Economics, 2015

4 IMF (2015)

5 Fox, L. et al. (2017), Structural Transformation in Employment and Productivity: What Can Africa Hope For?, IMF.

6 McMillan, M., Page, J., Booth, D., and te Velde, D.W., (2017), 'Supporting economic transformation: An approach paper'. London: ODI, SET.

Public Actions to Support Structural Change	Improving fundamentals	Targeted Interventions
<p>Public Actions to Support within-sector Productivity Growth</p> <p><small>Table 1: A typology of public actions to promote economic transformation (7)</small></p>	<ul style="list-style-type: none"> • Investment in Climate Reforms • Financial Sector Development • Strengthening State-Business Relations 	<ul style="list-style-type: none"> • Export Push Policies • Exchange Rate Protection • Selective Industrial Policies • Spatial Industrial Policies • National Development Banks

a window of opportunity for one or two decades. Many of the respective markets are now firmly in the hands of Asia's early movers, with some emerging exceptions such as Ethiopia and Kenya. Increases in shop-floor automation is reducing the demand for labour in a range of industries, (but can also create jobs in others).

Policies and institutions for more and better quality employment in Africa

What can help create jobs? There are five priorities:

(1) Encouraging structural transformation

First, there is pressing need for policies that expand higher-productivity sectors, such as manufacturing and modernised agriculture. Successful structural transformation requires an appropriate balance between improving the general investment climate and targeted interventions to develop promising sectors or firms (Table 2). Improving the general investment climate is good, but this needs to be complemented by specific support for those firms and sectors that are technically assessed as

promising.

The Asian and African countries that have implemented economic transformation strategies successfully have focused on four characteristics:

- Establishing industrialisation and economic transformation as a nation-building project;
- Leadership and coordination within government;
- Effective mechanisms for public-private sector collaboration; and
- Explicit experimentation, feedback and correction.

Three additional characteristics must be added:

- Provide quality education and business-relevant skills training;
- Promote the participation of women, with specific gender empowerment policies and better access to finance; and
- Put climate compatible development at the heart of policy-making.

Various case studies document how this has been done in practice in sub-Saharan Africa, e.g. in

7 McMillan, M., Page, J., Booth, D., and te Velde, D.W., (2017), 'Supporting economic transformation: An approach paper'. London: ODI, SET.

Tanzania, Kenya and Rwanda. Mauritius is a good example of embedding transformation into a vision.

Sub-Saharan African countries will find their own models. For some, it may be possible to follow the “East Asian pathway” of labour-intensive export-oriented manufacturing, taking into account that some suggest that as many as 85 million jobs in these industries could move out of China because of rising domestic labour costs. For example, Ethiopia is successfully building special economic zones and new transport infrastructure, and using low labour costs, to attract labour intensive garment and footwear manufacturing. Other countries may tap into emerging opportunities for high value agriculture, given that global demand for processed food products is increasing. Africa is one of the few world regions with high potential for rapid increases in agricultural productivity.

In other cases, rapid urbanisation and growing domestic markets will become drivers of growth. The decreasing cost of renewable energy will boost broad-based electrification in rural areas and provide new productive opportunities. And new ICT solutions may help overcome many traditional constraints for doing business in Africa.

In this context, each African country needs to create and implement its country-specific vision of future transformation paths –jointly developed step-by-step with non-state stakeholders. Such national efforts can usefully be embedded in regional cooperation initiatives fostering integrated regional markets.

(2) Skills building for transformation and job creation

A necessary complementary course of action is for policy makers to support quality education and the targeted development of skills needed for the respective national transformation projects, ensuring employability of young entrants and women, in particular.⁸ The main challenge is to

ensure that skills building programme are relevant to the needs of the private sector.⁹

(3) Supporting low-productivity jobs in Africa's informal and small-scale farm sector

At the same time, more attention needs to be paid to improvements within the traditional low-productivity sectors, including small-scale agriculture and non-farm informal micro-enterprises. In particular:

- a) Removal of bureaucratic barriers to entry;
- b) Strengthen the capacity of small businesses and informal entrepreneurs;
- c) Promote productive and fair links with the formal sector;
- d) Increase benefits of formalisation;
- e) Support informal sector representation within the political debate; and
- f) Reform and better enforce labour law.

(4) Employing the poorest and protecting the most vulnerable

Solutions are needed to provide these groups with immediate income opportunities such as public works programmes as well as other social protection schemes, and to harmonise those with employment policies. Countries with effective social protection floors have been shown to be less vulnerable to economic shocks and to encourage poor people to use their scarce resources productively, by investing in schooling, cash crops or other productive uses. Public works also provide local infrastructure, and contribute to social inclusion.

(5) Youth engagement in policy making

African youth need to be fully engaged within the policy making process. In some African countries where they were given the opportunity, young people have demonstrated the transformative value they can bring to governance and policy

8 Dieterich, C. et al. (2016), Women's Opportunities and Challenges in Sub-Saharan African Job Markets, IMF Working Paper WP/16/118.

9 World Bank (2017), World Development Report 2018: Learning to realize education's promise.

making. In countries such as Mali, South Sudan and the Central African Republic, young people have become human rights observers and peacebuilding officers. In Ghana a large student organization called YouthMappers developed open data on roads and buildings to ensure that all households were receiving the adequate amount of support.¹⁰ In Nigeria, a successful campaign symbolised by the hashtag #NotTooYoungToRun, calls for reducing the age limit for running for elected office. In Uganda, the Sawa Youth Reporters are unemployed youth who are trained by local media partners to become community reporters.¹¹

quality education and business-relevant skills development. The AU-EU partnership actions should prioritise the following:

(1) Support the development of countries' strategies

Assist African governments in building a national consensus on the long-term opportunities for structural transformation, and support them to formulate and implement targeted but comprehensive job and transformation plans at country level.

Priorities for EU-Africa Partnership

The newly announced External Investment Plan (EIP) aims to harness development finance in Africa, including fragile and conflict-affected countries. Combining the promotion of investment (including through new risk guarantee mechanisms of €1.5bn), the provision of technical assistance, and support towards a more conducive business and governance environment, the aim of the EIP is to leverage €44bn by 2020 with a €4.1bn contribution by the EC to foster development through decent work creation in Africa. The G20 Compact with Africa, launched in the summer of 2017, and the recently announced German Marshall Plan with Africa, have similar ambitions to harness investment for infrastructure development and job creation in Africa.

Success, however, will depend on smart implementation. This implies building on local dynamics, acknowledging actors' incentives and constraints, and better linking investment and economic transformation initiatives with

The AU-EU partnership actions should support the participation of women and youth in the policy making process and link investment initiatives with skills development.

(2) Enhance growth in rural and informal sector

Promote productivity enhancement in rural and informal small enterprises, by strengthening entrepreneurial and technical competences, tailoring vocational training to the needs of micro and small firms, supporting the use of new digital technologies for information, improving access to new markets, providing more accessible small-scale finance and working capital,¹² supporting the participation of women,¹³ as well as strengthening supply relations and transfer of knowledge between the modern and informal economy.

(3) Promote social protection

Support public employment programmes and other social protection schemes to support vulnerable households.

¹⁰ <http://www.youthmappers.org/projects-1>

¹¹ <http://venturesafrica.com/nottooyoungtorun/>

¹² Dao and Liu (2017), Finance and Employment in Developing Countries - The Working Capital Channel, IMF Working Paper WP 17/189.

¹³ Hakura, D. et al. (2016), Inequality, Gender Gaps and Economic Growth: Comparative Evidence for Sub-Saharan Africa, IMF Working Paper WP/16/111.

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