

McKinsey Global Institute



August 2012

Africa at work: Job creation and inclusive growth



The McKinsey Global Institute

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Africa at work: Job creation and inclusive growth

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Preface

Over the past decade, Africa's growth has accelerated. In our 2010 report *Lions on the move: The progress and potential of African economies*, we examined the factors contributing to Africa's momentum since 2000 and analysed prospects for the decade ahead. We found that, while Africa has benefited from strong global commodity prices, natural resource exports are not the sole factor underpinning growth. There is another side of Africa that is often ignored outside the continent: urbanisation and a rising number of consuming households, growth across manufacturing and service industries, and a dynamic private business sector. *Lions on the move* struck a chord, garnering significant interest and enthusiasm across Africa and among global businesses and investors.

But while Africa's growth has been strong, challenges remain—and the employment challenge is perhaps the greatest. The continent is poised to reap a demographic dividend over the coming decades, as its labour force grows to be the largest in the world by 2035 and its dependency ratio declines. But to fully capture this potential, Africa must accelerate the creation of wage-paying employment. Failure to do so will consign millions of households to toiling in subsistence activities and will raise the risk of political and social unrest. In this report, we analyse the employment landscape in Africa today and assess the potential to accelerate job creation. Based on the experience of other successful emerging economies that were once at similar stages of development, and based on examples within Africa itself, we conclude that the continent has the potential to significantly increase the number of stable jobs by 2020.

This work was directed by MGI leaders Charles Roxburgh and Susan Lund; Africa office partners Armando Cabral, Norbert Dörr, David Fine, Acha Leke, and Arend van Wamelen; and public sector practice partner Jörg Schubert. Paul Cook and Lize Roelofse led the project team, which comprised Afua Banful, Siphe Kala, Jenny Lu, Eric Marais, Richard Nash, Amo Ngoepe, Sola Olaniyan, Samir Patel, Saheel Shah, Pamela Wade-Lehman, and Tracy Williams. At MGI, we would like to thank senior editor Janet Bush, editorial production manager Julie Philpot, knowledge operations specialist Tim Beacom, and external communications manager Rebeca Robboy. In McKinsey's Africa office, we are grateful to Helen Donald for her editorial support, and to Marlynie Moodley, head of external relations, and Sarah-Ann Wiltshire, executive assistant. Finally, we are grateful to Marisa Carder, visual graphics expert, and Rosie Byrd, executive assistant, for their support.

Distinguished experts outside of McKinsey provided valuable insight and advice. In particular, we would like to thank Martin N. Baily, Bernard L. Schwartz Chair in Economic Policy Development at the Brookings Institution; Shanta Devarajan, Africa region chief economist at the World Bank; and Dani Rodrik, Rafiq Hariri Professor of International Political Economy at the John F. Kennedy School of Government, Harvard University. We are also grateful to many other experts who shared their knowledge with us, including Alex Antonites, professor emeritus at the Gordon Institute of Business Science (GIBS), University of Pretoria;

Amadou Bassirou Diallo, coordinator of the joint youth employment initiative at the African Development Bank; Ndidi Nnoli-Edozien, founder and president of the Growing Businesses Foundation; Alan Gelb and Vijaya Ramachandran, senior fellows at the Center for Global Development; Iyanatul Islam of the employment policy department at the International Labour Organization; Elsie Kanza, director and head of Africa at the World Economic Forum, along with the Forum's Amrote Abdella; Agnes Soucat, director of human development at the African Development Bank; Vincent Palmade, lead economist in the private and financial sector group of the Africa region of the World Bank; and Vera Songwe, World Bank country director in the Africa region. Our thanks also go to the organisers and attendees of conferences where we received valuable feedback on preliminary versions of this work, namely the African Leadership Network's annual gathering, Harvard Business School's Africa Business Conference, and a knowledge-sharing event at the International Labour Organization in November 2011 called The Global Development Agenda after the Great Recession of 2008–2009.

This report would not have been possible without the prior research and thoughtful input of numerous McKinsey colleagues around the world. They include Katelijn Aerts, Filipe Barbosa, Vincent Champain, Chinezi Chijioke, Mutsa Chironga, Anu Madgavkar, Jukka Maksimainen, Judy Malan, Corrado Ruffini, Dirk Schmutz, Mourad Taoufiki, and Amine Tazi-Riffi. Jonathan Ablett and Alan FitzGerald provided valuable data from the McKinsey Global Growth Model. Laila Bennis, Alix de Zélicourt, Siddarth Madhav, and Neha Sureka helped us integrate our work with other McKinsey labour-market research.

This report contributes to MGI's mission to help leaders understand the forces transforming the global economy, improve company performance, and work for better national and international policies. As with all MGI research, we would like to emphasise that this work is independent and has not been commissioned or sponsored in any way by any business, government, or other institution.

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Africa today ...

382 million
in Africa's workforce

42%
of workforce employed
outside agriculture

28% of workers earn
a wage vs. 24%
in 2000

Retail and hospitality accounted for
18% of new wage-paying jobs
since 2002 vs. 11% from
manufacturing

32% of African businesses surveyed
cite access to finance as a major
constraint on growth



... and in 2020

122 million

more workers, more than any other region

72 million

new wage-paying jobs could be created by 2020

36%

of workforce in wage-paying jobs
if this potential is realized

128 million

consumer households, up from
90 million in 2011

48% of Africans with
secondary or
tertiary education



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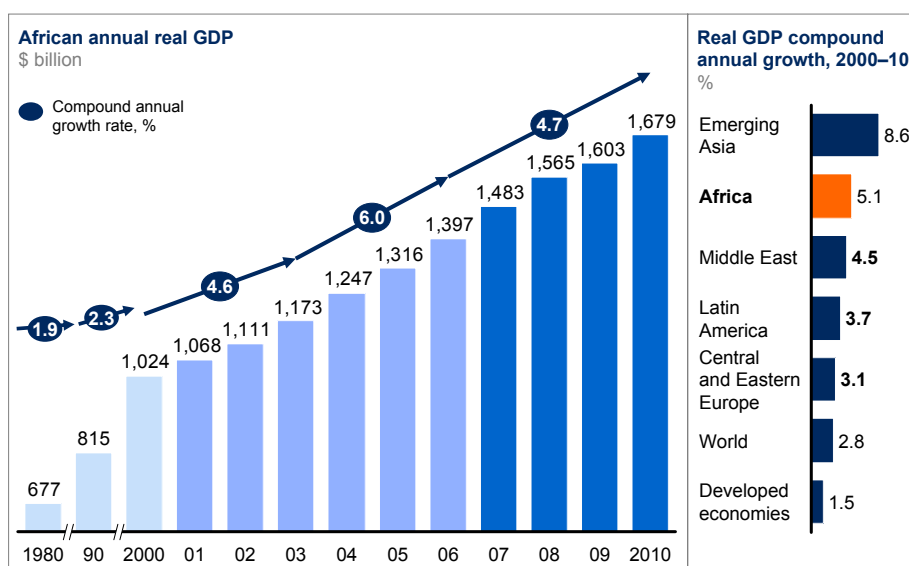
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Executive summary

African economies are on the move. The continent has been the second-fastest-growing region in the world over the past decade (Exhibit E1). GDP is on course to expand by 4.8 percent in 2012. The acceleration in Africa's growth over the past ten years reflects fundamental improvements in the macroeconomic landscape, political stability, and the business environment. Our 2010 report *Lions on the move: The progress and potential of African economies* found that Africa is harnessing its natural wealth, and that sectors across the economy are growing rapidly. These sectors include agriculture, manufacturing, and local services such as retail, banking, and transportation and communications, in addition to the natural resources sector, which was the largest single contributor to growth.¹

Exhibit E1

Africa's economic growth accelerated after 2000, making it the world's second-fastest-growing region



SOURCE: Global Insight; McKinsey Global Institute analysis

The benefits of economic growth appear to be reaching many of Africa's people. Poverty is falling. Around 90 million African households had joined the world's consuming classes by 2011—an increase of 31 million households in barely over a decade.² Income inequality, however, remains unacceptably high and is falling in only about half of Africa's countries; hundreds of millions remain trapped in poverty. Africa's growth needs to be inclusive if it is to improve human welfare and ensure increasing social and political stability.

1 *Lions on the move: The progress and potential of African economies*, McKinsey Global Institute, June 2010 (www.mckinsey.com/mgi).

2 We define consuming-class households as those with annual incomes of \$5,000 or above measured at purchasing power parity (PPP). At this level of income, households begin to spend at least half of their income on categories beyond food and basic necessities.

Economic growth reaches most people through employment income, so Africa's challenge is to ensure that economic growth translates into the stable wage-paying jobs that are the key to the continued expansion of the consuming class. Africa has begun to create the wage-paying jobs that are necessary to meet the needs of an expanding labour pool—37 million of them over the past decade. But accelerating the pace will be critical.

In this report, the McKinsey Global Institute (MGI) presents a comprehensive exploration of Africa's employment landscape. This research includes quantitative analysis of available national employment data, a survey of more than 1,300 companies in five African countries, and interviews with dozens of business leaders and policy makers. We look at employment patterns across countries and sectors, and assess prospects for job creation to 2020. We identify a range of barriers to creating jobs that African leaders must tackle and suggest how policy makers and business leaders can develop strategies for boosting job growth. Among our key findings:

- The continent is poised to reap a demographic dividend, courtesy of its young and rapidly growing workforce and declining dependency ratio. Africa will add 122 million people to its labour force between 2010 and 2020. By 2035, the continent's labour force will be larger than that of any nation, including China or India. Over the same period, the number of children and retired people that each worker supports will fall from the highest level in the world today to a level on a par with the United States and Europe in 2035.
- The continent's official unemployment rate is only 9 percent. Today, however, just 28 percent of Africa's labour force has stable wage-paying jobs. With few social safety nets, most adults must work to survive; therefore, the larger problem is that the majority of adults are engaged in subsistence agriculture and informal self-employment and have few prospects for raising their living standards—a situation that we term *vulnerable employment*.
- Africa has the potential to create between 54 million and 72 million more stable wage-paying jobs by 2020, with much of the job growth coming from manufacturing, agriculture, and retail and hospitality. This would raise the share of workers with wage-paying jobs to between 32 and 36 percent by 2020. In Africa's most diversified economies, such as South Africa, Egypt, and Morocco, the number of wage-paying jobs could grow faster than the number of new entrants to the labour force over the next decade.
- The continent's workforce is more educated and is employed in a more diverse array of sectors than is commonly perceived. Just ten years ago, only 32 percent of Africans had secondary or tertiary education, but by 2020, that number will rise to 48 percent. Worker skills are not seen by business leaders as the most prominent obstacle to job creation in Africa today. The challenge for stakeholders will be to create opportunities for individuals to gain work experience and to build more practical vocational and tertiary programmes that develop the skills needed by business.
- Economic growth is a prerequisite for job creation. But some sectors that contribute to GDP growth may not create many new jobs. Natural resource sectors (mining, oil, and gas) make crucial contributions to Africa's GDP, government revenue, and export earnings, but they employ less than 1 percent of Africa's workforce. Boosting employment requires targeted

strategies implemented by government and business leaders to spur growth in sectors with the greatest job creation potential.

The experiences of other emerging markets and of African countries themselves illustrate how to accelerate employment growth successfully. Jobs strategies should focus on those sectors that are the most promising job creators, taking an end-to-end approach that removes the many barriers to growth along specific industry value chains and puts in place the infrastructure, financing, business environment, and workforce skills needed for the target industries to thrive. Examples of success are emerging across the continent, including Mali's mango exports, Morocco's automotive parts industry, and Lesotho's textiles. If such achievements can be replicated more broadly across the continent, Africa has the opportunity to lift hundreds of millions of people out of poverty, give its consumer class a continuing boost, and emerge as a key part of the global labour market.

AFRICA HAS A POTENTIAL DEMOGRAPHIC DIVIDEND BUT NEEDS TO CREATE JOBS AT A FASTER PACE TO ABSORB ITS GROWING LABOUR FORCE

Africa's labour force is growing strongly. By 2020, it is projected to add 122 million workers, creating a continent-wide labour force of more than 500 million. The dependency ratio—the number of young children and retired people that each person of working age has to support—is set to decline from being the highest in the world by a considerable margin to being on a par with North America and Europe by 2035.³ This potential demographic dividend could raise per capita income and enable more discretionary spending.

Africa's opportunity is to create sufficient stable employment to absorb this growing potential labour force. The continent's unemployment rate is relatively low at an average of 9 percent. But this figure disguises the fact that many people do not turn up in official unemployment figures because, in the absence of social-welfare programmes, few Africans can afford not to work. Instead, they engage in subsistence agriculture or informal self-employment or work for a family member to survive. Over the past decade, the number of people in these activities, which we call vulnerable employment, has grown.⁴ Over the past ten years, Africa's labour force has expanded by 91 million, but only 37 million of the new entrants were employed in wage-paying jobs. Two million joined the ranks of the unemployed, and the majority—some 52 million people—turned to subsistence activities to earn income. If current trends continue, the number of people in vulnerable employment will continue to rise until around 2085.

Of course, Africa's 54 countries are a diverse mosaic, and the employment landscape differs significantly among them. In this research, as in our 2010 report, we divide African countries into four groups based on the level of diversification of their economies and their per capita exports: pre-transition, transition, diversified, and oil exporters. The share of stable wage-paying jobs ranges from only 9 percent in pre-transition countries, such as Ethiopia, Mali, and the Democratic Republic of the Congo to 61 percent in Africa's diversified economies.

3 This also reflects the rising dependency ratio in Europe and North America. *The world at work: Jobs, pay, and skills for 3.5 billion people*, McKinsey Global Institute, June 2012 (www.mckinsey.com/mgi).

4 We define *stable employment* as including wage and salaried employees and business owners, and *vulnerable employment* as including subsistence farming, informal self-employment, and work for family members.

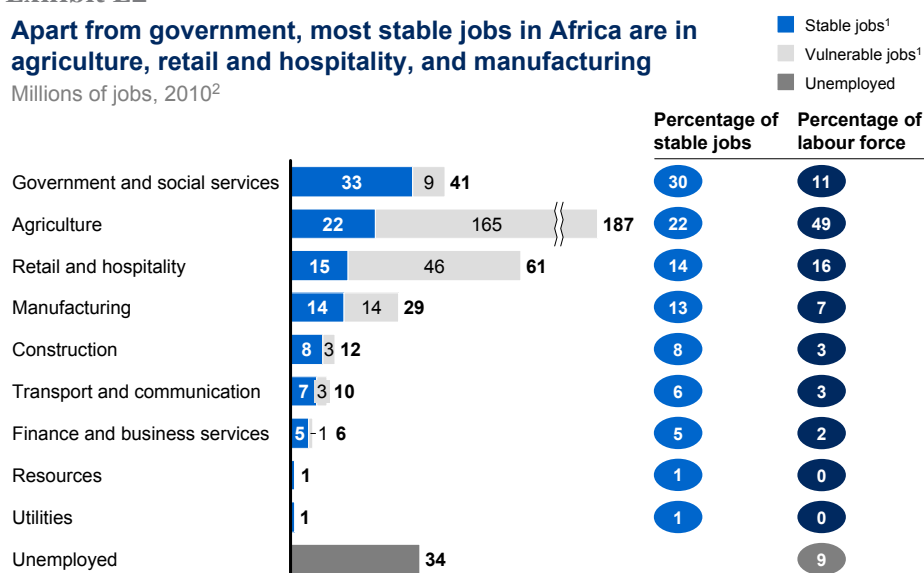
Africa's employment landscape reveals some surprises. One of these is that the continent's workforce is more educated and employed in a more diverse set of sectors than is commonly perceived. Today, 40 percent of Africans have a secondary or tertiary education, up from 32 percent ten years ago. By 2020, that share is set to rise to 48 percent, bringing Africa's educational attainment levels broadly in line with India's, though still lagging behind those in China.

Breaking down employment by sector, we find that less than half of African workers (49 percent) are engaged in agriculture today, although it remains the sector that employs the most people (Exhibit E2). Retail and hospitality is the next-largest employer, accounting for 16 percent of the labour force. Government and social services (including health care and education) employ 11 percent of Africans, followed by manufacturing, with 7 percent of the labour force.

Exhibit E2

Apart from government, most stable jobs in Africa are in agriculture, retail and hospitality, and manufacturing

Millions of jobs, 2010²



1 Stable employment includes wage and salary employees and business owners; vulnerable employment includes subsistence farming, informal self-employment, and work for a family member.

2 Estimated using data for Algeria, Angola, Egypt, Ethiopia, Kenya, Morocco, Mali, Nigeria, Senegal, South Africa, and Uganda. NOTE: Numbers may not sum due to rounding.

SOURCE: International Labour Organization; McKinsey Global Institute analysis

AFRICA CAN ACCELERATE ITS CREATION OF STABLE JOBS

The experience of other emerging economies suggests that over the coming decade, Africa can dramatically accelerate the rate at which it is creating stable jobs. Based on current trends, we estimate that the continent will generate 54 million stable jobs by 2020. The share of workers in stable employment will rise to 32 percent from 28 percent today. Retail and hospitality, manufacturing, and agriculture will each account for roughly 15 percent of the additional wage-paying jobs at current trends, and government and social services will account for 30 percent.

But the experience of other countries shows that Africa could create stable jobs at a faster rate. Thailand, South Korea, and Brazil, for instance, created stable jobs at double and triple the rate of Africa today when their economies were

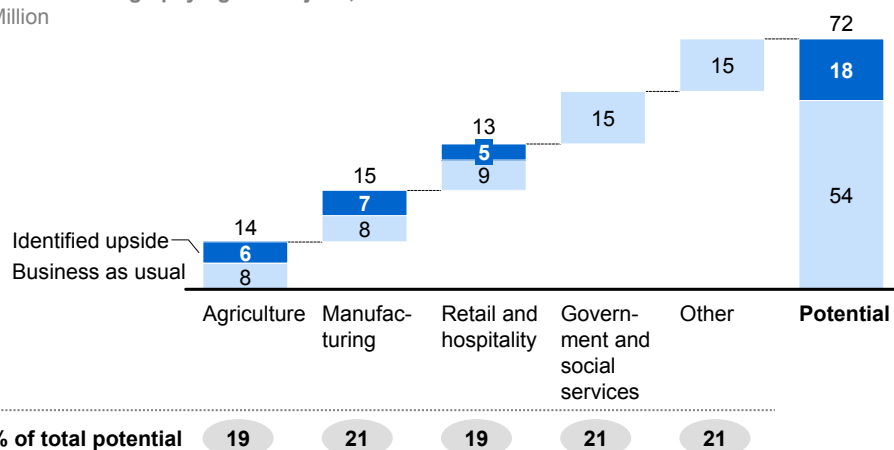
at similar levels of development—and sustained such rates over long periods.⁵ If Africa came closer to matching the experience of those countries, it could lift millions more out of poverty and raise living standards for Africa’s emerging consuming class, entrenching economic growth.

Our analysis of three sectors (agriculture, manufacturing, and retail and hospitality) suggests that Africa can accelerate employment growth in these sectors, with the potential to create up to 72 million wage-paying jobs across all sectors by 2020—an additional 18 million jobs over present growth levels. Within these sectors, growth in jobs could be more than 50 percent faster than in the base-case scenario if policy makers remove obstacles to private-sector growth (Exhibit E3). Capturing this potential would move Africa closer to matching the job-creation trajectory of South Korea and other successful emerging markets.

Exhibit E3

If Africa accelerated job creation, it could create 72 million additional stable jobs by 2020

Additional wage-paying stable jobs, 2010–20¹
Million



% of total potential: Agriculture (19%), Manufacturing (21%), Retail and hospitality (19%), Government and social services (21%), Other (21%)

¹ Estimate based on ten countries: Algeria, Angola, Egypt, Ethiopia, Kenya, Morocco, Nigeria, Senegal, South Africa, and Uganda. Business as usual based on consensus GDP forecasts and trend rate of employment growth. Upside scenario based on accelerated growth in three sectors: agriculture, manufacturing, and retail and hospitality.

NOTE: Numbers may not sum due to rounding.

SOURCE: McKinsey Global Institute analysis

- **Agriculture** is set to create eight million stable jobs at current trends over the decade to 2020 but could add six million more if the continent accelerates the development of this sector.⁶ This upside would come from two sources in particular: expanding large-scale commercial farming on uncultivated land, and shifting from low-value grain production to more labour-intensive and higher-value-added horticultural and biofuel crops.
- **Manufacturing** will create eight million jobs to 2020 at current trends but could nearly double this tally to create an additional seven million. Across

⁵ China has moved hundreds of millions of people out of low-productivity rural agriculture and into urban manufacturing and service industries in recent decades. However, because of China’s unique circumstances and its lack of reliable data on employment status over many decades, this report instead explores the experience of other emerging economies for which such data are available.

⁶ In our 2010 report, we projected that Africa’s agricultural revenues could nearly double, to \$500 billion, by 2020 and then exceed \$800 billion by 2030. For more details, see *Lions on the move: The progress and potential of African economies*, McKinsey Global Institute, June 2010 (www.mckinsey.com/mgi).

a sample of 27 major African economies, the GDP share of manufacturing has fallen from 15 percent in 2000 to 12 percent in 2010. Africa must reverse this decline—and has the potential to do so, if countries understand their comparative advantages. The continent's pre-transition and transition economies have wages and productivity levels that are competitive with other global low-cost manufacturing hubs and could develop labour-intensive manufacturing. Countries with large agricultural sectors can develop downstream agro-processing industries, such as food and beverage manufacturing, textiles, leather goods, and wood products. Oil exporters may find opportunity in manufacturing for growing domestic markets. Africa's diversified countries have higher labour costs but also more skilled workforces and better infrastructure. They can succeed in higher-value-added categories of manufacturing, as Morocco has done in the case of automotive parts and assembly. To realise these opportunities, however, African countries need to address high costs for transportation, inputs, duties, and bureaucracy.⁷

- **Retail and hospitality** are on track to add nine million stable jobs by 2020, but could add five million more. Retail is growing rapidly but remains largely informal and has low productivity in most countries. For example, Nigeria has only six formal shopping malls serving a population of 19.5 million in its four largest cities. Removing hurdles to the formalisation and modernisation of the sector is necessary to unlock growth. Hospitality and tourism is already growing strongly, but there is potential for greater gains. In particular, Africa's diversified countries today attract around 70 percent of the continent's tourism spending and international visitors, but transition countries could catch up if they address inadequate and costly air travel and visa requirements, poor surface transportation, and problems related to land use and development rights. The investment required to support job creation in this sector is relatively low.

Beyond the three sectors on which we focus, construction, transport and communication, and financial services are all showing strong employment growth, albeit from a low base, and have potential to expand wage employment further. The government and social sectors will also remain strong contributors to employment growth as countries expand education and health care. Underlying much of the development in social and government services are Africa's natural resource sectors. New discoveries of oil, gas, and hard minerals in many countries have the potential to spur development in other sectors and benefit the local population—but only if governments harness the wealth created by these sectors appropriately.

⁷ Hinh T. Dinh et al., *Light manufacturing in Africa: Targeted policies to enhance private investment and create jobs*, World Bank, February 2012.

AFRICA FACES A RANGE OF BARRIERS TO JOB GROWTH THAT NEED TO BE ADDRESSED

To improve our understanding of the factors preventing businesses from growing and hiring, we commissioned an in-person survey of 1,373 business leaders across five countries (Egypt, Kenya, Nigeria, Senegal, and South Africa). While this survey was not a fully representative sample of African businesses, the results provide qualitative insight into the key obstacles constraining private-sector growth.

When asked to name the top three barriers to growing their firms, 55 percent identified macroeconomic conditions and 40 percent cited potential political instability. Despite more than a decade of faster economic growth, businesses remain concerned about insufficient demand and the potential threat of inflation. Worries about political stability were especially prevalent in Egypt. The third most frequently cited issue was access to finance, named by 32 percent of respondents. Infrastructure shortcomings, including electricity and transportation, were also highly cited barriers to growth.

Difficulty in finding workers with appropriate skills and work experience was a much lower-ranked obstacle to business growth. This reflects the more fundamental nature of constraints in finance, infrastructure, and overall macroeconomic conditions. That said, companies did note that a lack of worker qualifications and skills was sometimes an issue when hiring. Among larger firms and in more developed countries such as South Africa, employers cited a lack of technical skills as an obstacle to hiring. For small and micro businesses in less developed countries, employers reported that job applicants commonly lack soft skills such as the ability to manage time, be punctual, and communicate effectively.

The relatively low emphasis on workforce skills in these survey results should not be interpreted as minimising the importance of improving education in Africa. While worker skills may not be the most prominent obstacle to job creation in Africa today, there can be no doubt that all countries would benefit from new investment and reforms to raise the quality of the educational system. Such investment should be aimed not only at primary and secondary education. Significantly more vocational training and a refocusing of tertiary education on engineering, mathematics, science, and other marketable skills are also necessary.

The survey results make clear that there is no simple solution to boosting job growth in Africa. Programmes such as worker training or entrepreneurship support, enacted alone, are unlikely to have significant impact. Employers report that the barriers to job growth are the same factors that dampen Africa's overall economic growth. But with targeted reform programmes, governments can remove these barriers and unleash private-sector growth.

COUNTRIES NEED FOCUSED JOB CREATION STRATEGIES

Robust GDP growth is a necessary condition for accelerating the creation of wage-paying jobs in Africa. The continent's leaders must ensure that the improved macroeconomic and political stability of the past decade is maintained, and they must continue to pursue microeconomic reforms that create a more attractive business environment. But focusing on GDP growth alone will not be enough to transform Africa's employment landscape fundamentally or to ensure inclusive growth and wider opportunities for Africa's people. To harness growth for job creation, African leaders should focus on reforms to the business environment in the labour-intensive sectors that have the potential to create large numbers of jobs (Exhibit E4). The experience of countries in Africa and elsewhere has shown that creating an explicit strategy aimed at encouraging growth in labour-intensive sectors, executed in conjunction with the private sector, can have striking results.

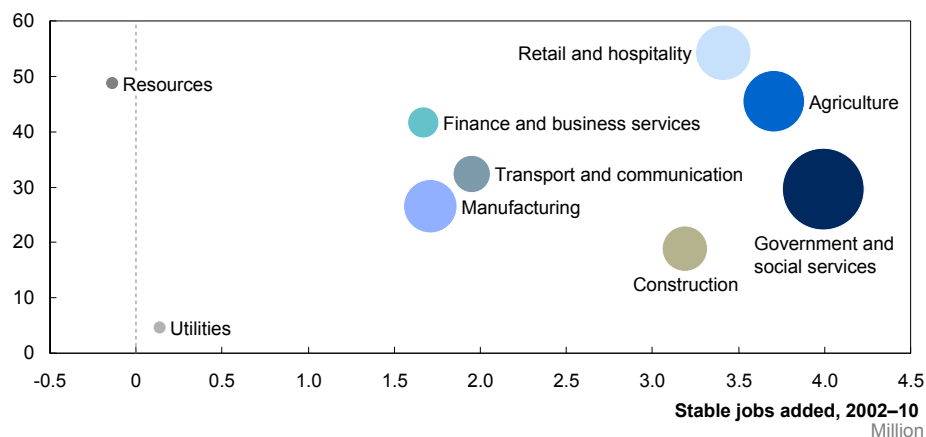
Exhibit E4

Sectors that drive GDP growth do not always create the most jobs

GDP and stable job growth¹ in ten African countries,² 2002–10

○ Number of stable jobs, 2010

GDP growth, 2002–10
\$ billion, 2005 \$



1 Stable employment includes wage and salary employees and business owners; vulnerable employment includes subsistence farming, informal self-employment, and work for a family member.

2 Countries included are Algeria, Angola, Egypt, Ethiopia, Kenya, Morocco, Nigeria, Senegal, South Africa, and Uganda. These countries accounted for 70 percent of Africa's GDP in 2010.

SOURCE: Global Insight; McKinsey Global Institute analysis

A jobs strategy is very different from the broad-based industrial policies that have often proved ineffective in countries around the world. Action aimed explicitly at encouraging the creation of jobs is not about protecting domestic industries from foreign competition through tariffs and quotas, supporting companies through local content rules, or directing credit to particular companies or sectors. Nor is it about creating “trophy” industries, such as automotive or semiconductors, or national champions in core industries. Governments around the world have wasted billions of dollars on failed attempts at industrial policies in the past.⁸

Instead, a jobs strategy should begin with a fact-based assessment of a country's global competitiveness in different products; it should select subsectors that build on national endowments and have the most potential to create jobs. The next task is to identify and remove regulatory blockages that restrain growth and ensure that fundamentals such as infrastructure and a skilled workforce are in place.

⁸ See *How to compete and grow: A sector guide to policy*, McKinsey Global Institute, March 2010 (www.mckinsey.com/mgi).

Africa's development needs are vast, and national economic development plans can often be hundreds of pages long. Many well-intentioned reform programmes enact numerous policy changes but have limited practical success, as resources and attention are spread too thinly or political interests are not aligned. A more pragmatic approach is to remove all obstacles to growth end-to-end in specific industry value chains and then build more broadly on this narrow success.

A 21st-century strategy for job creation should include five elements:

1. Identify one or more labour-intensive subsectors in which the country has a global competitive advantage or enjoys strong domestic demand, and which can create large numbers of jobs. Selecting the appropriate sectors requires rigorous benchmarking and a clear view of the country's strengths and weaknesses. For instance, Morocco assessed the potential of more than 600 automotive parts before selecting around 100 parts in which to compete. The sectors in which to begin such an assessment will vary according to the level of the country's development and its natural endowments.
2. Improve access to finance for businesses in those subsectors by providing incentives for the banking sector to increase lending (e.g., partial loan guarantees), opening access to foreign investors, and educating new borrowers. In India's IT services and business process offshoring, for instance, foreign companies were allowed 100 percent ownership, and they played a critical role in providing both capital and know-how in the early days. Requiring lending to specific sectors is not effective and often has the perverse effect of constraining overall lending and reducing the stability of the banking system; incentive-based systems are often more effective.
3. Build suitable infrastructure to support economic activity in these subsectors and in the particular geographic regions needed for success in those subsectors. The scale of unmet need can be daunting, so it is important to prioritise high-potential sectors. Mali's integrated investment in road, rail, and other transportation to facilitate mango exports and Morocco's two free-trade zones for automotive companies are examples of targeted infrastructure tailored to specific sector opportunities.
4. Cut unnecessary regulation, bureaucracy, and corruption, all of which raise the cost of doing business and limit growth and investment. Removing regulatory obstacles has the advantage of costing governments virtually nothing while having very rapid impact. In the past decade alone, Nigeria's telecommunications sector is estimated to have generated up to three million jobs in the absence of the state telecom monopoly.⁹
5. Finally, a jobs strategy must ensure, through strong collaboration between the public and private sectors, that there is a sufficient pool of workers with the education and skills needed in the targeted sectors. For example, English- and French-speaking countries could provide vocational programmes for call centre workers if business process outsourcing were targeted.

9 Overall, employment in the telecommunications, transport, and storage sectors in Nigeria rose by 3.5 million between 2002 and 2010. A majority of that employment appears to be in the telecom sector, but data to precisely quantify the number of telecom jobs alone are unavailable.

The final element in a successful jobs strategy is effective execution. In developing countries today, poverty is rarely the result of not knowing which policies would foster growth. Rather, political obstacles often stand in the way of progress, since reforms may entail trade-offs that are detrimental to industry incumbents.¹⁰ Successful jobs strategies will require crossing traditional silos within governments as well as creative problem solving. Implementation requires aligning disparate strategies between government departments, matching budget allocations to the needs of the jobs strategy, and ensuring that programmes are held accountable against measurable and transparent milestones. The private sector has a vital role to play in identifying potential opportunities as well as the barriers to capturing them. Engaging the wider public in the effort is also helpful in creating broad support for the jobs plan, building civic engagement, and creating a common vision for the future.



Sustained and robust GDP growth is a prerequisite for expanding employment in Africa. But to create better outcomes for workers and economies as a whole, policy makers and business leaders need to work together to accelerate the creation of wage-paying, productive jobs across the continent. Achieving this will require many of Africa's governments to operate in new ways—and to work together with the private sector. But, possibly for the first time in Africa's history, the continent has a chance to achieve transformative growth that is widely shared. It is now up to Africa's leaders, both public and private, to seize this opportunity.

¹⁰ Daron Acemoglu and James Robinson, *Why nations fail: The origins of power, prosperity, and poverty* (New York: Crown Business, 2012).

1. Africa's employment challenge

Over the past decade, Africa has been the second-fastest-growing region in the world, with average annual GDP growth of 5.1 percent. In many countries, newly established macroeconomic and political stability has laid a solid foundation for growth and microeconomic reforms that have unleashed the dynamism of the private sector. The continent's healthy recent growth trajectory is set to continue—and not simply because of the global boom in commodity demand and prices. As our 2010 report *Lions on the move: The progress and potential of African economies* found, the majority of the continent's growth has come from non-commodity sectors and from domestic consumption.¹¹

As momentum accelerates, it is vital that growth benefits the bulk of the population. The Arab Spring and its aftermath underscore the urgency of ensuring that growth is inclusive. An array of indicators suggest that growth has indeed benefited many Africans. Poverty has been declining across the continent since the 1990s. The number of households in extreme poverty—defined as earning less than \$1 per day—has fallen even more rapidly, from 42 percent in 1990 to 32 percent in 2006.¹² In the 11 years since 2000, 31 million African households joined the world's consuming class, bringing the total on the continent to about 90 million.¹³

Much remains to be done, however. Poverty levels remain unacceptably high, and progress on many of the United Nations' Millennium Development Goals is mixed. Income inequality is particularly striking: 32 of 43 African countries are reported by the World Bank to have Gini coefficients (a measure of inequality in income distribution) higher than the median of countries globally.¹⁴ Inequality is rising in about half of African countries and falling in the other half.¹⁵

For growth to be inclusive, Africa's workers need to be employed. Employment income is the only sustainable mechanism for most of the population to share in the proceeds of growth. Over the past decade, Africa has made strides in creating jobs. Total employment rose by 89 million over the decade 2000 to 2010, largely tracking growth in the working-age (15–64) population. However, the lack of social-welfare systems means that few of Africa's workers can afford not to work; with too few stable wage-paying jobs available, most workers turn to

11 *Lions on the move: The progress and potential of African economies*, McKinsey Global Institute, June 2010 (www.mckinsey.com/mgi).

12 Maxim Pinkovskiy and Xavier Sala-i-Martin, *African poverty is falling . . . much faster than you think!* NBER working paper number 15775, February 2010.

13 We define consuming-class households as those with annual incomes of \$5,000 or above measured at purchasing power parity (PPP). At this level, households begin to spend at least half of their income on categories beyond food and basic necessities. Data from Canback Global Income Distribution Database (C-GIDD).

14 The Gini coefficient measures income inequality, with higher values indicating greater concentration of income at the high end. The median is calculated from the 155 countries for which the World Bank quotes a Gini coefficient using data from the most recent available year.

15 Canback Global Income Distribution Database (C-GIDD).

vulnerable employment to survive (see Box 1, “Methodology and definitions”). This precludes high rates of official unemployment, which average around 9 percent across the continent—not very different from rates in other parts of the world. South Africa is one outlier, with an official unemployment rate of 25 percent—but it also has one of the few social-security systems on the continent, which allows workers to continue actively seeking better employment for longer.

Consequently, the larger challenge in Africa is to create more stable wage-paying jobs in the private sector. This would ensure that the benefits of growth are widely shared and thereby contribute to social and political stability. Although the continent has created 37 million wage-paying jobs over the past decade, the vast majority of African workers—63 percent—remain in subsistence activities and low-wage self-employment, leaving them vulnerable to large swings in income and in danger of being excluded from the benefits of economic growth in the modern economy (Exhibit 1). Furthermore, Africa needs to accelerate the creation of stable jobs to ensure that domestic consumption is a sustained source of growth for future decades. The experience from other emerging markets around the world suggests that this is a goal that Africa can indeed achieve.

Box 1. Methodology and definitions

Data on African employment are meagre, and Africa’s governments should seek to improve the quality of statistics. We have taken what data are available from national statistical sources and the International Labour Organization (ILO), ensured comparability where possible, and built what we believe is a uniquely comprehensive database on employment in Africa by country and by sector. The technical appendix at the end of this report provides more detail on the sources of data and the methodology that we use to estimate employment for countries that do not provide such data.

We classify employment into two categories: *stable* and *vulnerable*. Stable jobs are those held by employers and employees. The first group comprises business owners who have engaged employees to work for them. The second comprises workers in paid employment with a contract that entitles them to basic remuneration. Vulnerable jobs include two categories. One is own-account workers, who are self-employed mostly in subsistence activities such as agriculture or informal urban activities. These workers may receive help from family members. The other is contributing family workers, who work without a formal wage for another household member in a market-orientated establishment or in agriculture.

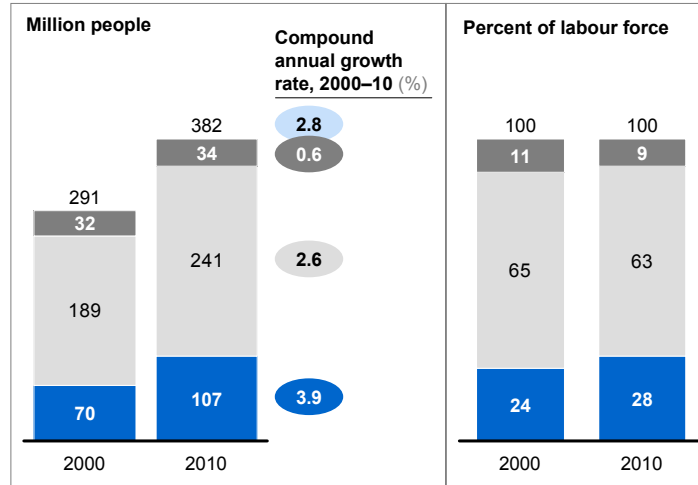
Unemployed workers are those who are actively engaged in seeking a job, rather than performing other productive activities. For example, informal hawkers are not considered unemployed, as they spend the bulk of their time performing an income-generating activity. They would instead be classified as being in vulnerable employment.

Exhibit 1

Africa has added 37 million stable jobs since 2000, but 63 percent of the labour force is in vulnerable employment

African labour force by employment status

■ Unemployed
■ Vulnerable jobs¹
■ Stable jobs¹



¹ Stable employment includes wage and salary employees and business owners; vulnerable employment includes subsistence farming, informal self-employment, and work for a family member.

NOTE: Numbers may not sum due to rounding.

SOURCE: International Labour Organization; McKinsey Global Institute analysis

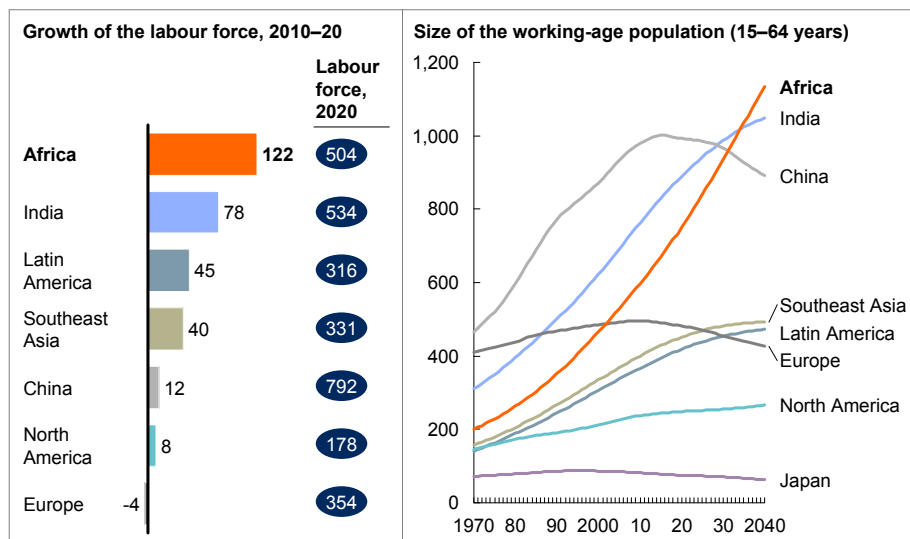
AFRICA HAS A POTENTIAL DEMOGRAPHIC DIVIDEND

Africa’s labour force is projected to increase by 122 million people by 2020, creating a continent-wide labour force in excess of 500 million. By 2035, the continent’s working-age population will be larger than that of any individual nation on earth, including China and India (Exhibit 2).¹⁶

Exhibit 2

Africa’s labour force will grow by 122 million during this decade, and will be the largest in the world by 2035

Million people



SOURCE: International Labour Organization; United Nations World Population Prospects; McKinsey Global Institute analysis

¹⁶ *The world at work: Jobs, pay, and skills for 3.5 billion people*, McKinsey Global Institute, June 2012 (www.mckinsey.com/mgi).

The expansion of the labour force will vary from country to country. The two nations with Africa's largest populations, Nigeria and Ethiopia, are together set to add 30 million workers, expanding their labour forces by about 35 percent by 2020. In South Africa, by contrast, the labour force is projected to grow by just 13 percent over the decade, an addition of two million workers.

Meanwhile, Africa's dependency ratio—the number of young children and retired people that each working-age person must support—will decline due to falling birth rates. This will raise per capita income. Africa's dependency ratio of 78 percent is currently the highest in the world by a margin of more than 20 percentage points. However, it is important to note that Africa's high ratio is driven by high numbers of young people. In 2011, 40 percent of the African population was below age 15. This is in contrast to Japan, which has the second-highest dependency ratio at 56 percent, driven primarily by individuals beyond working age. Africa's dependency ratio is projected to fall to 73 percent by 2020 and to 65 percent by 2035—around the same ratios that North America and Europe will have in 2035.¹⁷

This potential demographic dividend is an opportunity to lift Africa's growth in the coming decades. However, to grasp the benefits, Africa will have to ensure that more of its workers are in productive employment. If it does not, there could be profound consequences for the next generation. Like their peers in other parts of the world, young Africans today are disproportionately likely to be unemployed or in vulnerable jobs (see Box 2, "Youth unemployment in Africa"). Left unaddressed, this could limit the earnings of these young Africans over their entire lifetimes, jeopardising not only their individual prospects but also future economic growth and social stability.

LESS THAN 30 PERCENT OF AFRICA'S LABOUR FORCE IS IN STABLE WAGE-PAYING EMPLOYMENT

Today, only 28 percent of African workers are employed in stable wage-paying jobs. We define such jobs as salaried employees and owners of businesses that hire salaried employees. This very low share of the labour force in stable jobs holds back growth in domestic consumption and has also clearly contributed to the social unrest that began in Tunisia in January 2011 and then spread to other countries in North Africa, including Egypt.

We estimate that 63 percent of Africa's labour force is in non-wage-paying self-employment or family employment—vulnerable jobs. The income of these workers is highly variable and comes largely from very low-productivity activities. People with vulnerable jobs have scarcely any potential to expand their enterprises and thereby increase their income. Africa's women are disproportionately likely to be in such employment (see Box 3, "Challenges facing Africa's female workforce"). In addition, as we have said, 9 percent of African workers are counted as unemployed.

¹⁷ North America excludes Mexico here. See *World population prospects: The 2010 revision*, United Nations, 2010.

Box 2. Youth unemployment in Africa

Some African economies suffer from high levels of youth unemployment.¹ With a few exceptions, youth unemployment across the continent is two to three times higher than unemployment among adult workers—similar to the pattern in the rest of the world. Youth unemployment is a particularly pressing issue when overall unemployment is high. For example, in South Africa, where official overall unemployment stands at over 25 percent, half of all young people between the ages of 15 and 24 are unemployed.² Egypt is an exception: its 25 percent youth unemployment rate in 2010 was more than five times as high as adult unemployment, which stood at less than 5 percent.³ One reason for these high rates is that the education system is not providing the types of skills and work readiness required by businesses—less than 30 percent of businesses believe tertiary graduates are ready for the workplace.⁴

Raising the overall rate of job creation in the private sector is essential to achieving a sustained reduction in youth unemployment. However, lifting the overall number of jobs generated may not be sufficient in some African countries, which may need targeted action on youth unemployment. One approach is addressing the lack of practical skills and work experience that is a particular problem in Africa across age groups. Data from one South African employment services company show that even a few months of work experience can increase the chance of a job placement by a factor of three. That company's records show that more than half of unemployed youths have never worked.

1 For more on youth unemployment, see *African economic outlook 2012: Promoting youth employment*, African Development Bank, Development Centre of the Organisation for Economic Co-operation and Development, United Nations Development Programme, and United Nations Economic Commission for Africa, May 2012.

2 Statistics South Africa, Quarterly Labour Force Survey.

3 Egyptian Central Agency for Public Mobilisation and Statistics.

4 *Education for employment: Realizing Arab youth potential*, International Finance Corporation and Islamic Development Bank, April 2011.

Box 3. Challenges facing Africa's female workforce

Africa's women face a more challenging employment environment than do men. Three specific challenges stand out.

First, women are far more likely to be in vulnerable employment than men in Africa. Overall, 79 percent of jobs held by women are vulnerable, compared with 63 percent of those by men.¹ One reason is that a majority of jobs in manufacturing, mining, and construction—sectors with higher shares of stable employment—are held by men. Moreover, a majority of contributing family workers (who work without a formal wage for another household member) are women.² In the future, the employment status of women in Africa may change. In chapter 2, we note the rapid formalisation of service sectors like retail and hospitality, and these sectors have a larger share of female than male workers. This change could have additional benefits for society; research finds that giving poor women in developing countries more control over family income leads to gains not only for themselves but also for their families, as women's control of income raises the share allocated to health, education, and nutrition.³

Second, in many countries women face disadvantages as employers, constraining their ability to start up and grow businesses and thus create jobs. Female-led small businesses have consistently lower productivity, but this difference can be explained by reduced access to, and use of, productive resources such as capital.⁴ Even larger obstacles stand in the way of women starting businesses. Regulatory and legal discrimination, for instance, limits the ability of women to own land and property (and thus collateral for finance) or to sign contracts.⁵ Overcoming these obstacles offers substantial benefits for society—for example, the Food and Agriculture Organization of the United Nations estimates that ensuring the same access to inputs for women as for men in agriculture could raise the agricultural output of developing countries by 2.5 to 4 percent, a substantial improvement given the size of the agricultural sector in these countries.⁶

Finally, in North and parts of West Africa, the female labour-force participation rate (that is, the share of women of eligible age that are working or seeking work) is dramatically lower than that for men—24 percent of eligible women are in the labour force in North Africa compared with 74 percent of men. Nigeria has a difference of around 34 percentage points, similar to many countries of the Sahel. Elsewhere, and across much of Eastern and Southern Africa, women and men participate in the workforce more equally.⁷ Countries where women do not participate are missing out on long-term growth potential by excluding nearly half their workforce. Changing social norms may increase female participation rates, which may raise unemployment in the short term but will ultimately contribute to GDP growth and enhance Africa's future demographic dividend.

1 *Global employment trends 2012: Preventing a deeper jobs crisis*, International Labour Organization, January 2012

2 *World development report 2012: Gender equality and development*, World Bank, 2011.

3 Numerous studies confirm these findings. See, for example, Lisa C. Smith et al., *The importance of women's status for child nutrition in developing countries*, International Food Policy Research Institute (IFPRI) research report number 131, 2003.

4 *World development report 2012: Gender equality and development*, World Bank, 2011.

5 *Women, business and the law*, World Bank and International Finance Corporation, 2012.

6 Food and Agriculture Organization of the United Nations, *The state of food and agriculture 2010–11: Women in agriculture: Closing the gender gap for development*, 2011.

7 *Ibid.*

STABLE EMPLOYMENT VARIES ACROSS COUNTRIES

In our 2010 report on Africa’s economic potential, we grouped African countries into four categories determined by their level of economic diversification and the size of their export base: pre-transition, transition, diversified, and oil exporters (see Box 4, “Four groups of African economies”). Annual GDP growth in each group was at least 4 percent over the past decade, evidence that African countries at all stages of development are on the move. Not surprisingly, the labour markets of countries in each group show striking similarities, although with some variation. As we will explain, oil exporters have the widest range of variations.

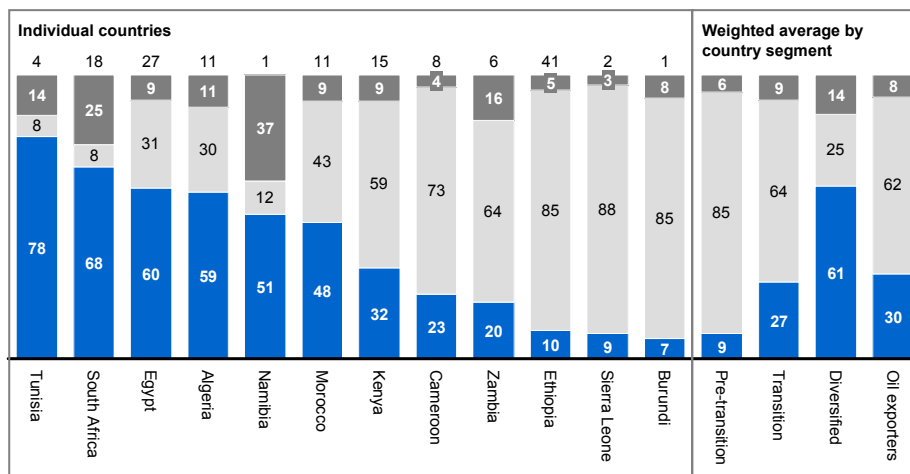
In the more developed diversified economies, 61 percent of workers are in stable jobs, compared with 27 percent in transition economies and 9 percent in pre-transition countries (Exhibit 3). There are differences between countries in each category. In the diversified group, for instance, 68 percent of South African workers have stable jobs, compared with 48 percent in Morocco. In transition countries, stable employment ranges from just 23 percent in Cameroon to 32 percent in Kenya.

Exhibit 3

The share of stable jobs varies across countries

Employment by status, 2010¹
% of labour force; million

■ Unemployed
■ Vulnerable employment
■ Stable employment



¹ Estimated from most recent country data, which in some cases is from earlier than 2010.

NOTE: Numbers may not sum due to rounding.

SOURCE: International Labour Organization; McKinsey Global Institute analysis

Oil exporters are unique as they have high levels of per capita exports despite a low level of economic diversification. The labour markets and sector breakdowns vary across these countries. Most have only nascent manufacturing and service sectors and are comparable with either pre-transition or transition economies from an employment perspective. Algeria is an exception; its share of stable employment is similar to that of Africa’s diversified economies because of its substantial public and social sector.

Box 4. Four groups of African economies

We group African countries into four clusters based on their level of economic diversification and the size of their export base. We measure economic diversification as the share of GDP that comes from manufacturing and service industries, rather than agriculture and natural resources. On the vertical axis, we show the value of per capita exports (Exhibit 4). In Africa, exports are vital to ensuring healthy national balances of payments and to enabling countries to import the capital goods needed for development. Using these metrics, we define four groups of countries: pre-transition, transition, diversified, and oil exporters.

Pre-transition economies. Africa's pre-transition economies are among the poorest, with nominal per capita GDP of between \$200 and \$600 in 2010, but they are growing very rapidly. Ethiopia, with a population of 83 million, has experienced GDP growth of between 8.8 and 11.8 percent per annum over the past five years, making it one of the world's fastest-growing economies. The private sector in most pre-transition economies remains nascent; agriculture and natural resources account for much of GDP.

Transition economies. Africa's transition economies—including Ghana, Kenya, Senegal, and Tanzania—have lower per capita GDP than the diversified economies, but they are growing rapidly. The agriculture and resource sectors together account for as much as

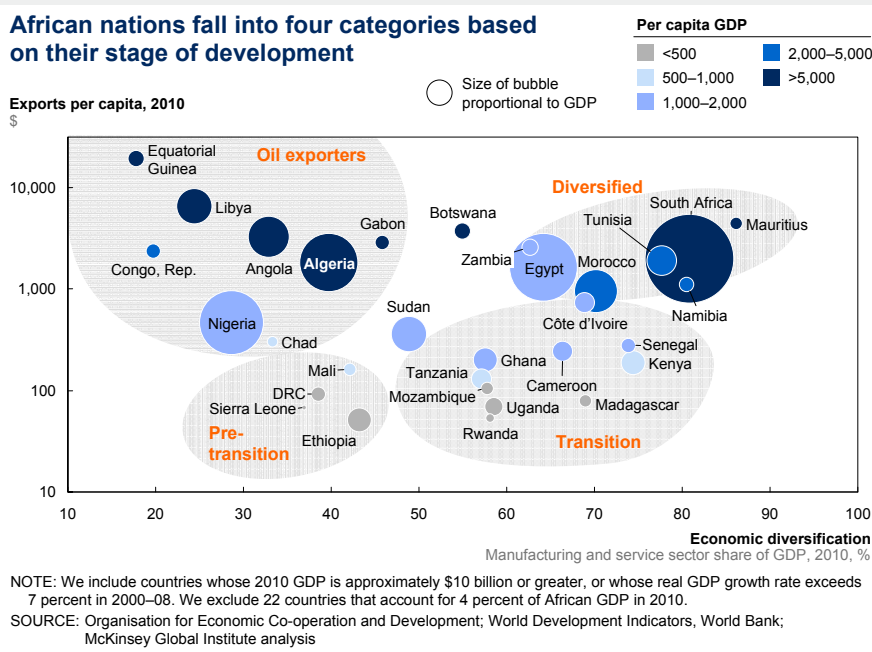
35 percent of GDP and two-thirds of exports. But these countries are rapidly expanding their service industries, including retail and banking, as well as manufacturing. Some, including Ghana and Uganda, also stand to benefit from newfound oil resources.

Diversified economies. These are the continent's largest and most advanced economies, including Egypt, Morocco, South Africa, and Tunisia. They already have significant manufacturing and service industries. With the least volatile GDP growth in Africa, they stand to benefit greatly from increasing ties to the global economy. However, Africa's diversified economies have higher unit labour costs than China or India and must therefore compete in higher-value industries.

Oil exporters. Africa's oil and gas exporters have some of the continent's highest per capita GDP but also some of the least diversified economies. Rising oil prices have lifted this group's export revenue significantly. The three largest oil producers—Algeria, Angola, and Nigeria—earned \$1.3 trillion from petroleum exports from 2001 to 2011, compared with \$300 billion in the 1990s.¹ However, manufacturing and service sectors remain relatively small, accounting for just one-third of GDP on average. Because the resources sector employs few people, there are large differences in the labour markets across Africa's oil-exporting economies.

1 International Trade Centre, www.trademap.org.

Exhibit 4



AFRICA MUST CREATE STABLE JOBS AT A FASTER PACE

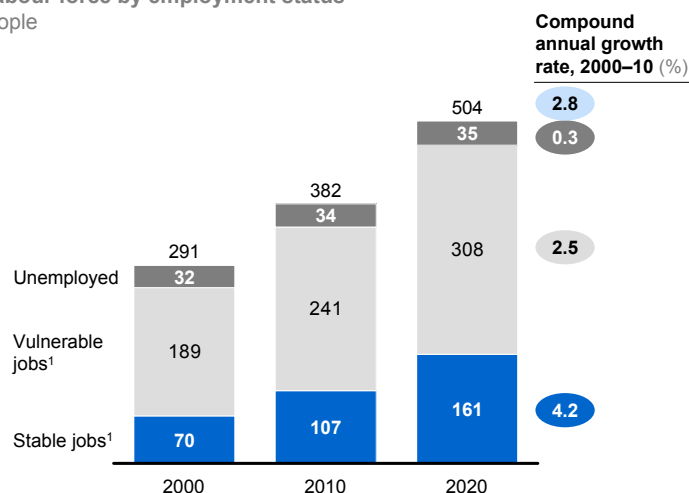
If current trends hold, Africa will not reach the levels of stable employment that exist in other key developing regions in the short or even the medium term. The share of Africans with stable jobs is only 28 percent, far lower than 48 percent in East Asia and 63 percent in Latin America.¹⁸ Without significant action to accelerate the creation of stable jobs in Africa, this share is likely to rise but only to 32 percent in 2020—a rate of improvement that is similar to the global average but one that will leave Africa still far behind most other regions. Indeed, on the current trajectory, it could take Africa 49 years to reach the share of stable employment in East Asia today and 95 years to reach that of Latin America.

The rate at which Africa is creating stable jobs is not fast enough to keep up with the continent’s rapidly growing labour force. The lack of social welfare systems in most countries means that few workers will enter direct unemployment, but at current trends we estimate that 67 million more Africans will be in vulnerable jobs in 2020 as compared with today (Exhibit 5).

Exhibit 5

On current trends, Africa will create 54 million additional stable jobs by 2020, but workers in vulnerable jobs will also increase by 67 million

African labour force by employment status
Million people



¹ Stable employment includes wage and salary employees and business owners; vulnerable employment includes subsistence farming, informal self-employment, and work for a family member.

NOTE: Numbers may not sum due to rounding.

SOURCE: International Labour Organization; McKinsey Global Institute analysis

Looking further ahead, it is crucial to ensure that greater numbers of workers are swept along in the shift toward more diversified and developed economies. Such inclusion will form the foundation for continued economic growth and rising consumption, while failure is likely to lead to higher formal unemployment as social welfare systems develop, and to potential social instability. On current trends, the absolute number of Africans in vulnerable jobs, or in unemployment, will not start to decline until 2085. This worrisome prospect should be a strong call to action.

¹⁸ Figures are for 2010, the latest year with complete data; see *Global employment trends 2012: Preventing a deeper jobs crisis*, International Labour Organization, January 2012.



Africa's accelerating GDP growth has reduced poverty and generated new jobs. But the continent's record is uneven across its constituent economies, and the overall pace is not rapid enough to absorb the continent's young and growing population. Moreover, the share of workers in stable wage-paying jobs is lower in Africa than in other regions. On the current trajectory, the total number of Africans in vulnerable jobs or in unemployment is not set to decline for more than 70 years. Africa must therefore accelerate its creation of stable jobs and increase the security and income of those in vulnerable employment. The historical experience of other emerging economies shows that it is possible to transform this picture. In the next chapter, we look at the experience of job creation in other emerging economies and analyse prospects for job creation in Africa in several key sectors.

2. Africa's 72 million job opportunity

The experience of other emerging economies suggests that Africa can accelerate job creation dramatically, perhaps as much as doubling the rate seen over the past decade. Retail, hospitality, manufacturing, and agriculture have created the most stable employment in Africa over the past decade outside of government and social services, and we expect these sectors to account for the lion's share of private-sector job growth in the future.

In this chapter, we look at Africa's prospects for job creation in the context of the experience of other emerging economies—South Korea, Thailand, and Brazil—over the past 50 years. On current GDP projections for Africa, we estimate the continent will create around 54 million more stable jobs by 2020, raising the share of stable employment to 32 percent. However, drawing on the experiences of other emerging economies during similar periods in their development, Africa could boost its stable job creation and generate 72 million wage-paying jobs over the decade, increasing the share to 36 percent. This would be a significant achievement that would lift millions out of poverty and raise living standards for Africa's emerging consuming class, entrenching economic growth.

OTHER COUNTRIES HAVE CREATED STABLE JOBS RAPIDLY—FROM STARTING POINTS SIMILAR TO AFRICA'S TODAY

Over the past decade, the share of Africa's labour force employed in wage-paying jobs—which we define as stable employment—has increased by 0.4 percentage points per year. But the experience of other regions suggests that Africa could do better. Countries in East Asia, for instance, have increased stable employment by 0.9 percentage points per year over the past decade. This is driven partly by China, which has experienced very rapid job creation and an economic transformation over the past 30 years. Although strong GDP growth is a clear contributor, it does not wholly explain China's success in creating such large numbers of jobs (see Box 5, "Job creation in China and India").¹⁹

Other countries, including South Korea, Thailand, and Brazil, have also been able to create stable jobs at a faster rate than Africa when they were at similar levels of development. We have chosen to look at the experience of these three economies because, unlike China and India, they have for many decades reported employment by sector and by status. This means that we can see how the share of stable wage-paying employment evolved at earlier stages of development.

19 China National Bureau of Statistics.

Box 5. Job creation in China and India

China has added 121 million non-farm jobs over the past decade and as many as 300 million since 1980.¹ This success has been due to several factors: rapid growth in manufacturing, increased urbanisation, and improving educational attainment that has prepared rural children for non-farm work. China's record of job creation stands in contrast to that of India—despite the fact that both economies have posted rapid overall economic growth rates.

Over the past 30 years, China has undergone the world's largest migration of labour out of low-productivity agriculture and into urban manufacturing and services. This shift has raised productivity growth, and therefore GDP, and has lifted millions of households out of poverty.² Over the past decade, about one-quarter of China's employment growth (33 million jobs) was in manufacturing, and about one-third of those jobs were associated with export industries. Many of the jobs were in labour-intensive manufacturing, although more recently China began producing higher-value-added and knowledge-intensive goods. Key to this outcome is the fact that China has invested heavily in primary and secondary education, including in rural areas, preparing its children to join the modern workforce. By 2010, 60 percent of the workforce had at least a secondary education.

India created 67 million non-farm jobs over the past decade, just over half of the tally in China. While China averaged a real GDP growth rate of 10.3 percent between 2000 and 2010, India averaged 7.4 percent. But differences in GDP growth rates explain only part of the gap between these two economies. Another important difference between the two countries is that India has not experienced rural-urban migration on a scale that is comparable to China. Nor has India been able to harness global demand to fuel export industries to the extent that we have observed in China. The share of agricultural jobs in India stood at 53 percent in 2010—similar to Africa's transition economies but much higher than the share in China or in Africa's diversified economies. Gross exports in India amount to 22 percent of GDP, compared with 30 percent in China. India also lags behind China in the creation of higher-value-added manufacturing and export-oriented jobs; 41 percent of the jobs that India has created over the past decade have been in low-skill construction, compared with 16 percent in China.

China's lesson for Africa is clear: focus on labour-intensive export sectors. As India has shown, countries can create jobs and raise living standards by creating products mainly for domestic demand, but it will be a slower process.

1 *The world at work: Jobs, pay, and skills for 3.5 billion people*, McKinsey Global Institute, June 2012 (www.mckinsey.com/mgi).

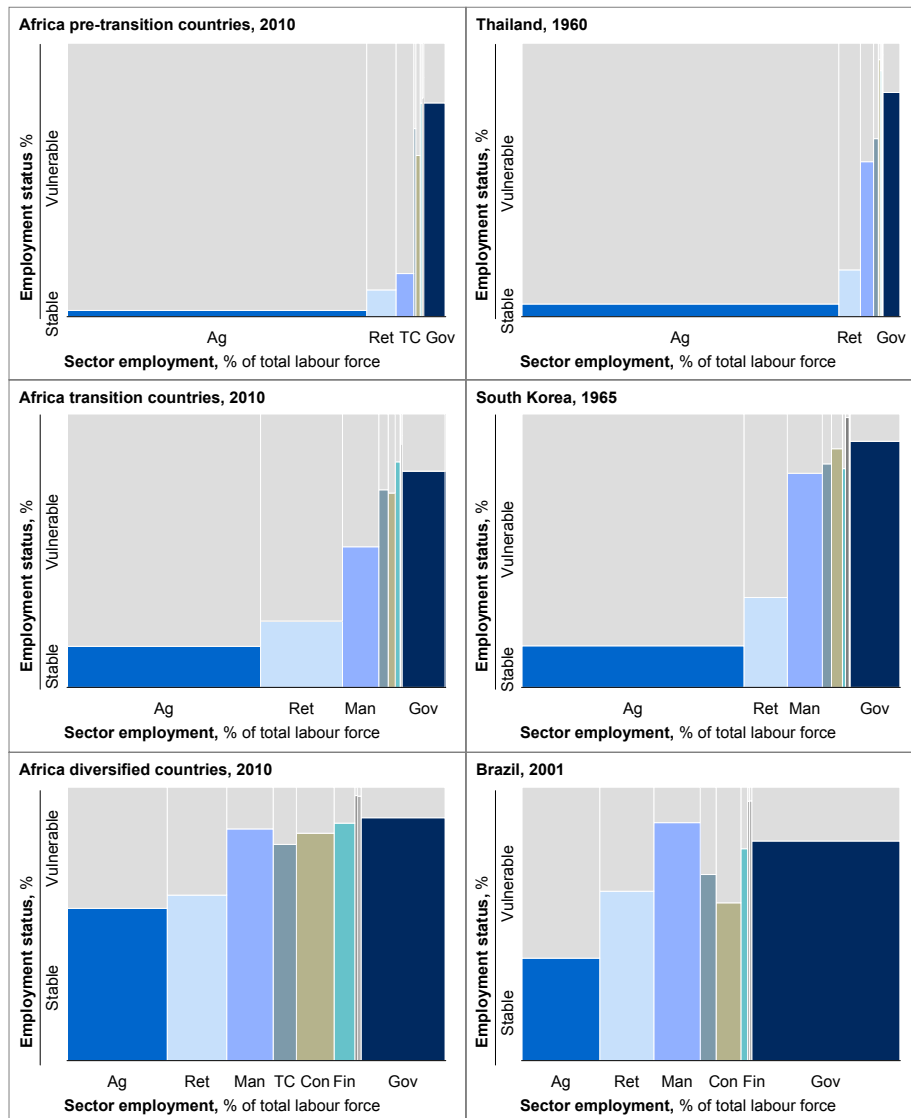
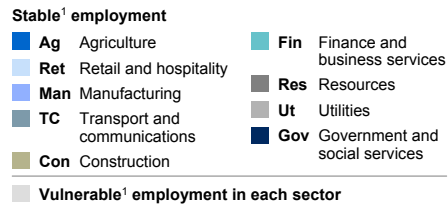
2 *Preparing for China's urban billion*, McKinsey Global Institute, March 2009 (www.mckinsey.com/mgi).

The experience of these countries shows that Africa's employment challenge is not unique. When they were at the same stages of development as African countries today, Thailand, South Korea, and Brazil all had similar employment patterns to those that we are now observing in Africa (Exhibit 6). In 1960, Thailand's employment pattern looked like that of pre-transition African countries today, while South Korea's employment in 1965 was akin to those of African transition economies today. Over the past decade, Brazil's workforce has had strong similarities to those in Africa's diversified economies.

Exhibit 6

Africa's current workforce landscape strongly resembles the history of comparison countries

Employment
% of labour force



¹ Stable employment includes wage and salary employees and business owners; vulnerable employment includes subsistence farming, informal self-employment, and work for a family member.

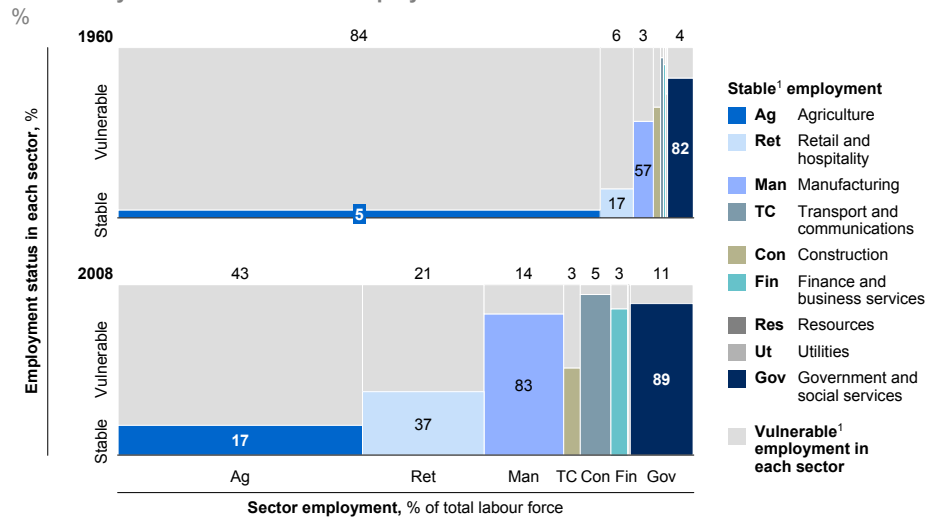
SOURCE: ILO LABORSTA; McKinsey Global Institute analysis

Over decades, these countries have transformed their employment landscapes. Thailand, for instance, has evolved from a situation similar to Africa's pre-transition economies back in 1960 to a pattern approaching that of Africa's diversified economies today (Exhibit 7).

Exhibit 7

Thailand's employment landscape has shifted dramatically since 1960 and nearly half the workforce is in stable employment today

Workers by sector and status of employment



1 Stable employment includes wage and salary employees and business owners; vulnerable employment includes subsistence farming, informal self-employment, and work for a family member.

SOURCE: International Labour Organization; McKinsey Global Institute analysis

Underlying the transitions were rapid gains in wage-paying jobs at double or even triple the rate Africa has achieved over the past decade. During the 1980s, for instance, South Korea raised the share of stable jobs by 13 percentage points from 54 percent to 67 percent of total employment. This is more than triple the rate at which Africa has created stable jobs since 2000. Thailand in the 1990s and Brazil from 1970 to 1988 both achieved 11 percentage points of growth in stable jobs, between one-and-a-half to three times Africa's rate. In both cases, this remarkable growth followed a shift from agriculture into manufacturing and later to domestic services and knowledge-intensive industries—a classic economic development pattern that has transformed their labour forces.

If Africa were to achieve the same rate of stable job creation as South Korea managed in the 1980s, the results would be dramatic. According to our projections, Africa would reach East Asia's share of the labour force in stable employment (48 percent) in 15 years, rather than the nearly 50 years it will take at current rates. It would reach Latin America's level of stable employment (63 percent) in 27 years—rather than taking nearly a century. The question is how Africa can achieve this acceleration.

SECTOR CONTRIBUTIONS TO JOB CREATION SHIFT AS ECONOMIES DEVELOP

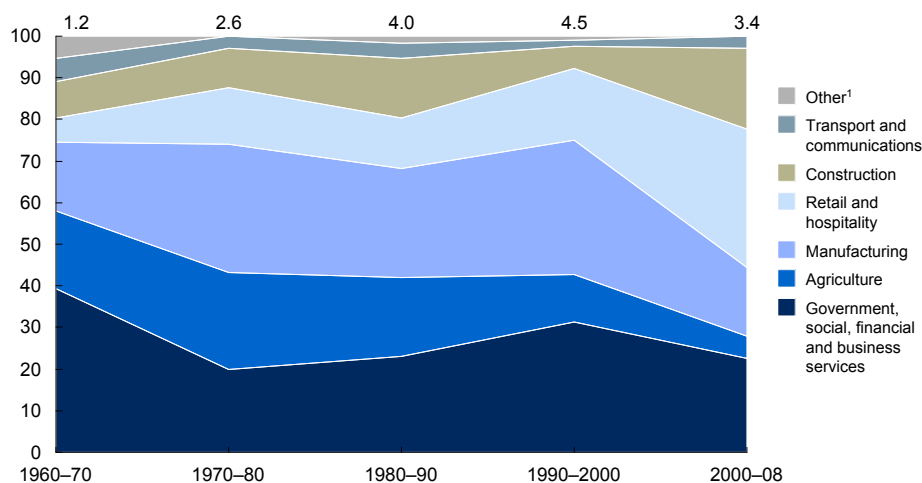
The sectors that are the main engines of job growth change as an economy develops. Consider the experience of Thailand. In the 1960s, when Thailand was at a similar stage of development as Africa’s pre-transition economies, the government and social sectors and agriculture accounted for nearly 60 percent of growth in stable jobs (Exhibit 8). Since then, manufacturing and then retail have taken over as the main drivers of employment growth. Even more recently, retail, hospitality, and construction have been the key creators of stable jobs since 2000.

The reasons for the shift are clear. The vast majority of the population in pre-transition economies lives in rural areas, and with only a nascent private business sector, most wage employment comes from the government or agriculture. Transition economies have begun to develop their manufacturing and service sectors, but still have low labour costs. They therefore have the potential to expand labour-intensive manufacturing and to grow domestic service sectors if they can build the necessary infrastructure and business environment. As countries reach a more diversified stage of economic development, they tend to have higher labour costs but can also produce higher-value-added manufactured goods and sustain more sophisticated knowledge-intensive service industries, such as banking and telecommunications.

Exhibit 8

Sectors that accounted for Thailand’s stable job growth shifted from agriculture to manufacturing and, more recently, to retail and construction

Additional wage-paying, stable jobs
%; million



¹ “Other” includes utilities and natural resources.

SOURCE: International Labour Organization; McKinsey Global Institute analysis

Looking at the four groups of countries in different stages of development in Africa today, we find that the sources of their stable job growth are similar to the patterns that we have described (Exhibit 9).²⁰

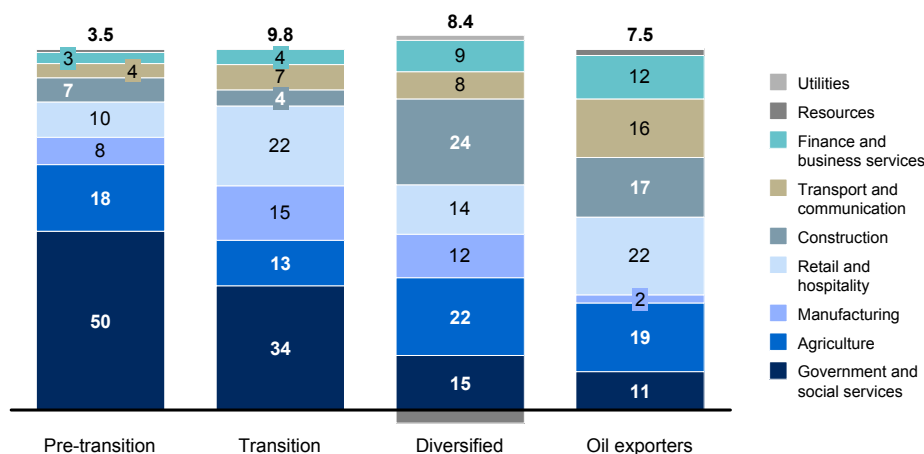
²⁰ Stable employment in a country depends on two factors: the distribution of employment across sectors and the share of stable jobs in each sector.

Exhibit 9

In Africa, the sectors that contribute to stable job growth differ by level of economic development

Stable wage-paying jobs added by sector and segment, 2002–10¹

%; million jobs



¹ Estimate uses data from Algeria, Angola, Egypt, Ethiopia, Kenya, Morocco, Nigeria, Senegal, South Africa, and Uganda. NOTE: Total wage-paying jobs from 2000-10 are 37 million. Jobs from 2000-02 as well as in African countries outside the four categories are not included in this analysis. Numbers may not sum due to rounding.

SOURCE: McKinsey Global Institute analysis

- Pre-transition countries**, including Ethiopia, Mali, and the Democratic Republic of the Congo, created 3.5 million stable jobs between 2002 and 2010, with the majority coming from government and social services (50 percent) and agriculture (18 percent). Seventy-nine percent of the labour force is in agriculture, which offers few wage-paying jobs.
- Transition countries** created 9.8 million stable jobs between 2002 and 2010 across a wider range of sectors. This group includes countries beginning to develop their manufacturing and service sectors, such as Ghana, Kenya, Senegal, Tanzania, and Uganda. Government and social services accounted for roughly one-third of job growth, followed by retail and hospitality, manufacturing, and agriculture. Agriculture accounts for 51 percent of employment in transition economies as compared to 79 percent in pre-transition economies. The share of stable wage-paying jobs in all sectors is higher.
- Diversified countries** created 8.4 million stable jobs between 2002 and 2010, spread across sectors. These are Africa's most advanced economies, including Egypt, Morocco, and South Africa. Construction was the largest contributor to wage employment, followed by agriculture, government and social services, retail and hospitality, and manufacturing. In these economies, financial services becomes a significant source of stable jobs as well.
- Oil exporters** in Africa created 7.5 million stable jobs between 2002 and 2010. This group includes Algeria, Angola, Libya, and Nigeria. As in diversified economies, employment gains occurred across a range of sectors. Retail and hospitality, construction, and transportation and communication were large sources of stable employment, as was agriculture. Employment in government and social services expanded modestly, but from a low base. Manufacturing in these countries accounted for only 2 percent of growth in stable jobs.

AT CURRENT TRENDS, AFRICA WILL CREATE 54 MILLION STABLE JOBS OVER THE DECADE TO 2020

Africa is on track to create an additional 54 million wage-paying jobs over the period 2010 to 2020.²¹ Nearly 20 million will be created in transition economies, with smaller numbers in other country segments.

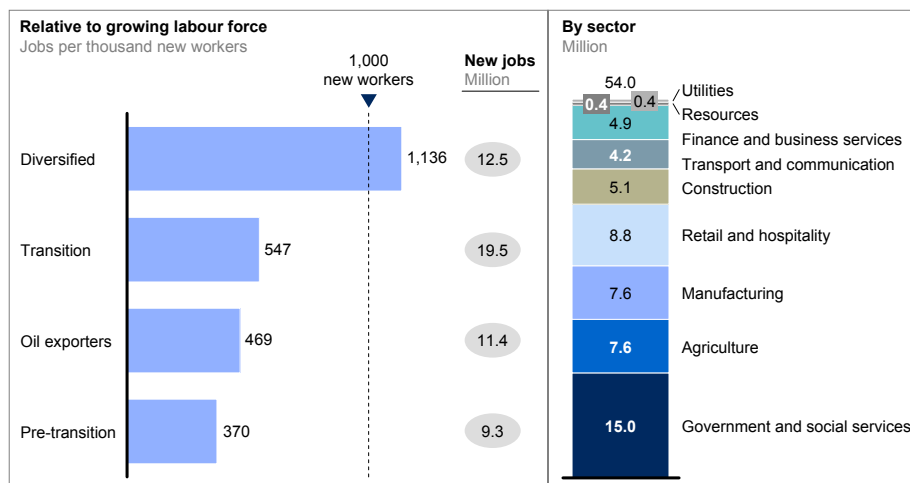
However, it is Africa's diversified economies that will create the most jobs relative to the number of new entrants into the labour force. They are set to generate 1,136 stable jobs for every 1,000 new workers entering the labour force. In other words, stable job growth will outpace growth in the labour force, implying a decline in unemployment or in vulnerable employment. In other African country groups, stable job growth will not keep pace with labour force growth, and the number of workers in subsistence activities and vulnerable employment will increase. Transition countries are on track to create wage employment for half of new workers, while pre-transition countries will create stable jobs for only one-third of new workers over the next decade.

Across sectors, we project that government and social services will create 15 million new jobs, followed by retail and hospitality, manufacturing, and agriculture (Exhibit 10).

Exhibit 10

The number of additional stable jobs is projected to exceed labour force entrants over the next decade only in Africa's diversified economies

Stable job growth, base case scenario, 2010–20¹



¹ Estimate based on ten countries: Algeria, Angola, Egypt, Ethiopia, Kenya, Morocco, Nigeria, Senegal, South Africa, and Uganda. Based on consensus GDP forecast and past trend in job growth relative to GDP growth.

NOTE: Numbers may not sum due to rounding.

SOURCE: McKinsey Global Institute analysis

Growth in wage-paying employment comes from two sources: a shift in the mix of sectors in the economy and an increase in the share of stable jobs within each sector. Both forces are at work in Africa. We estimate that the retail and hospitality sector is increasing its share of stable employment the most quickly, with the share of wage-paying jobs rising by 0.6 percentage points per year in most country segments. Manufacturing and construction are formalising employment nearly as quickly, particularly in pre-transition and transition countries, where small family businesses are still common in manufacturing. Agriculture is shifting

²¹ See the appendix for details on our methodology.

to wage employment much more slowly, from 0.1 percentage points per year in pre-transition countries to 0.3 percentage points per year in diversified countries. However, the large number of Africans in agriculture means that the sector is a major source of wage employment. The remaining sectors of the economy, such as utilities, resources, finance, and the public and social sectors, have predominantly stable employment already in all country segments, and so changes are less rapid. We provide more detail on these shifts in the technical appendix.

AFRICA HAS UNTAPPED JOB POTENTIAL, ESPECIALLY IN AGRICULTURE, MANUFACTURING, AND RETAIL AND HOSPITALITY

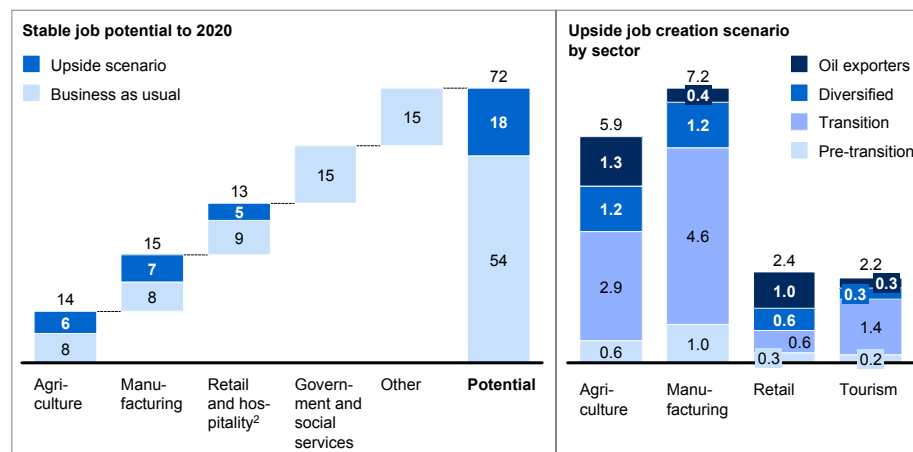
Beyond Africa's public and social sectors, which account for 33 million out of 107 million stable jobs on the continent today, stable employment is concentrated in three sectors: agriculture, retail and hospitality, and manufacturing. These three sectors are likely to be the major sources of stable jobs over this decade, too. We estimate they could create an additional 18 million wage-paying jobs by 2020 on top of current trends, bringing the total increase in stable employment to 72 million (Exhibit 11).²² Capturing this potential will require significant reforms to unleash growth, but it could be achieved.

Exhibit 11

In an upside scenario, Africa could create 72 million stable jobs by 2020

Stable job growth, base case and upside scenarios, 2010–20¹

Million



¹ Estimate based on ten countries: Algeria, Angola, Egypt, Ethiopia, Kenya, Morocco, Nigeria, Senegal, South Africa, and Uganda. Business as usual based on consensus GDP forecasts and trend rate of employment growth. Upside scenario based on accelerated growth in three sectors: agriculture, manufacturing, and retail and hospitality.

² Retail and hospitality sector includes tourism.

NOTE: Numbers may not sum due to rounding.

SOURCE: McKinsey Global Institute analysis

These three sectors offer the largest number of new private-sector jobs across the continent, but other sectors also hold significant promise. Construction, transport and communication, and financial services are all showing strong employment growth, albeit from a low base, and have the potential to expand wage employment further. These more advanced sectors will be especially important in diversified economies. The government and social sectors will remain strong contributors to employment growth as countries expand education

²² We model future creation of stable jobs based on past trends and project GDP growth by sector for the following countries: Algeria, Angola, Egypt, Ethiopia, Kenya, Mali, Morocco, Nigeria, Senegal, South Africa, and Uganda. See the appendix for more detail.

and health care. Governments must, however, grow sustainably: spending and employment growth in the public sector must follow growth in the private sector. In many countries, Africa's natural resources underpin the development of public and private services. New discoveries of oil, gas, and hard minerals in many countries have the potential to spur development in other sectors and benefit the local population—but only if governments harness the wealth created by these sectors appropriately.

African agriculture can generate more stable jobs in three ways

Although the share of Africans working in agriculture has declined from 2002 to 2010, Africa's 187 million agricultural workers still comprise roughly half of all workers on the continent. On average, only one in eight agricultural jobs is stable, but the proportion varies significantly across countries. Overall, there are 22 million stable wage-paying jobs in African agriculture today, up from 17 million in 2002.

As countries develop, both the share and number of jobs in agriculture typically decline. But countries with rich natural endowments of arable land and favourable climates—like many in Africa—can defy this trend. This was the case in Thailand, where the number of stable jobs in agriculture grew from 519,000 in 1960 to almost three million in 2008, the result of a continuous expansion of farming onto previously uncultivated land and a focus on labour-intensive crops such as rice.

At current projections for agricultural GDP in Africa, we estimate that the continent will create eight million wage-paying jobs in agriculture by 2020. However, that could be increased by a further six million if Africa were to accelerate development of the sector; this would be equivalent to an additional 3.1 percent growth in value added per annum, as we outlined in our 2010 report.²³

Specifically, we see two potential ways for African agriculture to ramp up its creation of stable jobs, even while the sector becomes more productive: expanding large-scale commercial farming on uncultivated land, and shifting from low-value grain production to more labour-intensive and higher-value-added horticultural and biofuel crops. In addition, agricultural growth can be used to develop downstream agro-processing industries, such as food and beverage manufacturing, textiles, leather goods, and wood products (see the next section for a discussion of this issue).

The first opportunity is to expand commercial farming onto land that is currently uncultivated. Africa has about 60 percent of the world's uncultivated arable land, nearly 600 million hectares (Exhibit 12).²⁴ However, achieving a large-scale shift to create commercial farming on this land would require Africa to formulate new policies on land rights, integrated water management, access to inputs and finance, distribution infrastructure, and trade policies.²⁵

23 *Lions on the move: The progress and potential of African economies*, McKinsey Global Institute, June 2010 (www.mckinsey.com/mgi).

24 Africa's pre-transition and transition countries are home to 51 percent of Africa's suitable arable land (Harmonized World Soil Database). Countries included are Cameroon, Democratic Republic of the Congo, Côte d'Ivoire, Ethiopia, Ghana, Kenya, Mali, Mozambique, Senegal, Tanzania, Uganda, and Zambia.

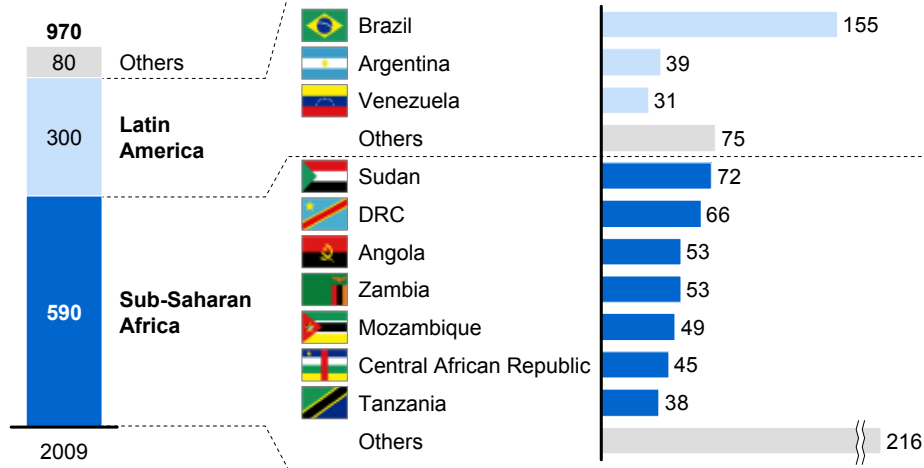
25 An example of an economy that is aiming to use policy in this way is Morocco, whose Plan Maroc Vert (Green Morocco Plan) was introduced in 2009. See the Agency for Agricultural Development Web site, www.ada.gov.ma.

Exhibit 12

Africa has roughly 60 percent of the potentially available cropland in the world

Additional available cropland, 2009¹

Million hectares



¹ Cropland is defined as land producing output greater than 40 percent of maximum yield under rain-fed conditions, excluding forest areas.

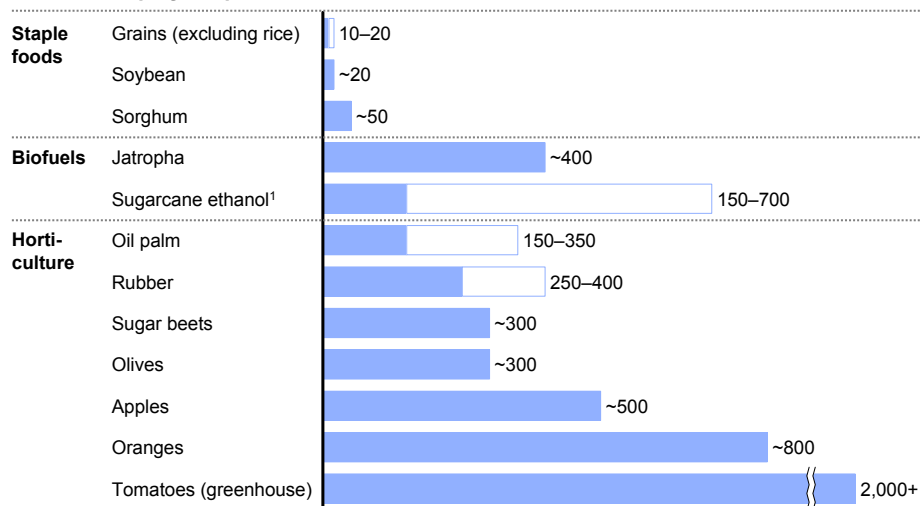
SOURCE: *Awakening Africa's Sleeping Giant*, World Bank, 2009; World Bank; Food and Agriculture Organization of the United Nations; McKinsey Global Institute analysis

A second opportunity is to shift production toward more labour-intensive, higher-value-added crops. Staple foods such as grains, soybeans, and sorghum employ between ten and 50 people per 1,000 hectares. Horticultural products require much more labour: growing 1,000 hectares of olives or oranges requires 300 and 800 people, respectively. Biofuel products, such as sugarcane ethanol as well as palm oil and rubber, also fall into the more labour-intensive category (Exhibit 13). Shifting to such crops can increase wage-paying employment in rural areas and create sources of export earnings for countries. In this shift, countries must also be careful to ensure their continued domestic food security.

Exhibit 13

High-value-added crops, including biofuels and horticulture, drive ten to 100 times more job creation per hectare than grain farming

Full-time employees per 1,000 hectares



¹ Rain-fed, partially mechanised (Brazil) vs. irrigated, manual harvest (Tanzania).

SOURCE: *Rising Global Interest in Farmland: Can it yield sustainable and equitable benefits?* World Bank, 2010; McKinsey analysis; McKinsey Global Institute analysis

Africa needs to reverse the decline in manufacturing to become a significant generator of stable jobs

In most African countries, manufacturing has been flat or declining over the past decade. Across a sample of 27 major African economies, manufacturing's share of GDP has fallen to 12 percent in 2010 from 15 percent in 2000. Africa's estimated share of global manufacturing value added is slightly over 1 percent.²⁶

Reversing this decline is important for accelerating Africa's growth and job creation and for improving its balance of payments. Roughly half of the 30 million jobs in African manufacturing offer wage-paying employment, a higher share than most sectors. Moreover, the number of stable manufacturing jobs increased from 11 million to 14 million between 2002 and 2010, despite the weak performance of the sector.

If current projections for manufacturing value-added growth hold, we estimate that the sector will create eight million more stable jobs by 2020. But if Africa could accelerate growth of its manufacturing industries, as other emerging markets have done, it could create up to 15 million new stable manufacturing jobs in this decade. To reach this potential, Africa's low-wage economies (pre-transition, transition, and low-wage oil exporters) would need to match the performance of low-wage manufacturing leaders such as Vietnam. For transition countries, this implies an additional 3.9 percent annual growth in manufacturing value added, which would create nearly five million new stable jobs in these countries. For Africa's pre-transition economies, the current manufacturing base is so low that an even higher growth rate is possible. Growing their manufacturing base to only 20 percent of Vietnam's current manufacturing value added would produce an additional one million stable jobs in these countries by 2020. Africa's diversified economies could aspire to match South Korea's current rate of manufacturing sector growth, implying 2.0 percentage points of additional manufacturing value-added growth per year. This would create more than one million stable jobs in the diversified countries. Overall, these targets are ambitious, but we believe that African countries could achieve them if policy makers prioritise putting the right conditions in place.

To achieve the additional potential for job creation in manufacturing, each country on the continent needs to understand the sources of potential comparative advantage it holds in a global market, identify the specific manufacturing subsectors in which it can compete, and then remove the blockages that have prevented these subsectors from reaching their potential. This approach stands in stark contrast with Africa's many previous attempts at industrialisation. Many of these attempts lacked any basis in comparative advantage and therefore did not produce globally competitive results. In other cases, governments invested directly in prestige projects rather than focusing on removing the blockages to private-sector success.

²⁶ *World development indicators*, World Bank (measured in real 2005 values).

Nigeria, for example, enjoys abundant natural gas and a growing local construction industry, comparative advantages that have already brought some major private-sector success stories. Dangote Cement PLC has benefited from Nigerian gas to become Africa's largest cement producer and today meets about half of Nigeria's cement needs. From this domestic base, it is already expanding into other African markets, including Cameroon, Ethiopia, Senegal, Tanzania, and Zambia.²⁷ Nigerian manufacturing still faces a range of obstacles, including weak infrastructure and logistics bottlenecks, and removing these would allow similar success stories to emerge.

While each African country enjoys unique advantages, we identify four opportunities that apply to many economies on the continent: (1) labour-intensive light manufacturing in pre-transition and transition countries; (2) agro-processing in countries with large agricultural sectors; (3) higher-value-added exports in diversified countries; and (4) manufacturing for domestic markets in oil exporters. Individual countries will need to identify specific opportunities within these categories and then overcome barriers that may be constraining their growth.²⁸

The first opportunity is for Africa's pre-transition and transition economies to use their growing labour forces and low wages to compete in labour-intensive light export manufacturing. Wages in these countries are competitive with other global low-cost manufacturing hubs. For instance, monthly unskilled manufacturing wages in Ethiopia, Zambia, and Tanzania are \$44, \$105, and \$180, respectively, compared with around \$105 in Vietnam and \$240 in China, according to a recent World Bank study.²⁹ The evidence shows that the productivity of African workers in well-managed factories is comparable with other countries, although overall it is lower than that of China or other countries because of poor logistics and infrastructure, as well as cumbersome bureaucratic procedures.

The second opportunity is to take better advantage of Africa's agricultural output to develop downstream agro-processing industries. Today, more than half of African manufacturing jobs are in industries related to agricultural products, including the production of food and beverages, as well as non-food-related production of textiles, leather goods, and wood products (Exhibit 14).³⁰ The share of output from these sectors is below that found in other emerging markets today. Non-food agro-processing industries, in particular, have the potential to grow and could increase their contribution to GDP by between two and five times if African countries were to reach similar shares of GDP seen in Indonesia and Thailand. Although wages in agriculture-related manufacturing are only 60 to 80 percent of those found in other manufacturing subsectors, they would still be considerably higher than the subsistence-level incomes earned today by many African farmers.

27 Company Web site, www.dangote-group.com.

28 See, for example, Justin Yifu Lin and Célestin Monga, *Growth identification and facilitation: The role of the state in the dynamics of structural change*, World Bank policy research working paper number 5313, May 2010.

29 Hinh T. Dinh et al., *Light manufacturing in Africa: Targeted policies to enhance private investment and create jobs*, World Bank, February 2012.

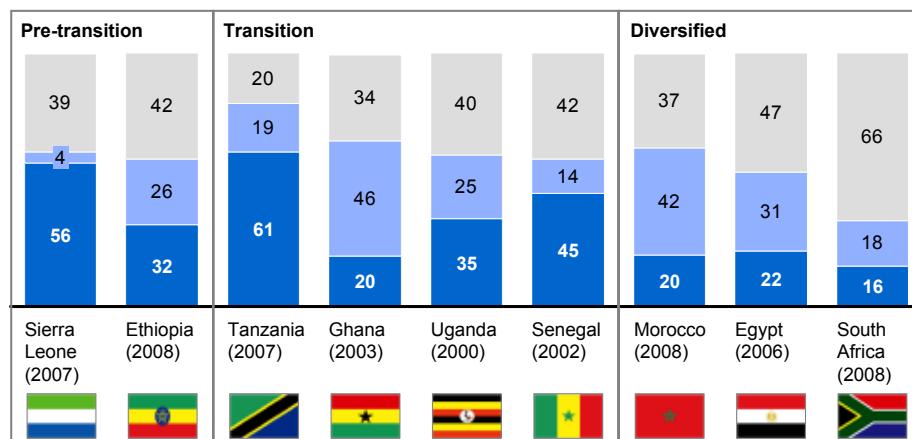
30 Self-reported data from the United Nations Industrial Development Organization (UNIDO).

Exhibit 14

In many countries in Africa, agribusiness accounts for more than half of all manufacturing jobs

Employment in manufacturing
%

Other manufacturing
Agro-processing¹
Food, beverages, and tobacco



¹ Includes textiles, footwear and apparel, leather products, paper and wood products, and rubber products.
NOTE: Numbers may not sum due to rounding.
SOURCE: INDSTAT4, United Nations Industrial Development Organization (UNIDO), 2011; McKinsey Global Institute analysis

Third, Africa’s diversified economies can focus on higher-value-added export products. Diversified countries have higher wage rates than low-cost manufacturing countries, but also more skilled workforces and better infrastructure, opening up new opportunities. Morocco, for example, manufactures automobiles and spare parts for Renault through SOMOCA, a joint venture with the Moroccan government, which is building a new factory that is expected to produce around 400,000 vehicles by 2013.³¹ Higher-value-added manufacturing will create fewer additional jobs than light manufacturing, but these jobs are important as typically they are well paid. In South Korea, for example, the number of stable jobs in manufacturing peaked in around 1991 and has since fallen—but the income generated from the country’s high-value-added manufacturing has supported employment in other sectors and allowed South Korea to continue to develop rapidly.

The fourth opportunity is for oil exporters to explore manufacturing for the local market and potentially for neighbouring countries, given that manufacturing for wider export is likely to be challenging in the face of strong exchange rates. Both Dangote Cement and Mikano International Limited, a major producer of generators in Nigeria that employs around 1,600 people, serve the local market in Nigeria successfully.³²

The most serious competitive challenge for African manufacturing lies outside the factories themselves in the form of high costs for transportation and inputs, duties, and bureaucracy.³³ Transportation costs, duties, and taxes are generally higher in Africa than they are in China, Vietnam, and Bangladesh. Africa’s ports are congested, rail networks are limited, and roads are poor, plus there is a

31 Company press release, Renault, June 4, 2010.
32 Company Web site, www.mikano-intl.com.
33 Vijaya Ramachandran, Alan Gelb, and Manju Kedia Shah, *Africa’s private sector: What’s wrong with the business environment and what to do about it* (Washington, DC: Center for Global Development, 2009).

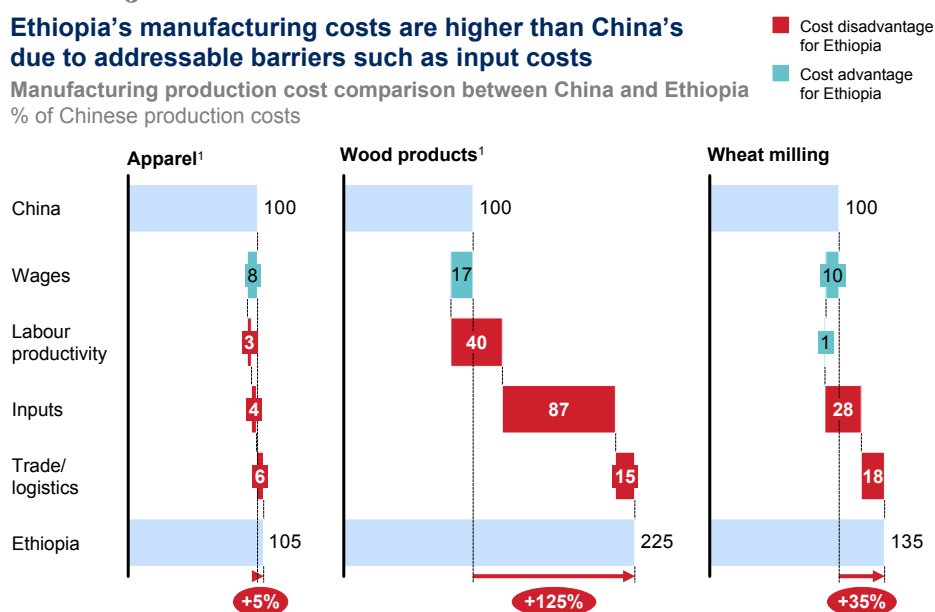
paucity of logistics providers. Duties and tax structures are often unclear and costly. Unreliable energy supplies force many businesses to use generators, which are much more expensive than taking power from the grid.

These factors significantly raise the overall expense of manufacturing in Africa. Consider, for instance, the costs of manufacturing a wood chair in Ethiopia versus China, as analysed in a recent World Bank study (Exhibit 15).³⁴ Ethiopia's wages are lower than China's, making the cost of Ethiopian production 17 percent cheaper than in China. However, Ethiopia's labour productivity is only 0.3 pieces per employee per day, compared with 4.9 pieces in China, raising Ethiopia's production cost by 40 percent. Input costs (for instance, for wood) are much higher in Ethiopia, adding 87 percent to production costs. China can import wood efficiently from neighbouring countries, while Ethiopia does not have large productive plantations from which it can buy. Ethiopian electricity is often self-generated at a cost of about \$0.25 per kilowatt-hour, compared with electricity via China's more reliable grid at about \$0.14 per kilowatt-hour. Overall, it is cheaper for an Ethiopian to buy a chair made in China—even taking into account transportation costs. The same is true for many of Africa's nascent manufacturers, including those in Tanzania and Zambia.³⁵

Exhibit 15

Ethiopia's manufacturing costs are higher than China's due to addressable barriers such as input costs

Manufacturing production cost comparison between China and Ethiopia
% of Chinese production costs



1 Representative products used are polo shirts and men's underwear in apparel; wooden chairs and doors in wood products.
SOURCE: *Light manufacturing in Africa*, Volume II, World Bank, 2012

34 Hinh T. Dinh et al., *Light manufacturing in Africa: Targeted policies to enhance private investment and create jobs*, World Bank, 2012.

35 Ibid.

African governments have imposed import duties aimed at supporting local enterprises in many countries. While such moves may seem to support job creation in the short term, in the long term they have historically dampened competition, productivity, and ultimately employment growth in many countries.³⁶ Instead, governments should put in place the critical economic foundations for manufacturing to thrive, including infrastructure, transportation and logistics, access to finance, and low-cost factor inputs, while allowing foreign and domestic companies to compete.

Retail and hospitality offer large opportunities to create many more stable jobs

Between 2002 and 2010, Africa's retail and hospitality sectors together created more stable jobs than any sector apart from government and social services.³⁷ Overall employment increased from 45 million to 61 million, while the number of stable wage-paying jobs grew from 10 million to 15 million.

As African household incomes rise, these sectors have the potential to be significant creators of wage-paying jobs in Africa. At current projections for GDP in the sector, Africa could create nine million stable jobs by 2020. If the sector were to double the rate at which retail is shifting from informal stores to modern shopping outlets, retail could add two and a half million more stable jobs. Hospitality is already expanding strongly in many countries, but further potential remains; increasing the rate of growth by just 2 percent per annum would add another two million stable jobs over the decade. We estimate that retail and hospitality together could create up to 13 million new wage-paying jobs in Africa by 2020.

Retail: Meeting rising consumption requires the creation of modern shopping

Africa's expanding consuming class is driving growth in retailing. The number of African households with discretionary income has grown from 59 million in 2000 to 90 million in 2011—an increase of 53 percent—and is set to increase by an additional 42 percent to 128 million households in 2020. Today, African households spend an average of 27 percent of their income on groceries, their largest single expense (and a higher share of wallet than in India, China, or Brazil). Apparel accounts for a further 10 percent of discretionary spending in Africa.

The main barrier to expanding wage-paying employment in retail is the prevalence of tiny informal stores. In Ethiopia, Egypt, Ghana, and Nigeria, a recent McKinsey survey of households finds that more than 70 percent of grocery spending is in informal shops.³⁸ The share of modern store formats in a country does not always correlate to income levels. In South Africa, for instance, the share of grocery spending in formal outlets is 81 percent, compared with only 18 percent in Egypt, another diversified economy. Ghana, a transition country, conducts

36 India combined trade barriers to protect its infant automotive sector with a ban on foreign direct investment to encourage the growth of domestic auto companies. This combination helped to create local industries that generated employment but could not close the cost and performance gap with global companies. After India removed trade and investment barriers, the sector's productivity more than tripled. See *How to compete and grow: A sector guide to policy*, McKinsey Global Institute, March 2010 (www.mckinsey.com/mgi).

37 We discuss the retail and hospitality sectors together because national statistical sources treat them as a single sector and do not provide a breakdown between the two.

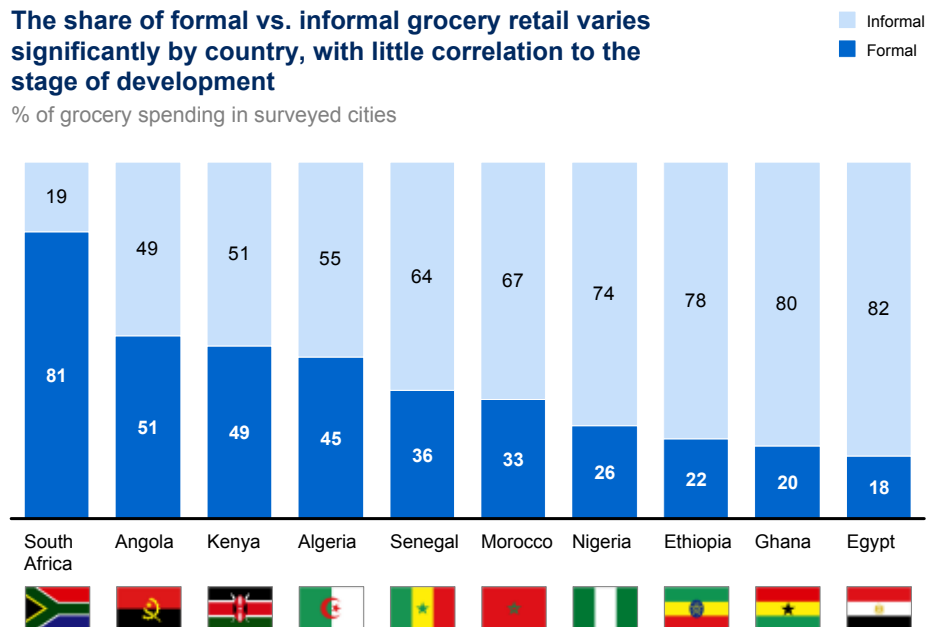
38 McKinsey's Africa Consumer Insights Centre will shortly publish a report on African consumers.

only 20 percent of grocery shopping in formal stores, but that share in Kenya is 49 percent. Among oil exporters, shoppers in Angola conduct 51 percent of their grocery spending in formal retail outlets, compared with only 26 percent in Nigeria (Exhibit 16).

Exhibit 16

The share of formal vs. informal grocery retail varies significantly by country, with little correlation to the stage of development

% of grocery spending in surveyed cities



SOURCE: McKinsey Africa Consumer Insights Centre

These variations suggest that there is enormous scope for the development of African retail. Indeed, change is already under way. In groceries and apparel, South African and Kenyan retailers have been driving the shift to formal outlets, and international companies are increasingly influential. Conservative estimates suggest that with the recent lifting of Nigeria's ban on imported clothing in 2011, foreign firms will open 65 apparel stores by 2015 in Nigeria, compared with only ten today.

A major barrier to the expansion of modern retail stores is a lack of commercial retail space. Nigeria's four largest cities, with a combined population of 19.5 million, have only six shopping malls (and two under construction), compared with 207 shopping malls in three of South Africa's largest cities, with a combined population of just over ten million. This has prompted some retail and consumer goods companies to move upstream and become anchor stores in future malls or even to co-invest in formal retail space. South Africa's grocery chain Shoprite, which has stores in 15 other African countries, uses this model.

There is often a misconception that growth in modern retail stores will result in lower employment in the sector. However, the experience of many other countries around the world suggests that the opposite is usually true. The shift to modern stores can substantially raise productivity and at the same time create more wage-paying jobs.³⁹ Productivity gains enable stores to offer lower prices

³⁹ Largely because of an expansion of modern formats, Russian retail improved its productivity from 15 percent of the US level in 1999 to 31 percent a decade later, while creating five million jobs. See *Lean Russia: Sustaining growth through improved productivity*, McKinsey Global Institute, April 2009 (www.mckinsey.com/mgi).

to customers, which stimulates more demand, or enable stores to pay their employees higher wages, which are spent in other sectors of the economy. These factors lift sector growth and employment.

Tourism: Employment is already growing rapidly and has considerable scope to continue to increase

Tourism is another, albeit smaller, opportunity to create wage-paying jobs in some African countries. The sector, which is part of the overall hospitality industry, today directly employs 8.4 million people in Africa (2 percent of the workforce).⁴⁰

Africa's diversified countries currently account for around 75 percent of tourism spending on the continent (Exhibit 17). These countries today are already well established in the global market. Each had between 6 million and 12 million international arrivals in 2009, outstripping other major international destinations such as Indonesia (6.3 million arrivals), India (5.2 million), and Brazil (4.8 million). However, African countries can develop themselves even further into tourism hubs. Thailand, for instance, received 14.2 million international arrivals in 2009.

The record of Africa's transition economies, which drew between 700,000 and 2.2 million international arrivals in 2009, has been much less impressive than that of their diversified neighbours. But some—notably Tanzania—are now experiencing rapid growth in tourism. Employment in the sector is increasing quickly too. If these economies can match the diversified countries' numbers of international arrivals, they could create significant numbers of new jobs.

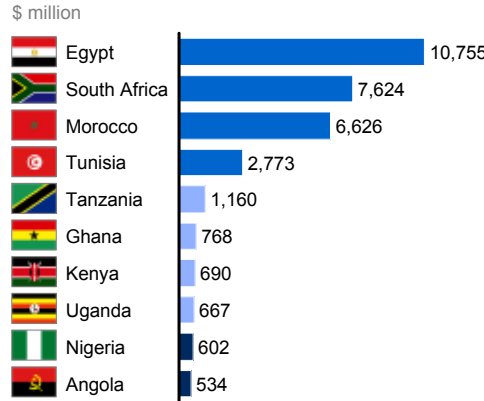
Exhibit 17

Diversified economies account for nearly 75 percent of international tourism in Africa

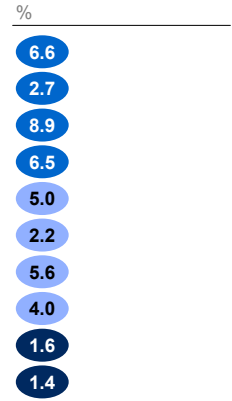
Travel receipts, 2009¹
%; \$ million



Travel receipts¹ in top ten countries, 2009
\$ million



GDP contribution, 2011²
%



1 Expenditure on goods and services by international inbound visitors, excluding international carriage. Data in current \$.
2 GDP generated by tourism industry including hotels, travel agents, airlines and other passenger transportation services, as well as the activities of restaurant and leisure industries that deal directly with tourists.
NOTE: Numbers may not sum due to rounding.
SOURCE: World Development Indicators, World Bank; World Travel and Tourism Council, 2012

40 *Travel and tourism economic impact 2012: Africa*, World Travel and Tourism Council, 2012.

In many countries, developing tourism further would require less investment per stable job created than in other sectors. For instance, tourism creates nearly 200 full-time formal jobs for each \$250,000 of investment, compared with only around 100 stable jobs in the resources sector.⁴¹ But Africa needs to overcome barriers to growth in the tourism industry, including inadequate and costly air travel and visa requirements, poor surface transportation, and problems around land use and development rights.⁴² Construction costs for hotels can be very high. Even if Africa expands the infrastructure needed to support tourism, the industry then needs to explore how it can boost the length of stay and spending per stay to increase revenue and create more jobs.

□ □ □

The experience of other emerging economies at similar stages of their economic development as Africa today shows that there is significant scope for Africa to accelerate its creation of stable jobs. The greatest potential is in agriculture, manufacturing, and retail and hospitality. But each of these sectors faces barriers. In chapter 3, we discuss what business leaders see as the main obstacles to their ability to grow their operations and create more jobs.

41 *Zambia: Economic and poverty impact of nature-based tourism*, World Bank report number 43373-ZM, December 2007.

42 Hannah R. Messerli, "Transformation through tourism: Harnessing tourism as a development tool for improved livelihoods," *Tourism Planning and Development*, Volume 8, Number 3, 2011.

3. Barriers to stable job creation in Africa

Experience from other countries suggests that African nations could be creating stable jobs at a faster pace. So what stands in the way? A range of barriers are constraining Africa's growth and limiting stable employment in private-sector businesses.

To improve our understanding of the obstacles to growth and employment in African businesses, we commissioned an in-person survey of 1,373 business owners and executives in five African countries—Egypt, Kenya, Nigeria, Senegal, and South Africa. The respondents came from businesses that span industries, with 23 percent in retail, 15 percent in manufacturing, 13 percent in agriculture, 13 percent in construction, 12 percent in hospitality (hotels and restaurants), and the remainder in transport, communications, community services, finance, and real estate. The majority of employers we surveyed were in small businesses; within that group, 29 percent had fewer than five employees, 37 percent five to 19 employees, and 34 percent 20 or more employees. (Around 100 were large companies with more than 150 employees.) We asked the companies surveyed about their hiring outlook; the factors that inhibit their overall growth and in particular their ability to hire more employees; the types of skills they find most challenging to find and retain; and what they wish governments would do to help. Beyond the survey, we further enriched our understanding of the challenges large companies face through interviews with business leaders and our own extensive work across the continent.

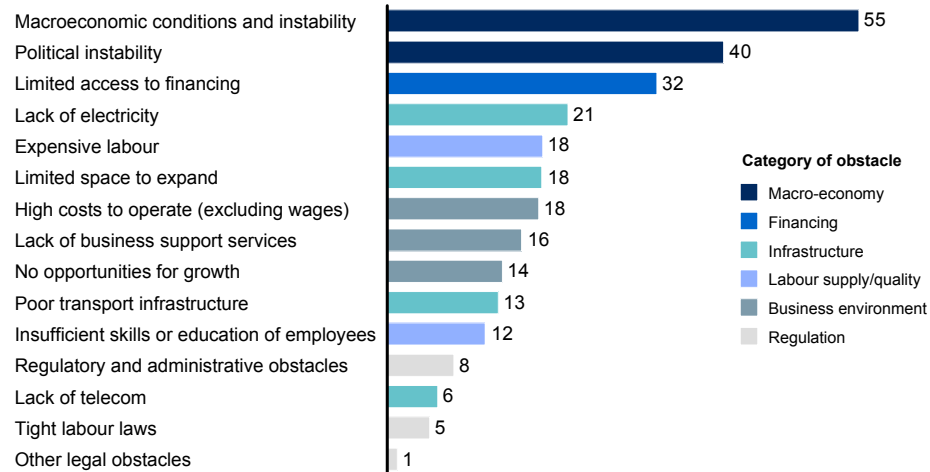
While this survey is too small to be representative of all African business, we believe its results are useful in illuminating specific obstacles to growth and hiring on the continent. Although the key barriers vary from country to country, respondents cited a remarkably consistent set of broad challenges (Exhibit 18). These include macroeconomic and political instability, lack of access to finance, and poor infrastructure. None of these issues is unfamiliar, and they are certainly not unique to Africa. Some companies also reported that a lack of workers with the appropriate technical skills, or job experience and “work readiness”, can be an obstacle to hiring. However, in no country was a lack of worker skills among the top three barriers to growth.

The results of our survey suggest there is no simple solution or single route to accelerating job creation; each country must build the basics necessary for a strong economy and a robust private sector. For instance, programmes to help develop managerial and business skills could be useful. But without action to address the major issues of overall economic and political conditions, finance, and infrastructure, such programmes are very unlikely to succeed in isolation.

Exhibit 18**African businesses cite macroeconomic and political instability and finance constraints as the most important obstacles to growth**

Q: What are the top issues that hinder you from increasing your revenues and growing your business more?

% of enterprises citing factor in their top three obstacles for growth (n = 1,373 employers)



SOURCE: McKinsey Survey of African Businesses, 2011

CONCERNS ABOUT MACROECONOMIC AND POLITICAL STABILITY TOP THE SURVEY RESPONSES

The top barrier to growth cited across countries, sectors, and size of business is concern about macroeconomic conditions: 55 percent of respondents name this among the top three constraints on growth. The prevalence of uncertainty about the macroeconomic situation reflects the fact that, despite Africa's growth acceleration over the past 15 years, many businesses are still concerned about sufficient demand and the potential for inflation. Worries about political stability also registered heavily, most notably in Egypt, which continues to suffer from uncertainty in the wake of the removal of the country's long-standing political leadership. Respondents in hospitality sectors disproportionately reported worries about political instability that could have a direct impact on visitor numbers. As we showed in our previous work *Lions on the move: The progress and potential of African economies*, African countries have made significant improvements on macroeconomic indicators such as inflation and government debt, and GDP growth in those countries that have pursued reforms has accelerated three times as fast as in the non-reformers. Nonetheless, our survey results confirm that there is further room for improvement.

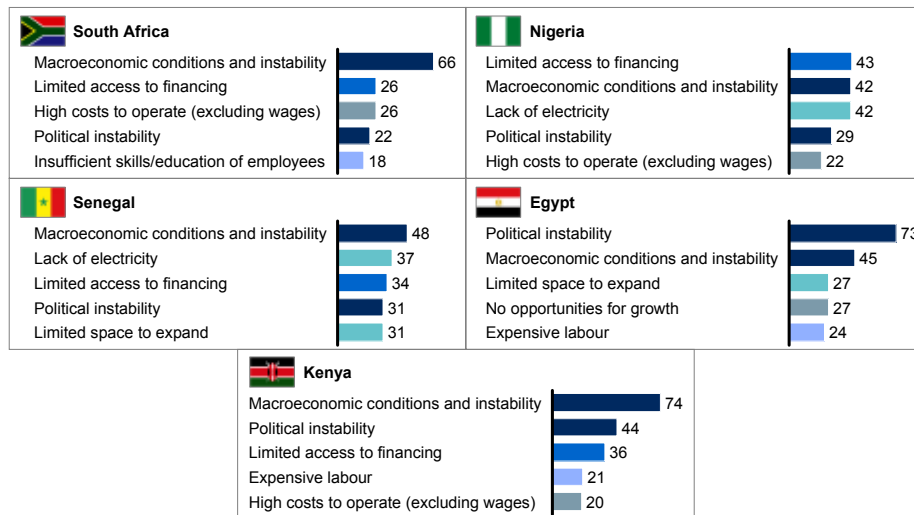
ACCESS TO FINANCE IS THE THIRD MOST COMMON BARRIER TO GROWTH

After macroeconomic and political instability, the next most commonly cited barrier that emerges from the survey is insufficient access to financing, with 32 percent of respondents citing this as one of their top three barriers to growth. However, the importance of this constraint varies across countries. In Nigeria, Africa’s most populous nation, business leaders ranked access to finance in their top three constraints to growth more often than any other factor (Exhibit 19 and Box 6, “Nigeria survey findings”).

Exhibit 19

Across Africa, companies cite different obstacles to growth

% of enterprises citing factor in their top three obstacles for growth (n = 1,373 employers)



SOURCE: McKinsey Survey of African Businesses, 2011

Box 6. Nigeria survey findings

Creating jobs in Nigeria, Africa’s most populous country, is important for the continent’s overall progress. Nigerian businesses were especially quick to mention a lack of finance and infrastructure (especially electricity) as barriers to growth—only in Nigeria did these factors rival overall macroeconomic conditions as frequently cited concerns. Nigerian businesses saw an economy full of opportunities but lack the operating environment to be able to capture them.

When it comes to hiring, few Nigerian businesses cited a lack of qualified candidates as one of their top three constraints on growth. This reflects the fact that inadequate infrastructure and financing are more pressing concerns today. Still, respondents did note that job applicants often lacked work readiness and prior employment experience. Nigeria needs to ensure that formal education provides job-ready candidates equipped with relevant soft skills. In particular, interviews with business owners suggested that many feel unable to trust potential employees to carry out their responsibilities.

Lack of access to finance appears to be a barrier in particular for small businesses, which contribute significantly to the GDP of African economies. In South Africa, for instance, small businesses are responsible for 57 percent of GDP. The African Trade Insurance Agency estimates that small businesses contribute 75 percent of the continent's employment. This suggests that easing barriers to access to finance could significantly reduce bottlenecks to employment growth.

McKinsey research finds that in sub-Saharan Africa, credit to small and medium-sized enterprises needs to roughly quadruple to fill a credit financing gap of between \$130 billion and \$150 billion, the largest increase necessary in any region of the world.⁴³ The reasons for this gap vary. One is simply that formal banking systems are underdeveloped, particularly in sub-Saharan Africa. (South Africa, with its modern banking system, is an exception.) In those countries, bank deposits are equivalent to just 34 percent of GDP, compared with 83 percent in India and more than 175 percent in China.⁴⁴ Only 20 percent of adults have access to either formal or semiformal financial services, the lowest share of banked households in the world.⁴⁵

Another reason is a lack of microfinance programmes that could fund the smallest businesses. One assessment found that microfinance providers in sub-Saharan Africa are on average worse-performing, with weaker asset quality and a higher cost structure, than those of other regions.⁴⁶ A lack of property rights can affect the availability of collateral, preventing businesses from borrowing. In Ethiopia, for instance, an economy that has potential to further develop its leather-goods subsector, a key constraint to borrowing for small businesses is a lack of clear property rights that would allow owners to offer cattle as collateral. Expanding access to finance for businesses must be a priority for unleashing growth and job creation.

BUSINESSES CITE A RANGE OF INFRASTRUCTURE SHORTCOMINGS AS CONSTRAINTS

Infrastructure shortcomings are the other main barrier to growth cited in our survey. A lack of electricity, poor transportation infrastructure, and an inability to access land for development top the list of infrastructure-related concerns raised by businesses. The quality of electricity, roads, rail, ports, and air travel for most African countries, excluding South Africa, is far below the average of Brazil, Russia, India, and China (the BRICs) (Exhibit 20).⁴⁷ Per capita power consumption in the BRIC quartet is more than twice that of Africa in aggregate, and BRIC road density, measured in kilometres of road per 1,000 square kilometres of land, is almost five times as high. Africa's logistics costs, whether measured in dollars or time, are up to double those of the BRICs. According to World Bank estimates, Africa needs to invest \$118 billion a year in infrastructure to address the backlog,

43 *Micro-, small, and medium-sized enterprises in emerging markets: How banks can grasp a \$350 billion opportunity*, McKinsey & Company, January 2012.

44 McKinsey Global Institute Financial Stock database.

45 Alberto Chaia, Tony Goland, and Robert Schiff, "Counting the world's unbanked," *The McKinsey Quarterly*, March 2010.

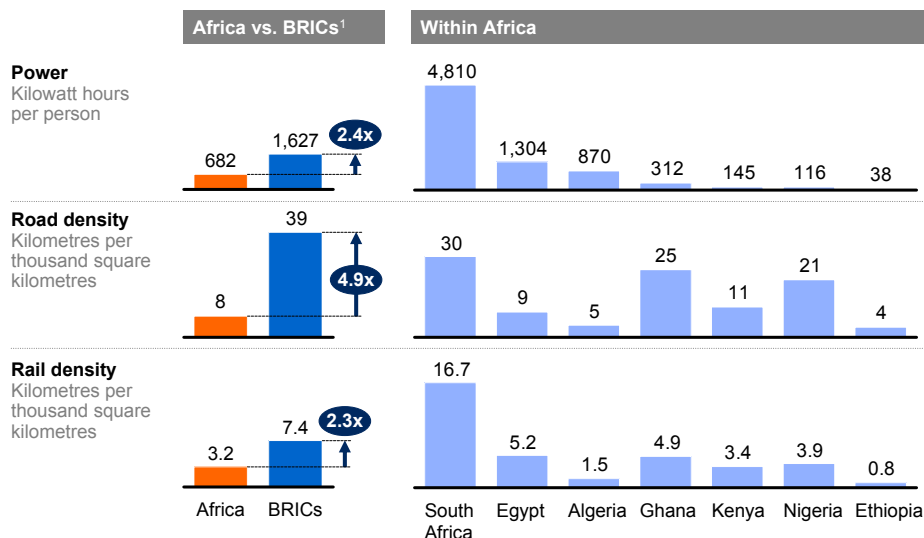
46 Jasmina Glisovic, Senayit Mesfin, and Louise Moretto, *Microfinance investment in sub-Saharan Africa: Turning opportunities into reality*, Consultative Group to Assist the Poor (CGAP) briefing, June 2012.

47 Vivien Foster and Cecilia Briceño-Garmendia, eds., *Africa's infrastructure: A time for transformation* (Washington, DC: World Bank, 2010).

keep pace with economic growth, and attain certain key social targets—but it is currently investing only \$72 billion a year.

Exhibit 20

Africa's infrastructure is half to one-fifth that of the BRICs, with wide variations across countries



1 Brazil, Russia, India, China. Comparisons exclude Russia for roads and rail because Russia's land area distorts the statistics. SOURCE: World Development Indicators, World Bank; McKinsey Global Institute analysis

Across Africa, infrastructure shortcomings have a direct impact on business and economic growth, but the severity of issues varies from country to country. South Africa is an exception to the general weaknesses across Africa. Given this, it is no surprise that infrastructure problems ranked lower among the concerns named by respondents from South Africa than among those listed by their counterparts from other African countries. For example, only 6 percent of South African business owners surveyed identified lack of access to electricity among their top three constraints on growth. In Nigeria, by contrast, many businesses have to use expensive generators, and 42 percent of respondents cited a lack of electricity as a hindrance to growth, only 1 percentage point less than the most prevalent constraint, which was access to finance.

In most African countries, transport and logistics costs are high compared with those of other developing regions. This makes it difficult for local companies to obtain inputs and to reach customers. These high costs hinder trade within Africa, which is vital to expanding markets in small economies and enabling companies to gain economies of scale. For example, it costs more than \$10,000 to move a single 20-foot container overland from Dakar, Senegal, to Ouagadougou, Burkina Faso, a distance of about 2,000 kilometres, passing no fewer than 55 checkpoints that can impose unpredictable delays and add between 11 and 17 days to shipping time. To move a similar container the same distance in China would be roughly \$2,300 by road or \$1,000 by rail.⁴⁸ In Nigeria and Côte d'Ivoire, which have some of the busiest ports in West Africa, the process of completing import procedures and clearing a port can take between 35 and 40 days.⁴⁹

48 McKinsey & Company supply-chain practice.

49 *Doing business 2011: Making a difference for entrepreneurs*, World Bank and International Finance Corporation, 2010; McKinsey & Company supply chain practice.

A more positive finding is that respondents across countries, sectors, and company sizes did not cite telecommunications infrastructure as a significant constraint; only 6 percent of those surveyed identified telecom in their top three barriers to growth. This finding is consistent with the rapid rise in access to telecom services, especially the proliferation of mobile phones, on the continent. The share of the African population with access to telecom services increased from 2 percent in 2000 to about 40 percent in 2010. Rather than poor telecom infrastructure, the message is that basic physical infrastructure, such as roads and electricity, needs the most acute attention and urgent investment.

THE BUSINESS ENVIRONMENT IS ANOTHER KEY CONSTRAINT ON GROWTH

Respondents reported several obstacles to growth related to the environment in which businesses are operating. For instance, 16 percent of employers cited factors such as a lack of training and the dissemination of key business information to owners. It is notable that 15 percent said they could not find any growth opportunities for their business. Arguably, this largely reflects difficult macroeconomic conditions. However, there also appears to be an element of business owners lacking the training and experience necessary to see ways to differentiate the company's product, enter new markets, and offer customers a clear value proposition.

The overall message emerging from the survey reflected some of the well-known shortcomings in the African environment for doing business. Complex and time-consuming regulations and bureaucracy, as well as corruption, can hold back businesses.

COMPANIES SEE A LACK OF PRACTICAL SKILLS AND WORK READINESS AMONG JOB APPLICANTS

Across the continent, only 12 percent of African employers surveyed cited insufficient skills or education of employees as one of their top three constraints on growth. Nonetheless, continuing to invest more in education and job training should be a priority, given the very low starting point in many African countries. Today, 33 percent of Africa's population has some secondary education, compared with 27 percent in 2000, and this share is expected to reach 40 percent by 2020. The share of the population educated to a tertiary level is likely to increase only marginally, from 7 percent today to 8 percent in 2020. This would bring Africa's educational attainment in 2020 to levels that are broadly in line with those in India today but still lag behind those of China (Exhibit 21).

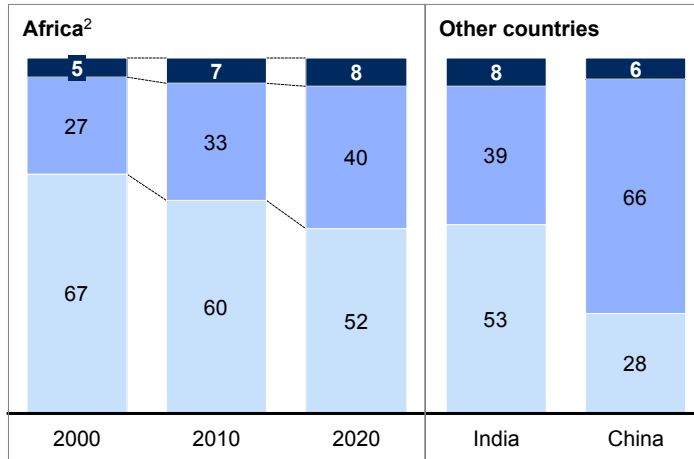
The most common barrier to hiring in our survey was that good candidates were too expensive. We interpret this as evidence that there is insufficient supply of such candidates, and that the margins and growth prospects of the smallest businesses are not high enough to justify hiring the most qualified—but costly—talent (Exhibit 22).

Exhibit 21

African educational levels are improving, but remain low

Education attainment levels¹ across African nations and other countries
% of population

■ Tertiary
■ Secondary
■ Primary or less



1 Percent of population with at least some of the given level of education.

2 Weighted average of 32 African countries with data available.

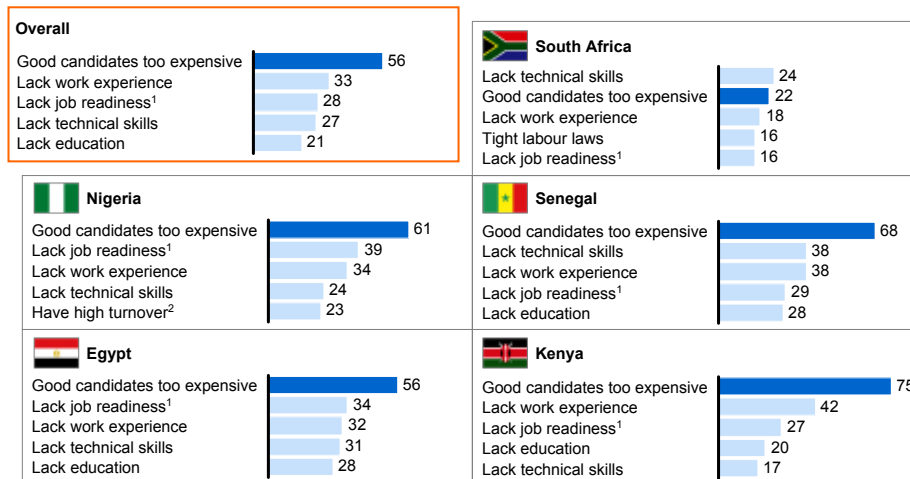
NOTE: Numbers may not sum due to rounding.

SOURCE: IIASA-VID; McKinsey Global Institute analysis

Exhibit 22

African companies say that good candidates are too expensive and lack technical skills and job experience

Q: What are the main obstacles for your company when trying to hire new employees?
% of enterprises citing factor in their top 3 obstacles to further hiring (n = 1,373 employers)



1 For example, punctuality and dependability.

2 Reduces employer willingness to invest in hiring/training new employees.

SOURCE: McKinsey Survey of African Businesses, 2011

In addition, many students receive a poor-quality education that does not prepare them for work. In many African countries, student test scores on standardised international tests have been flat or even declining—from a low base. Employers in our survey cite key gaps such as a lack of work experience, soft skills like time management and communication, and basic business literacy and organisational skills.

Some businesses report difficulty in finding job candidates with appropriate technical skills, particularly in South Africa (Box 7, “South Africa survey findings”). One South African employment agency calculates that there are more than 500,000 vacant positions for technicians and plant operators in South Africa.⁵⁰ Filling these positions from the ranks of the currently unemployed would reduce unemployment in South Africa from 25 to 22 percent—and likely by even more because additional jobs would be created to support these skilled workers. In North Africa, the unemployment rate for people with tertiary degrees is higher than that of people with only primary education, in contrast to the pattern seen in most other countries around the world. Employers say the reason is that many tertiary graduates in these countries have qualifications that are poorly matched to the needs of industry.⁵¹ In the words of one Kenyan business owner, “We can easily find people with even tertiary education to drive trucks, but it is impossible to find anyone with even a few years of practical accounting experience.”

Box 7. South Africa survey findings

The challenges facing South African businesses differ significantly from those affecting their peers elsewhere on the continent. Many of the challenges facing businesses elsewhere, such as infrastructure and finance, are less acute in South Africa, reflecting a more developed business environment. Businesses do cite overall high costs to operate and a generally poor economic climate, reflecting South Africa’s lower growth rates relative to other countries in the survey sample as well as its rising electricity prices.

Unlike in the other four countries in our survey, a shortage of skills is a leading concern for South African businesses, with 18 percent of businesses citing this in their top three barriers to growth. Technical skills are in particularly short supply, affecting more businesses than any other obstacle to hiring and leaving many positions unfilled. Businesses are responding, with 29 percent listing the provision of technical training as one of their top three actions address barriers to growth. Nonetheless, more respondents than in any other country believe government should prioritise expanding and improving the quality of education.

Only in South Africa are tight labour laws among the top five most cited blockages to hiring. While less important than a shortage of skills, labour laws are nonetheless perceived by businesses as reducing their ability or desire to hire additional workers.

⁵⁰ *Adcorp employment index*, April 2011.

⁵¹ *Education for employment: Realizing Arab youth potential*, International Finance Corporation and Islamic Development Bank, April 2011.

Across the continent, the low level of enrolment in vocational training is a further challenge. Sub-Saharan Africa, for example, has the second-lowest level of vocational training in the world: only 16 percent of those enrolled in upper secondary education receive technical and vocational training, compared with 26 percent in North America and Western Europe and 38 percent in East Asia.⁵²

Lastly, regulatory constraints on skilled immigration in many countries prevent companies from filling critical skills gaps, keeping them from growing or creating additional low-skilled supporting jobs.

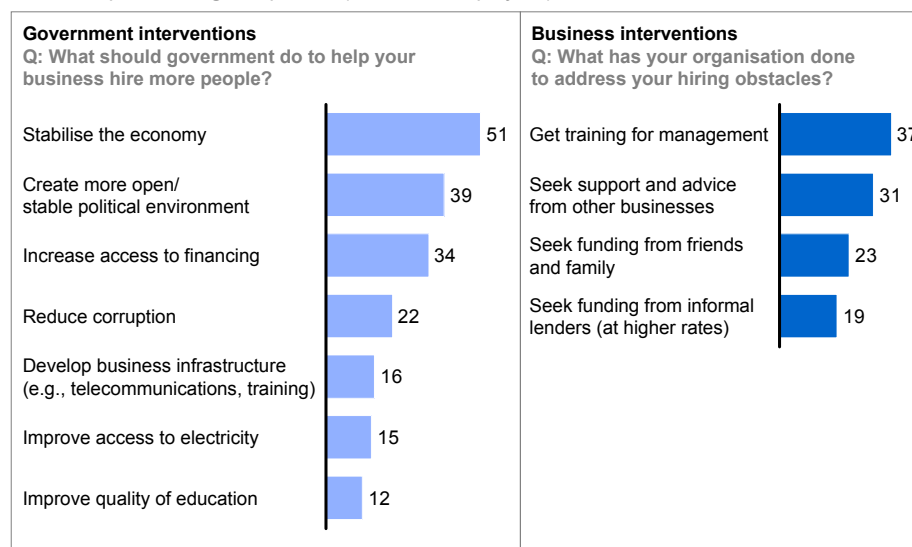
BUSINESSES EXPRESSED VIEWS ABOUT WHAT THEY WOULD LIKE GOVERNMENTS TO DO—AND THE STEPS THEY ARE TAKING THEMSELVES

The actions that businesses expect to take themselves to overcome today’s range of constraints on growth—and the actions they would like to see government undertake—closely mirror their rankings of the most important barriers in our survey. The overwhelming expectation among businesses is that government should deliver macroeconomic and political stability, with the next most important priorities being easing access to financing (important in Nigeria and Senegal) and reducing corruption (a priority particularly for South African employers) (Exhibit 23). Businesses see their main task as obtaining management training, seeking support from other companies, and securing access to funds.

Exhibit 23

Respondents have clear views on action governments should take—and what businesses can do

% of enterprises citing in top three (n = 1,373 employers)



SOURCE: McKinsey Survey of African Businesses, 2011

52 UNESCO Institute for Statistics database, statistical table 6.



The evidence in our survey demonstrates that across Africa, the hurdles facing businesses are very similar. This offers a clear road map for policy makers. The fact that African employers are keen to learn and become more proficient at running their enterprises means that any government-led jobs initiative should garner significant support from businesses. In the next chapter, we turn to a discussion of the necessary building blocks of an effective job creation strategy.

4. Developing a job creation strategy for African countries

Partial solutions to Africa's jobs challenge will not be effective. Unlike advanced economies where a key issue might be, for instance, a mismatch between available skills and the talent that business needs, or how to ensure a favourable environment for entrepreneurship and small businesses, Africa needs an end-to-end strategy that addresses all the obstacles that stand in the way of growth in targeted industries.

We present in this chapter a five-point plan for developing a jobs strategy that involves identifying specific labour-intensive subsectors in which the country has a competitive advantage and then removing the obstacles to growth along the industry value chain. Necessary action includes improving access to finance for businesses in those subsectors; building suitable infrastructure to support these subsectors' economic activity; cutting unnecessary regulation, bureaucracy, and corruption, all of which raise the cost of doing business and limit growth and investment; and ensuring that there is a sufficient pool of workers with the education and the specific skills needed in those subsectors.

The approach to a jobs strategy that we propose is very different from industrial policies that have often proved ineffective in countries around the world in decades past. Action aimed explicitly at encouraging the creation of wage-paying jobs is not about protecting domestic industries from foreign competition through tariffs and quotas, supporting companies through local content rules, or directing credit to particular companies or sectors. Nor is it about creating “trophy” industries, such as automotive or semiconductors, or national champions. Governments around the world have wasted billions of dollars on failed attempts at industrial policies.⁵³ Rather, a jobs strategy should be about creating the economic foundation and competitive conditions necessary for a specific industry to thrive, and then allowing companies of all sizes and nationalities to compete.

AFRICAN COUNTRIES NEED JOB CREATION STRATEGIES AS WELL AS GROWTH PLANS

Most countries in Africa have development plans for economic growth. These plans can often run into hundreds of pages, with details about goals and aspirations for every sector in the economy, as well as education and other social services. They are sometimes filled with analysis on what GDP growth rate might be achieved and how many jobs could be created.

While these plans are important tools to guide policy, they are not the same as a job creation strategy—even if they specify how many jobs could be created. The main reason is that different economic sectors contribute differently to GDP growth and job creation (Exhibit 24). Some, including mining, oil, and gas, are powerful contributors to GDP and vital sources of foreign exchange earnings and government revenue. But these sectors are capital-intensive and contribute few

⁵³ See *How to compete and grow: A sector guide to policy*, McKinsey Global Institute, March 2010 (www.mckinsey.com/mgi).

jobs, at least directly. At the other extreme are government and social sectors, including health care and education, which have accounted for the largest share of stable job growth in Africa over the past ten years but punch below their weight in contributions to GDP growth. In between are sectors that are often labour-intensive and contribute substantially to both employment growth and GDP growth, such as manufacturing, retail and hospitality, and agriculture.

Exhibit 24

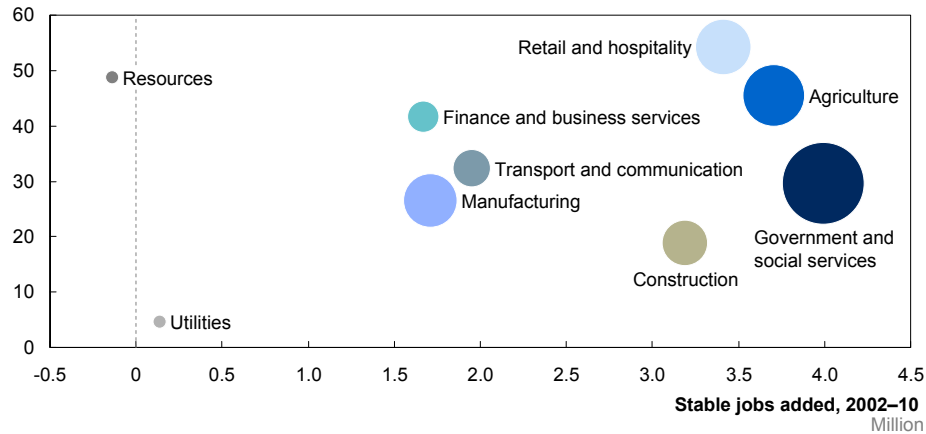
Sectors that drive GDP growth do not always create the most jobs

GDP and stable job growth¹ in ten African countries,² 2002–10

○ Number of stable jobs, 2010

GDP growth, 2002–10

\$ billion, 2005 \$



1 Stable employment includes wage and salary employees and business owners; vulnerable employment includes subsistence farming, informal self-employment, and work for a family member.

2 Countries included are Algeria, Angola, Egypt, Ethiopia, Kenya, Morocco, Nigeria, Senegal, South Africa, and Uganda. These countries accounted for 70 percent of Africa's GDP in 2010.

SOURCE: Global Insight; McKinsey Global Institute analysis

A jobs strategy must target growth and development in those sectors that have the potential to contribute disproportionately to employment. These can be sectors producing tradable goods in which the country is competitive globally, such as light manufacturing, high-value agriculture, or tourism, or untraded local services such as retail. As we saw in chapter 2, the appropriate sectors to focus on will vary according to each country's stage of development, as well as its natural endowments.

As we will explain, a job creation strategy also differs from a broader economic development plan in that it focuses narrowly on specific subsector opportunities—for instance, specific types of textiles or apparel, automotive parts, or particular horticultural goods (e.g., mangoes, cut flowers, and biofuels). With finite resources and far-reaching development needs in most countries, jobs strategies should aim to create the conditions for growth needed in specific sectors with the greatest potential to create wage-paying jobs. Success in a single industry can then be built on and expanded to include additional industries over time.

PARTIAL SOLUTIONS WON'T SOLVE AFRICA'S EMPLOYMENT CHALLENGE

Since the Arab Spring, many governments have been reflecting on the potential for social unrest among the unemployed and therefore considering or enacting programmes aimed at spurring job creation. Common examples include educational and job training, expanded public-sector programmes, and initiatives to teach business skills to entrepreneurs. Yet few of these programmes in and of themselves are likely to enjoy significant success in creating more wage-paying jobs in the African context. And practical solutions to joblessness in other regions—particularly advanced economies—will, at best, be second-order solutions for Africa. The key to job creation on any kind of scale is to unleash economic growth in labour-intensive sectors.

For instance, improved job matching and worker technical training may help to raise employment in advanced economies where employers increasingly need workers with specific skills. Yet, as our business survey discussed in chapter 3 demonstrates, this was not cited as one of the top three barriers to growth and hiring in any of the African countries we surveyed.

Similarly, government job creation through public programmes can be a powerful tool for building work experience among job entrants and solving temporary spikes in unemployment during recessions. But such programmes are rarely a sustainable source of long-term job creation. Once the public spending stops, the jobs disappear. Enabling sustained growth and increases in output per worker in the private sector is the only long-term solution to creating stable jobs, raising living standards, and reducing poverty.

Entrepreneurship programmes may be helpful and enable growth in some small businesses, but employers in businesses of all sizes in our survey—from the small start-ups to the larger companies—were consistent about the key barriers they see as hindering growth (i.e., macroeconomic and political conditions, access to finance, and improved infrastructure). Unless these matters are solved, entrepreneurs cannot flourish (see Box 8, “Are Africa’s entrepreneurs an answer to the jobs challenge?”).

Box 8. Are Africa's entrepreneurs an answer to the jobs challenge?

Academic studies show a positive link between entrepreneurship and overall economic growth. The evidence shows that entrepreneurs around the world innovate, create competition, and generate employment.¹ It is therefore not surprising that, in Africa's debate about how to create jobs, the topic of how to support entrepreneurial activity comes up often.

However, the fact is that we can describe only a moderate share of Africa's micro businesses as "opportunity entrepreneurs" who have the potential to grow their businesses and create jobs. Many entrepreneurs on the continent are "necessity entrepreneurs," individuals, such as the hawker selling items on the street, who have no choice in the existing market environment but to try to make a living selling whatever goods or services they can.² People forced to turn to these activities make a negligible contribution to GDP and have minimal productivity. What data are available suggest that Africa has a higher share of such necessity entrepreneurs than other emerging markets, including BRIC economies. For instance, necessity entrepreneurs in Angola, Egypt, and Uganda are estimated to account for 36 percent, 53 percent, and 50 percent of all new businesses, respectively, higher than the 31 percent estimated for Brazil, 41 percent in China, and 27 percent in Russia—and much higher than developed markets, such as the United Kingdom with a 17 percent share.³ The challenges facing Africa's necessity entrepreneurs are those of vulnerable employment, and the focus for policy makers should be on helping these individuals gain the relevant skills to find stable jobs in the future.

The hurdles in the way of Africa's opportunity entrepreneurs, meanwhile, are much the same as those faced by all businesses: access to finance, shortcomings in Africa's infrastructure, and cumbersome regulations and corruption in the business environment. Indeed, as described in chapter 3, the challenges that micro businesses cited were remarkably similar to those cited by larger organisations. To help opportunity entrepreneurs, African countries need to create favourable business conditions by addressing the challenges that affect all organisations. Programmes including regulatory support and incubator services to increase the number of opportunity entrepreneurs and help them to scale up their businesses can be useful. But they will not in themselves release a tidal wave of new African enterprises.

1 See, for example, Thorsten Beck, "SMEs, growth, and poverty: Cross-country evidence," *Journal of Economic Growth*, Volume 10, Number 3, 2005; and Sander Wennekens and Roy Thurik, "Linking entrepreneurship and economic growth," *Small Business Economics*, Volume 13, Number 1, 1999.

2 Zoltan Acs, "How is entrepreneurship good for economic growth?" *Innovations*, Volume 1, Number 1, 2007.

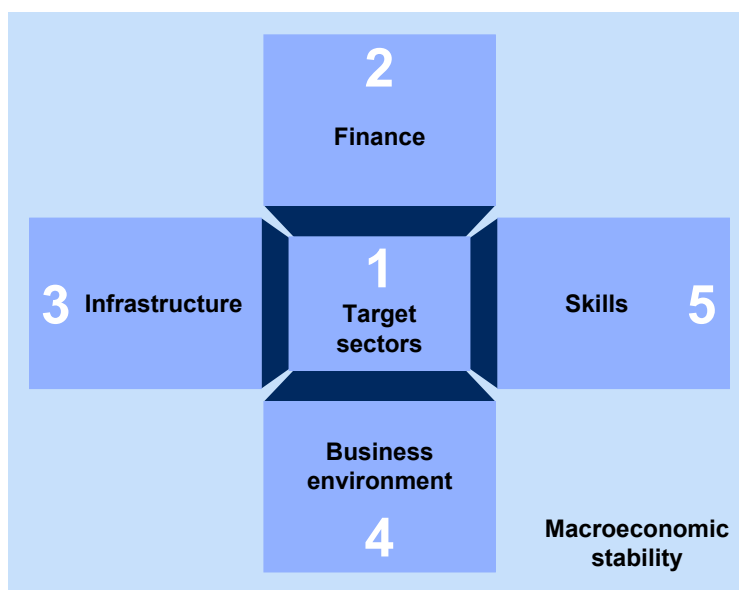
3 Global Entrepreneurship Monitor Web site, www.gemconsortium.org.

COUNTRIES NEED END-TO-END, TARGETED STRATEGIES FOR JOB CREATION

A jobs strategy must first identify the most promising sectors, then remove barriers to growth along the value chain. This process will entail five key elements, which we now discuss in turn (Exhibit 25).

Exhibit 25

A job-creation strategy must include five key elements



SOURCE: McKinsey Global Institute analysis

1. Target specific subsectors that can be engines of job creation

The first step for policy makers and businesses is to select specific industry value chains that have the potential to create a large number of stable jobs in the shorter term. These may not be the sectors with high GDP growth potential, and the trade-off between the two is an essential part of setting objectives.

The appropriate target sectors will differ across countries. As we have discussed, pre-transition and transition economies often have internationally competitive low wage rates and could compete in labour-intensive manufacturing and horticultural production if other barriers, such as in transportation and logistics, were removed. Africa's diversified economies have higher labour costs but also better infrastructure and workforce skills and can often compete in higher-value-added manufacturing such as automotive assembly and parts, or in tradable business services such as banking and business process outsourcing. Countries with an abundance of arable land could play a vital role in supplying the world's growing food demand. Some African countries could gain share in the growing international tourism market.

It is imperative that each country chooses the areas in which to compete with a rigorous, fact-based approach that looks at the international context. Politically driven decisions to target sectors that favour a particular group within the country will not succeed if the country is not competitive in that sector. Morocco's auto parts industry is an example of success. Realising the country's unique advantage of proximity to the large market of high-income earners in Europe, the Moroccan government set a goal for the country to become the industrial automotive supplier for Europe. Morocco analysed its comparative advantage for more than 600 automotive parts, considering the strategic importance of each part and its integration with the production process of key car manufacturers. It eventually chose around 100 parts on which to focus. Morocco then created two free-trade zones dedicated to the automotive industry (the Tangier Automotive City and the Atlantic Free Zone). Today, the sector employs more than 60,000 people. The targeted investment and policies culminated in the 2012 inauguration of a €1 billion assembly plant by Renault that brings with it 6,000 direct jobs and supports many more jobs indirectly.

Lesotho provides another example of success in apparel manufacturing for export.⁵⁴ The African Growth and Opportunity Act, an economic partnership between Africa and the United States launched in 2000, grants duty-free access for certain African exports to US markets. At the same time, quota-based restrictions on Asian textile exports to Western countries left Asian textile companies looking for new sites to which they could relocate. Lesotho acted decisively to take advantage of these developments. Using a combination of public and private leadership, Lesotho developed industrial zones and offered factory shells for rent by foreign investors to compensate for high land rental costs and long bureaucratic delays in obtaining construction permits. It ensured that the zones allowed for the free repatriation of profits and that they had the necessary electricity, telephone, water, and sewage infrastructure. Lesotho built rail links between its six industrial zones and apparel distribution hubs in Johannesburg. The Lesotho National Development Corporation serves as a one-stop shop for the needs of investors, simplifying regulation. As a result, apparel exports from Lesotho to the United States grew from about \$150 million in 2000 to \$350 million in 2008, accounting for nearly 30 percent of apparel exports from all of sub-Saharan Africa. On a per capita basis, Lesotho's apparel exports to the United States are almost 100 times as large as South Africa's. In 2010, the sector was the largest single creator of jobs, employing about 40,000 people in a country of two million.

Service industries such as formal retail, banking and financial services, and transportation can also be important engines of wage-paying jobs in Africa. Although employment in higher-value services such as banking and telecommunications is starting from a low base, these sectors have undergone rapid employment growth over the past decade in Africa, as noted in chapter 2.

54 Punam Chuhan-Pole and Manka Angwafo, eds., *Yes Africa can: Success stories from a dynamic continent*, World Bank, 2011.

2. Improve access to finance for the targeted sector

Once a jobs strategy has identified particular sectors on which to focus, it needs to ensure that businesses in those sectors have sufficient access to financing. Our business survey revealed that this is a common constraint in Africa. Broad reforms aimed at increasing the efficiency and stability of the country's formal banking system, attracting foreign investors and private capital, and developing domestic equity and debt capital markets are essential.⁵⁵ In addition to those efforts, governments can take targeted steps if necessary to ensure funding for job-creating sectors in the short term.

Requirements that banks direct lending to certain sectors frequently backfire. Requiring banks to make uneconomic loans can constrain overall lending growth and weigh down balance sheets with non-performing assets.⁵⁶ Incentive-based systems often work better. One option might be to offer banks and other lenders a partial credit guarantee for loans to businesses in the targeted sector. Nigeria's new \$500 billion agricultural lending facility is an example. The majority of the funds are for loan guarantees to offset up to 50 percent of the losses banks may incur on loans to both small farmers and large-scale producers. The facility also includes incentives for banks that have high levels of lending to agribusiness, and it allocates funds for technical assistance to banks to develop their credit-risk assessment skills and to agricultural borrowers to receive financial management training to bolster loan repayment rates. Through such incentives, the programme aims to increase lending to agriculture from just over 1 percent of all loans to between 7 and 10 percent by 2020.

Another way to improve access to financing in targeted sectors is to ease the entry of foreign investors into them. This may entail, for example, eliminating restrictions on foreign ownership and streamlining administrative requirements for the investors. In India, for instance, the business process outsourcing sector is a rare case in which the government allows 100 percent foreign ownership of companies. This has enabled many large multinational companies to set up back-office operations and call centres in India, both creating jobs and training employees who have gone on to found their own companies in the sector. Today India's business process outsourcing sector employs more than 1.5 million people, has created four companies each with a market capitalisation of more than \$20 billion, and has been responsible for 60 percent of the commercial real-estate development in some parts of the country.

An illustration of the potential impact of easing financial constraints on a sector is the rapid growth of Cape Verde's tourism industry. Tourism is an often overlooked service export, with the capacity to harness global demand to create local jobs. Taking advantage of the country's beaches, Cape Verde's government offered investors in the sector a five-year tax holiday, exemption from import duties, and free expatriation of profits. Between 1990 and 2008, Cape Verde's foreign direct investment soared, with a large share going into tourism. Tourism revenue

55 Thorsten Beck et al., *Financing Africa: Through the crisis and beyond*, World Bank, African Development Bank, and German Federal Ministry for Economic Cooperation and Development, September 2011.

56 *Accelerating India's growth through financial system reform*, McKinsey Global Institute, May 2006 (www.mckinsey.com/mgi).

increased from \$23 million in 1999 to \$542 million in 2008, and the sector now employs 21 percent of the country's workforce (24,000 people).⁵⁷

3. Build supporting infrastructure

The next element of any jobs strategy must be to create an efficient supply chain and logistics infrastructure for targeted sectors, including transportation, energy, water, and communications. While most African countries need large investment in all of these areas, a jobs strategy should prioritise overcoming infrastructure constraints in the targeted sectors and often in specific geographic regions.

For instance, a recent World Bank report finds that two promising sectors for growth and job creation in Ethiopia are textiles and apparel manufacturing.⁵⁸ Although Ethiopia has low wages, it is unable to take full advantage because of shortcomings in its infrastructure. Specifically, Ethiopia needs better transportation links between its current manufacturing hub in Addis Ababa to the port in Djibouti 800 kilometres away. There are several ways to overcome this barrier, including a multimodal transport approach that would entail rehabilitating railroads, lowering fuel taxes, cutting import tariffs on spare parts for trucks, and supporting increased competition in trucking from foreign players. Another option would be to create an industrial park in Ethiopia closer to the Djibouti border, along the lines of China's successful industrial parks and special economic zones in its coastal regions.

Countries that remove these types of infrastructure constraints, particularly in export-oriented industries, can reap significant benefits, as a success story from Mali shows. The country invested in a targeted infrastructure development programme to unleash growth in its mango exports. Using a combination of public and private expertise, the country built an integrated road, rail, and sea infrastructure to enable the transportation of refrigerated goods, including mangoes. As a result, transit time for shipments was cut in half from 25 days to 12 days, and Mali's exports to the European Union grew sixfold between 2003 and 2008.

Another example of a targeted infrastructure programme is Mozambique's Beira Agricultural Growth Corridor. This is an area of around ten million hectares of arable land, of which less than 1 percent is farmed commercially. A private and public partnership is under way to make major infrastructure investments to enable large-scale commercial farming in the area, including development of a local railway and the Beira port. The Beira investment programme is projected to generate 350,000 wage-paying jobs and \$1 billion of annual revenue from an investment of \$1.7 billion.⁵⁹

⁵⁷ *Transformation through hospitality: Development dynamics past, present, and future*, World Bank draft report, November 2011.

⁵⁸ Hinh T. Dinh et al., *Light manufacturing in Africa: Targeted policies to enhance private investment and create jobs*, World Bank, 2012.

⁵⁹ *Beira Agricultural Growth Corridor: Delivering the potential*, Beira Agricultural Growth Corridor Initiative, January 2010.

4. Remove regulatory impediments

The fourth element of any jobs strategy is the removal of unnecessary regulation that stands in the way of growth and job creation in the targeted sectors.

The specific barriers will vary by country and by sector. For example, in many countries, a lack of formal retail space is a constraint on growth in the retail sector, and unclear property rights hinder the creation of commercial retail space.

Trade barriers can often be a significant constraint to growth, in both export industries and in sectors that rely on imported inputs. However, while tariffs have been falling around the world, non-tariff measures have become more prevalent and continue to restrict trade from developing countries.⁶⁰ Technical barriers to trade and sanitary and phytosanitary measures are the most common of such measures and disproportionately affect agricultural exports, especially those from developing countries.⁶¹ In labour-intensive manufacturing, administrative procedures to meet technical requirements may raise costs so much that businesses cannot grow.

Trade between African nations is growing, albeit from a small base, particularly among Africa's transition economies. Today, regional trade within Africa stands at only half the level of other regions in the world, despite the existence of a dozen overlapping regional economic unions and trade groups. Customs fees, export restrictions, and inefficient border crossings between countries often hinder trade flows. Building on recent developments within Africa's regional trade groups could unleash stronger growth. For instance, the East African Community agreed to establish a customs union in 2005, with progressive movement toward the elimination of internal tariffs and ultimately free movement of capital, labour, goods, and services within the community. Trade has increased by 50 percent since the agreement was formalised.

Removing a broad range of regulatory bottlenecks can have a swift and dramatically positive impact on private-sector growth, and African countries are beginning to create a more business-friendly environment by removing regulatory barriers. In 2010–11, the World Bank's *Doing Business* report found that 36 out of 46 governments in sub-Saharan Africa had improved their economy's regulatory environment for domestic business.

In Rwanda, for instance, a streamlining of the procedures needed to open a business has resulted in a dramatic increase in the number of new companies, from only 700 a year before the reform to 3,000 a year today. The Democratic Republic of the Congo substantially cut the average time and cost of obtaining construction permits, from 248 days and a cost of \$6,908 to 128 days and \$4,307, although there is more to be done. Ghana has set up its first credit bureau and implemented a property registration system that reduced the time to transfer property from 24 weeks to five. Tunisia implemented an online system for paying taxes that meant 14 fewer individual payments and a reduction of 84 hours in the time spent making these transactions.⁶²

60 *World trade report 2012: Trade and public policies: A closer look at non-tariff measures in the 21st century*, World Trade Organization, 2012.

61 Phytosanitary regulations restrict or prohibit the importation and marketing of certain plant species, and products of these plants, so as to prevent the introduction or spread of plant pests and pathogens that these plants may be carrying.

62 *Doing business 2011: Making a difference for entrepreneurs*, World Bank and International Finance Corporation, 2010.

Such actions, targeted at specific sector opportunities, are necessary to accelerate job growth. Deregulation of the telecommunications industry in some African countries is another example of how to unleash growth potential. Many African countries initially granted operating licenses only to state monopolies; since private-sector players have been allowed to operate, the sector has grown sharply. In Nigeria, the telecom sector is estimated to have created as many as three million jobs between 2002 and 2010.⁶³

5. Develop required workforce skills

While our survey of businesses suggests that a lack of skills among available workers is not one of the top-ranked constraints on growth for most companies, any successful jobs strategy still needs to ensure that there is a sufficient pool of labour with the necessary skills for the sector to succeed. This is particularly true for the higher-value-added industries that are likely to be targets in Africa's diversified economies.

A lack of skilled managers can be a constraint on growth for larger businesses in Africa, whether foreign or domestic. One solution that governments could adopt in a targeted jobs strategy is to allow companies to import skilled expatriate managers more easily. The benefit would be that managers could train a generation of young entrants to the company and build necessary skills. This is already happening on the continent, but could be expanded with concerted government action.

As we noted in chapter 3, Africa has particularly underdeveloped vocational programmes, and this may constrain growth in sectors that require technically skilled workers, from plumbers and electricians to welders, bricklayers, and auto mechanics. Nigeria, for example, needed to import welders, fitters, and scaffolders from the Philippines and the United Kingdom for construction in the Bonga oil field in Nigerian waters. The track record of vocational training in Africa is mixed at best, with many programmes failing to create job-ready graduates. The involvement of employers seems to be a key ingredient in the design and delivery of vocational education programmes. Best-practice programmes combine theory, practice, and on-the-job elements for training in specific fields. Apprenticeship models have proven to be particularly effective in other countries, and they could be in Africa as well. A focus on soft skills, such as teamwork, communication, and problem solving, as well as specific technical skills, is another hallmark of successful programmes. Importantly, high-performing vocational education ecosystems create transparency about employment needs and qualifications.

The Harambee programme in South Africa is an example of a vocational initiative that combines many of these characteristics. Harambee works closely with employers to take unemployed youths through a bridging programme that equips them with the specific soft and hard skills for pre-identified jobs (six months to one year in most cases). In its first year in 2011, the programme achieved a 90 percent placement rate of participants.

⁶³ Overall, employment in the telecommunications, transport, and storage sectors in Nigeria rose by 3.5 million from 2002 to 2010. Although a detailed breakdown is not available, a majority of that employment appears to be in the telecom sector.

EXECUTION REQUIRES COLLABORATION BETWEEN THE PUBLIC AND PRIVATE SECTORS

Any jobs strategy will address multiple barriers holding back growth, and a number of governmental departments, as well as other stakeholders, will have a part to play. Governments will maximise success if they establish a cross-functional task force to create and execute the jobs plan. Such a group can run inside an existing government department or in parallel to it. A range of successful models exist. Initiatives can be driven from within the president's office, the treasury, or a cross-ministerial task force. Some countries have developed special-purpose units that report directly to the president or a cabinet minister (see Box 9, "The delivery lab approach").

Box 9. The delivery lab approach

The delivery lab approach was developed in Malaysia in 2009–10 with the initial goals of creating a detailed implementation plan for Malaysia's National Economic Growth strategy and mobilising the private sector and civil service to work together. Later, the approach was expanded to include the transformation of the government along a set of six priorities (for example, policing, education, and environmental issues). The approach has now been piloted in Saudi Arabia, Thailand, the United Arab Emirates, and several other countries.

The delivery lab is an innovative way to solve complex, cross-functional, and cross-sector problems—much like a jobs strategy. Typically, the government would convene experts from both the government and private sector as task force members. These experts would be expected to work together full-time for six to eight weeks to analyse the problem and develop solutions. The exercise removes people from their routine jobs and focuses their attention on the problem at hand. It also cuts out significant time in waiting for input from different experts, since all are gathered into one working team. The lab creates intense pressure to find major results fast, while ensuring that all stakeholders are on board while solutions are developed. The facilitated problem-solving approach leads to highly detailed and specific implementation plans that provide a clear basis for action by civil servants ("from a 30,000-foot strategy to a three-foot implementation plan"). This approach is combined with significant attention from the political leadership and on-the-spot authorisation of required funds and other resources.

Using this approach, Malaysia achieved remarkable impact, including a reduction in street crime by 40 percent in the second year of the programme, the training of 3,000 female entrepreneurs, and the connection of more than 100,000 rural households to the water supply.

Another execution tool is the use of special economic zones. Although their track record for attracting foreign direct investment and creating jobs in many African countries has been poor, these zones have had remarkable success in Asia, and countries such as Lesotho, Mauritius, and Morocco have demonstrated the potential for such zones to spur employment in Africa. A distinguishing feature of Africa's success stories is that the special economic zones were built for specific sectors in which a country had an existing comparative advantage; examples include apparel manufacturing in Lesotho and automotive parts manufacturing in Morocco. There was also heavy public investment in creating world-class infrastructure rather than incremental improvements that may have left these zones better served than the rest of these economies but still did not meet international standards. Equally important features of successful zones are their streamlining of regulatory approvals, the fact that they have opened up to foreign investors by removing limits on foreign ownership and allowing repatriation of profits, and their reduction in import and export tariffs and other non-trade barriers.

Private-sector involvement in creating and executing a jobs strategy will be essential. Business leaders are best placed to identify the most pressing blockages to growth in their sectors and to measure the success of overcoming them. Both governments and business can benefit from working together. However, governments must also be watchful to avoid undue influence of incumbents that benefit from the status quo.

Initiatives need consistency in government policy as well as access to secure funding. Government budget allocations should be ring-fenced over the lifetime of projects to ensure that funding is not held hostage to political processes or eroded by corruption; doing so gives potential investors confidence that policies will not be reversed midcourse. The private sector has a key role to play, especially in funding infrastructure. The scale of investment that Africa requires means that governments should focus on creating the regulatory environment to allow private investment, rather than trying to fund all projects from the public purse.

The final ingredient is broad civic engagement. For sustained success, initiatives need the ongoing support of the public, particularly when they involve trade-offs with the funding of other programmes. Effective public scrutiny is also the most effective forcing mechanism for continued government delivery. Publicly setting and tracking key metrics will lead to more effective outcomes.

□ □ □

Sustained and robust GDP growth is a prerequisite for expanding employment in Africa. But to create improved outcomes for workers and economies, policy makers and business leaders need to work together to accelerate the creation of wage-paying, productive jobs across the continent, moving beyond broad economic growth plans to map out highly targeted jobs strategies. Achieving this will require many of Africa's governments to operate in new ways—and to work together with the private sector.

5. Concluding remarks

In this report, we have addressed the priority for inclusive growth in Africa: ensuring that growth creates stable employment for greater numbers of the continent's workers. We have attempted to create a comprehensive fact base on Africa's employment landscape, understand the magnitude of the continent's job creation challenge, identify which sectors have the most potential to accelerate employment growth, and describe what policy makers and business leaders must do to capture the opportunity. Several key findings have emerged that are remarkably consistent across the continent.

Africa's employment challenge is to create more stable wage-paying jobs.

Africa is seeing faster labour force growth than any other region of the world. The continent will add 122 million new workers over the decade to 2020. While the bulk of its 400-million-strong labour force is working, 63 percent are engaged in various forms of subsistence activities or vulnerable employment. Although the share of wage-paying jobs has increased over the past decade from just 24 percent in 2000 to 28 percent today, accelerating that trend is critical for Africa's future prosperity. Predictable incomes improve living standards, health outcomes, and educational attainment; expand the consuming class and spur continued growth in consumer-facing industries; allow workers to benefit from economic growth; and help to maintain social stability.

The experience of other emerging markets suggests Africa can accelerate stable job creation. Africa's employment landscape is not unique, nor is the magnitude of the challenge it faces. Brazil, China, South Korea, Thailand, and other emerging markets all faced employment challenges similar to Africa's at earlier stages of their economic development. Our analysis shows that, over several decades, these countries managed to create stable jobs at double and even triple the rate that Africa has achieved over the past ten years. Drawing on the experience of these countries, Africa could create 72 million wage-paying jobs by 2020, raising the share of workers with wage-paying jobs to 36 percent. Agriculture, manufacturing, and retail and hospitality together have the potential to create 42 million stable jobs by 2020.

To meet Africa's employment challenge, the continent's policy makers and business leaders must create explicit strategies to accelerate private-sector job creation. While economic growth is a prerequisite for sustained job creation, GDP growth alone may not always produce the desired employment outcomes. Some sectors that contribute significantly to GDP growth, foreign exchange earnings, and government revenue contribute much less to employment growth. In Africa, this is true of the natural resource sectors, for instance. Along with an economic development plan, therefore, governments and business leaders need to work together to develop a jobs strategy. Successful approaches will require crossing traditional silos within governments and creating and solving challenges end-to-end. Implementation requires aligning disparate strategies among government departments; matching budget allocations to the jobs strategy; and ensuring that accountability follows measurable and transparent milestones.

Private-sector involvement in identifying opportunities, assessing critical obstacles to growth, and driving execution of the strategy will be essential.

There is no single or simple solution for accelerating job creation.

Businesses we surveyed said that a number of factors prevent them from growing and hiring. Among them are poor macroeconomic conditions or lack of demand, political instability, insufficient access to finance, and deficiencies in the basic infrastructure. To a far lesser extent, some larger companies noted that job candidates may lack technical or vocational skills, and the smallest businesses reported that candidates lack basic job-readiness skills. Unlocking job growth will require addressing all of these issues. There is no shortcut.

An effective job creation strategy targets specific sector opportunities and removes all barriers to growth along the value chain.

Countries that have achieved job creation successes were able to overcome the many deficiencies in their economies by focusing narrowly on specific business opportunities, rather than attempting to reform the entire economy at once. A jobs strategy must similarly target highly specific opportunities in which the country has a comparative advantage and then act end-to-end along value chains for that specific subsector, addressing access to finance, infrastructure, business and regulatory environment, and workforce skills. The vital first step, of course, is to understand where job opportunities lie. In globally traded sectors, countries need to be realistic when identifying subsectors in which they can compete. Domestic service sectors, such as retail, transportation, and financial and business services, should also not be overlooked.

The total number of Africans in vulnerable employment will continue to grow for decades to come, and social programmes supporting them will be important. In the base case, we project that more than 300 million Africans of working age will still be in vulnerable jobs in 2020. Given Africa's rapidly expanding labour force, the total number of people in vulnerable jobs will continue to rise for at least another 20 years even if Africa achieves the upside potential laid out in this report. However, even the subsistence activities and informal self-employment of vulnerable workers are more desirable than high rates of unemployment, so governments should work to support vulnerable workers. At the very least, governments should put a stop to any active discouragement of vulnerable employment, such as police raids against informal vendors, while maintaining property protection rights and public safety. Social programmes to expand education and health care, as well as other efforts to improve the livelihoods and living standards of these workers, will be needed. For instance, it may be possible to organise subsistence businesses more effectively to strengthen links along value chains, providing additional revenue opportunities and more predictable income. Africa could also seize the opportunity presented by its young and growing population in a world where workforces are aging rapidly. African countries should consider how to build partnerships with other nations to encourage them to accept migrant labour, which would help to alleviate near-term employment pressures in Africa as well as to provide a future source of returning skills and remittances.

The rising number of vulnerable workers need not lead to political or social instability. Africa's employment challenge is not unique. Our analysis has shown that many other emerging markets have transformed their employment landscapes, although this process has taken many decades. Moreover, Africa's social-welfare indicators show improvements in the living standards of vulnerable workers—implying that they are not entirely excluded from the benefits of GDP growth, even as they await the chance to enter stable employment. Extreme poverty, defined as people living on less than \$1 per day, fell by 30 percent between 1995 and 2006.⁶⁴ The number of consumer households grew by 53 percent between 2000 and 2011.⁶⁵ Per capita GDP is growing at an average of 2.5 percent per annum, reversing previous decades of stagnation or decline.⁶⁶ Africa's employment challenge is significant—but it does not necessarily imply that political or social instability is inevitable.



Africa is poised for a demographic dividend, and creating broad-based economic growth that generates more wage-paying jobs in the private sector will be essential for realising this potential. Africa is making progress toward this goal. Governments are making measurable improvements in the business environment, and growth has created 37 million stable jobs over the past decade. But Africa can also do better, as the experience of other countries illustrates. Possibly for the first time in its history, the continent has a chance to transform the lives of hundreds of millions of its people. It is now up to Africa's leaders, both public and private, to seize this opportunity.

64 Maxim Pinkovskiy and Xavier Sala-i-Martin, *African poverty is falling . . . much faster than you think!* NBER working paper number 15775, February 2010.

65 Canback Global Income Distribution Database (C-GIDD).

66 *World development indicators*, World Bank (measured in real 2005 values).

Appendix: Technical notes

These technical notes provide additional detail on the definitions and methodologies employed in this report. Specifically, the notes expand on the following points:

1. Definitions
2. Key sources of data
3. Sizing Africa's employment challenge
4. Africa's stable employment by sector and country segment in 2010
5. Stable employment trends in comparable countries outside Africa
6. Projecting stable employment in Africa in 2020
7. McKinsey Survey of African Businesses, 2011

1. DEFINITIONS

Workforce. Employed population aged 15 to 64.

Labour force. Eligible population aged 15 to 64 that participates, or has the intention of participating, in the workforce (i.e., the definition includes the workforce and the unemployed).

Stable and vulnerable employment. We use the following definitions provided by the International Labour Organization (ILO). *Stable employment* is an aggregate of employers and employees. *Vulnerable employment* includes contributing family workers, own-account workers, producers' cooperative members, and workers not classifiable by status as defined by the ILO. The definitions of the subcategories of stable and vulnerable jobs are as stated by the ILO classifications under ICSE-1993.

According to the ILO, stable employment includes (1) employer—a person who operates his or her own economic enterprise, or engages independently in a profession or trade, and hires one or more employees; some countries may wish to distinguish among employers according to the number of persons they employ; and (2) employee—a person who works for a public or private employer and receives remuneration in wages, salary, commission, tips, piece-rates, or pay in kind.

Vulnerable employment includes (1) own-account worker—a person who operates his or her own economic enterprise, or engages independently in a profession or trade, and hires no employees outside family members; (2) unpaid family worker—usually a person who works without pay in an economic enterprise operated by

a related person living in the same household. (Where it is customary for young people, in particular, to work without pay in an economic enterprise operated by a related person who does not live in the same household, the requirement of “living in the same household” may be eliminated. If there are significant numbers of unpaid family workers in enterprises of which the operators are members of a producers’ cooperative who are classified in category (2), these unpaid family workers should be classified in a separate subgroup.); (3) member of producers’ cooperative—a person who is an active member of a producers’ cooperative, regardless of the industry in which it is established (where this group is not numerically important, it may be excluded from the classification, and members of producers’ cooperatives should be classified under other headings as appropriate); and (4) persons not classifiable by status—experienced workers whose status is unknown or inadequately described and unemployed persons not previously employed (i.e., new entrants). A separate group for new entrants may be included if information for this group is not already available elsewhere.⁶⁷

Sector definitions. The available data use sector definitions from a range of International Standard Industrial Classification of All Economic Activities (ISIC) revisions, published by the United Nations Statistics Division, which we aggregate into nine sectors with shortened names. These are mostly self-explanatory. However, we note that agriculture includes forestry and fishing; resources corresponds to the ISIC “mining and quarrying” sector and includes oil and natural gas production; utilities includes electricity, gas, and water supply; retail and hospitality includes wholesale and retail trade, hotels, and restaurants; transport and communication includes, among others, transport and storage, telecommunications, and media and information technology; financial and business services includes real estate, professional, and scientific and technical activities; and government and social services includes all public services such as administration, health, and education, as well as arts, recreation, and personal and domestic household services.

2. KEY SOURCES OF DATA

Two databases from the ILO—the LABORSTA and the seventh edition of the *Key Indicators of the Labour Market* (KILM)—were our primary sources for data in this report. Where data from these two sources were unavailable, we used a range of other sources.

- **ILO LABORSTA.** We used this database for a top-down analysis of population by employment status (broken down into employers, employees, own-account workers, production cooperative members, and workers unclassified by status) at the country level. These data were available for the following countries: Algeria, Burundi, Cameroon, Egypt, Ethiopia, Kenya, Morocco, Namibia, Sierra Leone, South Africa, Tunisia, and Zambia. This database also provided statistics on employment at the sector level in each country. These data were available for the following countries: Egypt, Ethiopia, Liberia, Mauritius, Morocco, and South Africa.
- **ILO KILM.** KILM provided historical estimates by country for total employed workers, labour force size, working-age population, and labour force

⁶⁷ International Labour Organization, <http://laborsta.ilo.org/applv8/data/icsee.html>.

participation rates. In addition, KILM provided employment by sector (although not broken down by employment status) for several countries: Egypt, Ethiopia, Kenya, Morocco, Nigeria, Senegal, South Africa, and Uganda.

- **ILO, *Global employment trends 2012: Preventing a deeper jobs crisis*.** This publication provided the overall rate at which stable employment as a share of the labour force is changing in Africa and other regions.
- **World Bank.** We used the World Bank's *World development indicators* for historical country-level estimates of GDP and per capita GDP, in real 2005 US dollars.
- **United Nations World Prospects.** These reports provided projections for Africa's working-age populations, active populations, and participation rates to 2100.
- **National statistical agencies.** The Kenya National Statistics Bureau, Nigeria's National Bureau of Statistics, and the Uganda Bureau of Statistics provided sector employment data for Kenya, Nigeria, and Uganda, respectively.
- **Global Insight.** This provider gave us sector-level GDP for eight countries: Cameroon, Egypt, Kenya, Mali, Senegal, South Africa, Uganda, and Zimbabwe.
- **McKinsey Global Growth Model.** This model provided historical and projected GDP by sector for ten countries: Algeria, Angola, Egypt, Ethiopia, Kenya, Mali, Morocco, Senegal, South Africa, and Uganda. The Growth Model is a proprietary macroeconomic database and forecasting tool, providing a self-consistent source for a wide range of social and macroeconomic indicators.

3. SIZING AFRICA'S EMPLOYMENT CHALLENGE

As we described in the body of the report, Africa's main employment challenge is in creating stable wage-paying employment, rather than just reducing explicit unemployment. The ILO's *Global employment trends 2012* reports that unemployment has fallen across Africa from 11.4 percent in 2000 to 8.9 percent in 2010, despite massive growth in the labour force. We see no reason to expect this trend to change given that, in nearly all African countries, the lack of social safety nets means that new workers will have to undertake some sort of subsistence activity if stable employment is not available. We therefore assume that the compound annual rate of change of unemployment will continue to decline to 2020. Note, however, that our results are not particularly sensitive to unemployment. A full percentage point change to the unemployment rate in 2020 is equivalent to five million workers, compared with an estimated 122 million new workers who will enter the labour force over the decade.

To project that the total number of workers in vulnerable employment in Africa will begin to decline in 2085, we started with the current rate that stable jobs are growing as a share of the workforce (i.e., workers in employment)—0.39 percentage points per annum—and converted this to a rate at which stable jobs are growing as a share of the labour force (i.e., all workers), using a 9 percent unemployment rate. The size of the working-age population was sourced from the

United Nations' *World population prospects*. We assumed that the participation rate (workers as a share of working-age population) will increase at Africa's historical per annum increase of 0.18 percentage points, as indicated in the KILM seventh edition, until it reaches the world average of 69 percent (in 2024), after which we held it fixed.

4. AFRICA'S STABLE EMPLOYMENT BY SECTOR AND COUNTRY SEGMENT IN 2010

We have attempted to build a high-level picture of the jobs that Africa's workers are currently performing by country segment, economic sector, and stable versus vulnerable employment. To do so, we:

- Determined the **shares of sector employment** for countries that have data
- Aggregated these data to provide a breakdown of **total employment by sector for all of Africa** and each of four country segments (see below)
- Estimated the **share of stable employment** in the labour force overall for each of the country segments
- Estimated the **share of stable employment** in each sector for each of the country segments
- Used the results to create **employment "area maps"** that graphically depict the employment patterns in different groups of African countries

4.1. Total employment by sector for 11 countries

We sourced sector-level employment data mainly from the ILO LABORSTA and KILM seventh edition databases so that we could compare consistent data across countries. Where data were not available, we sourced statistics from national statistical offices of the relevant countries. We had sector employment data for 11 countries over two or more years: Algeria (2001–03); Angola (2005–10); Egypt (2000–08); Ethiopia (2004–05); Kenya (2003–07); Mali (2007, 2010); Morocco (2002–07); Nigeria (2001, 2004, 2007, 2009); Senegal (2001, 2006); South Africa (2000–08); and Uganda (2002, 2004, 2005, 2009). Together, these countries represented 52 percent of African workers in 2010.

These countries served as proxies for four country segments that we also used in our 2010 *Lions on the move: The progress and potential of African economies* report:

- **Pre-transition:** Ethiopia and Mali
- **Transition:** Kenya, Senegal, and Uganda
- **Diversified:** Egypt, Morocco, and South Africa
- **Oil exporters:** Algeria, Angola, and Nigeria

We chose 2002 and 2010 as standard years for comparing across countries. For each country for which we were missing data for 2002 or 2010, we used the data available to calculate a growth rate for employment in each sector and

extrapolated to 2002 and 2010. For consistency, we then scaled the sector numbers to match the overall number of employed workers in 2002 and 2010, using KILM estimates (Exhibit A1).

Exhibit A1

Employment by sector of African countries, 2010

Million people

| | Pre-transition | | Transition | | | Diversified | | | Oil exporters | | |
|--------------------------------|----------------|------------|-------------|------------|-------------|-------------|-------------|-------------|---------------|------------|-------------|
| | Ethiopia | Mali | Kenya | Senegal | Uganda | Egypt | Morocco | S.Africa | Algeria | Angola | Nigeria |
| Agriculture | 29.8 | 2.5 | 5.5 | 2.4 | 8.4 | 8.1 | 4.4 | 0.7 | 2.0 | 5.3 | 21.2 |
| Retail and hospitality | 3.2 | 0.6 | 4.4 | 1.3 | 1.2 | 3.0 | 1.4 | 3.3 | 1.7 | 0.4 | 11.0 |
| Manufacturing | 1.9 | 0.3 | 1.8 | 0.5 | 0.8 | 2.7 | 1.2 | 1.9 | 0.8 | 0.0 | 3.7 |
| Transport and communication | 0.2 | 0.0 | 0.4 | 0.1 | 0.4 | 1.7 | 0.5 | 0.7 | 0.8 | 0.1 | 1.9 |
| Construction | 0.5 | 0.1 | 0.3 | 0.1 | 0.2 | 2.5 | 1.0 | 1.3 | 1.5 | 0.3 | 0.9 |
| Finance and business services | 0.2 | 0.1 | 0.1 | 0.2 | 0.1 | 0.7 | 0.2 | 1.6 | 0.2 | 0.0 | 1.0 |
| Resources | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.1 | 0.1 | 0.1 |
| Utilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 | 0.1 | 0.1 | 0.0 | 0.2 |
| Government and social services | 2.7 | 0.3 | 1.6 | 0.3 | 1.8 | 5.5 | 1.6 | 3.8 | 2.6 | 0.4 | 6.3 |
| Total | 38.6 | 3.9 | 14.0 | 4.8 | 12.9 | 24.6 | 10.3 | 13.7 | 9.9 | 6.5 | 46.3 |

SOURCE: International Labour Organization; Nigerian Bureau of Statistics; CEIC-UCAN Angola; Kenya National Statistics Board; McKinsey Global Institute analysis

The 11 countries presented a number of data challenges, requiring specific adjustments to some of the country data. We list these here. As noted in the body of this report, we eagerly await improvements in the quality of African labour statistics.

- Algeria.** We obtained Algeria's raw data from the ILO LABORSTA database. We used data only for 2001 and 2003 to calculate employment shares by sector because of large and implausible changes in the shares of employment in agriculture, manufacturing, and retail in 2003–04. Given these moves in shares, employment in the government sector declined sharply in these years but then appeared higher in later years. We also made some manual adjustments to employment in some sectors for specific years to smooth implausible changes that are likely to reflect inaccuracies in data collection and reporting.
- Angola.** We obtained data on Angola's employment by sector from CEIC-UCAN.⁶⁸ The format in which the data came aggregated employment in a number of sectors: transport, storage and communications; wholesale and retail trade; and finance and business services. To estimate the employment shares in these sectors, we assumed that the proportions would be similar to those observed in other African oil exporters (i.e., Nigeria and Algeria) across these categories.

68 *Economic report of Angola*, Centro de Estudos e Investigação Científica da Universidade Católica de Angola (CEIC) (<http://www.ceic-ucan.org/?view=article&id=28>).

- **Ethiopia.** We obtained sector employment data from the ILO LABORSTA database only for the two consecutive years of 2004 and 2005. Many sectors show unreasonable rates of employment change over this short period, due presumably to sampling uncertainties. We therefore averaged the employment figures for these two years as a starting point. We then used the transition countries (Kenya, Senegal, and Uganda) as the best available proxy to find the compound annual growth rate of employment by sector, to project employment by sector to 2002 and 2010. The resulting employment numbers per sector were scaled by the overall total Ethiopian employment from KILM. The resulting employment trends are thus necessarily approximate, but we find them to be plausible.
- **Mali.** Mali's data was sourced from a study by a number of organisations, including the National Employment Agency.⁶⁹ We assumed any data point presented as <1 was 0.5, which affected four sectors: utilities, hotels and restaurants, financial activities, and real estate.
- **Nigeria.** Nigeria's data came mainly from the National Bureau of Statistics (NBS), which provides statistics for 2001, 2007, and 2009. For 2004, we found data from KILM. However, the data points use inconsistent approaches: 2001 and 2007 report a much smaller share of employment in advanced sectors (and do not match KILM estimates of total employment), while 2004 and 2009 use an approach that is consistent with KILM statistics for similar countries. We therefore used the 2004 and 2009 figures as a starting point. However, 2009 reports a dramatic drop in agricultural employment compared with 2004, which is not supported by trends observed from 2001 to 2007, or indeed any other source. We therefore applied to the 2004 figures the trend in agricultural employment from 2001 to 2007 to arrive at an estimated agricultural employment in 2009, and then scaled the remaining sector's employment proportionally to maintain the overall workforce size.

4.2. Employment by sector for all of Africa

Using the sector employment for the 11 countries above with data, we used a two-step process to estimate sector employment for Africa as a whole. First, we calculated sector employment for each country segment (pre-transition, transition, diversified, and oil exporters). Second, we estimated an Africa total taking into account countries not included in our segmentation and adjusted the total, so that it matched the total employment figure for Africa from KILM.

For each country segment, we summed the employment by sector for each of the countries for which we had data and then scaled up the result using total labour force size. In the diversified segment, for instance, we had sector employment data for Egypt, Morocco, and South Africa, whose combined labour force accounted for 82 percent of the total labour force of all diversified countries. We summed the data for these three countries, and then scaled this total up.

To determine sector employment for the whole of Africa, we then had to reach an overall estimate based on the 26 countries in the four country segments. We first collected total employment figures for 24 additional African countries from KILM. We then assigned these additional countries to each country segment based on

69 Yves Bourdet, Kassim Dabitaou, and Aoua Saran Dembélé, *Croissance, emploi et politiques pour l'emploi au Mali*, sourced from www.mali-apd.org/IMG/file/pdf/ACTUALITE/Rapport_emploi.pdf.

their real per capita GDP. We used real per capita GDP rather than measures of economic diversification and per capita exports, as we used in the initial country segmentation, because of a lack of available data for these factors.

We used the following assumptions to assign additional countries to three of the segments, based on the average per capita GDP of each country grouping. If per capita GDP was less than \$200, we allocated that country to the pre-transition group; if per capita GDP was greater than \$200 but less than \$1,000, the country was designated transition; diversified countries had per capita GDP greater than \$1,000. With these assumptions, we then used employment shares in the four country groupings based on a weighted average of the countries for which we had data. Finally, we adjusted to ensure that overall employment matched the totals in the ILO KILM database, to estimate Africa's total employment by sector.

4.3. Share of stable employment in the overall workforce by country segment

Armed with an estimate of total employment by sector, we turned to determining the share of these jobs that are stable (that is, employers and employees) and those that are vulnerable (i.e., self-employed and unpaid family workers). We did this first at the total workforce level and then refined it by sector.

The ILO LABORSTA database provides the share of stable employment (that is, the percentage of jobs that are wage-paying) for the following African countries: Algeria, Burundi, Cameroon, Egypt, Ethiopia, Kenya, Morocco, Namibia, Sierra Leone, South Africa, Tunisia, and Zambia. These 12 countries had data available for different years. For instance, Kenya's latest available data were for 2005, while South Africa's latest available were for 2008. To obtain a consistent picture for 2010, we used the latest year for which data were available and applied a rate of increase to the share of stable jobs of 0.39 percentage points a year, as estimated by the ILO in *Global employment trends 2012*—and as consistent with our own estimates.

To determine the share of stable versus vulnerable employment for each country segment, we used a weighted average of those countries with available data, with weights based on the size of labour forces.

However, in the case of oil exporters, we had data only for Algeria. This group of countries is diverse, unified only by having substantial oil exports. To capture this diversity, we assumed that Angola, Chad, Congo, and Equatorial Guinea have stable employment shares that are similar to pre-transition countries; that Gabon and Nigeria employment shares are similar to those of transition countries; and that Libya has the same share as Algeria. We then calculated a weighted average across these countries based on the size of their labour forces.

4.4. Share of stable employment for each sector by country segment

The ILO LABORSTA database contains data on "population by industry by status in employment". For each sector, these data show the status of employment for workers in the sector (e.g., employers, employees, own-account workers, and so on). However, we were able to source data for only six countries: Botswana, Egypt, Ethiopia, Mauritius, Morocco, and South Africa. Based on data for these six, we find that the share of stable and vulnerable jobs varies widely across sectors and across different countries.

To see how the share of stable jobs changes as countries develop, we extrapolated from data for the six countries just listed. We used the following assumptions:

- **Pre-transition countries.** We have data for Ethiopia, accounting for 42 percent of the workforce of countries assigned to the pre-transition segment. We assumed that Ethiopia is a fair proxy for this segment overall.
- **Transition countries.** We had no direct data, and so we triangulated using three sources. First, we assumed that the share of stable employment in any sector would lie somewhere between that in pre-transition and diversified countries. Second, we considered employment by sector for transition countries outside Africa, including Thailand and South Korea in 1960 (see section 5 for further details). Finally, we summed our estimates across sectors and tested this total against the overall split of stable and vulnerable employment arrived at in the previous subsection.

For agriculture, all three tests pointed to a level of stable employment between 8 and 15 percent. We chose the high end of this range due to the importance of export agriculture (especially tobacco and horticulture) in many transition economies. For resources, activity is largely in the formal sector and company-owned; we used an average of South Korea, Thailand, and diversified African countries. In manufacturing, we took an average of South Korea, Thailand, and pre-transition African countries—manufacturing has underperformed in transition countries and thus more closely resembles pre-transition economies than diversified ones. In retail and hospitality, we took the geometric mean of pre-transition and diversified shares of stable employment, assuming accelerating formalisation over time (see the next section for further discussion); this gave a result near the middle of the range of comparison countries. For transport, storage, and communications, we used an average of pre-transition, diversified, and benchmark transition countries. Utilities, construction, and finance and business services all feature predominantly stable employment; we took the average of the pre-transition and diversified shares of stable employment. Finally, in government and social services, we took an average of pre-transition and benchmark transition countries, as Africa's diversified countries have come from very different historical starting points compared with other developing economies, and so have different social-service structures.

- **Diversified countries.** We calculated a weighted average from the sector employment of five countries—Botswana, Egypt, Mauritius, Morocco, and South Africa—weighting the results by the size of each country's overall labour force.
- **Oil-exporting countries.** For the three oil exporters for which we have sector employment shares, we assumed that Angola has a similar share of stable versus vulnerable employment in each sector as a pre-transition country; Algeria is similar to a diversified country; and Nigeria is similar to a transition country.

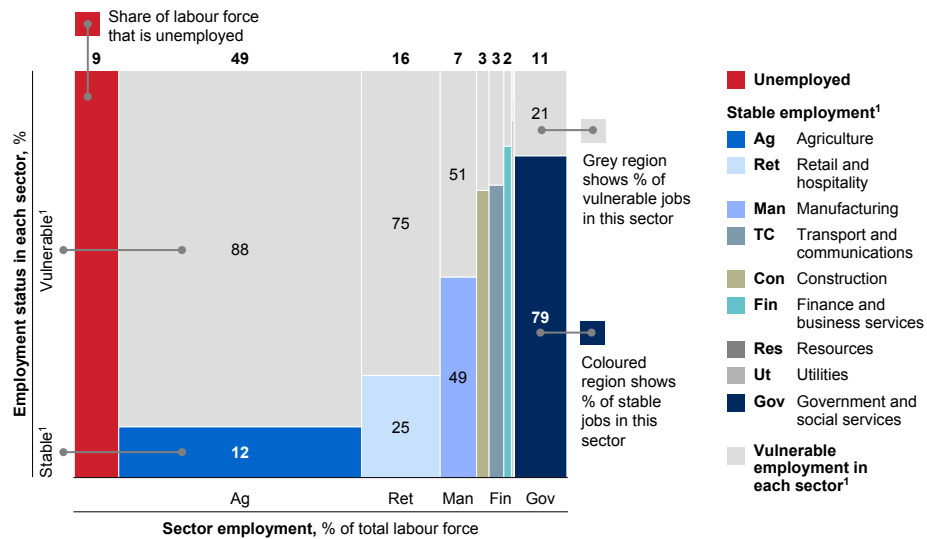
4.5. Employment “area maps”

The “area map” exhibits used in this report show total employment by sector in the width of the column and the share of stable and vulnerable jobs in that sector as shaded areas in the height of the column. As a result, each box in an area map represents the size of sector employment as a portion of total employment. We show unemployment in its own column. This chart visually demonstrates how the distribution of stable and vulnerable jobs differs across sectors, the relative importance of sectors in terms of employment, and the portion of the labour force that is unemployed. We can construct area maps for Africa as a whole (Exhibit A2) and for individual countries (Exhibit A3).

Exhibit A2

Africa’s employment area map

% of labour force



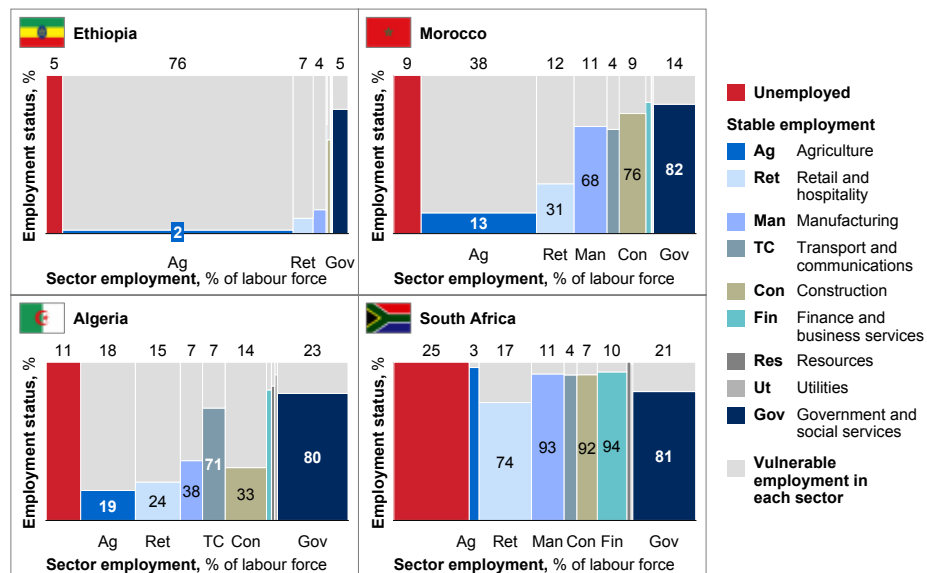
1 Stable employment includes wage and salary employees and business owners; vulnerable employment includes subsistence farming, informal self-employment, and work for a family member.

SOURCE: McKinsey Global Institute analysis

Exhibit A3

Employment maps—select countries

%



SOURCE: International Labour Organization; McKinsey Global Institute analysis

5. STABLE EMPLOYMENT TRENDS IN COMPARABLE COUNTRIES OUTSIDE AFRICA

To understand how employment has evolved in other emerging markets as they developed, we obtained data from the ILO LABORSTA online database. Thailand and South Korea offer the most complete and relevant time series, but Egypt, Malaysia, Mexico, Pakistan, Philippines, Indonesia, and Turkey also have useful time-series data.

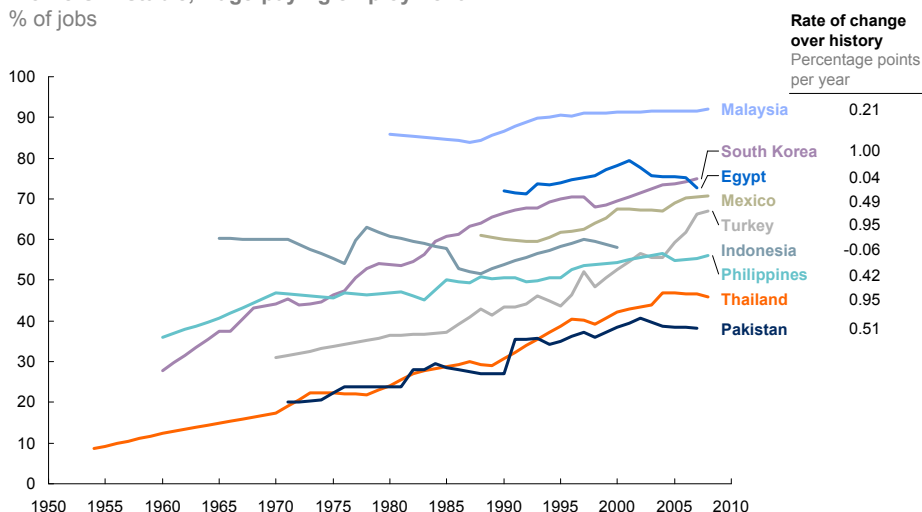
Several assumptions were required. First, we needed to separate employers and own-account workers, as the ICSE-58 convention used by most countries until the late 1990s does not distinguish these categories. For the purposes of our analysis, however, we considered employers as part of stable employment and own-account workers as being in vulnerable employment. For each country and each sector, we used the average ratio of employers to own-account workers for years in which these are split out, and applied this ratio to the historical data. Second, many of the time-series data include outliers—different conventions, data from census versus labour force surveys, and so on. We removed these by hand.

We find that most of the countries we considered have shown real gains in the share of stable employment, sustained over multiple decades. Thailand and South Korea, and more recently Turkey, show particularly strong performances (Exhibit A4).

Exhibit A4

Most countries with time-series data have increased stable employment as a share of the workforce

Workers in stable, wage-paying employment¹
% of jobs



¹ Excludes unemployed workers and workers labelled "not able to be classified" in the primary data; includes wage and salary employees and business owners.

SOURCE: International Labour Organization; McKinsey Global Institute analysis

6. PROJECTING STABLE EMPLOYMENT IN AFRICA IN 2020

We forecast the stable employment by sector to 2020 at current GDP and employment trends and also created an upside scenario with faster stable job growth. There were several steps to this analysis, for which we:

- Projected the **overall number of stable jobs to be created to 2020**
- Forecast the **total employment by sector in 2020**
- Forecast the **share of stable employment by sector in 2020**
- Estimated the **potential for accelerating job creation** in three sectors: agriculture, manufacturing, and retail and hospitality

6.1 Overall number of stable jobs to be created to 2020

At a continental level, the overall trend is that the labour force will grow by 122 million workers over the decade to 2020, and the share of workers in stable jobs will increase at a rate of 0.39 percent per annum.⁷⁰ These current trends imply that Africa will create 54 million stable jobs between 2010 and 2020.

The rest of this section describes how we calculated the sectors and country segments that will account for these 54 million jobs, using bottom-up country-level calculations in the ten countries for which we have sufficient data. If we treat these ten countries as representative of Africa, in the same way as we have described in subsection 4.2, we arrive at a total of 57 million jobs to be created in Africa over the decade 2010 to 2020. Given the uncertainties involved, we consider the two calculations to be in rough agreement and scale the results of our bottom-up calculation to match a total of 54 million jobs when we quote Africa-level figures.

6.2. Total employment by sector in 2020

To understand how total employment by sector will change over this decade, we looked at how employment has grown over the past decade in response to GDP growth (i.e., jobs per unit of GDP growth). We then used projected future GDP growth to calculate the number of jobs that would be created if the historical trends continued.

GDP data came from two sources. Total GDP by country, for the 11 countries for which we have employment data, came from Global Insight. To understand the share of GDP by sector, we used McKinsey's Global Growth Model. The Global Growth Model's historical sector GDP figures are not substantially different from Global Insight figures.

⁷⁰ *Global employment trends 2012: Preventing a deeper jobs crisis*, International Labour Organization, January 2012.

For each of the 11 countries with data, we calculated the total number of jobs (vulnerable and stable) created per unit of GDP added over the period 2002 to 2010. We then applied these numbers to expected GDP growth over the decade 2010 to 2020 to forecast employment by sector in 2020, by country.

We tested these results for plausibility, for instance by calculating the implied productivity growth in each sector. We modified the figures for specific sectors of countries in a number of cases for one of three reasons: (1) unsustainably high historical or projected productivity improvements, implying little employment gain in a growing sector, or in some cases even negative jobs per additional GDP in 2002 to 2010; (2) sustained productivity losses over the decade from 2010 to 2020, implying implausibly rapid employment growth; or (3) minimal productivity gains in major sectors (e.g., agriculture and retail) leading to no, or even negative, unemployment in 2020.

Finally, we aggregated 2020 employment data for the 11 countries and scaled this number up to country segment as well as Africa-level numbers, using the same approach we describe in section 4.2.

6.3. Share of stable employment by sector in 2020

To calculate the number of stable jobs in 2020 requires understanding how the share of stable employment by sector is changing. Section 4.4 describes the methodology for calculating the share of stable employment by sector in 2010. However, given the severe lack of data for African employment, it is not possible to use the same approach for calculating a rate of change over time.

Instead, we used the time-series data for nine comparable countries: Egypt, Indonesia, Malaysia, Mexico, Pakistan, Philippines, South Korea, Thailand, and Turkey, as described in section 5, on the assumption that Africa's economies are following a similar path of development as these emerging markets.

For each sector, each time series (e.g., agriculture in Thailand from 1960 to 2008) was allocated to a country segment (pre-transition, transition, or diversified) based on comparing the average share of stable employment over the time series to the 2010 African share of stable employment. Taking the average rate of change of the share of employment across these time series provided an estimate for the rate of Africa's share of stable employment. While necessarily rough, this approach produced results that pass two tests. First, they matched the expectations based on our extensive work across sectors and across the continent; for example, retail is showing rapid gains in formal wage-paying jobs across many markets in Africa, and indeed our analysis shows a rapid rate of change for retail. Second, putting this rate of change into our projections for 2020 employment by sector produced a rate of change for stable employment across the whole continent that roughly matches the historical rate of 0.39 percent per annum reported by the ILO.

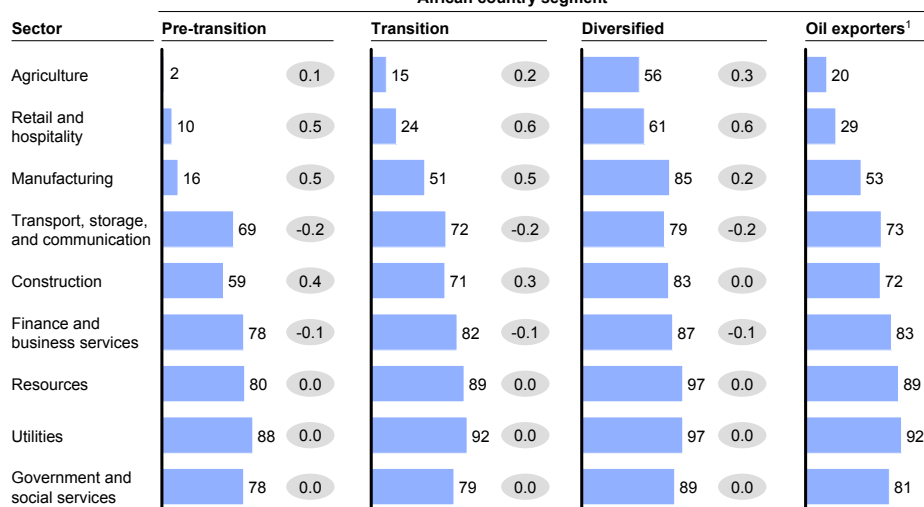
Using this approach, we find that retail, hospitality, and manufacturing are the most rapidly changing sectors, with the share of stable employment growing by as much as 0.6 percent each year (Exhibit A5). Agriculture and construction are also making gains in most countries, but at slower rates. In more advanced sectors, such as banking or transportation and storage, the experience of countries elsewhere suggests Africa will experience a slight *decline* in the share of stable employment in the decades ahead. We believe that this is largely due to the growth of relatively well-paid self-employed occupations, such as estate agents, and is therefore not a worrying trend. As a general rule, the rate of growth of stable employment shows “S-curve” behaviour—change is fastest when the share of stable employment in the sector is near 50 percent. When sectors are dominated by vulnerable employment (such as agriculture in pre-transition countries with only 2.3 percent of workers in stable jobs), then change is slower. Conversely, when the share of stable employment approaches 100 percent, change slows as the remainder of self-employed workers are well-paid professionals and entrepreneurs, as described above.

Exhibit A5

The share of workers in stable employment varies by country group and sector

% of workers in stable, wage-paying employment

African country segment



1 Oil exporters are too diverse to assign a single rate of change across the entire segment.

SOURCE: McKinsey Global Institute analysis

Applying the 2020 share of stable employment by sector to the total employment figures calculated in the previous section gave us the expected number of stable jobs by sector in 2020 at current trends (Exhibit A6).

Exhibit A6

Stable jobs in Africa, 2002–20

| | Stable jobs | | | | | | Stable job growth | |
|---------------------------------|---------------|---------------|---------------|------------|------------|------------|-------------------|------------|
| | Thousand | | | % of total | | | % per annum | |
| | 2002 | 2010 | 2020 | 2002 | 2010 | 2020 | 2002–10 | 2010–20 |
| Pre-transition countries | | | | | | | | |
| Agriculture | 558 | 1,206 | 2,399 | 15.0 | 16.6 | 14.5 | 10.1 | 7.1 |
| Retail and hospitality | 209 | 552 | 1,499 | 5.6 | 7.6 | 9.0 | 12.9 | 10.5 |
| Manufacturing | 266 | 537 | 1,299 | 7.1 | 7.4 | 7.8 | 9.2 | 9.2 |
| Transport and communications | 153 | 290 | 631 | 4.1 | 4.0 | 3.8 | 8.3 | 8.1 |
| Construction | 295 | 532 | 1,558 | 7.9 | 7.3 | 9.4 | 7.7 | 11.3 |
| Finance and business services | 121 | 230 | 511 | 3.2 | 3.2 | 3.1 | 8.3 | 8.3 |
| Resources | 109 | 143 | 196 | 2.9 | 2.0 | 1.2 | 3.4 | 3.2 |
| Utilities | 46 | 56 | 79 | 1.2 | 0.8 | 0.5 | 2.4 | 3.5 |
| Government and social services | 1,973 | 3,729 | 8,405 | 52.9 | 51.3 | 50.7 | 8.3 | 8.5 |
| Total pre-transition | 3,731 | 7,275 | 16,576 | 100 | 100 | 100 | 8.7 | 8.6 |
| Transition countries | | | | | | | | |
| Agriculture | 5,933 | 7,170 | 10,026 | 30.1 | 24.3 | 20 | 2.4 | 3.4 |
| Retail and hospitality | 2,739 | 4,914 | 8,575 | 13.9 | 16.7 | 17.5 | 7.6 | 5.7 |
| Manufacturing | 3,137 | 4,609 | 8,169 | 15.9 | 15.6 | 16.7 | 4.9 | 5.9 |
| Transport and communications | 1,025 | 1,699 | 2,976 | 5.2 | 5.8 | 6.1 | 6.5 | 5.8 |
| Construction | 808 | 1,231 | 2,115 | 4.1 | 4.2 | 4.3 | 5.4 | 5.6 |
| Finance and business services | 581 | 1,005 | 2,127 | 3.0 | 3.4 | 4.3 | 7.1 | 7.8 |
| Resources | 193 | 219 | 326 | 1.0 | 0.7 | 0.7 | 1.6 | 4.1 |
| Utilities | 164 | 172 | 220 | 0.8 | 0.6 | 0.4 | 0.6 | 2.5 |
| Government and social services | 5,111 | 8,475 | 14,458 | 26.0 | 28.7 | 29.5 | 6.5 | 5.5 |
| Total transition | 19,693 | 29,495 | 48,994 | 100 | 100 | 100 | 5.2 | 5.2 |
| Diversified countries | | | | | | | | |
| Agriculture | 6,153 | 7,952 | 9,697 | 20.2 | 20.4 | 18.9 | 3.3 | 2.0 |
| Retail and hospitality | 3,891 | 5,042 | 6,766 | 12.7 | 13.0 | 13.2 | 3.3 | 3.0 |
| Manufacturing | 4,372 | 5,376 | 7,469 | 14.3 | 13.8 | 14.5 | 2.6 | 3.3 |
| Transport and communications | 1,801 | 2,435 | 3,615 | 5.9 | 6.3 | 7.0 | 3.8 | 4.0 |
| Construction | 2,389 | 4,358 | 6,470 | 7.8 | 11.2 | 12.6 | 7.8 | 4.0 |
| Finance and business services | 1,663 | 2,386 | 3,523 | 5.4 | 6.1 | 6.9 | 4.6 | 4.0 |
| Resources | 685 | 389 | 417 | 2.2 | 1.0 | 0.8 | -6.8 | 0.7 |
| Utilities | 380 | 501 | 709 | 1.2 | 1.3 | 1.4 | 3.5 | 3.5 |
| Government and social services | 9,197 | 10,455 | 12,760 | 30.1 | 26.9 | 24.8 | 1.6 | 2.0 |
| Total diversified | 30,531 | 38,894 | 51,427 | 100 | 100 | 100 | 3.1 | 2.8 |
| Oil exporters | | | | | | | | |
| Agriculture | 3,605 | 5,041 | 6,854 | 18.1 | 18.3 | 17.6 | 4.3 | 3.1 |
| Retail and hospitality | 2,610 | 4,229 | 6,400 | 13.1 | 15.4 | 16.5 | 6.2 | 4.2 |
| Manufacturing | 2,832 | 2,984 | 3,720 | 14.2 | 10.9 | 9.6 | 0.7 | 2.2 |
| Transport and communications | 1,166 | 2,374 | 3,880 | 5.8 | 8.6 | 10.0 | 9.3 | 5.0 |
| Construction | 1,122 | 2,372 | 3,560 | 5.6 | 8.6 | 9.2 | 9.8 | 4.1 |
| Finance and business services | 220 | 1,132 | 3,741 | 1.1 | 4.1 | 9.6 | 22.7 | 12.7 |
| Resources | 195 | 316 | 561 | 1.0 | 1.2 | 1.4 | 6.2 | 5.9 |
| Utilities | 278 | 303 | 491 | 1.4 | 1.1 | 1.3 | 1.1 | 4.9 |
| Government and social services | 7,918 | 8,723 | 9,657 | 39.7 | 31.7 | 24.8 | 1.2 | 1.0 |
| Total oil exporters | 19,945 | 27,476 | 38,864 | 100 | 100 | 100 | 4.1 | 3.5 |

SOURCE: McKinsey Global Institute analysis

6.4. Potential for accelerating job creation

In chapter 2, we presented results for a scenario that assumes accelerated employment growth in three sectors that account for around half of stable jobs in Africa: agriculture, manufacturing, and retail and hospitality. The assumptions used to find these figures are:

Agriculture. In our 2010 *Lions on the move* report, we calculated that African agriculture has the potential to raise revenue growth in the sector from 2.7 to 5.8 percent over the next two decades, an incremental 3.1 percent. To estimate the employment impact, we increased the currently projected growth rates of agricultural GDP in our country sample by 3.1 percentage points. However, diversified countries have more developed agricultural sectors, with less uncultivated farmland and higher starting yields, so we assumed only 2.1 percent additional agricultural GDP growth per annum for these countries. Using these higher growth rates for agricultural GDP, we then calculated the additional jobs using the same approach described above in our base-case scenario.

Manufacturing. The main body of this report outlines how unblocking current barriers to growth in manufacturing could unleash the sector's expansion in Africa. We sized this potential by using the growth rates of comparable emerging markets with strong manufacturing sectors. In our sample of countries, low-wage countries, namely the pre-transition and transition groups (Ethiopia, Kenya, Senegal, and Uganda) have an average current projection for manufacturing GDP growth of 6.6 percent per annum for the period 2010 to 2020, which is already a strong performance. However, Vietnam, a country with similar wages, has achieved a 10.5 percent growth rate for manufacturing GDP over the past decade, suggesting an upside of an additional 3.9 percent for these countries. We applied this additional GDP growth to current projections and, using this methodology, then calculated the additional jobs that would be created.

Diversified countries (Egypt, Morocco, and South Africa) are projected to achieve average annual manufacturing growth of 4.3 percent over the current decade, compared with South Korea's 6.3 percent over the past decade, an upside of 2.0 percent per annum. We converted these incremental growth rates to additional stable jobs as we described in the previous paragraph.

Oil exporters face the challenges of strong currency but have buoyant domestic markets. As we showed in our 2010 report, Malaysia and Indonesia were both similar to Africa's oil exporters, and they successfully diversified. To size the potential, we applied the same approach as in the previous section, treating Angola, Nigeria, and Algeria as pre-transition, transition, and diversified, respectively. As a test of the robustness of these assignments, Angola and Nigeria are expected to grow manufacturing GDP at 5.7 and 6.0 percent, respectively, over the decade to 2020, rates that are similar to the pre-transition and transition average of 6.6 percent, while Algeria's manufacturing is projected to grow at 3.7 percent per annum, close to the diversified average of 4.3 percent.

Finally, manufacturing in pre-transition countries is currently so small that even the buoyant growth rates of Vietnam that we have noted would give only an additional 600,000 stable jobs over the decade for all countries in this segment. This reflects the very small size of manufacturing in these countries. If, however, these countries were to grow their manufacturing sectors by an amount equivalent to just 20 percent of Vietnam's current manufacturing GDP, they would add one million stable jobs. In our view, this latter figure captures a more accurate upside potential.

Retail and hospitality. As described in the main report, the retail and hospitality sector has grown to become a large share of the workforce and is now starting to organise and so shift sector employment from vulnerable jobs to more stable employment. We see the upside in retail and hospitality as doubling the rate of change shown in Exhibit A5. As a test, this would imply pre-transition retail reaching the share of stable employment that today's transition countries have in 14 years, and transition resembling today's diversified countries in 31 years. Given McKinsey's experience serving emerging retailers across Africa, we think these rates are plausible.

Tourism is already growing strongly in many African countries—for example, among the 11 countries in our sample, Angola, Egypt, Kenya, Morocco, Senegal, and Uganda all experienced growth rates of 7 to 11 percent per annum in tourism's direct contribution to GDP from 2000 to 2010. We take an additional 2 percent per annum growth in the direct contribution of tourism to GDP as additional potential for the sector. Our employment figures do not typically break out tourism with the overall retail and hospitality sector, so we used the jobs per unit of GDP figures from the combined retail and hospitality sector to calculate the resulting job potential.

7. MCKINSEY SURVEY OF AFRICAN BUSINESSES

The findings in chapter 3 rely on the results of a survey of 1,373 business owners across five countries, commissioned for this report and administered by market-research firm Ipsos Markinor. To best understand the challenges facing the bulk of African employers and workers, we focused on smaller enterprises that, in many countries, are largely informal. We ensured that businesses included in the survey represented multiple sectors; rural, semiurban, and urban locations; and a range of companies in terms of how long they had been in business. It encompassed four categories of enterprise by size: micro (zero to four employees); small (five to 19); medium (20 to 99); and large (100 or more employees) (Exhibit A7). On size, about 70 percent of respondents in each country were owners of micro or small businesses. This is a ratio that we imposed, along with the distribution across locations and sectors, but we should note that none of these necessarily reflects the actual distribution of businesses in Africa.

Exhibit A7**To better understand obstacles to growth and employment in African businesses, we conducted a survey of owners and executives in five countries**

% (n = 1,373)

| | | Overall | Egypt | Kenya | Nigeria | Senegal | South Africa |
|---------------|-----------------------------|----------------|--------------|--------------|----------------|----------------|---------------------|
| 100% = | | 1,373 | 270 | 286 | 270 | 270 | 277 |
| Sector | Retail | 23% | 35% | 24% | 16% | 17% | 25% |
| | Manufacturing | 15% | 2% | 24% | 17% | 11% | 20% |
| | Agriculture | 13% | 9% | 19% | 13% | 14% | 10% |
| | Construction | 13% | 21% | 1% | 11% | 15% | 16% |
| | Hospitality | 12% | 30% | 5% | 7% | 15% | 1% |
| | Community | 8% | 1% | 16% | 11% | 9% | 3% |
| | Transport and communication | 7% | 1% | 3% | 11% | 14% | 8% |
| | Finance | 5% | 0% | 7% | 8% | 4% | 4% |
| Other | 4% | 0% | 0% | 5% | 1% | 13% | |
| Size | Large | 7% | 9% | 7% | 7% | 7% | 8% |
| | Medium | 29% | 21% | 23% | 23% | 32% | 26% |
| | Small | 31% | 36% | 41% | 41% | 33% | 37% |
| | Micro | 33% | 34% | 28% | 28% | 28% | 30% |

NOTE: Numbers may not sum due to rounding.

SOURCE: McKinsey Survey of African Businesses, 2011

The survey was conducted in August and September 2011, using face-to-face interviews on business premises. Questions were asked in English in Kenya, Nigeria, and South Africa, French in Senegal, and Arabic in Egypt. For micro and small businesses, the respondent was the owner. For medium and large businesses, the respondent was either the owner or an executive responsible or jointly responsible for hiring decisions.

Many of the questions required ranking issues by importance. To improve the accuracy of responses, questions were asked in several stages. First, respondents were asked to identify issues in an open-ended fashion, with the market researcher matching responses to a predetermined list of issues. Second, the market researcher checked whether any of the issues on the list not yet identified might also apply in order to create a full list of relevant issues. Finally, respondents were asked to rank the top five issues in order of importance for their business.

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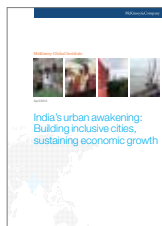
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