THE BRENTHURST FOUNDATION

Discussion Paper 2011/08

Putting Young Africans to Work

Addressing Africa's youth unemployment crisis

A Study Report

Strengthening Africa's economic performance

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Executive Summary

Putting Young Africans to Work: Addressing Africa's youth unemployment crisis draws on a series of Dialogues held in May 2011 with the governments of Zambia, Mozambique and Swaziland. The Dialogues were convened by The Brenthurst Foundation and comprised distinguished experts from the United States, Costa Rica, Argentina, the Ivory Coast and South Africa, all of whom contributed to this volume. With diverse backgrounds in government, business, policy implementation and academia, each expert brings a unique perspective to bear on the pressing issue of youth unemployment in Africa. Their contributions range from detailed entrepreneurial-led solutions, examples of best practice and initiatives from Latin America, technical proposals drawn from recent African experiences, and global trends in unemployment, economic growth and competitiveness. There is some variance in their respective observations and interpretations of the same socio-economic data from Africa and abroad. Nevertheless, across all the chapters there is a common emphasis on the need for governments to reduce the costs of formalisation for businesses and workers alike. This requires creating an environment in which labour is more productive and opportunities for innovation and growth are created – largely by government setting the right conditions and then getting out of the way. It is business, not government, that will put young Africans to work in sufficient numbers to turn the continent's population time bomb into a demographic boon.

Forewords

It is in the hands of our youth that the future prosperity and stability of Africa lies. In Zambia today, young people comprise about 70 per cent of our total population, which stands at nearly 13 million. What they require to succeed in life is no different than in other parts of the world – a decent education and employment. The challenge for Zambia, as with other African countries, is to provide young people with opportunities to fulfill their potential and contribute to the development of the nation.

Finding new and innovative ways to address youth unemployment is one of the Zambian government's most urgent priorities. Young people can be a tremendous force for positive change in society and serve as the engine which drives the country's development. The current situation presents some unique challenges which government cannot tackle alone. Zambia is continuing to experience rural-urban migration, as young people in the countryside seek better, higher-paying jobs in the cities. Lusaka, the capital and economic hub of the country, is the preferred destination of most young people. Naturally, informal settlements have risen in parts of the city, which has placed increasing strains on our health and education systems. To stem this tide, young people need to have attractive employment opportunities in other parts of the country, not just in agriculture but also in tourism, services and other high-growth potential sectors.

Currently, formal private sector employees account for less than ten per cent of the working population of Zambia. To meet the demands of our rising youth population, this percentage needs to grow substantially in the coming years. For this to become a reality, government and the private sector must work hand-in-hand to encourage entrepreneurship and the growth of small- and medium-sized enterprises. The government of Zambia is aware of the obstacles faced by SMEs in formalising their businesses and has initiated a new development policy that addresses some of these hurdles, including inadequate technology, lack of access to finance and markets, and a poor skills base.

These shortcomings have made many of our businesses uncompetitive and thus unable to generate the jobs our youth so desperately need. The government is determined to reverse this situation, especially by encouraging businesses to improve on the processing of the country's raw materials for consumption and the export market.

Aside from the resolve of government and the private sector, what is also essential to finding solutions to the youth unemployment dilemma in Zambia and across Africa is analysis and experience from outsiders who have succeeded in meeting this challenge in other countries. That is why I am pleased to give my full support and gratitude to the Brenthurst Foundation for the vital work they are doing on youth unemployment, the findings of which can be found in this most valuable publication.

Rupiah Bwezani Banda
President of the Republic of Zambia

Young people are central to the Government of Mozambique's mission to fight poverty and promote sustainable and inclusive social and economic growth in our country. Much of the Mozambican population is young. Among the various challenges that this group faces, the question of employment is the most critical.

Mozambique has experienced significant economic growth for more than a decade. Higher growth rates have been a consequence of prudent macroeconomic policies and the implementation of a series of measures aimed at enhancing the country's services sector. This has led to greater inflows of foreign direct investment (public and private), as well as a growing number of local investors.

The Government is determined that higher economic growth should translate into improvements in the quality of life for all Mozambicans. For this objective to be achieved, it is essential that we create more jobs and improve the skills of our citizens, especially young people. To this end, the Government has taken the following actions:

- The adoption of the strategy for employment and vocational training, 2006–2015 (EEFP), which aims to provide training and employment for 1 000 000 citizens;
- The creation of the District Development Fund (FDD), which supports the promotion of employment and food production at district level;
- The design and implementation of the Strategic Programme for Urban Poverty Reduction (PERPU), which among other things will facilitate funding for job-creation initiatives in cities;
- The creation of the Institute for the Promotion of Small and Medium-sized enterprises (IPEME), which supports SMEs as key drivers of job-creation;
- The adoption of the simplified Small Taxpayers (ISPC), which aims to simplify and reduce the tax burden for small businesses; and
- The creation of the Fund to Support Youth Initiatives (FAIZ) to assist young entrepreneurs in securing financing.

In addition, the Government is focusing on vocational education at various levels. Too few Mozambicans have professional qualifications, and there is a gap in the training many young people receive and what is required by the job market. This mismatch is a major contributor to youth unemployment.

In response, the Government is implementing an integrated programme to reform professional education in Mozambique. The current challenge is to improve the quality and funding of this type of training, as well as expand it throughout the country. The use of mobile units and the building of new vocational training centres forms part of our strategic response to this challenge.

We will also continue to prioritise the growth of professional apprenticeships. These schemes will not only provide young graduates with valuable experience but also foster greater interaction with employers, who will in turn have the opportunity to evaluate the effectiveness of the training offered in the country, and could contribute to its improvement.

The Government urges young people to take up the new opportunities inherent in these initiatives, which we believe will be instrumental in fighting poverty and promoting the development of Mozambique. In meeting the challenge of youth unemployment, our strength, as ever, lies in unity of effort, ideas and objectives.

On behalf of his Excellency the President of the Republic of Mozambique, Armando Emílio Guebuza, it is a pleasure to contribute this short foreword to this important publication. I believe it is an important step in the search for practical solutions to the youth unemployment challenge, not just in Mozambique but throughout Africa.

Aires Bonifacio Baptista Ali
Prime Minister of Mozambique

The youth of Swaziland are the nation's most valuable asset. It is their energy and ideas that will drive the country's development. In that regard the voice of the youth is important. As a country we need to take into account their concerns and give them a stake in the future of the Kingdom of Swaziland.

Young people comprise about one-third of Swaziland's total population, but they have been disproportionately affected by the recent economic downturn. The level of unemployment among our youth is very high and if we include underemployment, the rate is even higher. Given the strong link between unemployment and other societal problems, such as poverty, HIV/AIDS and drug abuse, job-creation is one of the government's top priorities.

Key to job-creation is skills development of our youth. Unfortunately, more and more young people are dropping out of the country's education system, and thus not acquiring the skills necessary to participate in the economy and gain meaningful employment. A recent study indicated that only 7–12 per cent of high school graduates get admitted into tertiary education, often because parents lack the funds to support their children's studies. No modern economy can function without a skilled work force.

Declining enrolment in schools and university is one challenge facing Swaziland; another is the lack of entrepreneurship among the youth. To address this gap, His Majesty King Mswati III has established the Youth Enterprise Fund. In effect, it serves as a youth empowerment fund. The aim of the Fund is to promote skills development and expose young people to success stories in business in the hope that they might turn their bright ideas into the wealth and job-creation enterprises of tomorrow. The Fund also helps to facilitate linkages between large corporations and youth enterprises, and build youth entrepreneurship award schemes across the country. To date more than 550 young people have received training through the Fund. This is only a beginning, but for a country of just over 1 million every new entrepreneur created can have a significant impact on youth unemployment. This is perhaps especially true for rural areas where the large majority of our people still live.

The Kingdom of Swaziland has a national youth policy and a concrete national vision which aims to improve the prospects and quality of life for our youth substantially. But we are under no illusions about the extent of the challenges that are ahead of us. We are eager to learn from others and welcome new thinking on the type of interventions that can create employment – swiftly and in a sustainable way.

We are extremely grateful to the Brenthurst Foundation for assisting Swaziland in the development of new strategies aimed at our country›s youth. We hope that this publication is studied widely and contributes to the enhancement of young people's lives, in Swaziland and elsewhere in Africa.

Barnabas Sibusiso Dlamini
Prime Minister of the Kingdom of Swaziland

Young people can change the world for the better. Twenty per cent of the global population is between the ages of 15-24. In Africa, by 2025, two-thirds of our population will be under 25 years of age. This cohort is the next generation of problem-solvers, the ones who can make the discoveries and build the industries that will transform our economies and bring hope to the neglected and marginalised peoples of our world.

In Africa, the world's youngest continent, young people have a special burden. Large parts of Africa still suffer from crushing poverty, hunger and disease. If these scourges are to be eradicated from the continent, it will not be the current crop of African leaders who succeed in doing so. It will be young people, the leaders and captains of industry of tomorrow.

All young people are brimming with potential ready to be nurtured. Their opportunities to succeed in life should never be constrained by geography or religion or ethnicity or class.

As we look to the next generation to tackle some of the formidable long-term challenges facing our planet, such as climate change or food security, we need to take action now on one critical front: youth unemployment. The jobs crisis affecting young people is a global problem, but nowhere is it more acute than in Africa. Although African governments are implementing various programmes to address this crisis, 54 per cent of Africa's youth are unemployed and nearly three-quarters live on less than two dollars a day. This is a recipe not only for lost opportunity, but for political instability and economic chaos.

Without jobs or meaningful livelihood options, young people in Africa will naturally seek other ways to release their energies. This may become manifest in violence – against authority figures or governments, or as often is the case, against girls or women. It may also result in young people leaving their homelands to seek a brighter future elsewhere. At this stage in Africa's development, a mass exodus of its young people would be a grave tragedy. Africa's prosperity depends on their ideas, energy and commitment to the continent's future.

This thought-provoking publication by The Brenthurst Foundation contributes to wider awareness of the youth unemployment challenge in Africa, and to the means of turning this challenge into an opportunity. I would like to call on all African governments, youth development practitioners and all sectors of our society to use key lessons from this publication to guide their youth development programmes. There can be no more important task than helping young people achieve their potential.

Collins Ohm Chabane
Minister in The Presidency, South Africa
Performance Monitoring, Evaluation and Administration

Africa is the world's youngest continent. In less than 15 years, one-quarter of the world's under-25 population will be African. This demographic reality presents exceptional opportunities for Africa as a whole, but also significant challenges.

The challenges are all too familiar: instability, conflict and the migration of Africa's best and brightest. Recent developments in North Africa have shown some of the potential consequences should young women and men in Africa not find meaningful employment opportunities and ways to influence governments in their own countries. Young people naturally have expectations of freedom to form a better life, but when their hopes are dashed they will become increasingly disillusioned. Some will try to emigrate, thus depriving the continent of their untapped potential; others may take to the streets in protest of lack of economic and democratic opportunities; and others again may become inclined towards criminal or other activities; all of which are antithetical to economic growth and political stability.

Great though they are, these challenges pale beside the extraordinary opportunities that Africa's youth bulge presents. Whilst Europe's population is ageing and China's once-mighty youth population is shrinking, Africa's emerging young workforce represents a tremendous potential competitive advantage in the global economy, especially as Asia's labour costs inevitably rise. In my meetings with young Africans, I have been impressed by their technological savvy, dynamism and hunger for new ideas. Given the chance, they will transform Africa into a prosperous and productive region that can compete with the rest of the world.

In recent years Africa has made great strides. Democracy is on the rise across the continent; more than forty countries now regularly hold multi-party elections. Economically, Africa's progress is evident in sustained economic growth rates of about 5 per cent and its impressive resilience in the face of the global economic crisis, which it weathered better than most regions. But there is still much to do, and nowhere is the urgency greater than in the area of youth employment. Africa's recent economic and political success could all be undone if more jobs are not created.

Denmark is fully committed to supporting Africa in tackling the challenges of youth unemployment, which is rightly high on the continent's agenda. The Danish Africa Commission, which published its progress report in September 2010, highlighted the central role of the private sector and entrepreneurship in stimulating job creation in key sectors, such as agriculture, infrastructure and business. The role of governments is to create the conditions whereby the private sector can flourish and young people can start their own businesses. In this environment, the innovation, creativity and initiative of young Africans can be unleashed.

The Brenthurst Foundation's work in helping to devise new approaches to youth employment in the southern African region is an important and valuable endeavour. The Foundation made a significant contribution to Denmark's Africa Commission, and this publication is testament to our shared passion for and commitment to the young people of this continent.

Søren Pind
Minister for Development Cooperation, Denmark

Creating Employment in Africa

Jonathan Oppenheimer and Michael Spicer

One hundred years ago just 5 per cent of Africans lived in cities

Youth (un)employment is one of the greatest drivers shaping African politics over the next generation.

Sub-Saharan Africa's population is predicted to increase from 800 million today to 1.5 billion within a generation. Pressure on finite resources (notably water) and on regimes, institutions and governments will increase.

The continent will, by 2025, be an urban continent. One hundred years ago just 5 per cent of Africans lived in cities. Today it is around 40 per cent. In 2025 it will be over 50 per cent. This goes hand in hand with the elevation of a number of African cities to the megacity bracket. In 1963 Lagos had just 665 000 inhabitants. It is expected to become the world's 11th biggest city by 2015 with 16 million inhabitants. Africa's other megacities are: Cairo (Egypt), Accra (Ghana), Johannesburg-Pretoria (South Africa), Khartoum (Sudan), Kinshasa-Brazzaville (Democratic Republic of the Congo and Republic of the Congo), and Nairobi (Kenya).

By 2025, nearly one quarter of the world's young people (under the age of 25) will be from sub-Saharan Africa – an extraordinary statistic. And many of them will be living in Africa's cities. With a urbanisation rate, in some African countries, as high as (or over) 10 per cent per annum, keeping ahead of the need for jobs for new entrants demands annual economic growth rates close to 20 per cent annually.

Despite much better performance, as a result of the slow growth over the 50 years of independence, the majority of urban dwellers in sub-Saharan Africa live in slums, 'without durable housing or legal rights to their land. At least one-quarter of African city dwellers do not have access to electricity.' Under half have access to piped water, while waste disposal is often rudimentary at best. In Kibera, Nairobi's largest slum housing perhaps as many as one million people, plastic bags are used as 'flying toilets'. At the same time, an estimated 60 per cent of urban employment is estimated to be in the informal sector, limiting tax revenues and, for entrepreneurs, access to financing and markets.[1]

Joblessness is endemic in Africa, especially among the young. Youth unemployment and underemployment in some countries is as high as 80 per cent, including relatively well performing states such as Mozambique and Ghana. To provide another example, Zambia had three million people at independence. Today it has 13 million. But whereas there were 300 000 formal sector jobs at independence in 1964, today there are under 500 000, excluding public sector workers. And most

Lagos is expected to become the world's 11th biggest city by 2015 with 16 million inhabitants

of the three million or so young people are unemployed. No wonder politics is often fraught and people are angry in spite of a recent record of consistent growth in Africa.

The problem is acute in post-conflict countries. Historically, not only do nearly half of such states slide back to conflict within ten years, but their period of recovery from war is typically at least as long as the period of decline. This unfortunate axiom is of particular relevance to Africa and to some of its most important and largest countries, including the DR Congo, Angola and Sudan/South Sudan. Young people in post-conflict countries are especially susceptible to extremism and militancy when there are few or no meaningful livelihood options.

Although many countries in Africa have enjoyed unprecedented economic growth over the past decade, this has not translated into formal jobs. Government has found it difficult to bridge the gap between growth and jobs. There are a number of reasons for this, foremost among them being: the lack of competitiveness and productivity when compared to South and East Asia and China; the relatively small number employed directly by the natural resource sector, which has driven the boom times and provided a fiscal boost in the process; weak and expensive infrastructure; and a lack of suitable skills. Hence the question often asked today throughout the continent: What can we produce that China cannot make cheaper than us?

Some countries, notably South Africa, have failed to increase formal sector employment much, if at all, largely because labour laws have made employment less attractive for employers. Wage rates escalating way ahead of productivity, the cost of hiring and firing, and a generally inflexible labour market have strengthened existing trends to capital intensity and outsourcing by employers. This has taken place against a global trend to more temporary employment as workplaces change fundamentally. The South African Treasury notes that just 13.1 million South Africans are employed: 'two out of five persons of working age (41 per cent) have a job, compared with 65 per cent in Brazil, 71 per cent in China and 55 per cent in India.' It goes on to calculate that 'to match the emerging markets average of 56 per cent, South Africa would need to employ 18 million people – five million more than are employed today. To keep pace with the number of people entering the labour market, this would require the economy to create about nine million jobs over the next ten years.' A tall order given contemporary trends. Moreover, the unemployment rate among all 15- to 24-year-old South Africans is 51 per cent, more than twice the national unemployment rate of 25 per cent, according to the South African Institute of Race Relations. This ratio amounts to a 'social time-bomb', as events in North Africa during 2011 illustrate. Research by the largest

An estimated 60 per cent of urban employment is estimated to be in the informal sector, limiting tax revenues and access to financing and markets

Temporary Employment Services Company in South Africa provides evidence that the informal sector is much bigger than hitherto assumed – 8.3 million vs 2.1 million – and that the labour absorption rate is 55 per cent. The challenge still remains to generate youth employment and to move workers from the informal to the formal sector.

In response, the South African government's strategy has been to leverage South Africa's comparative (i.e. the natural resource sector) advantages in conjunction with the establishment of a much tougher tax regime to generate resources to ensure redistribution to the less privileged. This has occurred both through the end of white preferences in the civil service but also the expansion of that service, along with the extension of a welfare system through pension and child-support payouts.

As in many countries, however, this leads to a bifurcated economy and society: the small numbers who are 'in' (and pay tax) and those who remain 'out' (do not pay tax) and survive and subsist in the informal economy. This not only makes building a state through a widespread tax net and base difficult, but complicates the ability to create a single society in which all citizens feel they are making a worthy contribution. As the South African National Treasury's 2011 budget review states, 'Employment is not only about earning an income – it is the condition for a decent life.'

In sub-Saharan Africa, as Ben Leo has noted elsewhere in this volume, despite the 2000s being the best growth decade on record, labour participation rates remain very low and informal (vulnerable) workers declined by just 0.5 per cent per annum, half as fast as East Asia and Latin America. And the continent's productivity increases were just one-quarter of those of East Asia, and less than half those of South Asia. In some cases, such as South Africa, as highlighted by the National Treasury and indicated in the table below, 'real wage growth … has outpaced growth in labour productivity.'

No wonder people are angry in spite of a recent record of consistent growth

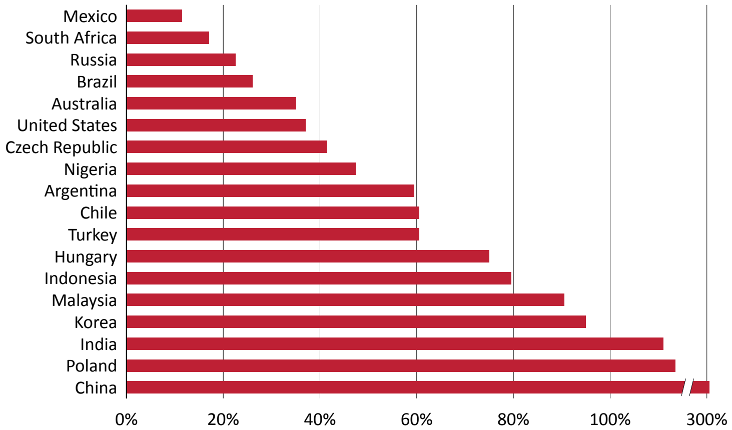

Figure 1: Labour productivity Growth: 1990–2008
*China's labour productivity growth was 305 per cent over this period.
Source: International Labour Organisation

This is partly down to a lack of skills. While primary school enrolment rates across sub-Saharan Africa have doubled in the last generation, completion rates remain very low at under 70 per cent, compared to over 90 per cent for North Africa and East Asia. Also, the quality of education and levels of employment preparation remain poor. While Asian scores in Maths and Science outperform developed nations, Africa lags.

Without the right environment and set of opportunities, Africa's youth will likely become a destabilising force, especially in the continent's urban areas but elsewhere too: inevitably, many young Africans' search for a better life will take them to the cities of Europe. There is also a risk of costly populist policies. The historical record suggests that they offer much but deliver very little to alienated youth.

However, as in East Asia, where the demographic dividend was estimated to be worth as much as 40 per cent of GDP growth, if the undoubted energies of Africa's youth are correctly harnessed, and the right skills grafted, young people could be an unprecedented and tremendous force for positive change in the continent.

Ten Strategic Principles

So, how to turn Africa's changing demographics into a force for good?

Debates on development are often fraught with contradictory impulses. Growth alone, for example, is not enough for development, even though it is the place to start, and little can be achieved without it. 'Crisis' is the moment when African governments risk populist responses, though it is the best moment to change. While

What can Africa produce that China cannot make cheaper?

popular sentiment might not accept certain industries (e.g. sweatshops) as right for the future, this does not mean that they are not right for the present. While there is a strong urge to produce what countries consume, this is not necessarily what states are best suited to, either in terms of climate or profit. Regulation is important to good governance, but states should guard against adopting any more than the rules that they need. And even though it is necessary to build a robust tax base, development progress ultimately demands keeping tax regimes as simple and rates as low as possible.

In sum, there are a number of strategic principles which should underpin policies designed to create jobs:

- Improve the rate of formal job creation through a two-sided approach: address competitiveness and create entrepreneurial opportunities.
- Reinforce the basics for growth. This includes a good education system, macroeconomic stability and prudential management. Vital practices and institutions not only include the rule of law but also the sorts of systems which encourage innovation: academic freedoms, a dynamic civil society and a free press, an independent legal profession and prosecution service, and courts worthy of the name. In the absence of these institutions there will be corruption and cronyism, rather than new ideas and investment.
- Protect workers as an important part of building a society. However, a way has to be found to create a shared vision for growth, one which does not protect the employed at the *expense* of the unemployed.
- Governments must use their electoral mandate. Although political issues are often debated and bitterly contested, African regimes have largely avoided the tough development decisions.
- Governments must not intensify failed policies, but rather abandon them. Here in particular there is a need to reverse declining/diverging productivity trends across Africa relative to Asia and parts of Latin America.
- Avoid those policies that drive the 'informalisation' of the workforce. At the same time, government has to make it easy (or at least 'easier') for workers and businesses to become formalised. There are huge advantages, not least banking and financial, for businesses to do so; and this offers the state the opportunity for taxation and worker registration and protection.
- Make agriculture part of a global and not just local economy. There is a need to balance policy and resource attention adroitly between the urban and rural sectors – where so many Africans work – and between the formal and informal. The donor world see-saws from one fad to another – in the 1970s infrastructure

The quality of education and levels of employment preparation remain poor

was out of fashion, and in the 1980s and 1990s agriculture was seen as inappropriate. Now both are back in favour with a relish.

- Generate higher productivity, urban-sector jobs. Given that most Africans will be living in cities in the not-too-distant future, the unprecedented concentrations of people in urban areas offer developmental economies of scale.
- Tourism offers Africa a largely unrealised comparative advantage, where it does not have to compete against Asia.
- Overall, there is a need to continuously ask the question: what can we (in government) do to make the life of the private sector (big along with Small and Medium) easier? In other words, reduce or eliminate the major hurdles – bureaucratic, employment, vested interests, and so on – for business? The private sector is central to growth and change, but it cannot do this alone. It requires building growth coalitions with government.

Some Practical Steps

How, then, to translate the above principles into policy action, mindful that recommendations often remain vague and ephemeral, suitable for all states but practical for none.

Specific policy prescriptions will vary from case to case, but it is useful to outline a number of more generalisable recommendations, which can be divided into measures that can be implemented now and measures that are for the longer-term.

Take, for example, the issue of currency valuation. There are number of ways to make one's currency more competitive; none are without negative side-effects, and all are potentially messy. Monetary tools – including reducing interest rates or the differential between lending and borrowing, acquiring reserves, or imposing reserve requirements on inflows – risk inflation. Fiscal means, including the imposition of export taxes on natural resources, can reduce the incentive for export or indeed more damagingly, to produce at all. Regardless, doing nothing is not a good option, especially when the world's largest economy is exporting currency appreciation. Least controversial is to boost domestic competitiveness to offset increasing currency values.

Apart from ensuring the basics are in place for entrepreneurs to flourish, perhaps most importantly governments have to reduce the costs of formalisation for businesses and workers alike. This requires creating an environment in which labour is more productive (the cost of production is cheaper), that opportunities are created (largely by government getting out of the way), and businesses are encouraged to employ people.

Vital practices and institutions not only include the rule of law but academic freedoms, a dynamic civil society and a free press

Short-Term	Longer-Term
Institute tax rebates for skills creation for employers, including R&D expenditure, and also for the creation of industries in less developed regions.	The need for educational system transformation, especially in Maths and Science.
Devise parallel strategies by differentiating investor requirements of different sectors: Notably agriculture, services, mining, and tourism.	Shift into areas of highest financial yield in commercial agriculture.
Reduce marginal rates for power (electricity) in key sectors; reduce soft infrastructure constraints (customs and border delays).	Ongoing infrastructure investment (including through concessioning, privatisation).
Ensure currency competitiveness: based on exporter rather than importer needs.	Create a competitive mindset.
Ensure retirements/redundancy systems and payments align with global competitor norms.	Welfare system through employment, not benefits
Facilitate Job Transition: Institute a tax credit for employers for first-time formal sector employees (reduce marginal cost for employer via VAT offset)	Build business-government growth coalitions.
Re-gear investment agencies to identify and act to realise foreign investment and trade opportunities. Don't wait for the world to come to you.	See world as opportunity, not as threat.
Commit to a 'one license concept' for tourism investments. Do away with visas with those countries that have a higher GDP per capita.	Live up to the notion of a 'Welcoming Africa'
Establish a (small team) trade strategy that aligns itself with domestic needs rather than political urges, if necessary using international expertise.	Build focused domestic capacity for trade negotiations.

More than anything, African countries need to inculcate a development debate and establish a robust competitiveness strategy, which covers improving the basics, accelerating regulatory and governance environments, and understanding the relationship between clusters of activity and how they can support each other. In this, there is a need to incentivise those companies which have options to go elsewhere, which are not drawn to particular countries by natural resource endowments.

Success, however, will remain elusive unless we can encourage and incentivise the *outcome* of jobs rather than the *inputs* of investment, skills and infrastructure. Such achievement can only be measured in units of jobs and the stability and prosperity they create.

Endnotes

1 See Stephanie Hanson, 'Urbanisation in Sub-Saharan Africa, 1 October 2007 at http://www.cfr.org/africa/urbanization-sub-saharan-africa/p14327.

Finding Advantage in Africa's Struggling Labour Markets

Alberto Trejos

Potential workers and employers need to search for each other in a costly and time-consuming manner, understanding that neither all jobs nor all workers are equal

On the important debates over labour markets and regulations currently being waged across Africa, three key observations are, I believe, particularly: that labour market regulations and institutions matter; that overvalued exchange rates may become a huge obstacle to job creation; and, that the region needs to be more competitive and a more avid participant in global markets if it is to solve its employment challenges.

Regulation

The first and most important point relates to labour market regulation, a timely topic given the size of the global crisis, as the choices for the 2010 Nobel Prize winners in Economics seem to confirm. How did these three distinguished distinguished academics – Peter Diamond, Dale Mortensen and Christopher Pissarides – earn this honour? With a lifetime dedicated to understanding the workings of the labour market, and the importance of the rules and institutions that affect it.

The job market is a very peculiar one, because it is one where supply and demand do not meet: we simultaneously find jobs being offered and potential employees, who would like those jobs, being unemployed. The reason for this simultaneous excess-demand and excess-supply is that the labour market is not centralised because potential workers and employers need to search for each other in a costly and time-consuming manner, understanding that neither all jobs nor all workers are equal. The process by which they find each other, and the rules about their interaction, are therefore very meaningful. The wage level is not the only element being determined by the interaction of the supply of labour (how many people are available to take jobs) and its demand (the vacancies). A worker realises that if he finds a job, this will be his employment for some time; he tallies all the benefits and costs associated with that job when he decides how hard to look for employment, which forms of employment to accept, and how to conduct himself once employed. An employer realises that if it finds a worker, this is an asset it will have for a period of time, and considers the short- and long run implications of this hire, as it decides whom to employ and what else to do.

In the usual political debate, we often think that society has only one dimension of choice regarding labour market regulation: to weaken or strengthen the

If the company knows that firing the worker will be costly, it will fire less people that are already employed, but it will also be reticent about hiring today's unemployed

protection of the worker from the employer. This is, of course, an important aspect to consider. Workers need to be protected from market conditions, or abuses, with certain rights regarding safety and treatment, minimum wages, protection from unemployment, etc. In general, the more civilised a society is, the clearer and stronger these rights become, and the better are the institutions that help the worker make these rights real.

But the level of protection of the worker from his employer is not the only issue that matters. The manner of this protection is more important: at stake is not only the outcome of the interaction between the employer and the worker that have already found each other and entered into an employment contract but also the opportunities to find another job for the worker that is unemployed today, as well as the value of the societal asset that is an employment relationship.

Consider, for example, the protection for the worker from the condition of unemployment. This is necessary, because the risk of losing one's job is among the clearer risks in the life of the common citizen. But, protection can be done in a variety of ways. One can protect the worker from unemployment by creating costs and regulations that make firing the worker more expensive, or impossible. One can also protect the worker by creating unemployment insurance schemes that are funded with the contributions of employer and worker while employed, and pay for the sustenance of that worker during the months once unemployed. One can, finally, force the employer to provide severance payments to a worker, if he is fired under certain circumstances.

Both the theory and the data verify that the mechanics of this protection are as important as its size for society as a whole. For instance, if the company knows that firing the worker will be costly, it will fire less people that are already employed, but it will also be reticent about hiring today's unemployed, thus reducing job creation and inducing unemployment. In that sense, both unemployment insurance and severance are better instruments. Among those two, unemployment insurance has the defect that the unemployed receives more support when he is unemployed for a longer time, and thus reduces the incentives for intensive job search, relative to severance, which is paid one-shot at the moment of firing the worker, who has all the reasons to try to get a new job as soon as possible.

Many other specific practices can be cited. In brief, there are several countries in the Americas where the average unemployment stint is of six weeks, while in some European and African countries, even in normal times – not the current global crisis – the equivalent stint is two years. And the degree of protection of the worker in the fundamental issues is not even clearly different in these examples. When labour law is designed around the specificities of the few formal, unionised jobs

– forgetting the many other informal, temporary or non-union employees – there are large social and economic costs involved.

Sadly, the African discussion on labour markets seems to be very influenced by its European counterpart, and the similarities among the two labour legislations reflect this coincidence. The issues that have been brought front and center in the discussion regarding the interaction between unions – representing the few formally employed, often public sector, workers – and their employers. The legislation sees after the rights of those workers, as it should, but in a manner that disregards the interests of the majority who are unemployed or underemployed, seeking opportunities mostly in the informal sector. Making job destruction very difficult in the formal sector raises enormously the barriers to employment there, pushing millions into the ranks of the unemployed and the informal, whose interests and rights are not the core focus of the law and state intervention. A look across the Atlantic, north and south, on this regard, may not be a bad idea.

Making job destruction very difficult in the formal sector raises enormously the barriers to employment

Overvalued currencies

A second major concern regarding African unemployment has to do with the strong tendency for many African currencies to be overvalued. Expensive currencies imply that the output of their countries, when expressed in international monies, also appear expensive, thus reducing the demand for the country's exports abroad.

The problem is made worse when, in Africa, many of the young urban unemployed that concern us are very poorly educated and thus highly unproductive. If the currency in which they are paid is also overvalued, there may not be a living wage under which they can be profitably employed. Up the technological ladder, where wages are high and job security lofty, a distorted currency that drives up export prices is a disadvantage, but one that can be overcome with competitiveness, quality or reliability. Down the ladder, where cost competition is very intense and there is always an equally 'poor' Asian or Latin willing to do the same job, this disadvantage cannot be compensated by any means.

In an economy like this, only those activities that are unmovable by nature and where the labour share of costs is low can subsist despite the strong currency, namely through the exploitation of natural resources. But this is not enough. A successful Africa needs to be one that intelligently and effectively manages the extraction and full utilisation of its oil, mining resources, and other natural treasures. But this necessary condition is not sufficient: certainly not to bring about a solution to urban youth unemployment – because mining is not very labour intensive. In addition to appropriately taking advantage of its natural endowment, Africa needs to be an attractive place for companies engaged in labour-intensive activities. And this requires, among many other things, a competitively priced currency.

Competitiveness and prosperity is what makes companies flow to a place, therefore growing, and creating employment

Of course, there are reasons why African governments like strong currencies. In many places, there is a misdirected belief that a weak currency signals a weak economy – a common mistake, made ridiculous by the Chinese Yuan. Also, the 'travelling and foreign-shopping' upper middle class, which often includes top officials, benefit from overvaluation. And even if these notions did not exist, the Dutch disease provoked by the abundance of aid-related and mineral-related foreign currency is difficult to combat.

But difficult is not impossible. With the appropriate monetary policy and intervention in the foreign exchange market, even a mineral-rich African country can achieve an exchange rate under which its products have a hope of remaining competitive, finding a foreign market, and employing masses of youthful urban dwellers to produce them.

Competitiveness

The exchange rate is not the only determinant of whether a country is competitive, far from it. There are multiple legal, logistical, infrastructural, regulatory, financial, and other related aspects that make one place generally better, safer and more productive for the average company. The systematic effort to improve those conditions, leading to higher total factor productivity across the economy, is what makes some places prosperous. Competitiveness and prosperity is what makes companies flow to a place, therefore growing, and creating employment.

Africa's lack of physical connectivity is particularly worrisome. There are a number of landlocked African countries where the cost of transporting cargo to the nearest ports is so prohibitive that only value-dense products – hard to generate at reasonable cost in places that are poor on human capital – can be exported. And inability to overcome these barriers implies that many resources go to waste, resources that could be the basis of competitive industries.

Lastly, a mentality of competition is sometimes scarce in Africa, and especially among African governments. Too much time is spent talking about what the continent deserves, and too little about how to get it. Massive employment creation, of the kind that would turn Africa's demographic transition into a strength, and not a threat, will only happen when the continent has solved enough of its competitive problems. More fluid and cheaper transportation and communication, a more constructive relationship between producers and the state, better efforts to adapt and assimilate technologies, a change in mindset, and better rules and laws, may be what separates millions of young men and women in Africa's cities from the jobs that would build their lives, and their countries.

Africa's Youth Bulge – Boon or Bust? Policy choices to assist unemployed youth

Paul Zille and Jessica Benjamin

A country incurs a youth bulge when the population group under 24 is larger than all other age groups

With around 84 per cent of the global youth population living in the developing world, today's youth group is the largest ever recorded in history. Whether this 'youth bulge' represents an opportunity for sustainable growth and poverty reduction, or whether it threatens to introduce high rates of unemployment, economic and social exclusion, differs dramatically across countries and regions.

This report is intended to document the current youth employment situation in sub-Saharan Africa and the Mozambican and Zambian contexts in particular, looking at whether the youth cohort represents a boon or a bust for the region. It paints a socioeconomic backdrop of youth and unemployment globally, in Africa and within the two countries. Further, it leverages international experience with employment-targeting interventions to extract lessons for the developing world, considering which features of commonly-used initiatives may be appropriate and effective in local contexts. Stemming from these lessons, the report offers a forward-looking perspective on employment generating initiatives that could be pursued, drawing on market-based approaches and incentives that may be used to catalyse private sector involvement in job creation in high growth, pro-poor sectors.

The issue of a 'youth Bulge'

According to the UN, there are an estimated 1.03 billion people aged between 15 and 24 years worldwide – accounting for approximately 18 per cent of the global population.[1] Of this number, 870 million live in developing countries, an overwhelming 84 per cent of the global youth population. This represents the largest-ever youth group recorded in history, and refers to what has come to be known as 'the youth bulge'.[2]

A country incurs a youth bulge when the population group under 24 is larger than all other age groups. This skewed demographic distribution is generally attributed to an increased birth rate, declining infant mortality and overall improvements in health that have occurred over the last few decades. It is particularly prevalent in Africa, South America, South Asia and the Middle East, i.e. in countries that make up the developing world.[3] It may also create a self-reinforcing demographic distribution, as young people enter childbearing age themselves.

A youthful population gainfully employed will directly contribute to a lessening of inequality in incomes and access to opportunity

According to a World Bank report, leveraging this youth cohort productively and effectively could lead to prolonged economic growth and a substantial reduction in poverty. The dividend from a youth bulge may be realised through increased productivity (the ratio of output to labour input) and the beneficial effects of a more prolonged labour force participation of a youthful population. In turn, this would lead to higher savings and investment rates, both prerequisites for sustained economic growth and development. Increased employment also offers a greater number of opportunities for on-the-job training and the transfer of skills, which directly leads to a greater accumulation of human capital. And with a greater stock of skills and expertise, a young labour force productively employed will positively shape a country's overall investment climate and its long term growth trajectory. Finally, a youthful population gainfully employed will directly contribute to a lessening of inequality in incomes and access to opportunity, thereby enhancing the prospects for social coherence and stability – key ingredients for growth and development.

The experience of the East Asian Tigers is highly indicative in this regard. Dividends from a sizable youth bulge in the years between 1965 and 1990 were captured in the form of better education and increased job opportunities, leading to a strong and sustained economic upturn. In fact, some scholars accredit over 40 per cent of the growth in the region to the rapid expansion of the working-age population, alongside the Tigers' pro-active policies on trade and human capital development.[4] Thus, when a large youth group is both educated and provided with sufficient opportunities for work, the bulge becomes a boon for development.[5]

However, in most developing countries, particularly in Africa (where young populations are increasingly prevalent), these conditions are simply not present. This often means that the opportunity for development cannot be seized as in the case of the East Asian Tigers. Here, the youth bulge translates into high rates of youth unemployment and potential exclusion from basic services such as education and healthcare. Moreover, the costs of directly addressing these deficits can be unattainable for these countries. A 2005 study estimates that low-income countries wishing to expand primary and secondary education universally would incur costs of around US$34–69 billion (roughly R229–464 billion[6]) per year, amounting to about 3 per cent of the countries' average GDP.[7]

Without the capacity to absorb and gainfully employ a growing youth cohort, countries face a far more insidious consequence of the youth bulge. Without adequate education, healthcare and job training for inactive young citizens, countries are likely to experience rampant unemployment. And, with a growing pool of idle and disaffected youths, the risk of both economic and political instability greatens.

In Africa, there are around 200 million young people between the ages of 15 and 24 – representing the 'youngest' population of any region in the world

According to an ILO report, 'Global Employment Trends for Youth', there is a demonstrated link between youth unemployment, social exclusion and civil unrest. The report suggests that idleness amongst unemployed young people can lead rapidly to criminal activity, violence, and social friction, along with mental health problems and drug-abuse.[8]

The recent uprisings in large parts of North Africa and the Middle East (the MENA region) have illustrated precisely this pattern. Public dialogue around social deficits has been led by large numbers of unemployed and disenfranchised youth – what some have described as 'Africa's Youth Unemployment Time Bomb'.[9] Riddled by high levels of unemployment, low levels of income and social insecurity, youth are increasingly turning to political mobilisation to counter the haplessness of an idle and alienated existence. And with the rise of social media and internet communication, young people are increasingly aware of their relative deprivation, and are more likely to protest against political orthodoxies.[10] The cases of Egypt and Tunisia are especially noteworthy: despite relatively large investments in education over recent years, this has not resulted in higher levels of employment. This suggests that without a targeted approach towards *job-creation* per se, countries may not be able to capture the dividends that should flow from merely educating the youth cohort.

Today, with young people comprising almost half of the world's unemployed, the need for jobs has never been greater. In the MENA region alone, an estimated 100 million jobs are required by 2020 in order to meet employment needs, while over a billion new jobs are required worldwide.[11] In Africa, there are around 200 million young people between the ages of 15 and 24[12] – representing the 'youngest' population of any region in the world.[13] This demographic could constitute a watershed for the African economy, with its potential for either immense growth or great alienation and harm.

In light of its risks, the youth bulge must obviously be addressed as a matter of priority. This is an immense challenge in view of Africa's acute budgetary constraints and the numerous demands that are imposed on inadequate public resources. Meeting Africa's youth bulge will, in addition to maintaining macro policies which are conducive to sustained investment and growth, entail carefully designed and well-implemented interventions, targeting human capital development and job-creation simultaneously.

The nature of youth unemployment in Africa

Youth unemployment is typically sensitive to changes in overall economic conditions and to the size of the youth cohort of a country or region. Both these traits

On average, low economic growth in Africa has manifested itself in low economic activity, low investment and a small formal labour market

place Africa in a precarious position: over the last decade, Africa's GDP per capita and private consumption has declined; and globally, the region retains the highest annual population growth rate. Compounding this unfavourable economic and demographic reality is the issue of poverty which is seen as both a cause and consequence of youth unemployment. These three features – 1) poor growth rates, 2) high population growth and 3) widespread poverty – serve to characterise and complicate the problem of youth unemployment in Africa. An estimated 70 per cent of African youth are jobless, and thus any economic policy formulation vying to change this situation needs to be multi-layered and rooted in recognition of the vast scale of the youth unemployment problem in Africa and its implications for poverty and inequality.

On average, low economic growth in Africa has manifested itself in low economic activity, low investment and a small formal labour market. These conditions render the formal job market particularly iniquitous for young people as they are more likely to lack the skills, the experience and social networks that provide access to jobs and long-term job security. This is reflected in the unemployment indicators for sub-Saharan Africa, where youth constitute 47 per cent of the unemployed, despite only representing 32 per cent of the working age population.[14] Furthermore, the low levels of human capital in this region provide a natural cause for economic decline. The United Nations Economic Commission for Africa (UNECA) estimates that 18 per cent of young men in Africa and 27 per cent of women are illiterate, verifying that much of the youth cohort in this region is unprepared to meet the demands of the labour market.[15]

The fast growth of Africa's youth population is particularly grave in terms of its effect on youth unemployment, with the demographic implications being especially serious in sub-Saharan Africa. At 2.5 per cent, sub-Saharan Africa has the highest youth population growth rate in the world. Such a figure, given the ILO's general rule of thumb[16] that a 1 per cent increase in population usually results in a 0.5% per cent increase in youth unemployment, presents a bleak prognosis for African youth.[17] During the decade spanning 1998 to 2008, the youth population of the region grew by 31 per cent and UNECA predicts it will increase by 28 per cent between 2003 and 2015. If correct, this growth trend in Africa's youth population could overwhelm even the best efforts for employment generation on the continent.[18]

Widespread poverty is the third dominant factor affecting youth unemployment in Africa; unemployment in this region appears to be both a cause and a consequence of the severe poverty levels that characterise this region. Approximately 72 per cent of African youth live on less than $2 a day and thus struggle to graduate out of poverty, instead remaining vulnerable to social exclusion, unemployment, underemployment and the auxiliary problems associated with it.[19]

The nature and scale of youth unemployment in Africa is difficult to define in real terms. Specifically, there are diagnostic constraints attached to the definition of unemployment (used in calculations of traditional indicators) that are not appropriate for the African context. According to the formal definition of employment used in generating estimates of unemployment, anyone who undertakes economic activity for an hour or more during the reference week is considered to be 'employed'. Given the economic necessity for most African youth to engage in some form of economic activity to survive, this definition dramatically understates the extent of formal unemployment across Africa. High levels of poverty and minimal social protection make it imperative for poor African youth to take up employment of some kind, regardless of the quality of work or level of remuneration. As such, the phenomenon of underemployment is widespread and serves to distort the conventionally defined unemployment figures. Thus, estimates that suggest that the number of unemployed youth in Africa stands at 35.5 million, and that the rate of youth unemployment grew by 15 per cent over a decade (spanning 1998 to 2008), though significant in terms of scale and growth, do not fully capture the magnitude of the problem.[20] Secondly, the definition does not capture the large number of discouraged or inactive workers (those not actively engaging in the labour market). Many African youth have given up seeking work or have never entered the labour market due to the meagre job prospects available. A more appropriate measure of the extent of unemployment refers to joblessness which combines the number of inactive youth with those formally classified as unemployed. Current estimates suggest that 54 per cent of young people in sub-Saharan Africa are jobless (compared with 12 per cent who would be classified as formally 'unemployed').

Many African youth have given up seeking work or have never entered the labour market due to the meagre job prospects available

Youth unemployment is typically segmented across a number of variables, most notably gender. Female youth in sub-Saharan Africa are overrepresented in the 'inactive' category, have lower levels of school enrolment, school attainment, and employment than their male counterparts. In most of the sub-Saharan African countries examined, male enrolment in schools is twice that of females.[21]

Youth unemployment also appears to have clear geographical dimensions, being more prevalent in urban areas despite the fact that on average, the 'school life expectancy'[22] of urban youth is greater than that of rural youth. The seeming anomaly of higher urban unemployment is readily explained by a number of circumstances: Firstly, agriculture, in which an estimated 65 per cent of total employed youth on the continent are engaged, absorbs a significant portion of rural youth. Notwithstanding the seasonal and part-time nature of such work, agricultural

The investment climate and regulatory environment are critically important considerations

employment serves to deflate the overall reported youth unemployment rate of rural regions. Secondly, higher urban youth unemployment is explained by the wage differentials between the urban and rural sectors. Due to higher remuneration levels in urban areas, urban employers will opt to reduce their financial risks by hiring adults or experienced workers instead of inexperienced youth. Thirdly, the unrelenting continental trend of rural to urban migration has transferred the incidence of youth unemployment from rural to urban labour markets.

The evidence suggests the nature of youth unemployment in Zambia and Mozambique appears to follow the same established trends identified for the subcontinent as a whole. Approximately, 13 per cent of Zambian youth and 76 per cent of Mozambican youth have had no formal educational experience, and a further 31 per cent of Zambian youth and 17 per cent of Mozambican youth have not completed primary school.[23] This severely limits their employment options and prospects, with grave implications for their countries' ability to overcome poverty, inequality and contribute to sustainable growth.

Certain parallels can be drawn between the economies of Zambia and Mozambique. Both countries have enjoyed a relatively prosperous period of economic growth in recent years (Mozambique more so than Zambia), however this has not translated into significant employment generation or poverty reduction, with both countries still ranked among the poorest in the world. Secondly, the governments of both countries have little space to increase social spending and are, in fact, heavily reliant on donor-funding. Thirdly, the agricultural sector and tourism industry of both countries are ideally positioned to absorb rural youth unemployment, since these are high growth sectors within the economies and are increasingly contributing to poverty reduction. Finally, the investment climate and regulatory environment are critically important considerations given that – where these present constraints to the emergence of new businesses and the expansion of existing businesses – they represent blockages to employment generation. Both countries face significant infrastructure deficits and negative perceptions of business conditions among investment communities. While reform is taking place, the pace of improvement needs to be increased to ensure that growth opportunities are seized.

Zambia

Young people in Zambia comprise at least 73 per cent of the total population, making the country one of the youngest regions in Africa. Unfortunately, the country's modest GDP growth (5.7 per cent in 2008)[24] in recent years has not translated into sustained employment growth, and has resulted in the country retaining a youth

Female youth transition from school to work more slowly

unemployment rate of 23 per cent.[25] Furthermore, 86 per cent of young Zambians are estimated to be living in poverty and at 31 per cent, the rate of joblessness reveals that more than one in four Zambians aged 15–24 experiences the social, educational and economic exclusion associated with unemployment. In absolute terms, this translates into an estimated 250 000 young Zambians completing secondary school each year, with little hope of finding a job.[26] The gender character of youth unemployment in Zambia follows the general trend uncovered in the sub-Saharan region as a whole. Female youth appear to be more marginalised in terms of employment, retaining 38 per cent of joblessness against their male counterparts (24 per cent). They also transition from school to work more slowly. The generally longer transition period of both rural and urban females (4 and 7 years respectively) compared to males, who experience delays of 3 (rural) and 6 (urban) years, reveals that females face more formidable barriers when attempting to enter the labour market.

Available statistics also suggest a divide between urban and rural employment opportunities. Zambia is considered one of Africa's most urbanised countries, with approximately 35 per cent of the population residing in urban areas. With the urbanisation trend continuing, the rate of youth unemployment in urban areas is pronounced (47 per cent) and is more than double that of rural areas (21 per cent). The second factor underscoring the divide between urban and rural youth unemployment, is the existence of a large agricultural sector. Though copper is the mainstay of the Zambia economy, the agricultural sector contributes an average of 18 per cent to GDP and employs 75 per cent of the Zambian workforce. Thus, youth residing in rural areas are typically sustained by direct and informal employment opportunities in this sector.

Mozambique

Mozambique's youth unemployment rate of 40 per cent confounds the intuitive link that exists between high rates of economic growth (of 8 per cent per annum)[27] and employment creation, particularly for youth. These figures confirm that it is not just rapid economic growth, but labour absorptive growth that must rank as a policy priority.[28]

Mozambique's joblessness indicator of 60 per cent indicates that more than half of Mozambique's youth cannot find sustainable employment. Like the Zambian situation, youth unemployment in this region is segmented according to gender and location: 45 per cent of male youth are jobless in comparison to 73 per cent among females. These disparities are most likely attributable to the low level of

Employment interventions should focus on labour-based infrastructure

education of female youth, as well as to the perpetuation of cultural norms that inhibit female access to formal employment opportunities. The ILO reports that 50 per cent of Mozambique's female youth do not attend school. Moreover, many females get married and/or assume home production when they leave school at 16 as opposed to males who leave school at 19 years;[29] in 2003, it was calculated that approximately 58 per cent of females in the range of 15–24 had become mothers.[30]

Contrary to the Zambian experience, and perhaps due to Mozambique's demography being overwhelmingly rural, rural youth in Mozambique are more likely to be unemployed than urban youth. Recent World Bank indicators estimate that 63 per cent of rural youth are jobless in comparison to 49 per cent of urban youth.[31] Standard unemployment rates however tell a different story, for reasons associated with the definitions used. The number of formally unemployed rural youth is estimated to be 8 per cent, versus an urban youth unemployment rate of 36 per cent. The predominance of subsistence agriculture across Mozambique and the co-existence of a sizable informal economy readily accounts for this discrepancy. The extent and impact of underemployment in rural areas is revealed by the World Bank estimate that at least 75 per cent of Mozambican youth live in poverty.[32]

Policy choices for Africa

According to the World Development Report 2007, three key features contribute towards a successful policy response to youth unemployment. These are: 1) expanding opportunities for the accrual and preservation of human capital (i.e. access to formal education and training); 2) enhancing the capacity of the youth to take advantage of job opportunities; and 3) creating programmes and mechanisms to equip youth with the tools and/or skills needed to do the same.[33] Therefore, employment interventions should focus on labour-based infrastructure (public works), skills/vocational development, wage/training subsidies, enterprise development, and microfinance. Though in isolation these interventions may only produce short-term results, in the long run a comprehensive, multi-service integrated approach will serve to target both human and socioeconomic development – the only sustainable way to address the problems facing Africa's youth. This is particularly true of the most disadvantaged youth groups where employment needs are often the greatest, and wherein the risk of social exclusion (and therefore of exclusion from any interventions) may be higher. The ILO report suggests that this necessitates an integrated policy framework which combines policies to promote economic development *and* social development to overcome specific disadvantages afflicting many young men and women.[34]

Policy-makers need to consider the regulatory environment and investment climate when reviewing the dynamics of the labour market

However, according to an ILO report (2011) there is no 'one-size-fits-all' solution to the problem. Rather, the youth employment challenge should be met with bespoke policy responses that are appropriate for each country context. These need to consider the socioeconomic characteristics and demographics of each specific labour market, and the workforce idiosyncrasies therein. Fundamentally, they will be conditioned by the organisational and institutional capacity of the state to design, execute and manage policies and interventions, and on the resources available to sustain them.

Comparative experience from developing countries, both within Africa and internationally, highlights the importance of context-specificity when designing youth employment policy. Some demonstrative initiatives are detailed in Appendix 1 (Table 1 at the end of this publication), and help to draw out several overarching lessons (detailed below) for the developing world, both in terms of general policy responses and specific interventions.

Regulatory reform and investment climate

First and foremost, policy-makers need to consider the regulatory environment and investment climate when reviewing the dynamics of the labour market. Where onerous regulations – in relation to the labour market specifically and the investment climate as a whole – act as disablers of enterprise, reforms may be imperative. These may involve relaxing labour market restrictions and prescriptions, or using incentive schemes to drive entrepreneurship and investment. For a resource-poor country, especially, minor regulatory adjustments can often leverage major outcomes, and they do not require significant resources to design or implement.

Bottom-up approach

Predominantly, international experience shows that a demand-driven response to labour market deficiencies is most appropriate in developing contexts. To this end, macroeconomic policies should be designed around stimulating employment-intensive investment and developing human capital at the same time. Such policy is also likely to enable growth of the formal economy and, in turn, lead to increased demand for new labour. [35]

While supply-side interventions may also be useful, they are more successfully implemented for job recovery (that is, seeking jobs following retrenchment or similar) and to increase the quality of jobs. For developing countries where large numbers of the unemployed youth have *never* held a job, particularly in the African context, job-*creation* should be prioritised above job-recovery or career advancement.

Safety-nets for the short-term

Public works schemes offer one such short-term solution to speed up employment growth and aid young people to enter the labour market, often for the first time. For developing countries, they can be used to facilitate development of physical and social infrastructure. Customised policy responses should thus direct these programmes into sectors where the infrastructural need – and thus the demand – is greatest. To identify these areas, policy-makers should seek out demand-led partnerships with employment generating sectors of the economy in order to identify and thus help satisfy the demand for skills using a targeted and efficient approach.[36] This necessarily involves a review of the relevant sectors in order to understand the constraints inhibiting growth, and thus how to overcome them and accelerate development. Both vocational training and enterprise development may also contribute successfully to employment-creation.

Fiscal deficiencies and weak institutions are unfortunate realities of many developing countries

Overarching lessons

All this means that youth employment policy requires fine-tuning to a number of particularities, which may differ in each country. Nonetheless, several features of youth employment policy stand out from the more successful programmes. These distinctions are tabled in the ILO report and include:[37] Early-stage interventions; flexible policy design that responds to changing labour market requirements; linkages to work experience and private sector involvement; comprehensive service offerings; and involvement of social partners.

Constraints of state capacity

Nonetheless, even the most finely-tuned policy responses will falter in the face of inadequate state capacity. Fiscal deficiencies and weak institutions are unfortunate realities of many developing countries, and may hamper the ability of the state to initiate job-creation with real effect. In Mozambique and Zambia, notably, an extremely high dependency on donor-funding indicates weak state/budgetary capacity. This means that neither state is in a position to implement high-cost, sustained and complex interventions, and must turn instead to partnership models for the requisite resources and facilities.

As the major engine of wealth-generation and employment, the role of the private sector is becoming increasingly critical in the fight against Africa's joblessness.[38] Essentially, this means that raising the level of youth employment must be compatible with the profit objectives of the private sector. And though recent thinking has trended towards the 'double' and 'triple' bottom line approaches to business, more is needed in this regard.

Governments need to give particular attention to targeted partnerships with the private sector as the basis for job creation

Recommendations for intervention

The preceding analysis indicates that, to be successful, policies and programmes aimed at tackling youth unemployment need to be comprehensive, integrated and sustained over time. In practice, this means a long-term coordinated and well-resourced national effort which addresses deficiencies in both the demand and supply sides of the labour market, and which targets additional vocational, social and mentorship support to the youth who face particular constraints in becoming formally employed.

In reality however, the limited institutional, organisational and budgetary capacity of poor countries such as Mozambique and Zambia means that coordinating and sustaining this effort is not feasible, particularly in view of the additional demands that exist on these states' limited resources. This reality demands that governments give particular attention to targeted partnerships with the private sector as the basis for job creation. Such partnerships offer at least three distinct advantages over exclusively state-based solutions:

1. They draw on and leverage existing, proven capacity and resources, and avoid the costs and risks of establishing new public institutions and 'projects', or adding to the burdens faced by existing ones in the public sector. These are inherently ill-equipped and under-resourced to coordinate and sustain new programmes – particularly those which rely on complex coordination chains, innovation or new models of delivery.
2. They allow for risk- and cost-sharing with the private sector, thereby delivering additionality and aligning the commercial incentives that drive private sector behaviour with the social and development outcomes desired by the state.
3. They are, by definition, rooted in sectors, channels and market segments associated with commercial opportunity, and as a result offer the prospect of quick wins and tangible benefits. They also have a greater likelihood of being sustained over time – without the usual reliance on ongoing state or donor support.

A precondition for the realisation of such public-private partnerships is the establishment by governments of a conducive environment for private sector investment and operation. To be effective such partnership-based approaches need to be directed to those economic sectors where there are actual or potential comparative advantages (in the case of Mozambique and Zambia: agriculture and tourism); where there is record of or good prospects for strong growth; where such growth is associated with strong pro-poor characteristics (through direct job creation and linkages to SMEs and emerging businesses); and where innovation in technology and 'pro-poor' business models (e.g. ICT and pro-poor financial services) give rise to particular investment and replication opportunities relevant to the needs and opportunities at the 'base of the economic pyramid'. Several kinds of targeted initiatives might be considered in this regard – these are detailed below.

The environment that confronts foreign investors in Mozambique and Zambia remains complex, confusing and opaque

Investment climate and regulatory reform

Notwithstanding improvements over the last decade in both countries' investment climate, the environment that confronts foreign investors in Mozambique and Zambia remains complex, confusing and opaque – resulting in high transaction costs, uncertainty and long investment lead times. As proposed in terms of recent research undertaken on behalf of the Mozambican government, high potential sectors (such as tourism and agriculture) need to be identified, and simplified regulatory arrangements introduced.

In the agricultural context, particularly, attention should be given to clarifying the arrangements governing private investment in land and agricultural development. Measures to instil certainty and clarity with regard to land-based investments and partnerships would greatly improve the environment for investment and pro-poor economic activity in agriculture.[39]

Enterprise development and support services

While the focus of interventions in agriculture has typically been on the traditional small-scale farming sector, the productivity, investment and innovative capacity of this segment has historically been low - the combined result of poor techniques, technology and equipment; infrastructure constraints and poor market access; and weak extension services. By contrast, significant advances have been realised across the region through the introduction and expansion of out-grower agricultural production schemes and partnerships between large-scale commercial investors and surrounding small-scale farmer communities. These partnerships create the foundation and framework for high potential agricultural areas to move beyond low-productivity subsistence farming towards high value, high productivity commercial farming and agri-processing models.

As we have seen, efforts to expand and replicate these models need also to focus on overcoming infrastructural, regulatory and tenure-related constraints to commercial investment. Typically they also require targeted incentives designed to overcome the uncertainties and risks associated with commercial investment in new areas and weak markets. Such incentives can also be used to catalyse and accelerate private sector-led innovation, R&D and the introduction of new technologies and partnership-based business models. The design and operation of such incentives are investigated next.

While initiatives which focus on the investment climate, education, vocational training and enterprise support programmes are necessary, they are often not sufficient

The application of private sector incentives

While the private sector is critical to the delivery and sustainability of opportunities to decrease unemployment and poverty, these opportunities are typically associated with a variety of physical and infrastructural constraints, weak information, uncertainty and, consequently, high risk. This broadly characterises the Mozambican and Zambian economies, particularly in the high potential growth sectors of agriculture and tourism, beyond the established areas of commercial activity.

Although commercial investments based on partnerships with farming communities at the 'base of the pyramid' are both feasible and potentially highly profitable in the region, there remains reluctance on behalf of private investors (beyond a limited number of pioneers) to invest in emerging market segments and opportunities outside of proven, mainstream channels. This reluctance is especially pronounced where there is lack of competition and thus no pressure on incumbents and potential new investors to diversify and explore new business models and markets to protect their margins.

Moreover, adapting existing business practices and finding new ways of doing business profitably in historically excluded and weak markets requires innovation – but such innovation is unlikely to happen in the absence of strong financial incentives, which are frequently lacking in weak markets and historically excluded market segments, where uncertainties and risk perceptions are understandably very high.

Therefore, while initiatives which focus on the investment climate, education, vocational training and enterprise support programmes are necessary, they are often not sufficient. Additional information, research and support services are needed for private companies to overcome the barriers that inhibit their interest and risk appetite in weak, unknown markets. And this requires additional incentives.

Where such incentives are competitively driven and are rooted in addressing demand-side constraints, they have the additional attribute of overcoming many of the historical distortions and negative consequences that typify conventional publicly-funded/donor interventions, which frequently emanate from

Adapting existing business practices and finding new ways of doing business profitably in historically excluded and weak markets requires innovation

supply-driven and state-based approaches to enterprise, employment and development challenges.

Recent experience of the operation of private sector-oriented 'enterprise challenge funds'[40] has demonstrated the relevance and impact that well-targeted competitive incentives can have in catalysing private investment and innovation across a range of sectors. In fact, emerging evidence from the operation of the Shared Growth and Africa Enterprise Challenge Funds which focus on the agriculture and finance sectors across southern Africa, suggests that in three years of operation, 60 significant private sector-led partnerships in seventeen countries have been catalysed, from which an estimated 1 million rural people have directly benefitted (in the form of enhanced incomes, enterprise opportunities and employment).[41] Challenge fund grants amounting to around US$40 million have been disbursed, which have leveraged matching commitments by private sector partners of around US$125 million. In almost all cases, the investments and enterprises involved have been financially sustainable, laying the foundation for long term growth, job creation and further local economic development.

'Making markets work for the poor' (M4P) programmes in high potential sectors and areas

Incentive arrangements of this kind should target high-growth, profitable and advantageous sectors – and, depending on local circumstances – should be complemented by regionally-focused private sector development programmes.

Generically, such initiatives are referred to as 'Making Markets Work for the Poor (M4P)' programmes and involve the deployment of contracted market development facilitators (appropriately qualified consultants and discretionary technical assistance budgets) working over an extended (3–5–10 year) time-scale to:

- Increase market linkages, service and sales opportunities for small scale farmers, SMEs and service providers within established or emerging high value commodity and service (e.g. tourism) value chains.
- Catalyse, through facilitation and possibly direct (e.g. challenge fund) incentives, partnerships between commercial operators and investors on the one hand, and small scale producers, suppliers and service providers, on the other.
- Encourage the dissemination and expansion of embedded services (e.g. in the form of quality production inputs; the introduction of new technology; extension of business development support and advice; production finance etc.) from commercial buyers to SMEs operating within or close to the relevant value chains.

- Facilitate the creation and extension of a range of public- and privately- funded business support services (appropriate financial products; transport, cross-border and port services; quality standards support and accreditation services etc.) which are essential to the stable, inclusive growth and diversification of high potential sectors such as agriculture and tourism.

To address the challenge of poverty and unemployment sustainably, poor countries require economic growth

A number of M4P programmes are currently in operation or in early stage design (in Nigeria, Kenya and northern Mozambique).

Technical support for policy research and regulatory reform

Related to M4P programmes and other initiatives designed to tackle the regulatory and policy constraints that inhibit pro-poor growth is the need for discretionary resources to be made available in support of a range of possible research activities. These are motivated by the goal of overcoming the barriers to enhanced, more inclusive growth. Research into regional and national investment and trade barriers and the means for overcoming them is necessary, including: further investigations into understanding the structure and operation of existing and new high growth potential sectors; identifying the quality and standard protocols that govern commodity exports to major markets; researching specific regulatory or policy reforms required to overcome barriers to investment, trade and competition; and reviewing comparative experience of successful initiatives operated elsewhere in the region or globally.

The resources required for Research and TA Funds of this nature are modest. An appropriately focused, structured and managed fund of no more than US$5 million per country will yield significant value in terms of appropriate policies and regulatory reforms, along with tangible measures to incentivise more inclusive business models and M4P programmes, a pre-requisite for more broad-based growth and employment creation.

Conclusion

To address the challenge of poverty and unemployment sustainably, poor countries like Mozambique and Zambia require economic growth. To be developmental, such growth needs to be inclusive of the poor and to increase access to markets and services for households and communities historically excluded from formal sector opportunities. And to leverage a youth bulge to achieve this growth, policies and programmes need to be comprehensive, integrated and sustained over time.

To leverage a youth bulge to achieve this growth, policies and programmes need to be comprehensive, integrated and sustained over time

Indeed, international experience shows that youth unemployment can be addressed to varying degrees through national interventions which are sustained, coordinated and resourced over the long term, and which tackle both demand-side and supply-side constraints in the labour market. However, in the developing world, where such interventions are often inhibited by poor state capacity, this is often impracticable.

For countries like Mozambique and Zambia – countries which have inherent institutional, organisational and budgetary limitations – governments need to look beyond state capacity to target youth unemployment. As this report holds, it is through the creation of a more conducive investment climate, along with the pursuit of partnerships with the private sector, that there is scope for both economies to establish and sustain more inclusive economic growth models. In this way, the region may be able to realise and capture the long-term rewards of a productive, efficient and sustainable youth workforce.

Endnotes

1 United Nations, 'World Programme for Youth report' in *Youth and the United Nations* (New York: United Nations, 2010).

2 The term was coined to indicate a large proportion of total population being comprised of people aged 15–29.

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5 *Ibid.*

6 Using currency conversion on 08/07/2011 from http://www.oanda.com/currency/converter/.

7 This can be compared with figures from first world countries such as Japan and Luxembourg – with *total* public expenditure in education at 3 per cent. *Op. Cit.,* in note 4.

8 Sara Elder, Dorothea Schmidt and Theo Sparreboom, *Global Employment Trends for Youth*, (Geneva: International Labour Organisation, 2010).

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11 Gordon Betcherman, Martin Godfrey, Susana Puerto, Friederike Rother and Antoneta Stavresk, *A review of interventions to support young workers: Findings of the youth employment inventory* (Washington D.C.: World Bank, Washington D.C. 2007).

12 UN definition (2007), in World Bank, 2008. p. 1

13 Marito Garcia and Jean Fares (eds.), 'Youth in Africa's Labour Market' in *Directions in Development: Human Development.* (Washington: The World Bank, 2008) p. xxvi 'youngest' is used comparatively here, and is derived from the number of youth relative to the total population.

14 *Op. Cit.,* Elder et al (2010).

15 United Nations Economic Commission for Africa (UNECA), 'Meeting the Challenges of Unemployment and Poverty in Africa' and 'Meeting Youth Employment Head On' in *Economic Report on Africa*, (Yaoundé: United Nations, 2005).

16 Derived from past patterns/correlation of youth population growth against youth unemployment rates across the globe.

17 *Op. Cit.,* Elder et al (2010).

18 *Op. Cit.,* UNECA (2005).

19 *Op. Cit.,* Garcia et al (2008).

20 *Op. Cit.,* Elder et al, pg 62.

21 *Op. Cit.,* Garcia et al (2008).

22 Defined as the number of years spent in the schooling system.

23 *Op. Cit.,* Garcia et al (2008).

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25 *Op. Cit.,* Elder et al (2010).

26 Shantayanan Devarajan, *Youth and employment in Africa*: *Africa development indicators 2008/09* (Washington: The World Bank, 2009).

27 'Over the period 1995–2005', USAID, *Development Challenge,* <http://www.usaid.gov/mz/development_challenge.html> Accessed 16/04/2011.

28 *Op. Cit.,* Garcia et al (2008).

29 *Op Cit.,* Elder et al (2010).

30 *Op. Cit.,* Devarajan (2009).

31 *Op Cit.,* Garcia and Fares (2008).

32 *Ibid.*

33 Table 1 in Appendix 1 outlines some of the most common interventions that have been, and are being, used across Africa and internationally, which highlight one or more of the features identified.

34 *Op Cit.,* Elder et al (2010).

35 *Ibid.*

36 Adapted from Gianni Rosas and Giovanna Rossignotti, 'Starting the new millennium right: Decent employment for young people' in *International Review* (Vol. 144, No. 2. 2005).

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39 It is unclear whether this applies to the same extent in Zambia as it does in Mozambique.

40 See especially the Shared Growth Challenge Fund (www.sgcf.co.za), the Financial Education Challenge Fund (www.financialeducationfund.org) and the Africa Enterprise Challenge Fund (www.aecfafrica.org).

41 Monitoring and progress reports emanating from the AECF and SGCF programmes.

Within Africa there is both an expanding informal sector and high unemployment

Lessons from South America: Promoting job creation in informal economies with high unemployment

Domingo Cavallo

Africa is experiencing a period of rapid urbanisation. Due to poor economic growth and weak implementation of policies, the opportunities for young Africans migrating from rural areas to the cities are scarce or non-existent. As a consequence, within Africa there is both an expanding informal sector (offering 'illegal' employment) and high unemployment. These problems are compounded by inefficient payroll taxing systems and labour legislation that often serves to discourage and prevent formal-sector companies from creating jobs.

This chapter draws on the experience of those Latin American states which have found themselves in a similar position to Africa vis-à-vis youth unemployment. Latin American countries have made effective use of tax and labour reform to tackle their large informal sectors and high rates of unemployment. By drawing on case studies from Colombia, Chile, Argentina and Brazil, this chapter offers a means whereby governments can incentivise formal-sector labour investment over capital investment. In so doing, it predicts that these reforms will serve to significantly lower the cost of labour in the formal sector, therefore encouraging more job creation and shrinking the informal sector.

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In rural African and Latin American economies, the population works by and large in subsistence agriculture, which operates with little or no connection to the market. Most people are thus informally or self employed.

The informal sector does not permit the extension of operations into what are increasingly *formal* urban markets and therefore precludes the export of their production. The informal sector also limits access to credit, capital markets and, even more importantly, it limits the possibility of accessing more advanced technologies that could increase crop yields and overall productivity.

The scourge of unemployment emerges in cities and towns that receive large numbers of migrants from the rural areas looking for the social benefits that are, for the most part, distributed only in urbanised areas. It is in the concentrated urban settings that the problems of the informal sector and unemployment merge. Governments normally seek to punish those employers that do not comply with tax and labour laws. As a consequence, the reduction in the number of informal jobs is accompanied by an equivalent increase in the number of workers that are unemployed.

The scourge of unemployment emerges in cities and towns that receive large numbers of migrants

Dealing with the Informal Sector in Rural Areas

In rural areas, transforming informal into formal employment requires establishing clear rules on land tenure so markets can function properly. Once those rules become operative, if the tax and labour legislation is sufficiently 'friendly' and realistic, most landowners and workers will doubtless prefer to move voluntarily into the formal economy because that gives them access to expanded markets, credit and more advanced technologies. This is evident from the modernisation of agriculture not just in Latin America but also densely-populated countries in South East Asia – especially China, which started its reforms later than Latin American countries but is now outstripping them.

In Argentina and Brazil especially, the modernisation of agriculture and the development of agribusiness helped to reduce urban unemployment because it decreased migration from rural areas into the cities. There is still some migration, but increasingly it 'ends' not in the big cities but in new urban areas that have sprung up as services and industrial hubs, essential to a developing modern agriculture sector. This type of urbanisation helps to improve the living conditions of workers and entrepreneurs engaged in rural activities, and has also been shown to produce a significant improvement in the productivity of labour, both on the fields and in agriculture-related services and manufacturing.

Dealing with the Informal Sector and Unemployment in Big Cities

New migrants in urban areas often try – and fail – to find a job in the formal economy before seeking work in the informal economy. In the cities they will encounter major obstacles to self-employment, however.

Often they do not possess the skills (whether technical or organisational) necessary to function in an urban commercial environment. If they do find a niche in the urban informal sector, their activities often conflict with the interests of entrepreneurs and workers that provide similar services or produce the same goods in the formal sector. Organised corporations, whether private entrepreneurs or trade unions, frequently lobby the government to introduce stricter controls on tax and labour legislation compliance on the basis that informal sector workers constitute unfair competition. Therefore unlike in rural areas, where informal employment is relatively easy to come by, in urban areas informal jobs are much harder to create.

The difference between the cost of labour in the formal economy and the cost of labour in the informal economy becomes larger when the government imposes higher taxes or inflexible labour regulations on formal employment. When labour productivity is reduced, the creation of both formal and informal employment is negatively impacted because the differential costs of labour lead to higher punishments for employers that operate in the informal economy. This also results in higher urban unemployment.

The reduction in informal jobs is accompanied by an equivalent increase in workers that are unemployed

Lessons from South America

In South America, Chile has been most successful in expanding its formal economy and reducing unemployment in urban areas. Chile achieved these results through key economic reforms designed to open its economy, create new markets and establish rules that incentivised the creation of startups and small- and medium-sized enterprises (SMEs). Two reforms in particular had a significant role in reducing the size of the informal sector and unemployment: tax and labour reform, including reforms of the social security and health insurance systems. The common feature of these reforms was their emphasis on simplicity and flexibility.

In Chile, employers and employees in the formal economy contribute a proportion of the payroll to finance fully-funded pension, health and unemployment insurance schemes that the employees see as deferred salaries and benefits. But there are no payroll taxes in excess of these contributions. The revenue that the government needs to finance its supply of public goods for the population as a whole are collected from a broad-based, well-legislated VAT; a corporate income tax that applies a lower rate to non-distributed profits; a progressive personal income tax that prevents double taxation of dividends; and property taxes used for financing local governments. To the extent that it is possible, Chile uses *prices* and not *taxes* to finance the provision of services, no matter who provides them – in other words, by charging prices rather than taxes. The distribution of social benefits to mitigate poverty always tries to resemble the application of a 'negative income tax' type of subsidy.

In addition, Chilean labour legislation is quite flexible and allows negotiation of wage and labour conditions by individual firms and the representatives of their workers, rather than with trade unions from different sectors. This type of tax and labour legislation makes life much easier for startups and SMEs than would be the case in economies that have more complex and less flexible tax and labour regimes.

Transforming informal into formal employment requires establishing clear rules on land tenure

Argentina – like South Africa, a country with large trade unions that have substantial political power – tried during the 1990s to enact labour legislation similar to that of Chile, but applicable only to SMEs. In spite of the limited extent of these reforms, when combined with reductions in payroll taxes, these reforms significantly increased the formalisation of the economy and job creation via startups and SMEs. The benefits of these reforms were more evident in Chile, on account of their greater depth but also because these reforms were largely discontinued in Argentina after the crisis of 2001–2002. But the evidence from both countries, on the benefits of simpler and more flexible tax and labour regimes for formalisation and employment, are clear.

The economy of Colombia shares many similar features with Africa: a large informal sector and high unemployment, stemming in part from its long history of conflict between guerrillas and the army. Recently, however, Colombia has implemented some partial labour and tax reforms to create strong incentives for job creation in the formal economy, which should serve to reduce informal business and unemployment. The basics of these reforms are similar to the tax and labour reforms that produced successful results in Chile.

Colombia, like most of the Latin American economies, has created over the years a social safety network that is financed with payroll taxes that are paid by employers in the formal sector of the economy. Only those contributions that accrue to fully-funded social security, health and unemployment insurance systems are seen by employers and workers as *prices* paid for future benefits. In addition, the employers have to pay other taxes, also proportional to the wage bill, to finance social benefits that accrue to the benefit of informal workers or the population at large. However, these payroll taxes create a wide gap between the cost of labour in the formal and informal economies which discourages job creation by employers that want to comply with tax and labour laws.

The idea behind the Colombian reforms was to eliminate these distortive payroll taxes. Initially, the country's Congress authorised eliminating them for newly-created jobs that for a period of two years had not been contributing to the social security system. However, to do this only for first-time employees is not enough. The economy – and unemployment – demands that this tax break is given with no time-limit to employers. Indeed, more comprehensive, Chilean-style tax reform would completely eliminate these taxes for all workers.

The theoretical underpinning of the Chilean, Argentinean and Colombian reforms comes from observing that one common characteristic of taxation in many countries – typically in continental Europe, but also in Latin America and other regions: payroll taxes, which finance social security, are extremely high. Of course, this is due to the fact that social transfers are also very high. However, there is no reason why these transfers have to be financed by payroll taxes, especially if there is room to increase other, more neutral taxes.

Often migrant workers do not possess the skills necessary to function in an urban commercial environment

Take VAT, for example. Unlike payroll taxes, which are levied on labour income, VAT is levied on final consumption. This has two main advantages: it promotes formal job creation and stimulates private saving. In many countries this can kill three birds with one stone by helping to reduce unemployment, the informal labour market, and the current account deficit. Furthermore, the fact that VAT is levied on final consumption and not on investment or exports (capital-goods purchases are deductible as VAT 'credits' and exports are tax exempt) makes the substitution of VAT for payroll taxes an effective tool for increasing competitiveness. As such, it is like devaluing the local currency, but without the inflationary pass-through to domestic prices or the disrupting balance sheet effects.

Another characteristic of taxation in many of the countries mentioned before is the disparity of VAT rates, including exemptions, across goods and services and regions of the same country. Such discrepancies are the cause of tax arbitrage and other inefficiencies in tax collection, which result in lower revenues for the government. While the objective of special rates and exemptions is to benefit or promote certain activities and industries in the country, including tourism, the same results could be obtained if a single rate was applied uniformly and the promoted activities and regions were subsidised directly from the budget.

Conclusion

The experience of South American economies suggests that those African economies that have already created those distortive payroll taxes would benefit from similar reforms and those economies that have not yet made the mistake should avoid making it in the future.

In countries like South Africa, where the high costs of labour in the formal economy result largely from the inflexibility of labour legislation rather than high payroll taxes, the recipe might involve: a combination of greater labour flexibility, at least for SMEs, and a subsidy on the creation of new formal jobs, which should increase the employment opportunities for workers that are currently unemployed or work in precarious conditions in the informal economy. Such a subsidy could also induce a transformation of informal enterprises into formal ones. In order for the subsidy to be effective, it should be designed not only for big enterprises but most especially for startups and SMEs. This chapter suggests that the subsidy be offered as a tax credit against VAT, to reduce the cost of new employment, therefore increasing the size of the formal sector.

The common feature of Chilean reforms is their emphasis on simplicity and flexibility

Incentives to Formal Employment: A Proposal for Colombia*

Rodrigo Botero, Domingo Cavallo

The creation of formal employment is currently the main challenge of economic policy in Colombia. The year 2010 began with unemployment in the double digits and high rates of underemployment and informal employment, which disproportionately affects young people and those with low educational levels.

The current high level of unemployment, underemployment and informal employment in Colombia, rather than a situational phenomenon, is a structural problem. Even during a period of expansive growth, from 2003 to 2007, the unemployment rate remained in the double digits. The 2.5 per cent GDP growth forecast for 2010 is insufficient to avoid a deterioration of current labor market indicators.

To assure the issue of employment receives the attention it deserves, the massive generation of formal work must become the central objective of the Colombian political economy, not the spin-off of another. That is the change of focus we recommend.

Formal employment creation in Colombia is taxed with social security contributions and payroll taxes that equal roughly 60 per cent of the base salary for each worker. On the one hand the employer considers these contributions as true payroll taxes, and on the other the worker does not view them as deferred wages. It is likely that only the provisions for severance pay, transportation allowance, and wardrobe are perceived by workers as a deferred or in-kind salary.

This high payroll tax is the direct result of a decision made with the best of intentions. However, its effect has been to harm the very persons that were intended to benefit from its implementation. In recent years a series of tax exemptions have been adopted aimed at reducing the cost of capital, with the purpose of stimulating investment.

The combination of taxes that raise the cost of work and tax exemptions that reduce the use of capital create a perverse structure of incentives that distort relative cost factors. Economic agents respond to incentives that support them. If public policies promote

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* This appendix was provided by the author and originally published in The Global Economic Symposium. See http://www.global-economic-symposium.org/solutions/the-global-economy/escaping-the-informal-employment-trap-in-developing-countries/strategyperspectivefolder/incentives-to-formal-employment-a-proposal-for-colombia

Chile uses prices and not taxes to finance the provision of services

the substitution of labor for capital, this causes a suboptimal utilization of production factors that do little to encourage the generation of formal employment.

Our proposal is simply to reverse this incentive scheme: to replace the current investment incentives by formal employment incentives. The viability of our proposal that is presented below requires far-reaching political consensus. It is clear there are obstacles to changing current labor structures. We suggest a strategy that overcomes them by maintaining contributions to entities that benefit from payroll taxes, and financing these transfers with fiscal resources that are set aside for promoting investment.

The Fiscal Cost of Investment Incentives

The Ministry of Finance estimates the fiscal cost of granted tax benefits in relation to income tax. In 2008 the estimated fiscal cost from the deduction of 40 per cent of the investment in fixed real assets rises to 3.8 billion pesos. Assuming that the cost is proportional to income subjected to taxes, the 2009 projection of the said cost climbs to 4.4 billion pesos. These numbers can be found the database prepared by 'Marco Fiscal of Mediano Plazo' in 2009.

The same source provides information that compares this fiscal cost with the amount of payroll tax businesses pay. For 2009 the estimate of this amount rises to 3.8 billion pesos. This is a rate of 30.2 per cent over basic wages (21.5 per cent of Social Security and 8.6 per cent plus quasi fiscal taxes of 8.6 per cent). The fiscal cost of the deduction for investment is to 116 per cent of the total payroll tax paid by businesses.

These numbers show the magnitude of the fiscal incentive that could lead to the creation of formal employment, if the current deduction on investment is replaced by deduction on payroll tax generated by those new investments. The replacement of the 40 per cent tax deduction on the income of new investment for a 120 per cent tax reduction on the increase of payroll tax would add to the formal economy roughly the same number of informal and unemployed workers as the number of current workers in formal employment.

The Proposal

Our proposal seeks to transform current investment incentives into incentives that bring about formal employment. We propose the real increase in the Wage Bill paid by each company from a base year as the basis for the formal employment incentive.

To calculate this real increase the Wage Bill for the base year is adjusted by the Consumer Price Index. If the tax benefit became applicable in 2010 the calculation would start from the 2009 wage sum adjusted by the increase of the IPC between 2010 and

Reforms were largely discontinued in Argentina after the crisis of 2001-2002

2009. For 2011 and the following years, the base will be still the same but with an additional year of adjustment of CPI.

To maintain a five year horizon, once five years have passed since the first time the benefit was applied, the base year will be moved to the next year. This means, if the initial base year was 2009, in 2015 that the base year is moved to 2010, following 2011 in 2016, and so on.

The proposal suggests replacing the current investment credit of 40 per cent from Income Tax, for a fiscal credit of 60 per cent of Payroll Tax paid on the real increase in the Wage Bill.

Moreover, it is proposed that 60 per cent of paid payroll tax for workers in the base year not enrolled in social security, because they were inactive, unemployed, or working informally, will be deductible. In this way, if the real increase of the Wage Bill is produced because the company adds staff that in the base year were not registered in social security, it would reduce its income tax 120 per cent from the real increase in the wage sum.

This incentive is less onerous than the current one. It would be the same only if in 5 years the real increase in the Wage Bill is equal to 97 per cent of the Wage Bill in the base year. This would only occur if after five years nearly all the informal economy and the unemployed would have moved into the formal economy.

Acquired Rights

Firms that have acquired rights to fiscal stability and currently enjoy the 40 per cent investment credit to Income Tax would not be forced to comply with the new scheme proposed here. Resultantly, the change should be applicable from here forward and to all other companies, unless those with acquired rights opt for the new regime. It is impossible to calculate what the fiscal effect would be from the continuity of investment incentives.

The new fiscal credit of 120 per cent of the taxes on the increment of real Wage Bill would be the same as the prior investment incentives when the Wage Bill doubles with respect to the base year. Therefore, it is likely the fiscal cost of the two added benefits, while existing together, would not surpass the cost of the investment credit that would be eliminated.

Effect on the Wage Cost

The proposal entails a reduction to the labor cost for all firms in the private sector that generate new formal employment in the order of 24 per cent, if those not incorporated into the formal economy were not registered in social security in the base year. If the new jobs correlate to persons that were working in the formal economy in the base year, the reduction to the labor cost would be around 12 per cent.

Colombian reforms aimed to eliminate these distortive payroll taxes

Fiscal Amnesty

To ensure the benefits of this incentive effectively reach businesses that have been operating partially or totally in the informal economy, it would be necessary to grant fiscal amnesty for Payroll Tax, on Value Added Tax and Income Tax that would have been avoided while the worker was a part of the informal economy.

Expected Results

The granting of fiscal incentives attached to increases in Payroll Tax paid by firms should not harm the growth of the economy, because the fiscal incentive granted, as a proportion of value added, is the same. Rather, it should have a positive effect on growth, at least for a period of time, because it should produce efficiency gains due to better allocation of resources.

The effect on employment, at least on formal employment, should be considerable taking into account the reduction of the wage cost for firms lowers significantly, and that businesses will officially receive the benefits from fiscal amnesty towards obligations they have evaded in the past.

The number of firms benefiting from employment incentives would be much greater than the number of firms benefiting from investment incentives. Moreover, the new incentive helps small and medium businesses that currently are unable to take advantage of investment incentives.

Funds for social security benefits, health, education, and family support that are currently financed with Payroll Tax would benefit with the new incentives due to the increases in tax collection that would be proportional to the increase in formal employment. This is different from the result that would be obtained if instead of changing the basis for granting fiscal incentives, it was decided to decrease the Payroll Tax Rate.

Entrepreneurial Africa: Creating Jobs through Mindset Change, Entrepreneurship and Competitiveness

Eric Kacou

With a median age of 19 years, Africa is the world's youngest continent

Introduction

Job creation and income generation has emerged as the preeminent issue in African nations. With a median age of 19 years, Africa is the world's youngest continent. While this situation creates significant long-term opportunities for the continent, realising these opportunities requires that the productivity levels of young people increase significantly.

As the North Africa uprising suggests, this new generation of Africans will not satisfy itself with mere survival. Instead, these youth want dignity and opportunities to live their lives according to their own definition. This translates into a real challenge for the continent's leadership. Addressing this challenge begins with the recognition that failure is not an option.

Africa's battle with destiny is the nation's struggle for prosperity. The continent is awash with visions, plans and strategies calling for substantial investments into the socioeconomic capabilities of each nation. Yet, most African nations are over-reliant on development aid. The private sector, especially small- and medium enterprises (SMEs), are the only sustainable source of development finance.

Mozambique, Swaziland and Zambia are not exceptions. According to the May 2011 publication by the African Development Bank (AfDB), middle classes are still very small representing 2.6 per cent, 9.4 per cent and 5.6 per cent of the population respectively. Significant budget deficits characterise all three countries. Furthermore, strong growth has failed to translate into job and income improvements for the average citizen.

A country's primary socioeconomic goal is to improve the quality of life of its citizens. Achieving this goal depends, in part, on the competitiveness of local firms, which depends increasingly on innovation and entrepreneurship. A central challenge for a nation's leaders, therefore, is to create the conditions for innovative companies and entrepreneurs to succeed.

Beyond accelerating economic growth, what is required is translating this growth into real opportunities for the average citizen. The Brenthurst Foundation's Roundtables on Youth (Un)employment held in Mozambique, Swaziland and

Africa's battle with destiny is the nation's struggle for prosperity

Zambia in May 2011 gave us an opportunity to test the viability of the entrepreneurial platform for these nations in particular, and Africa in general.

An upgraded Agenda for Competitiveness must include mindset change, vibrant clusters and improved firm-level capabilities. Mindsets drive actions; without mindset adjustments, change is not possible. Vibrant clusters create opportunities for entrepreneurs. Finally, improved firm-level capabilities are paramount to translate these opportunities into jobs and income.

Through actions, Mozambique, Swaziland and Zambia have demonstrated willingness to address the job crisis. This chapter offers select best practices that have been proven based on experience in similar environments to build the type of momentum and quick-wins required to demonstrate progress to all stakeholders.

While government must set the enabling environment, ownership of the agenda must be gradually transferred to business and youth. Best practices the world over suggest that firms, especially SMEs, must play a greater role if growth is to translate into social equity and job creation. Given the missing middle, it matters for government and other stakeholders to enable these firms.

Such a partnership must be cemented by a strong commitment to change at the highest levels of leadership. While we acknowledge the commitment embodied in our meetings during the Brenthurst Roundtable, fostering job creation and income generation requires ownership by the topmost leadership. This ownership will help in encouraging the new mindset required for progress.

Africa's Struggle for Prosperity

Africa is increasingly recognised for the breadth of commercial opportunities it provides. Its population numbers almost a billion with an estimated 42 per cent under the age of 18. The low level of development, combined with rapid population and strong economic growth, means opportunity for both local entrepreneurs and foreign investors.

As elsewhere in Africa, Mozambique, Swaziland and Zambia's opportunities are often stifled by their performance as business destinations. Regardless of indices, these countries are in the bottom quartile for performance with dire consequences for the average citizen. An important fact to consider is that the dearth of SMEs called 'the missing middle' has impacted job creation.

Missing Middle, Missing Jobs

Individuals, firms, clusters, and nations struggle daily to find solutions to the plethora of urgent problems that are the reality of doing business in developing nations.

The private sector, especially small- and medium enterprises (SMEs), is the only sustainable source of development finance

Just a few examples include loss of productivity due to unreliable power, lack of access to finance needed to close a deal, or the inability to transport perishable products to markets due to failing infrastructure.

A common characteristic that Mozambique, Swaziland and Zambia share is a small middle class. In all three countries, the evidence suggests a widening gap between the haves and have nots. Beyond its direct impact on the well-being of most citizens, such a widening gap, if not addressed, could translate into social and political instability.

Low median ages in these three nations is probably a strong contributing factor. In fact, the median age is 16.8, 20.3 and 16.5 years for Mozambique, Swaziland and Zambia respectively. As discussed during the seminars, in all three countries this youth is mostly urban, unemployed and living in poverty.

Developing countries' economies are hindered by a 'missing middle'.[1] Larger enterprises frequently benefit from tax incentives and subsidies. Micro-enterprises receive aid and micro-finance. The SME sector, with businesses that employ between 10 and 100 people, lie ignored in the middle. (See graph below)

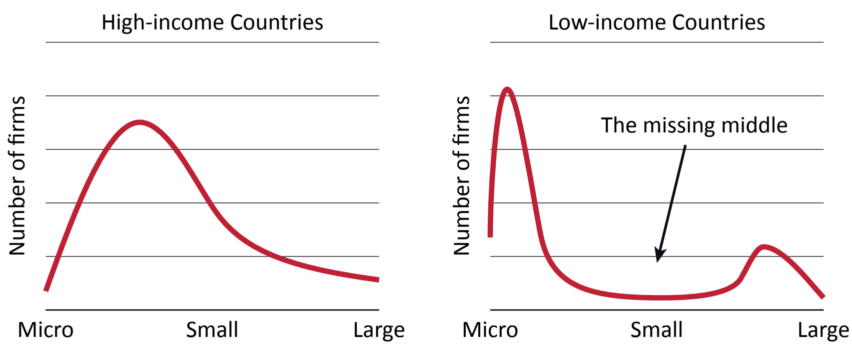

Figure 2: Private Sector Distribution by Size, High vs. Low Income Countries

The 'missing middle' is fueled by a perception gap. SMEs are often seen as being too minute to serve as significant drivers of economic growth (and therefore unworthy of policy consideration by governments), yet too large to benefit from non-profit and microfinance institutions.

An important missing middle translates into missing jobs and lower GDP. In high-income countries, SMEs are responsible for over 50 per cent of GDP and over 60 per cent of employment, but in low-income countries they are less than half of that: 30 per cent of employment and 17 per cent of GDP. The graph below illustrates this reality.

A widening income gap, if not addressed, could translate into social and political instability

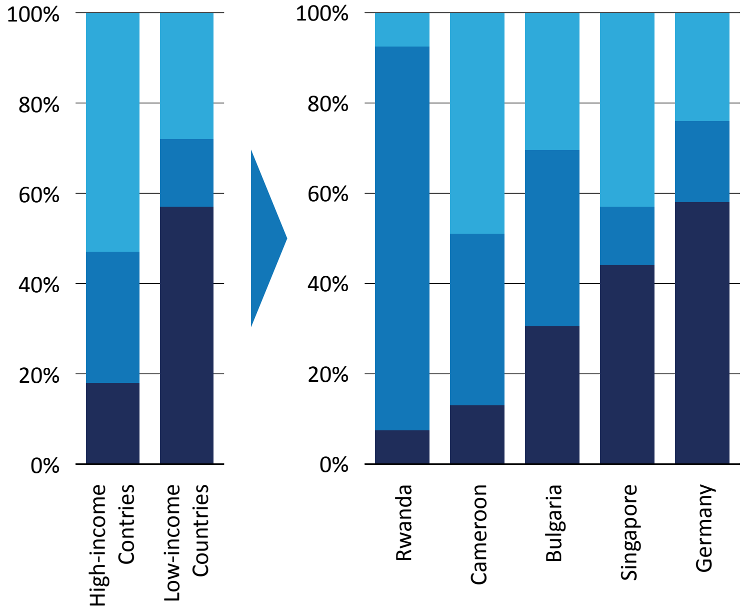

Figure 3: Employment Contribution by Business Type

Diagnosing and Escaping the Survival Trap

Individuals, firms, clusters, and nations struggle daily to find solutions to the plethora of urgent problems that are the reality of doing business in developing nations. Access to finance, poor infrastructure, and corruption are only a few examples. While these struggles seem different, they all point to one reality: the Survival Trap.

The 'Survival Trap'[2] is a vicious cycle encapsulating the prevailing mindset, and experience, of individuals and institutions operating in developing nations. Those caught in the Survival Trap are not unlike Sisyphus: compelled to roll a huge rock up a steep hill, but before he can reach the top of the hill, it always rolls back down, forcing him to begin again.

In the quest for short-term solutions to fix the urgent problems faced by entrepreneurs, massive force is unleashed. However, the level of urgency is so high that actors fail to step back and think strategically about the long-term implications of their actions. Instead, decision-makers fall back to a defensive position, implementing 'winning formulas' that have worked in the past.

In high-income countries, SMEs are responsible for over 50 per cent of GDP, but in low-income only 17 per cent of GDP

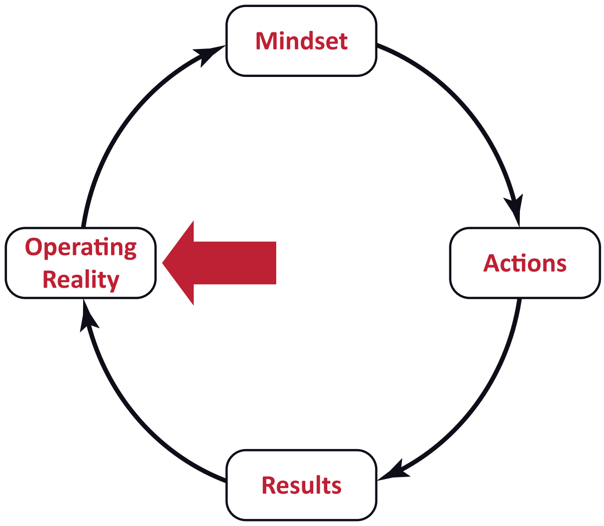

Figure 4: The Survival Trap

Diagnosing the Survival Trap begins with understanding the relationship between results, actions, mindsets, and the broader economic context in which we operate. Most stakeholders assume that actions alone drive results. It therefore follows that each time they fail to obtain a desired outcome, they implement the same strategy: 'doing the same thing, only harder.'

The Survival Trap induces a reactive mindset where stakeholders feel compeled to react to urgent symptoms instead of addressing root causes. While short-term actions often bring some relief, they also perpetuate this vicious cycle by ignoring root causes of real challenges. To escape the Survival Trap, it is important to understand the specific mindsets that underlie the cycle.

While this aspect of the Survival Trap is driven by mindset, it also perpetuates the mindsets that underlie the broader cycle. As this approach fails to generate results, ownership slips away and the locus of responsibility shifts, thereby breeding a culture of dependence and mistrust. The *modus operandi* is more investments, more aid, and so on.

The nature of the status quo explains why entrepreneurs and businesses suffer most from the Survival Trap. In most developing nations, the prevailing model favours large, top-down infusions of capital from aid. Instead of supporting entrepreneurship and competitiveness, the goal is to 'seek rents' from natural resources.

The Global Entrepreneurship Monitor estimates Total Entrepreneurial Activity (according to the TEA index) in Africa to 15.8 per cent, compared to 6.4 per cent in Europe and 11.2 per cent in Asia. This statistic tracks the share of GDP accounted for by firms less than three years old. Yet, Mozambique, Swaziland and Zambia seem to have lower entrepreneurial activity.

Access to finance, poor infrastructure, and corruption all point to one reality: the Survival Trap

African SMEs often engage in 'survival business' which explains in part their high rate of failure. Specifically, most firms often use copycat business models, compete on prices and focus on trading as opposed to innovation, differentation and focusing on solutions. This situation underscores the need for assistance in developing stronger African SMEs.

Addressing this high rate of failure amongst SMEs must become a central aspect of any agenda to generate jobs and income in African nations.

An Agenda for Competitiveness

Fostering competitiveness and private sector development involves simultaneously addressing the enabling environment, and firm-level issues. This entails ensuring the policies and institutions required for private investment, production and trade (the 'enabling environment') are developed, while at the same time focusing on providing direct private sector (firm-level) support to businesses.

While development theory has swung between the two, at various times emphasising one over the other, consensus is emerging that while both are important neither is alone sufficient. Only by addressing both can real and lasting development of the private sector actually occur. Public-private partnership is paramount in making this happen.

What is Competitiveness?

Competitiveness is productivity with which resources – human and capital – are deployed. Competitiveness requires firms to create products or services for which discerning customers are willing to pay a high price. Developing such products and services is therefore central to a country's growth and the improvement of the standard of living of its citizens.

Such choices require new mindsets, vibrant clusters and upgraded firm-level capabilities. Mindsets drive actions; sustainable change without mindset change is not possible. A cluster includes all of the related and supporting industries involved in the production and delivery of a specific product or service. An upgraded competitiveness agenda is illustrated in the Figure below.

Total Entrepreneurial Activity (TEA) in Africa is 15.8 per cent, compared to 6.4 per cent in Europe and 11.2 per cent in Asia

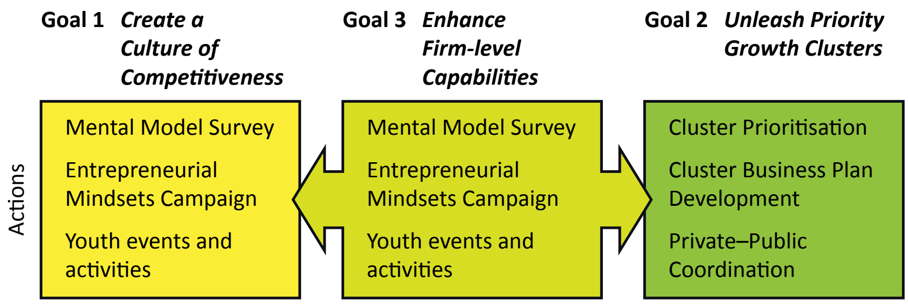

Figure 5: Upgraded Competitiveness Framework

Today, the most successful nations, the competitive advantage societies, create wealth by exporting complex products and services created by highly skilled people. Adopting this new approach will require that leaders rethink fundamental assumptions about the nation's people, companies and economy, causing what Michael Fairbanks[3] calls a 'change in the mind of the nation.'

Harvard Business School Professor Michael Porter's[4] research has identified four broad determinants that work together as a system and constitute the 'Competitive Diamond' of national advantage. In nations with internationally competitive industries, these four determinants operate as a strong, interconnected system. In Mozambique, Swaziland and Zambia, the Competitive Diamonds appear weak.

Clusters boost localised economies because they involve hundreds of SMEs which sell 'subcontracted' services at lower costs with improved flexibility. This flow of services encourages large companies to support the development and growth of SMEs that will be the biggest future source of employment.

Elements of a Competitiveness Agenda

The first priority of a competitiveness agenda is mindset change towards a culture which rewards entrepreneurship and innovation. This is about addressing the beliefs, values and attitudes underlying choices with an economic impact. Effective mindset changes begin with identifying prevailing mindsets. Here, honest conversations can provide hypotheses to be tested through surveys.

While most economic development efforts shy away from explicitly addressing mindset change, this is an issue that is paramount to any real progress. Rather than ignoring the challenge at hand, African leaders can learn from their own actions in addressing the HIV/AIDS pandemic. Furthermore, the graph below outlines concrete actions that can bring mindset change.

Fostering competitiveness and private sector development involves simultaneously addressing the enabling environment

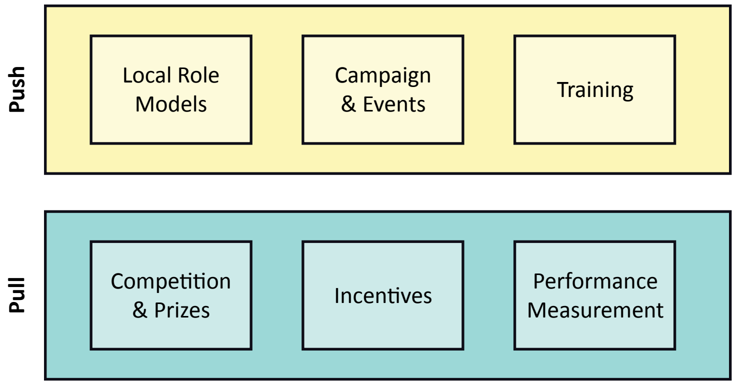

Figure 6: Push and Pull Approach for Mindset Change

The next priority is about making sure that Mozambique, Swaziland and Zambia develop vibrant growth clusters. It is important that the process to prioritise, facilitate and invest in priority clusters be not only rigorous but also transparent. Such rigour and transparency require that all relevant stakeholders must be included: government, business and civil society.

Hausman and Rodrik[5] remarked that 'a country is what it exports.' Empirical evidence shows that some clusters have a much better track record at generating employment and wealth than others. It has also demonstrated that investing in high-value clusters lead to 'positive externalities' or 'leakage effects.'

Why must we prioritise growth clusters? Limited resources, both financial and human, require prioritising clusters most likely to have the greatest socioeconomic impact for the most people. To be clear, enterprising citizens should be free to pursue whatever opportunities they like; rather than picking winners, this is about creating markets.

Once clusters are prioritised, business plans can be developed through a public-private stakeholder workgroup in the clusters. Such business plans must ascertain receipts for and investments in the cluster. They must also identify specific actions to develop the product, improve processing and market the product as well as address any infrastructure and regulation challenges.

Economic integration presents opportunities and challenges to enhance both intra-regional trade and trade with more advanced regions of the world. Compared to other regional economic integration initiatives such as the East Asian Growth Area, BIMP-EAGA, and MERCOSUR in Latin America, the total GDP and GDP per capita of the Common Market for Eastern and Southern Africa (COMESA) are relatively low (see figure 6 next page).

Competitive advantage societies create wealth by exporting complex products and services created by highly skilled people

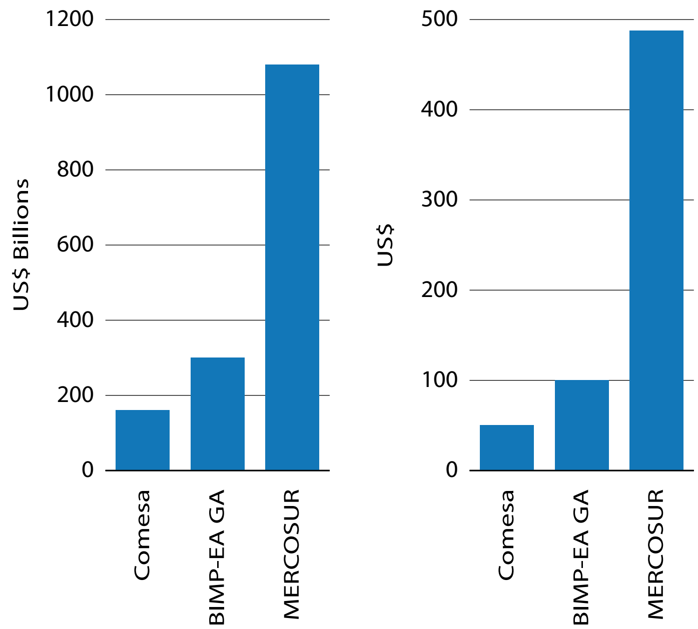

Figure 7: Selected GDP and GDP per Capita for various trade zones

However, these numbers belie the vast differences in the economies party to this trade agreement. Egypt's GDP is nearly US $90 billion, almost eight times larger than that of the next biggest COMESA economy, Sudan. It is nearly 450 times larger than the smallest economy, Comoros. Similarly, there are wide disparities in the per capita GDP levels. The Seychelles has the highest per capita GDP with US $5 700, which is more than 50 times that of economies such as the DRC and Ethiopia.

What implications do these differences have on the competitiveness of the region? Falling trade barriers, improved access to regional markets, and the free movement of people will have many beneficial effects for local firms. They will have access to new and larger markets, and access to the skilled personnel that are critical to building competitive enterprises.

The final priority is about increasing the firm-level capacity of businesses to compete successfully within each country, in the region and globally. Regional integration puts tremendous pressures over businesses operating in each nation especially the smaller ones. The competitiveness agenda must look at ways to reinforce the capacity of private sector firms.

Firms, especially smaller ones, face myriad challenges. Global best practices suggest that effective competitiveness programmes focus on alleviating key business challenges. Rather than providing protection and subsidies, such reinforcements should take the form of intelligent capital – the right mixture of insights and capital to unleash the potential of firms of all sizes.

Effective mindset changes begin with identifying prevailing mindsets

SMEs need Business Development Services (BDS) that are sorely lacking in the current context. Such BDS include training, information, access to finance and technical assistance solutions. While traditionally these services were offered by government, consensus is emerging that better quality BDS becomes possible when private suppliers are enabled as opposed to subsidised efforts run by governments.

Incubation services are paramount to foster the next generation of entrepreneurs. Positioned between BDS, Technology Parks, and other platforms that help to accelerate the growth of emerging or established businesses, incubation services are about nurturing new and young firms. The emergence of private models such as Raizcorp in South Africa must be underscored.

African nations are not short of policy or programme ideas; what is often a problem is implementation. Beyond articulating elements of a competitiveness agenda, what really matters is implementation. The next section analyses this issue critically to identify ways to foster execution. Specifically, it discusses the role of all stakeholders as well as a monitoring and evaluations (M&E) framework.

Fostering Ownership for Implementation

Job creation and income generation is about engaging the average citizen in the implemention of concrete strategies that will benefit them in a practical manner. A youth leader in Swaziland said it best when he remarked that '[y]outh are innovative, action-oriented and knowledgeable. We don't want other people to solve our problems. We want to be part of the solution.'

Mozambique, Swaziland and Zambia must foster a broad-based ownership in order to address the challenge of job creation and income generation. Competitiveness and Entrepreneurship requires collaboration within the private sector, co-ordination with government and specific development partner interventions.

Broad-Based Ownership

While governments in all three countries are receptive to outside expertise, there is a tendency to discount the role of other stakeholders, especially the youth. The seminars pointed towards this important mindset challenge in all three countries. Success will only be possible if this challenge is addressed explicitly.

African leaders can learn from their own actions in addressing the HIV/AIDS pandemic

Private sector ownership of the Competitiveness Agenda will not be optional. Anyone analysing resources invested in enabling competitiveness will doubtless conclude that government and development partners are footing the bill. An important reality is that who pays often drives the agenda. It is paramount that the private sector, especially large business, comes to the table.

Firms compete, not nations: entrepreneurs and multi-national corporations (MNCs) alike have an important role in creating the products and services. This role is their *raison d'être*. Beyond this, it is also important that business activities are informed by moral purpose. Such a mindset is critical in enabling the development of business models that benefit all stakeholders.

Government must realise that its track record at doing business, the world over, is not great. What this means is that, rather than impede competition, prevent innovation and create unnecessary burdens, government must do everything to enable business. This will take some practice in an environment where governments are used to being in charge.

Specific actions governments should consider include upgrading infrastructure, simplifying regulations and providing incentives for firms to do the right thing. Rather than *laissez-aller*, what are really required are governments that are willing to partner with business to deliver societal impact while enabling competitive risk-adjusted returns.

Youth are important stakeholders that must not only be involved but also enabled to address their own challenges. 'Over-responsibility' from government and other stakeholders breeds an environment where expectations run high, defensiveness abounds and violent resentment can emerge. Instead, youth must become part of the solution.

Ownership at the highest level is critical. Given prevailing governance structures, mainstreaming the competitiveness agenda will not happen without ownership at the Presidency level. Rather than being ceremonial, what is required here is for the leadership to seek to understand the competitiveness agenda and use its authority in removing constraints as needed.

Last but not least, development partners must create the conditions for national stakeholders to own their challenges. While most African nations need aid, these nations must also work with development partners to create the conditions to graduate from this dependency. The suggested Agenda for Competitiveness is an important step in this direction.

Rather than picking winners, this is about creating markets

Monitoring & Evaluation and Resource Mobilisation

Job creation and unemployment generation is a big problem; the size of the problem dictates the amount of resources required to tackle it properly. In Swaziland, cabinet members in attendance remarked that the budget process had reduced some of the resources earmarked for youth employment. In contexts where needs are many and resources few, this is not uncommon.

Such resources can only be mobilised in the presence of a strong M&E framework. While a host of development indicators exists, it is important to isolate a few critical indicators and aligned targets to ensure that resources invested are generating the type of impact required. A good way to integrate both issues is through a strengthened budget system.

Our recommendation is for a comprehensive strategy aimed at addressing the issue of employment in a systemic fashion. As noted by Shick[6], myriad stakeholders and sources of funds require a radical shift in the Public Financial Management (PFM) system to ensure effective budget execution. As illustrated below, Andrews[7] offers an exhaustive PFM framework.

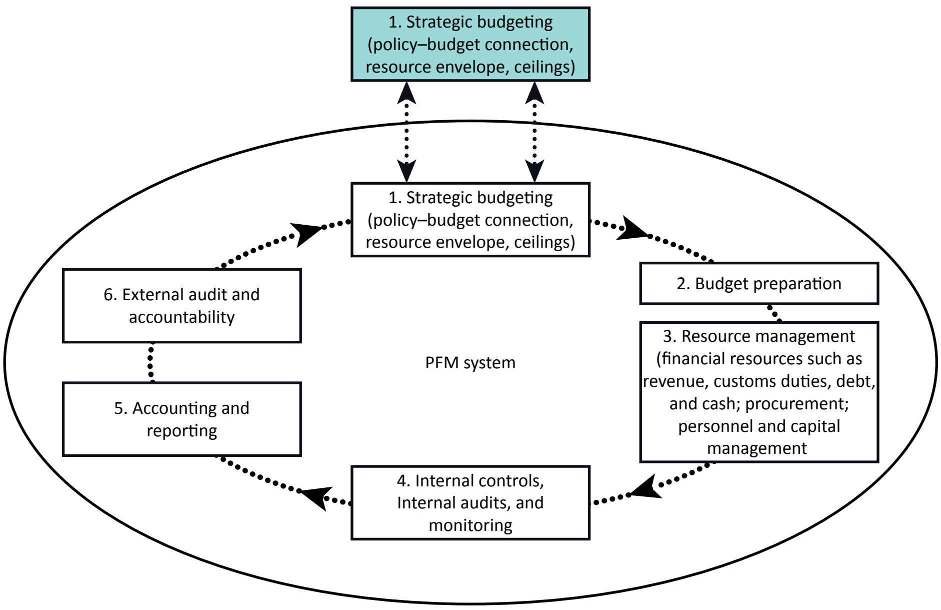

Figure 8: Overview of the National Public Finance Management Process

As it relates to the PFM process itself, employment must be tackled strategically in identifying key areas of focus for intervention. At the initial stages, we could recommend the focus to be on three steps in Andrews' Six-Step process above:

Step 1 – strategic budgeting, Step 2 – budget preparation and Step 6 – external audit and accountability.

An important aspect to consider in building ownership is a baseline study that must be conducted to facilitate future M&E efforts. Such baseline studies will help in fostering a culture of performance and actions. An important aspect of the baseline study will also be to finalise the list of indicators that will evaluate the implementation of the Agenda for Competitiveness.

Best practices suggest that it is often best to use two sets of metrics. First, typical metrics would be more quantitative metrics such revenues, exports, jobs, investment or firm creation. Second, a second set of process indicators must be chosen that are focused on the effectiveness of the Secretariat.

Conclusion

Despite growth over the past few decades, Mozambique, Swaziland and Zambia are in the midst of a jobs crisis. With a median age of 19 years, a small middle class and high levels of urban poverty, myriad challenges exist. It is therefore paramount that these nations refocus their agenda for job creation and income generation.

A country's primary socioeconomic goal is to improve the quality of life of its citizens. Achieving this goal depends, in part, on the competitiveness of local firms, which depends increasingly on innovation and entrepreneurship. A central challenge for a nation's leaders, therefore, is to create the conditions for innovative companies and entrepreneurs to succeed.

Strategy is informed choice and timely action. It is paramount that countries renew their commitment to entrepreneurship, innovation and change. Such commitment must translate into dedicated initiatives that encompass mindset change, growth cluster facilitation and firm level capabilities.

Mozambique, Swaziland and Zambia must translate their commitment into a clear agenda infused with resources and demonstrate a willingness to address the jobs crisis. This will require government to upgrade their mindsets to share the burden for job creation with all other stakeholders. It will then require that other stakeholders, led by the private sector, commit to addressing this crisis.

Such a partnership must be cemented by a strong commitment to change at the highest levels of leadership. While we acknowledge the commitment embodied in our meetings during the Brenthurst Youth (Un)employment Roundtable, fostering job creation and income generation requires ownership by the senior leadership. This ownership will help in insuffling the new mindset required for progress.

Private sector ownership of the Competitiveness Agenda will not be optional

Prosperity is a choice. The means to transform the Mozambican, Swazi and Zambian economies is in the hands of these countries' leaders, not in those of the international community or foreign advisors. The nations must move quickly from the phase of discussion to action to fully exploit the opportunities available to them.

Effective implementation of these strategies will require collaboration between government, private sector and civil society. To achieve this collaboration, leaders must unite all segments of society to address the competitiveness challenges of the country and strengthen the high level of trust between the public and private sectors.

What is really at stake here is the dignity of these nations' citizens. Real growth translates into personal opportunity. If these leaders elect to work together and focus their efforts on the issues and initiatives targeted in this document, the average Mozambican, Swazi and Zambian will finally benefit from the dividends of stability and acquire the fruits of a prosperous and competitive nation.

Endnotes

1 Center for International Development, Harvard Kennedy School. 2011. *The Missing Middle*. http://www.hks.harvard.edu/centers/cid/programs/entrepreneurial-finance-lab-research-initiative/the-missing-middle. See also African Development Bank. 2011. *The Middle of the Pyramid: Dynamics of the Middle Class in Africa*. Tunis, Tunisia: African Development Bank.

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Africa's Employment Prospects and Challenges in a Competitive World

Benjamin Leo

Sub-Saharan Africa faces a growing competitiveness divergence with East Asian and South Asian economies

By all accounts, sub-Saharan Africa faces a growing employment challenge. Despite the best economic growth decade on record, labour participation rates increased only modestly during the 2000s. This raises profound policy implications for African governments in terms of economic inclusion, social cohesion, and global competitiveness. As African governments seek to expand broad-based employment opportunities over the coming years, they must grapple with several realities. First, population and urbanisation levels are projected to increase significantly over the next few decades. Second, economic structural issues continue to constrain many African economies' ability to boost new employment opportunities – such as continued employment concentration in low productivity agriculture and relatively under-developed manufacturing and services sectors. Third, while select African countries have taken steps to improve their global competitiveness through business and investment climate reforms, sub-Saharan Africa overall remains far behind its peers in other regions. In fact, the region faces a growing competitiveness divergence with East Asian and South Asian economies. Based upon analysis of demographic trends, employment patterns, and business-related impediments, this paper argues that African policymakers must accelerate existing reform efforts focused not only on boosting agricultural productivity and rural livelihoods, but also facilitating higher productivity and increasingly urban-based job opportunities.

Demographic Trends and Forecasts

According to the United Nations, sub-Saharan Africa's population is projected to expand dramatically over the coming decades – reaching nearly 1.8 billion people by 2050.[1] In relative terms, this represents a doubling of current population levels. This is projected to come on top of a four-fold increase in population since 1960. At the same time, sub-Saharan African countries will become increasingly urbanised. In 1950, approximately 11 per cent of African countries' populations lived in urban areas[2] – a figure that has risen to over 37 per cent today and is projected to reach roughly 60 per cent by 2050. Recognising this trend, many African governments have taken steps to boost rural livelihoods and economic opportunities through programmes designed to increase agricultural yields and access to local

Sub-Saharan Africa's population is projected to nearly 1.8 billion people by 2050

and regional markets. While these programmes may slow the pace of urbanisation, they will not stem the tide of a massive urban migration over the coming decades.

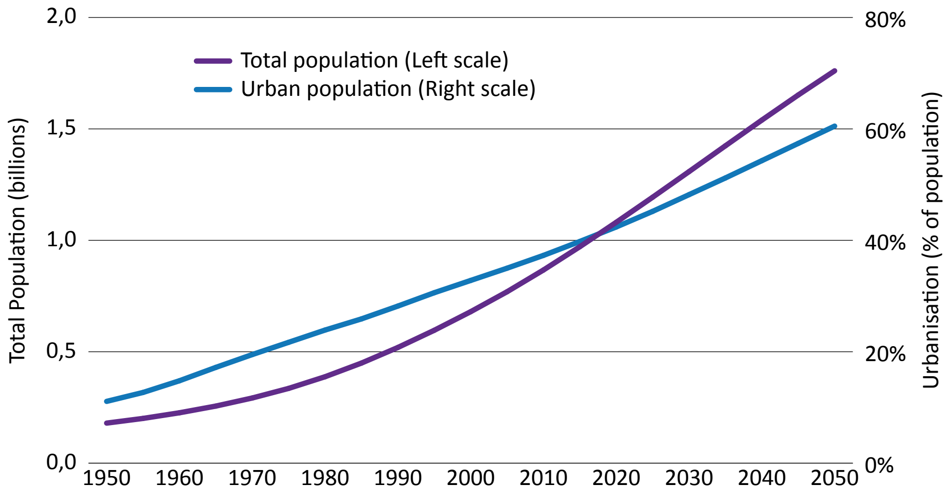

Figure 9: Sub-Saharan Africa Population, 1950–2050
Source: United Nations

At the same time, sub-Saharan Africa will remain a youthful continent. In contrast to other developing regions, Africa's youth population is projected to maintain its current share of roughly 20 per cent of the total population for several decades. In absolute terms, African youth (aged 15–24) will total approximately 220 million by the end of the decade. Despite the recent attention given to youth bulges in India, the Middle East, North Africa, and other regions, their youth population shares are projected to decline steadily over the coming decades (see figure 10 below).[3] Strikingly, there will be twice as many African youth entering the job market over the next five years as their South Asian counterparts – despite the fact that South Asia has a significantly larger total population.

Reform in rural areas will not stem the tide of a massive urban migration over the coming decades

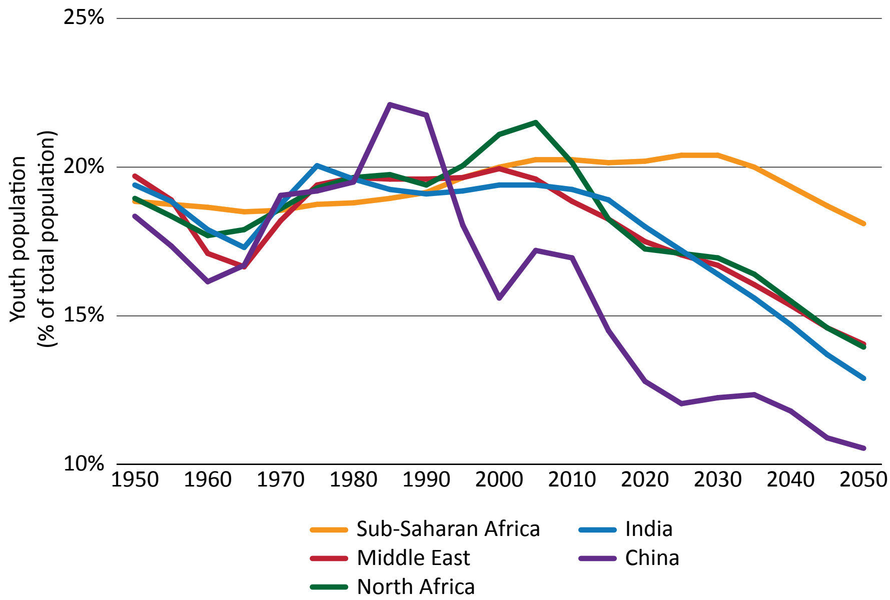

Figure 10: Youth Population as Percentage of Total, Select Regions and Countries
Source: United Nations and author calculations

Taken together, these demographic trends raise serious policy implications for African governments, companies, and other stakeholders. Public and private institutions must take aggressive, comprehensive steps to establish a competitive economic and business climate that will be able to absorb millions of new job market entrants every year. Given the urbanisation trend, this will be particularly important in terms of manufacturing, services, and other urbanised sectors. In addition, governments will face large fiscal burdens related to providing core social services – particularly education – to an ever-expanding youth population. While these demographic trends provide African countries with significant challenges, they also present tremendous opportunities. For example, the recent experiences of China, India, and other emerging countries illustrate that a youthful population can help to accelerate a shift from traditional agricultural subsistence towards large, globally competitive manufacturing and services industries.

African Employment Trends

If African economies will need to create millions of new jobs over the coming decades, it is valuable to first examine their job growth performance over recent periods. Put simply, Africa's performance over the last decade has been very modest

There will be twice as many African youth entering the job market over the next five years as their South Asian counterparts

– despite the region's strongest economic growth decade on record. Average GDP grew by nearly 5 per cent annually – despite lower growth rates in recent years due to the global economic crisis. GDP per capita growth also was strong; although it was offset by significant population growth rates.[4] Despite such strong growth, labour force participation rates remained largely static during the 2000s – increasing by roughly 1 percentage point (from 70 per cent to 71 per cent).[5] At the same time, youth participation rates actually declined slightly over this period (see figure 11 below). Overall, these figures raise profound questions about economic inclusion and the lack of broad-based growth in the region. The next section examines some of the drivers for these lagging labour participation rates.

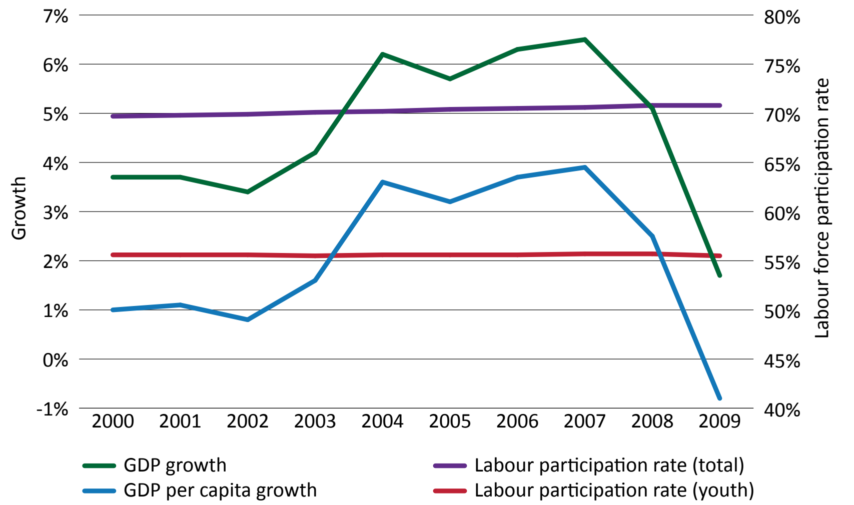

Figure 11: GDP Growth and Labour Participation Rates, 2000–2009
Source: World Bank and International Labour Organisation

African Employment Challenges – Key Drivers

As noted above, job growth in African economies has been sluggish despite impressive economic growth. Going forward, policymakers must focus on establishing an enabling, globally competitive environment for domestic and international companies. Clearly, many governments have already initiated business and investment climate reform agendas. However, many regional economies remain far behind their peers in East Asia, South Asia, and Latin America. As such, existing reform efforts must be accelerated and expanded to not only support local business creation and expansion, but also attract greater levels of foreign direct investment and equity capital. While such efforts must be broad-based, there are several areas that merit particular attention. In this context, the following section examines several structural economic and business climate factors that currently act as headwinds to further economic growth and job creation.

A youthful population can help to accelerate globally competitive manufacturing and services industries

Structural Economic Factors

Lagging Productivity Improvements: Sub-Saharan Africa has lagged behind other regions in terms of improving productivity levels, particularly in comparison to South Asia and East Asia. In fact, regional worker output averages illustrate a growing divergence over time (see figure 12 below), which should be very alarming to African policymakers in the context of a globalised trade and investment economy. By illustration, output per worker in East Asia was 40 per cent higher than their average African counterpart in 2000. Ten years later, their output was over 1.4 times higher (140 per cent). If this trend continues, East Asian output per worker could be *3.75 times* higher by 2020.[6] By comparison, South Asia's output per worker was essentially the same as sub-Saharan Africa in 2000. By 2009, it was about 30 per cent higher. Based on existing trends, it could be roughly 75 per cent higher by 2020.

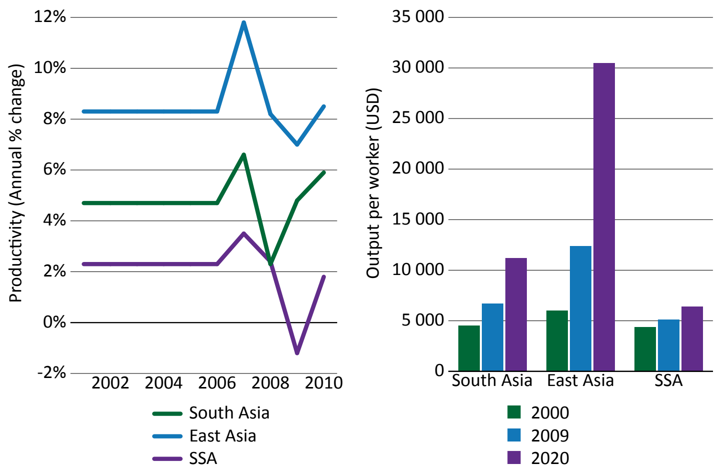

Figure 12: Worker Productivity and Output Levels, Select Regions[7]
Source: International Labour Organisation (2011) and author calculations

Agricultural Sector Labour Concentration: African economies' low productivity improvement levels are driven, at least in part, by their continued dependence upon a low-yield agricultural sector. Since 1990, the agriculture sector's share of total employment has declined only modestly – even in light of the relative population shift towards urban areas.[8] Despite a 9 percentage point shift in urbanisation levels between 1990 and 2009 (from 28 per cent to 37 per cent), agriculture's share of total employment only declined by roughly 3 percentage points (see figure 13

Despite such strong growth, labour force participation rates remained largely static, increasing by roughly 1 percentage point

below).[9] This raises a question as to what happened to the additional 6 per cent of urban residents. Undoubtedly, the imperfect statistics may not fully capture the economic activity of this urban cohort. For example, some of these residents may have maintained farms in rural areas or engaged in subsistence agriculture within urban territories. Alternatively, the differential may be partly explained by non-working age population shifts (i.e., children and elderly). Nonetheless, the available statistical information would suggest that sectors traditionally based in urban areas – such as manufacturing and services – have not expanded at a rate sufficient to incorporate African countries' growing urban population.

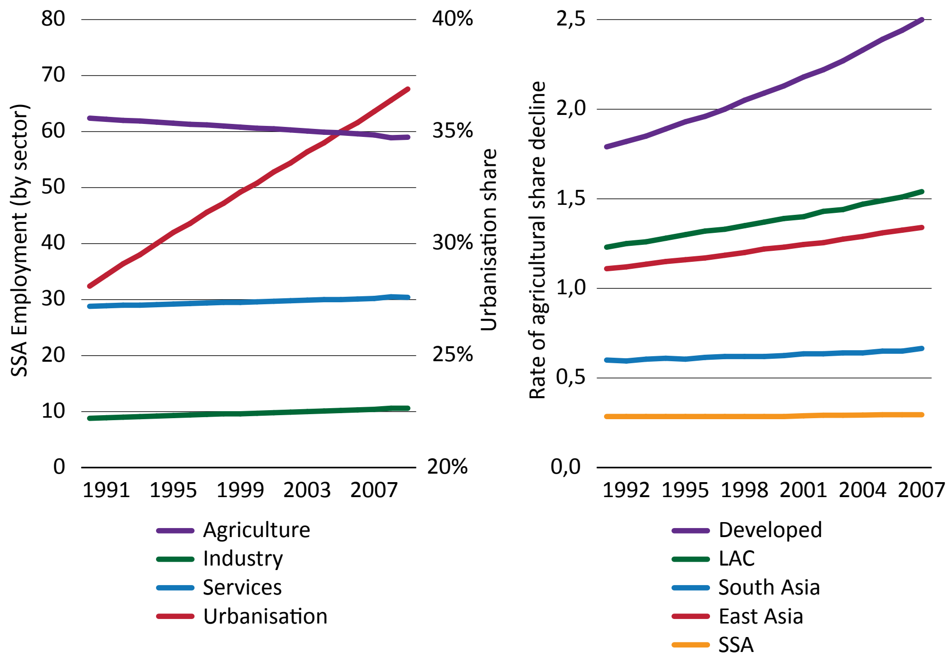

Figure 13: Agricultural Sector Employment Share Trends, Africa and Select Regions
Source: International Labour Organisation (2011) and author calculations

On a relative basis, Africa lags behind all regions in terms of shifting away from dependence on agricultural employment. Based on its current trajectory, it would take sub-Saharan Africa over 300 years to reach an agriculture employment share equivalent to developed countries' level today.[10] Alternatively, it would take 125 years to reach East Asia's share. Perhaps most striking, it would take 31 years to reach South Asia's agriculture employment share – despite the two regions' economic similarities and challenges.[11] This lagging experience illustrates the need for African policymakers to pursue two parallel tracks: improving agriculture

Output per worker in East Asia was 40 per cent higher than their average African counterpart in 2000

productivity levels while simultaneously establishing an enabling environment for a robust expansion in non-agricultural sectors, such as manufacturing and services.

Capital-Intensive Industry Concentration: While the policy imperative for facilitating non-agricultural employment opportunities is clear, African countries' experience with extractive industries provides a cautionary note. Many regional countries remain dependent upon capital-intensive sectors for a sizable share of national economic output. At the same time, these sectors account for only a modest share of existing employment or job creation potential. For example, the ratio between GDP share and the employment share for Nigeria's extractive sector is 20 to 1 (see figure 14 below).[12] It is roughly 5 to 1 in South Africa and about 7 to 1 in Zambia.[13] In contrast, the manufacturing sector typically is fairly balanced across the region in terms of the relative share of GDP and employment. However, most African economies – with South Africa as a notable exception – have quite small manufacturing sectors. In contrast, the agricultural sector accounts for a disproportionate share of employment compared to national economic output – further illustrating its low-return, low-productivity levels across the continent.

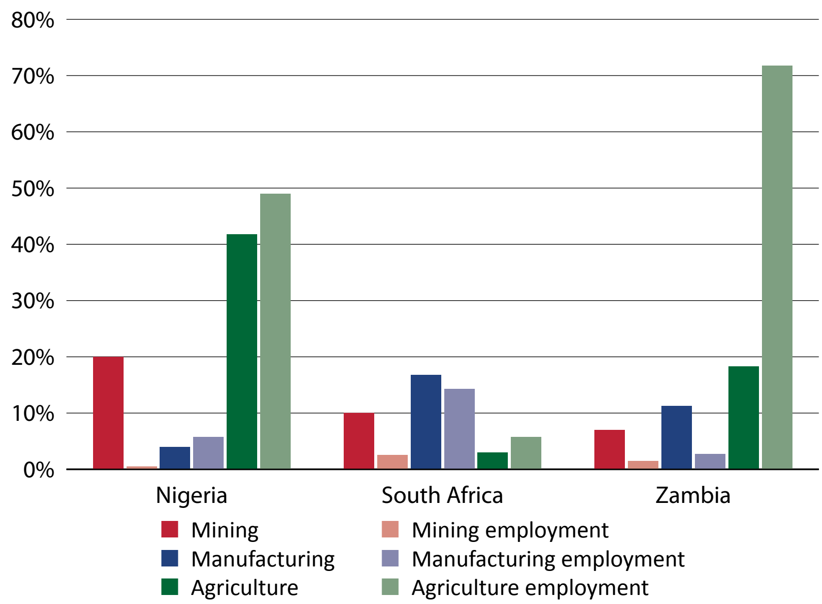

Figure 14: GDP Share vs. Employment, by Sector
Source: Bank of Nigeria, Bank of Zambia, Reserve Bank of South Africa, and International Labour Organisation

Missing Middle: There is a rich, diverse literature examining the bias in low-income countries towards both very small, informal enterprises and large, formal companies.[14] These studies find that mid-sized companies – employing between 5 and

African economies' low productivity improvement levels are driven by dependence upon a low-yield agricultural sector

500 employees – are typically under-represented both in terms of the number of firms and their share of total employment. This lack of mid-sized companies in developing countries is often referred to as the 'missing middle'. While there are many explanatory factors for this common phenomena, several noteworthy drivers include: (1) high regulatory burdens and costs; (2) weak property rights; and (3) lack of access to operating and expansion capital.[15] Several of these factors are explored in greater detail in the next section.

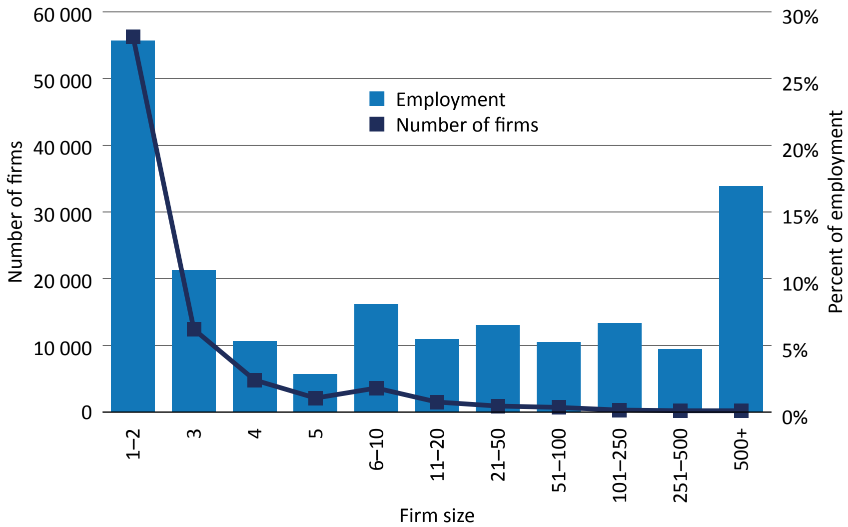

Figure 15: Firm Size and Employment Share, Tanzania (2006)
Source: Fox (2011)

Business and Investment Climate Factors

There are a range of business and investment climate factors that impede many African countries' ability to maximise their economic growth and job creation potential. This study does not attempt to provide an exhaustive assessment of them. Instead, it focuses on a few select areas that are illustrative of broader trends and challenges. These include: (1) *Ease of Doing Business* rankings; (2) investment policies (e.g., bilateral investment treaties); (3) access to reliable electricity; (4) access to finance; (5) tax policies; and (6) trading across borders.

Ease of Doing Business Rankings: As noted previously, several African governments have taken concrete steps to improve their business environments for domestic and international firms over recent years. For example, according to the International Finance Corporation (IFC) *Doing Business 2011* report,[16] Rwanda ranked 9th in the world in terms of the ease of starting a new business. Moreover, its ranking on the 'getting credit' indicator improved 29 places (from 61st in 2010

It would take sub-Saharan Africa over 300 years to reach an agriculture employment share equivalent to that of developed countries

to 32nd in 2011). Other African countries that implemented widespread business climate reforms last year include: Ghana, Mozambique, Swaziland, Uganda, and Zambia.[17] Despite marked improvements in the aforementioned countries, sub-Saharan Africa overall remains far behind other regions. By illustration, two-thirds of low-income African countries score in the bottom quartile of the *Ease of Doing Business* rankings. In fact, many African countries – including most of the larger economies – actually declined in the rankings last year.[18] Overall, African countries with declining rankings account for nearly three-quarters of regional GDP (see appendix I on page 77 for details). This illustrates the pressing need for African governments to not only take aggressive action to significantly improve their business climates, but to do so at a faster pace than other countries. In lieu of this, sub-Saharan Africa will face continuing divergence with other regions – thereby further harming its economies' relative competitiveness in the global economy.

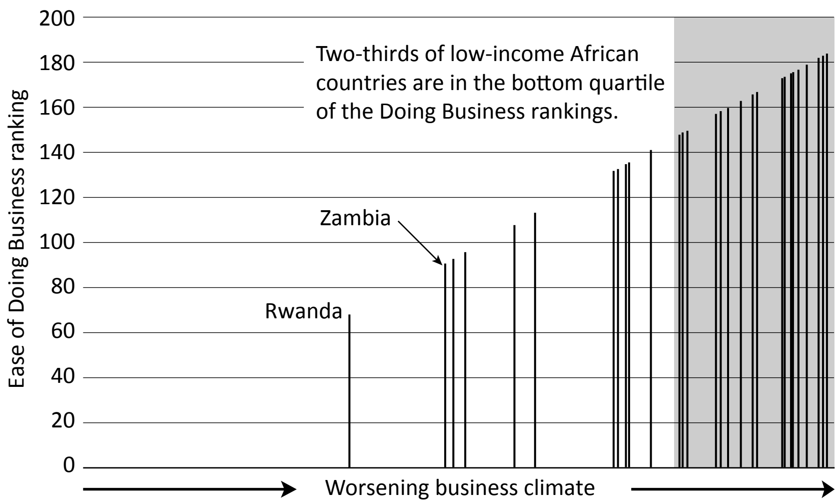

Figure 16: Ease of Doing Business Rankings, Low-Income African Countries
Source: Center for Global Development (2010)

Bilateral Investment Treaties: In addition to pursuing aggressive business climate reforms, there are other policy tools for attracting foreign (and mobilising domestic) investment. Bilateral investment treaties (BITs) are one potential tool. While individual BITs may vary in scope and coverage, they typically provide foreign investors with a range of core protections and rights – such as protection against government expropriation (and fair, timely compensation if it occurs), ability to freely transfer capital and investment proceeds, access to international arbitration in the event of a dispute, and the right to appoint senior management of their choosing. At a minimum, BITs provide a signaling effect about governments' commitment to protect and promote foreign investment.[19] Arguably, BITs have the greatest impact in countries with higher political risk and/or weak legal systems – conditions which can be found in many sub-Saharan African countries.

Rwanda ranked 9th in the world in terms of the ease of starting a new business

On a relative basis, African countries have pursued BITs far less frequently than other developing countries. By illustration, Asian Tigers have ratified nearly 270 BITs over time – including almost 150 with developed countries.[20] Between 1990 and 2008, these seven Asian countries completed an average of 16 BITs per year (more than two per country). In contrast, the 48 sub-Saharan African countries ratified only 13 BITs per year during this same time period – equivalent to 0.27 BITs per country. As BIT negotiations require only a small team of capable staff to complete, they present a low-cost approach to mobilising investment.[21]

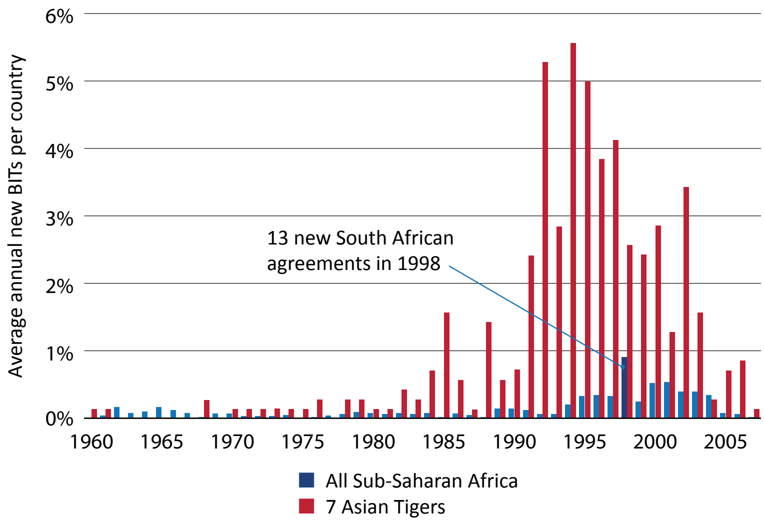

Figure 17: Bilateral Investment Treaties, 1960–2008

Reliable Electricity Access: In the context of supporting non-agricultural sector growth and jobs, access to reliable electricity is a critical issue for the region. Recent research drawing upon World Bank business enterprise surveys[22] finds that electricity access remains a major constraint to firm activity in most African economies.[23] More specifically, the majority of business respondents cited electricity as a 'major constraint' in over two-thirds of African countries.[24] Interestingly, this study finds that these concerns, on average, are most acute in countries with lower income per capita levels. While efforts are underway to address this obstacle to business growth, these survey results suggest that African policymakers should re-double or accelerate capital investment and regulatory reforms in this area.

BITs provide a signalling effect of governments' commitment to promote foreign investment

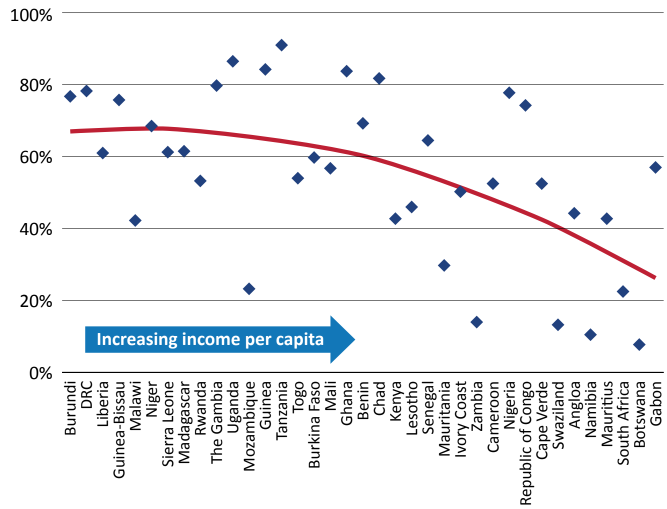

Figure 18: Share of African Firms Citing Electricity Access as a 'Major Constraint'
Source: Ramachandran (2011)

Access to Finance: Ramachandran (2011) also finds that access to finance is a 'major constraint' to business activity in many African countries. According to World Bank business enterprise surveys, the majority of business respondents cited access to finance as a 'major constraint' in over 40 per cent of African countries.[25] As with electricity access, this study finds that these concerns, on average, are more acute in countries with lower income per capita levels.

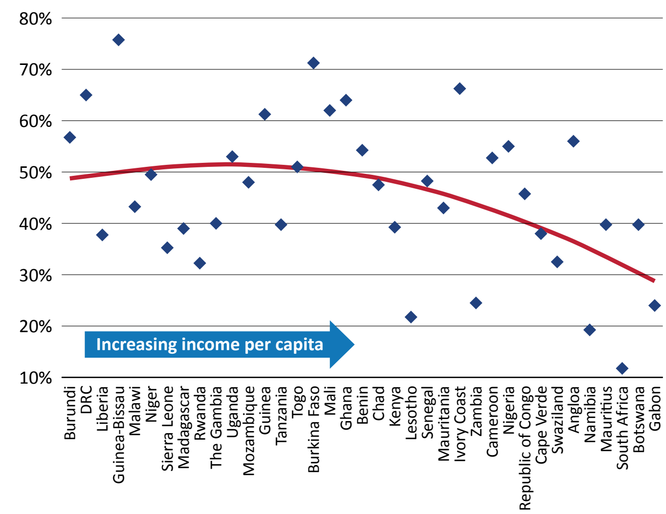

Figure 19: Share of African Firms Citing Access to Finance as a 'Major Constraint'
Source: Ramachandran (2011)

Business respondents cited electricity as a 'major constraint' in over two-thirds of African countries

Taxation Rates: Taxation rates appear to be yet another 'major constraint' to business activity in many African countries. The majority of business respondents cited tax rates as a concern in nearly one-quarter of African countries.[26] For example, nearly 60 per cent of Kenyan and Ugandan businesses surveyed cited this as a 'major constraint'. As with electricity access, this study finds that these concerns, on average, are more acute in countries with lower income per capita levels.

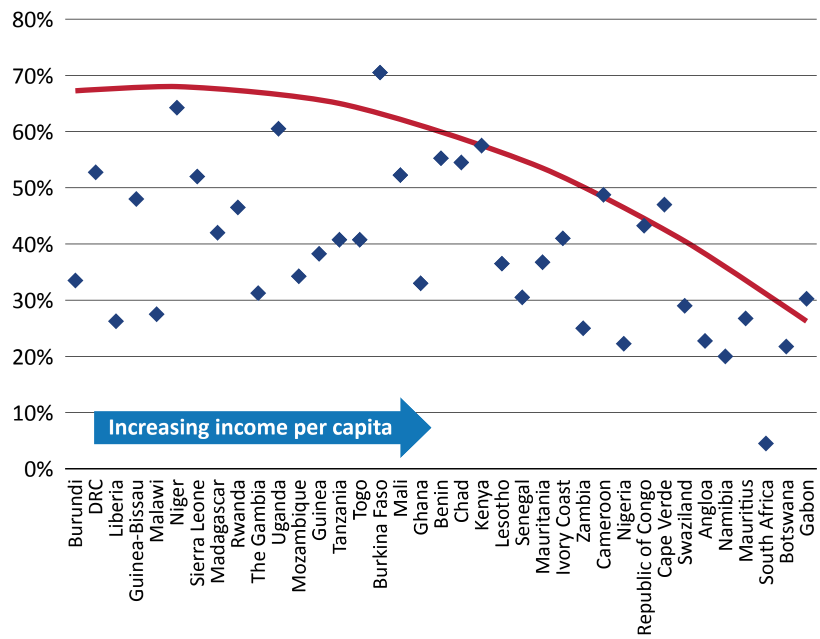

Figure 20: Share of African Firms Citing Taxation Rates as a 'Major Constraint'
Source: Ramachandran (2011)

Trading Across Borders: The cost and time requirements associated with trading across borders also remains a significant impediment for many African countries. On average, it costs nearly $2 000 to export a container of goods from the region (see figure 21 below).[27] Clearly, these figures vary according to whether individual economies are landlocked or have direct port access. For example, Zambia faces average costs of nearly $2 700 per container – or nearly three times as expensive as the average OECD country. By comparison, it costs roughly $1 100 to ship a container from Mozambique and Senegal – roughly equivalent to OECD countries. While many governments cannot directly control the total time or costs involved with exporting goods and services, they can influence regulatory requirements and transport costs within their own borders. For example, landlocked African countries require, on average, 8 different documents before a good can be exported – nearly twice as many that OECD countries require. As such, individual governments can take concrete steps to streamline domestic processes and costs while regional integration and transport corridor projects continue over the coming years.

Landlocked African countries require, on average, 8 different documents before a good can be exported

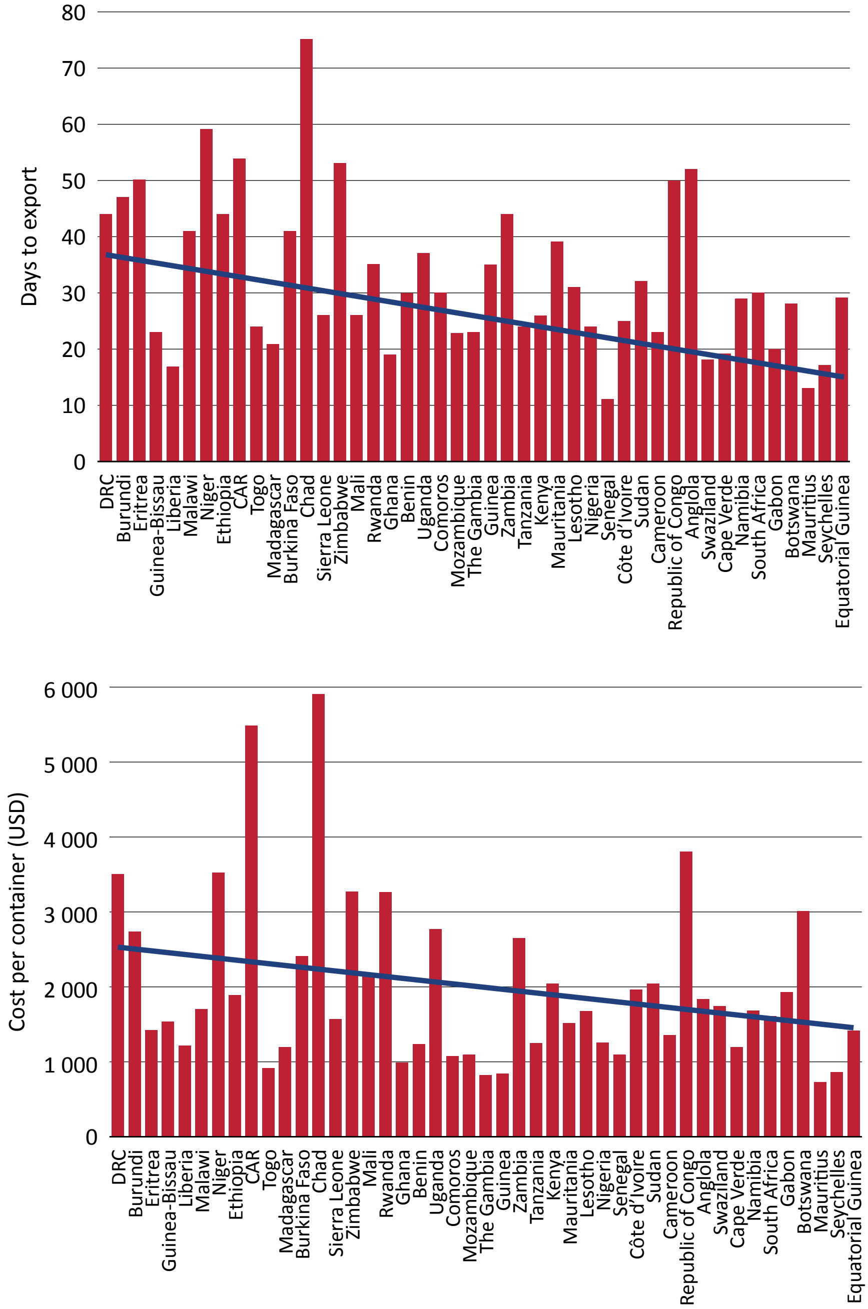

Figure 21: Trading Across Borders, Select Measures
Source: IFC (2011)

Mozambique has one of the highest severance payment requirements in the world at an average of 13 weeks

Labour Regulations: Lastly, excessive restrictions on the ability to hire and fire workers can act as yet another constraint on African firms' ability to operate and expand. For example, employers will be reluctant to hire new staff if their peripheral expenses (e.g., benefits) are high or if they will not be able to fire them in the event of non-performance or an economic downturn. As a result, governments' intentions of protecting the labour force, if applied incorrectly, can actually translate into a capturing of benefits for existing workers at the expense of those individuals actively seeking new, or better, employment. In terms of firing costs, the average African country requires that employers provide nearly one month of severance pay for a dismissed worker with only nine months of tenure – roughly three times more than the average OECD country.[28] Mozambique has one of the highest severance payment requirements in the world – requiring an average severance of 13 weeks for an employee that has been on the job for only 36 weeks total.[29] This places it in the company of highly labour restrictive economies such as: Greece, Portugal, Belarus, and the Central African Republic. Moreover, 13 sub-Saharan African countries require approval by a third party before an employee may be dismissed.[30]

Conclusion

While this paper primarily focuses on binding obstacles and constraints to greater employment creation and economic growth in sub-Saharan Africa, we also must recognise that substantial efforts are currently underway to address them. Overall, African economies have expanded rapidly over the past decade – and are expected to continue on a similar trajectory. The regional macroeconomic outlook also remains largely promising over the near- and medium-term. Nonetheless, population and urbanisation shifts over the coming decades will necessitate a further acceleration of existing reform efforts. In this context, African policymakers must place greater focus on facilitating higher productivity, and increasingly urban-based job opportunities. Clearly, this does not mean that governments should halt programmes designed to boost agricultural productivity and economic opportunities in rural areas. Instead, urbanisation and demographic trends will necessitate a two-track approach. This will require a range of reinforcing actions, such as:

- Targeting manufacturing and industry (and services) sectors;
- Establishing robust, competitiveness strategies that focus on capturing opportunities from East or South Asian nations;
- Improving utilisation of preferential trade access (AGOA, EBA) to large, developed markets; and

- Accelerating regulatory improvements (business and investment climate reforms).

Urbanisation and demographic trends will necessitate a two-track approach

Endnotes

1 United Nations (2011), Department of Economic and Social Affairs, Population Division.

2 *Ibid*

3 *Ibid*

4 Regional population growth rates averaged 2.6 per cent between 2000 and 2010. Source: World Bank, *World Development Indicators*.

5 Source: International Labour Organisation (2011), *Global Employment Trends 2011*.

6 This assumes that average productivity improvements between 2000 and 2009 would continue through 2020.

7 Productivity changes for 2001-2006 (left-hand figure) represent an annualised, average percentage change.

8 According to the ILO, the share of sub-Saharan African agriculture sector employment declined from 62.4 per cent in 1990 to 59 per cent in 2009.

9 Source: International Labour Organisation (2011), *Global Employment Trends 2011*.

10 This figure is based on the following figures and assumptions: (1) Sub-Saharan Africa agriculture employment share of 59 per cent in 2009; (2) OECD agriculture employment share of 3.7 per cent in 2009; (3) long-term sub-Saharan Africa annualised shift away from agriculture of -0.18 per cent (based regional performance between 1990 and 2009). Based on these assumptions, it would take sub-Saharan Africa 313 years to reach a level commensurate with OECD countries – assuming that these latter countries' employment shares remained static going forward.

11 In 1990, South Asia and sub-Saharan Africa had nearly equal agriculture employment shares (60 per cent and 62 per cent, respectively).

12 Source: Bank of Nigeria and International Labour Organisation. For additional details, see http://www.cenbank.org/documents/Statbulletin.asp and http://laborsta.ilo.org/.

13 Source: Bank of Zambia (http://www.boz.zm/(S(ibgzpp5554wrrv455bj4m1b4))/reports/CountryStatistics.aspx), and Reserve Bank of South Africa (http://www.resbank.co.za/Publications/Pages/Publications-Home.aspx).

14 For example, see Louise Fox (2011), *Why is the Informal Normal in Low Income Sub-Saharan Africa*, World Bank.

15 For example, see International Finance Corporation (2011), *Doing Business 2011: Making a Difference for Entrepreneurs*.

16 The IFC's *Ease of Doing Business* ranking measures countries' performance in nine areas, including: (1) starting a business; (2) dealing with construction permits; (3) registering property; (4) getting credit; (5) protecting investors; (6) paying taxes; (7) trading across borders; (8) enforcing contracts; and (9) closing a business. For additional details, see www.doingbusiness.org.

17 Ghana (from 77th place in 2010 to 67th in 2011); Mozambique (from 130th place to 126th); Rwanda (from 70th place in 2010 to 58th in 2011); Swaziland (from 126th place in 2010 to 118th in 2011); Uganda (from 129th place in 2010 to 122nd in 2011); and Zambia (from 84th place in 2010 to 76th in 2011).

18 This includes: (1) Botswana (from 50th place to 52nd); (2) Cote d'Ivoire (168th place to 169th); (3) Ethiopia (from 103rd place to 104th); (4) Kenya (from 94th place to 98th); (5) Liberia (from 152nd place to 155th); (6) Nigeria (from 134th place to 137th); (7) Senegal (from 151st place to 152nd); (8) Tanzania (from 125th place to 128th); and (9) South Africa (from 32nd place to 34th).

19 The literature is somewhat mixed on the causal relationship between BITs and foreign investment flows. While many recent studies find a statistically-significant effect, several other analyses do not. For additional details, see Benjamin Leo, "Where Are the BITs? How U.S. Bilateral Investment Treaties with Africa Can Promote Development". Center for Global Development Essay, 2010. http://www.cgdev.org/content/publications/detail/1424333

20 Source: ICSID (http://icsid.worldbank.org). In this comparison, Asian Tigers include: China, India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

21 Of course, BITs may entail other forms of costs – particularly the potential for political opposition by entrenched interests.

22 All data on actual constraints to business growth (as reported by individual firms) are derived from the World Bank Group's Enterprise Surveys. See http://enterprisesurveys.org for more information.

23 Ramachandran (2011), forthcoming.

24 Ramachandran (2011) finds that over 50 per cent of respondents cite electricity as a 'major constraint' in 25 out of 37 sub-Saharan African countries with World Bank business enterprise surveys. On this measure, only 14 per cent of Zambian firms, and 23 percent of Mozambican firms, cite access to reliable electricity as a 'major constraint'. As such, this presents a concrete opportunity for both countries to target efforts at energy-dependent sectors, such as manufacturing.

25 Ramachandran (2011) finds that over 50 per cent of respondents cite access to finance as a 'major constraint' in 15 out of 37 Sub-Saharan African countries with World Bank business enterprise surveys. On this measure, 24 per cent of Zambian firms, and 48 per cent of Mozambican firms, cite access to finance as a 'major constraint'.

26 Ramachandran (2011) finds that over 50 per cent of respondents cite tax rates as a 'major constraint' in 9 out of 37 Sub-Saharan African countries with World Bank business enterprise surveys. On this measure, 25 per cent of Zambian firms, and 34 per cent of Mozambican firms, cite tax rates as a 'major constraint'.

27 Source: www.doingbusiness.org.

28 Source: IFC (2011), *Doing Business 2011: Making a Difference for Entrepreneurs*.

29 With a requirement of 8.7 weeks' worth of severance, Zambia also significantly exceeds global averages.

30 These include: Angola, Cameroon, Cape Verde, Congo-DRC, Congo-Brazzaville, Equatorial Guinea, Gabon, Ghana, Guinea-Bissau, São Tomé and Principe, Sudan, Tanzania, and Zimbabwe. Source: IFC (2011), *Doing Business 2011: Making a Difference for Entrepreneurs*.

Appendix 1: International Scan of Employment Interventions

Intervention	Country	Projects/Sectors	Target	Reach	Advantages	Challenges
Public Works						
Expanded Public Works Programme (EPWP)	South Africa	Infrastructure, environmental & social sectors	Unskilled and semi-skilled workers	5 000 000 jobs	Skills transfer to previously marginalised people	Temporary, generally low-wage employment
Public Works (AGETIP)	Senegal	Public-private partnerships (PPPs)	Unemployed youth	Replicated in 10 countries	Training & placement for future employment; # engineering firms more than tripled in first 7 years	
Public Works Programme (PWP)	Ghana	Reforestation & urban sanitation	Laid-off urban workers	± 10 000 jobs	Relieve effects of public sector lay-off	
TIPS Community Works	South Africa	'Useful work' incl. home-based care, environmental services &the creation and maintenance of community assets e.g. schools & clinics.	Unemployed men and women of working age	Over 55 582 jobs	Supplements people's existing livelihood strategies and offers a basic level of income security	Highly insecure funding environment + administrative lags
Feeder Roads Program (FRP)	Mozambique	Building and repair of 'feeder roads' & war-damaged roads	Poor rural communities & women	40 000 jobs	Highly scalable; extensive training	Violent disruptions
Youth, Employment, and Skills Project	Liberia	Health and other social services, Public Administration, Law, and Justice, Education (Vocational training)	Vulnerable youth	+45 000 temp jobs in 15 counties	Labour-intensive and offers skills development	Low capacity for labour-market integration beyond public works; may be gender biased
Skills/Vocational Training						
Adolescent Girl Initiative	Liberia	Skills training	Women aged 15–24	Expanded to 6 countries	Skills matched with market needs; use of incentives; Feedback mechanism for skills need; promotion of competition	Cultural gender asymmetry
Jua Kali Voucher Programme	Kenya	Training in sector/industry of choice	Unemployed youth	37 000 vouchers		High initial costs; difficult to scale-up
Apprenticeship Programme	Nigeria	Trades & crafts, agric, business, & catering.	Unskilled youth			Cultural rigidities

Intervention	Country	Projects/Sectors	Target	Reach	Advantages	Challenges
Midvaal Youth Leadership Programme	South Africa	Leadership, computer and business skills	Unemployed matriculants	Unknown yet	Combines business capabilities with complementary and necessary life skills	Unknown yet but programme is constrained to local municipality
Chile Joven	Chile	Employer-side subsidy for training + transportation subsidy for employees	Workers aged 18–24		Likelihood of continued employment post-training	High cost
Hospitality Training Programmes	India	Hospitality industry	Unemployed youth		Stipend paid to youth attending 90 per cent of the course	High cost; risk of demotivation once stipend is withdrawn
Enterprise Development						
Industrial Development Centres	Nigeria	Entrepreneurship training	Private small-scale industries; youth	20 centres; (# trainees unknown)	Catalyst for technological innovation/advance	Dependent on mentoring; social & financial network/ support
Youth Dairy Farm Project	Uganda	Management of husbandry and farm products	Rural youth and villagers	3 600	Increased sales of farming products	
Silatech	Qatar, Morocco & others, Middle East	Enterprise development and entrepreneurship	'100 million youth'		Career counselling, candidate assessments, job-readiness and soft skills training, job placement and internship development,	
Youth entrepreneurship training	Peru	Youth entrepreneurship training	Unemployed youth		High employment potential; flexible and encourages independence	Risk of displacement, high failure rate; difficult for disadvantaged youths without networks, experience or collateral
Microfinance						
FINCA	Tanzania	Lending	Lowest-income entrepreneurs	60 per cent of the country	Permeability/ scalability	Lack of stability and social networks
Kenya Women Finance Trust	Kenya	Cheap credit to start businesses	Low-income female earners	More than 100 000	Product development based on clients' needs	
CETZAM	Zambia	Grant-sourced loans	Low-income micro entrepreneurs	20 000 clients at its peak	Training component for clients; linkages with large business networks	Problems with expansion; regulatory constraints

Intervention	Country	Projects/Sectors	Target	Reach	Advantages	Challenges
YouthWorks Inc.	Philippines	Credit to entrepreneurs using ICT for development	Aspiring underprivileged youth		Expands business choices; run by youth who have access to/insight into target market	Significant resources needed to start up microfinance programmes
Comprehensive, multi-service approach						
PCY	Uganda	Counselling; entrepreneurship; skills development	Children / youth		Integrated, multi-service to meet varied needs	State, institutional and fiscal capacity (multi-component programmes are often costly and complex
Swiss-SA Cooperation Initiative	South Africa	Vocational training alongside other life skills	Historically-disadvantaged youth			
ILO Decent Work Country Programme	Jordan, amongst others	Training, employment through private sector support & income subsidies in sectors with high labour intensity	Unemployed youth		After-training employment for at least one year; monthly rewards + benefits.	
Technoserve	Various, East Africa	Enterprise development, teaching entrepreneurship, training, mentorship etc.	Proposed project: rural youth, aged 18–30	Proposed project aims to train/ mentor 15 000	Improves productive economic engagement + increased income + empowerment to live independently	

Appendix 2: Ease of Doing Business Ranking, Sub-Saharan African Economies

Doing Business Ranking					
Country	2010	2011	Δ	GDP (USD Billions)	SSA GDP Share
Angola	164	163	1	75.49	7.9%
Benin	172	170	2	6.66	0.7%
Botswana	50	52	–2	11.82	1.2%
Burkina Faso	154	151	3	8.14	0.9%
Burundi	181	181	0	1.33	0.1%
Cameroon	173	168	5	22.19	2.3%
Cape Verde	142	132	10	1.55	0.2%
Central African Republic	182	182	0	2.01	0.2%
Chad	183	183	0	6.84	0.7%
Comorros	159	159	0	0.54	0.1%
Congo, Dem. Rep.	179	175	4	10.58	1.1%
Congo, Rep.	177	177	0	9.58	1.0%
Côte d’Ivoire	168	169	–1	23.3	2.5%
Equatorial Guinea	161	164	–3	10.41	1.1%
Eritrea	180	180	0	1.87	0.2%
Ethiopia	103	104	–1	28.53	3.0%
Gabon	158	156	2	11.06	1.2%
Gambia, The	141	146	–5	0.73	0.1%
Ghana	77	67	10	26.17	2.8%
Guinea	178	179	–1	4.1	0.4%
Guinea-Bissau	175	176	–1	0.84	0.1%
Kenya	94	98	–4	29.38	3.1%
Lesotho	137	138	–1	1.58	0.2%
Liberia	152	155	–3	0.88	0.1%
Madagascar	138	140	–2	8.59	0.9%
Malawi	132	133	–1	4.73	0.5%
Mali	155	153	2	9	0.9%
Mauritania	167	165	2	3.02	0.3%
Mauritius	20	20	0	8.59	0.9%
Mozambique	130	126	4	9.79	1.0%
Namibia	68	69	–1	9.26	1.0%

Doing Business Ranking					
Country	**2010**	**2011**	**Δ**	**GDP (USD Billions)**	**SSA GDP Share**
Niger	171	173	–2	5.38	0.6%
Nigeria	134	137	–3	173	18.2%
Rwanda	70	58	12	5.22	0.5%
São Tomé and Principe	176	178	–2	0.19	0.0%
Senegal	151	152	–1	12.82	1.4%
Seychelles	92	95	–3	0.76	0.1%
Sierra Leone	143	143	0	1.94	0.2%
South Africa	32	34	–2	285.37	30.1%
Sudan	153	154	–1	53.68	5.8%
Swaziland	126	118	8	3	0.3%
Tanzania	125	128	–3	21.37	2.3%
Togo	162	160	2	2.85	0.3%
Uganda	129	122	7	16.04	1.7%
Zambia	84	76	8	12.81	1.3%
Zimbabwe	156	157	–1	5.63	0.6%
				949.62	100%

Category	**Total**	**SSA GDP Share**
No change	8	3%
Positive Change	16	24%
Negative Change	22	73%
TOTAL	46	100%

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