Summary of the African Economic Outlook 2012 thematic chapter on “Promoting Youth Employment”

Africa has the world’s youngest population and it is growing rapidly. Hundreds of millions of young Africans will be leaving school over the next decades, at every level, and looking for jobs. Africa’s youth population is not only growing rapidly, it is also getting better educated. Based on current trends, 59% of 20-24 year olds will have had secondary education in 2030, compared to 42% today. To turn this rapid growth in human resources into an opportunity, Africa needs to tackle youth employment. Past growth has not been sufficiently employment-intensive. A stronger focus on job creation is necessary.

Youth employment is largely a problem of quality in low-income countries (LICs) and one of quantity in middle-income countries (MICs). Youth in vulnerable employment and working poverty are the large majority in poor countries. In upper middle income countries more youth are unemployed, discouraged or inactive than working. Compared to employed youth, the unemployed in LICs are relatively better off, and in MICs they are relatively worse off. In LICs youth have to be able to afford unemployment and choose it over a job, most likely in the informal sector that pays very little. In MICs, the informal sector is more constrained (due to a lower demand and government intervention) and does not act as an absorber for all youth.

In all country groups more youths are discouraged than unemployed, suggesting that the youth employment challenge has been underestimated. Discouraged youth are more disadvantaged than unemployed youth and must be included in any meaningful labour market analysis. Unfortunately, often they are not.

Many African youth are poor despite being employed. They deserve as much attention and support as youth that are not working. In many African countries wage employment, the best job category, accounts for less than 15% of youth in the labour market. The global economic crisis had a strong negative impact on the employment profile of African youth. Between 2008 and 2010 good jobs declined, while jobs in family agriculture and informal activities (grouped by occupations in the next figure), picked up.
Education is a strong determinant of good employment over a lifetime, but also higher unemployment among youth. Youth unemployment increases with education. This is largely because their transition takes longer. Importantly, their 30+ cohorts with higher education have lower unemployment rates. Transition takes so long because of a lack of job offers and skills mismatches between what education provides and what employers need. Mismatches are also important at the secondary school level where education does not provide enough practical skills.

The employment outlook for young people in Africa is challenging. Although many jobs have been created over the last decade, Africa’s growth was not sufficiently inclusive to meet the need for jobs of a fast growing population. The private sector has been growing, but from too small a base to have a big impact. The public sector cannot grow as fast as the population and is a much less important employer among youth than adults. To maintain current public sector employment levels Africa would need to create 1.9 million public sector jobs annually until 2025.

The informal and rural sectors will thus continue to play an important role as the absorber of young people in need of an income, and should be seen for its opportunities. Informal entrepreneurs and the rural non-farm sector show potential. Already today, across all of Africa, 53% of youth in rural areas are not in agriculture, but engaged in other activities. Youth in rural non-farm employment are much better off than youth in farming. Linkages between urbanisation, the rural non-farm sector and agriculture are important and work to strengthen rural economies in Africa.

Lack of demand for labour is the biggest obstacle to youth employment in African labour markets, supply factors are important too but less so. Labour market institutions are the smallest problem. Both country experts and youth see the lack of demand for labour as the main barrier to young people in African labour markets. Education and skills mismatches, attitudes by young people and employers and labour regulations are important challenges too, but country experts and business consider them less pressing. Skills and regulation become more important as countries grow richer. Especially Northern African countries and South Africa are struggling with skills and overly rigid labour markets. At the same time, those with low skill levels are falling out of the labour market in these countries.

Given the size of the employment problem, any youth employment policy in Africa must place job creation at its centre. Governments must focus on removing obstacles to the many small firms in the informal sector, helping them to grow and create decent jobs. At the same time existing large firms, the primary source of decent jobs today, must be supported to grow further and become more competitive. Especially middle-income countries are facing a great challenge because their employment base is very small and will need strong growth.

The biggest barriers to firms of all sizes are infrastructure (especially electricity) and access to finance. In better-off countries, labour regulations and the skill level of the workforce become more important, but are still trumped by finance and infrastructure. The adverse
business environment has disproportionate effects on small firms and prevents their growth. Large firms can cope more easily, but are struggling to be competitive at the international level. Informal entrepreneurs must cope with very high levels of risk in addition to access to finance issues. Savings schemes could help.

To overcome skills mismatches, education systems must become more comprehensive and linked to labour market needs. The high share of NEET rates among young people that have been to secondary school suggests that education at this level is too generalised and instils few of the practical skills that small firms or self employment require. Vocational and technical training systems are an important tool especially when done in co-operation with firms, but play a minimal role for the time being. A much larger share of youth goes through informal apprenticeships. Governments must find ways to recognise these and combine them with formal education. At the university level, Africa has the highest share of social science and humanities graduates of any world region. Its share of engineers is the lowest. Only 2% of students are in agriculture, the same as in the OECD, although this sector is clearly Africa’s comparative advantage. Education in technical fields is expensive and requires scarce expertise. Governments should seek co-operation with the private sector to provide high quality technical education at both secondary and tertiary levels.

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<th>What do students study? University graduation rates in Africa and the world (2008-10) in %</th>
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<td>Education, humanities and arts</td>
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<td>Sub-Saharan Africa</td>
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Source: AEO data, UNESCO.

Mismatches are also found between youth expectations and employment offers. In North Africa, most youth want to work for government, even though only few jobs are available there. 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. Governments and educators must make active efforts to guide young people with information on labour markets at all stages of the education system.

On the labour regulation front, the high costs of redundancies, mostly in the form of severance pay stipulations are the biggest hurdle. Decoupling social protection from employment status can help with labour market flexibility and protection of vulnerable youth at the same time.

Governments must improve their response. They are showing a lot of activity to confront the youth employment challenge but many government programmes are dysfunctional and unlikely to have a significant impact on youth employment given the size of the employment problem and the barriers faced by the private sector in Africa. AEO country experts consider programmes to promote youth employment to be dysfunctional in 21 countries and well-developed only in Morocco. Initiatives providing training and promoting entrepreneurship are the most frequent government interventions. Several governments engage in temporary job creation through public works programmes. But there is little evidence of their impact on longer-term jobs. Among the big shortcomings of youth employment interventions is a general lack of knowledge on what works well and what does not, which is closely linked to the extreme paucity of employment data available for Africa. A second obstacle is a frequent lack of co-ordination between government agencies leading to scattered, sometimes even competing, efforts that are not integrated into an effective strategy.

Despite the challenging short-term outlook, the long-term perspective is good, if African governments effectively tackle the hurdles young people face. Today’s youth is better educated than any previous cohort and the growth rate of the population is beginning to decline, opening a window of opportunity to reap the demographic dividend. New technologies are providing an opportunity to leapfrog into a service-based economy. Rapid urbanisation, largely driven by youth, leads to higher work force densities that offer opportunities for the development of clusters. Urbanisation also benefits the rural economy through higher demand for agricultural products. Finally,
the informal sector, long seen as a problem is turning out to contain entrepreneurial talent that can foster job creation if adequately enabled by government policies.