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Promoting high-level sustainable growth to reduce unemployment in Africa

Commodity-driven growth fails to lower unemployment and poverty rates

Africa achieved relatively high growth rates in the first decade of the 21st century. This growth was generally shared across the continent with several countries experiencing growth rates that exceeded their population growth rates, thus leading to increases in per capita income. This rapid growth rate was generally underpinned by increased investment financed by high commodity prices, resource extraction, foreign direct investment (FDI), and inflows of other foreign resources, as well as macroeconomic stability and better economic management. This rapid growth episode was however, not accompanied by meaningful growth in employment. Unemployment rates were estimated to have risen from 7.4 per cent to 8.2 per cent between 1998 and 2009 in Sub-Saharan Africa (SSA) and from 12.8 per cent to over 13 per cent in North Africa (NA) over the same period. As a result of high unemployment and the fact that even those that are employed struggle to find decent work in the formal sector, poverty rates remained chronically high in Africa over the last three decades.

In sub-Saharan Africa, the share of people in vulnerable employment situations (either as unpaid contributing family workers or as self-employed workers) is still above 70 per cent, while the share of people in wage and salaried employment is about a quarter of all those employed. The situation is worse for women, 84.4 per cent of whom are in vulnerable employment. The picture does not look much brighter for men: only 3 out of 10 have wage or salaried employment. The only difference is that, compared to women, men are unlikely to be entrapped as unpaid family workers with no income at all. The female share in this group is 34.7 per cent, compared to 18.4 per cent for men.

Africa's high and growing unemployment rates stem from both supply and demand sources, including rapidly growing labour supply owing to high population growth rates, increased labour participation and slow growth in labour demand as economic growth has been both insufficient and dependent on capital-intensive enclave sectors with low employment elasticity. The population of Africa remains the world's fastest-growing and most youthful. Young people make up 40 per cent of Africa's working-age population, and they have the highest unemployment rates at 12 per cent in SSA and 20 per cent in NA. Meanwhile, poverty in Africa is substantially higher and more highly feminized than in other developing regions. The share of the population living below the US$ 1.25-a-day threshold is as high today, at 50 per cent, as it was in the 1980s.

High and rising unemployment does not only make it difficult to reduce poverty rates, it also reduces the pace of economic growth as important resources are not put to work. In addition, high unemployment rates discourage investment in human capital and lead to skill loss. Another important reason why Africa should worry about high unemployment rates, especially among the youth, is social stability. Frustration caused by persistent unemployment and lack of opportunities is likely to gravitate the youth towards a charismatic and opportunistic social revolutionary who could blame the current structure of society for the problems faced by youths. The Arab Spring illustrates the social consequences of high levels of unemployment and the potential for political instability linked to youth unemployment.

This policy brief draws on the Economic Report on Africa 2010 and examines the issue of reducing high unemployment rate through the promotion of high-level sustainable growth. Special attention is paid to reducing unemployment among vulnerable groups, including women, youth, and the disabled. It stresses structural transformation through appropriate macroeconomic policies and focuses on both short-term countercyclical policies and long-term strategies.

Why Africa's growth is unaccompanied by employment

The major drivers of African economic growth in the last two decades have been increased accumulation financed from both internal and external sources, human capital, and to some extent stable macroeconomic and political environments as well as improved economic management. But the sectors that drove economic growth are generally small resource-extractive sectors which are subject to extreme volatility caused by changes in world commodity markets, and have low employment elasticities.

The growth of employment in an economy depends on the sectoral composition of employment, sectoral growth rates and the output elasticities of employment in the various sectors. The implication is that employment growth in an economy depends on the aggregate growth rate as well as the sectoral composition of aggregate growth. To accelerate the growth of employment in an economy, large sectors with high employment elasticities should be the engines of growth. In effect, structural transformation is necessary for rapid and sustained employment growth.

While African economies generally grew at slightly less than the 7 per cent necessary to meet the MDGs, a major part of the inability to generate employment could be attributed to the sectoral composition of output growth. The major source of economic growth in Africa has been the growth of natural resource-extraction sectors, which by their nature are capital-intensive and, with a few exceptions, have limited linkages to the domestic African economies. Value added in the mining sector, which employs less than 10 per cent of the labour force, grew at over 10 per cent per year, while agriculture, manufacturing and services with combined employment of over 80 per cent of the labour force grew at less than 2.5 per cent annually in the last two decades. The combination of small size and low employment elasticities implies that growth based on rapid expansion of the mining sector will not generate high-employment growth. In turn, this suggests that a broad-based employment strategy will not only have to rely on higher aggregate growth but must also pay attention to its sectoral composition.

Agriculture employs about half of the African labour force (refer to table 1). While agriculture's share of GDP decreased from 27.4 to 23.8 per cent during the last decade, the share of mining rose by a similar percentage, shifting the structure of GDP from one primary activity to another. This experience contrasts sharply with that in fast-growing developing countries, where the structure of the economy has shifted towards the manufacturing sector. While this

Table 1: Sectoral share in employment, world and Africa (%)

	1998	2003	2004	2005	2006	2007	2008
Agriculture							
World	40.8	38.7	37.5	36.5	35.5	34.4	33.5
North Africa	35.9	34.7	35.3	34.5	33.8	33.1	32.4
Sub-Saharan Africa	67.6	65.4	64.4	64.0	63.4	62.5	61.7
Industry							
World	21.1	20.7	21.1	21.5	22.1	22.7	23.2
North Africa	20.0	19.2	19.7	20.8	21.7	22.7	23.7
Sub-Saharan Africa	9.5	9.5	9.7	9.7	9.9	10.1	10.3
Services							
World	38.1	40.7	41.5	41.9	42.4	42.9	43.3
North Africa	44.1	46.1	45.1	44.8	44.5	44.2	43.9
Sub-Saharan Africa	22.9	25.1	25.9	26.3	26.7	27.4	28.0

Source: Global Employment Trends, International Labour Organization, 2009.

lack of structural change may have positive growth effects in the short run, such dynamics may not provide the foundations needed for a more diversified and dynamic economy. Mineral and other natural resources are exhaustible, and commodity prices tend to be highly volatile, thus introducing an element of uncertainty into the growth trajectory. Africa's high rate of unemployment suggests also severe underutilization of productive resources, and therefore economic growth in Africa can be increased by increasing the employment rate.

Policy implications: promoting high sustainable and employment-intensive growth

Generating rapid employment growth will require rapid economic growth rates above those achieved in the last decade as well as structural shift of the growth driving sectors of the economy away from low labor intensive sectors to large and expanding high labor intensive sectors. In this regard, agro industry, labor intensive manufacturing, and services, especially service exports are sectors to be explored and expanded. This structural transformation will not only decrease the boom and bust episodes tied to volatility of international commodity prices that have characterized economic performance in Africa, it will allow African countries to pursue effective economic policies that are not dictated by what happens elsewhere. In addition, employment policy should pay special attention to increasing productivity and incomes of the informal sector by virtue of its size and contribution to employment.

In this regard, African countries can pursue several short term and long term policies. In the short term, African countries can pursue expansionary counter-cyclical fiscal and monetary policies that focus on expanding infrastructural investment, and human capital formation. These investments should, however, focus on labor intensive activities and employment should target vulnerable groups. Given the slack in resource use and because of prudent fiscal policies in the past, several African countries have the fiscal space to engage in expansionary policies without destabilizing the macroeconomic environment. In addition to fiscal expenditures in these areas, African countries could use the provision of social services, such as education, health, water and sanitation as mechanisms for job creation in the short run.

Long term policies will involve structural transformation that can be achieved mainly by investing the rents from commodity exports in labor intensive non-resource sectors to expand output and increase productivity in these sectors; making resources (e.g. financing) available to priority sectors at reasonable rates or in an expeditious way; aggressive efforts to attract FDI in non-resource extraction sectors, especially in the areas of service exports, agro-industry, and "green" industries, such as renewable energy where Africa may have a comparative advantage, and creating an enabling environment for the private sector to invest and create jobs. In addition, given the small sizes of individual African economies, rapid growth and job creation may depend on how much African countries have access to international markets as well as the speed of regional integration and efforts to promote intra-Africa trade.

Labour market reforms should also be part of long term policies towards job creation on the continent. Structural transformation implies the destruction of old jobs and the creation of new jobs. For this to happen, the labour market must be adequately flexible. General factor market reforms to remove distortions that encourage capital intensive production techniques at the expense of labor intensive ones are necessary in African countries in order to encourage the use of labor absorbing technologies. One of the reasons given for slow economic growth in Africa has been the lack of skilled labor, yet an increasing number of university graduates are unemployed, suggesting a mismatch between the skills African education systems are producing and those that businesses need. Long term employment policy should address this mismatch through appropriate curricular and pedagogical reforms.

Given the excessively high and persistent unemployment rates faced by vulnerable groups, targeted employment policies have to be in place if unemployment is to be reduced among these groups. Among the reasons given for high unemployment among these groups are lack of skills and work experience, geographical mismatch, and labor market discrimination. It may also be necessary to target skill training and employment programs for these groups and decentralize employment initiatives in order to bring jobs closer to these groups through rural industrialization. Finally, where possible, affirmative action programs in employment for vulnerable groups may be necessary.

One of the factors accounting for slow GDP growth in Africa is slow growth, stagnation or decline in total factor productivity (TFP). Accelerating the growth rate of income will involve efforts to increase TFP growth in Africa. African countries can achieve this through several policies such as technology transfer through non-resource FDI, a serious and credible commitment to research and development in Africa, provision of better and efficient infrastructure, and continuous improvements in economic management combined with

ECA provides support to African countries in the area of development finance through its analytical work, advocacy, knowledge sharing and technical support. In addition to building consensus and developing common positions regarding financing for development, through its Conference of Ministers, ECA has also built strong partnerships in support of Africa's development by supporting the AU in its engagement in the G8 and G20 processes and in the C10 processes. ECA has also provided technical assistance and direct support to the NEPAD Planning and Coordinating Agency (NPCA), the African Peer Review Mechanism (APRM), and the Regional Economic Communities (RECs).

macroeconomic and political stability. Finally, there cannot be increased employment if African countries are not committed to employment creation. Employment creation should therefore be an integral part and parcel of Africa's development agenda: programs, projects, and policies should be evaluated in part on their employment generation abilities. Effective design and implementation of employment-generating growth strategies requires accurate and timely employment data that should be regularly collected and analyzed by African countries.

Finally, for African countries to finance their development in a sustainable way there is the need to mobilize more domestic resources. In the final analysis, Africa's development is the responsibility of Africans and the tired argument that Africa is a poor continent that cannot finance its own development is no longer tenable. Innovative and effective ways of increasing savings rate, raising the efficiency of tax collection and expanding the tax base should be an important priority in Africa.

In the context of promoting high-level and sustainable growth for employment generation, the United Nations Economic Commission for Africa has over the years provided support to member States in various forms. These include the production of analytical studies and reports such as the Economic Report on Africa (1999 and 2005); convened high-level conferences and expert group meetings, including the 2010 annual Conference of Ministers of Finance, Planning and Economic Development; organized capacity building workshops; and provided advisory services to member States especially in the context of MDG-based development planning and poverty reduction strategy papers.

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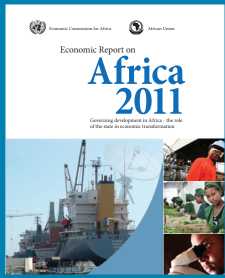

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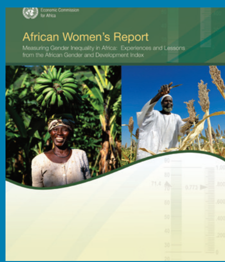

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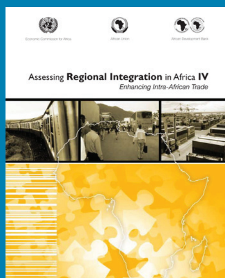

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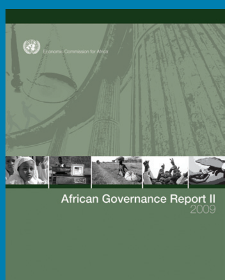

African Governance Report

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