

# Work and Income for Young Men and Women in Africa: Employment Potential of Specific Sectors and Sub-Sectors in African Economies: A synthesis

*Rolph van der Hoeven*

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# List of abbreviations and acronyms

BPO	Business Process Outsourcing
COVID-19	Corona Virus Disease 2019
EPRs	Employment-to-Population Ratios
FDI	Foreign Direct Investment
GGDC	Groningen Growth and Development Centre
GVCs	Global Value Chains
IFFS	International Fiscal and Financial System
ILO	International Labour Organization
LICs	Low-Income Countries
LMICs	Lower-Middle-Income Countries
NEET	Not in Education, Employment or Training
R&D	Research and Development
SSA	Sub-Saharan Africa
SBR	State Business Relations
SEZs	Special Economic Zones
TFP	Total Factor Productivity

## Abstract

This paper synthesizes two framework papers for the *Growth Sectors for Youth Employment: An AERC–ODI–ERF–INCLUDE Collaborative Research Project*, which both point to the need for a well-designed sectoral approach in Africa's structural transformation to generate full and productive employment, especially for youth. While an industrial sector itself might not be labour-intensive, the inter-sectoral demand, or creation of value-added in that sector, can boost growth in another sector that is more labour-intensive, resulting in an increase in total employment. Inter-sectoral linkages are, therefore, important in tracking the overall employment effects of any expanding sector. An important question is whether current global trends might throw some doubts on whether in Africa an exclusive reliance on industrial sectors remains a path for structural transformation that was followed mainly by earlier developing countries. Global trends presenting new opportunities for Africa are singled out and three sets of industries relevant for structural transformation and employment creation in Africa are discussed. Given the right incentives, both FDI and domestic investment can create modern firms creating youth employment, but that, because of still high labour force growth in Africa, 'informal will be normal' for some time a youth employment agenda needs also to tackle productivity issues in this sector, both on and off the farm and in urban areas.



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# 1. Introduction

This paper synthesizes the te Velde (2021) and Mendez-Parra (n.d.) framework papers prepared in 2021 for the *Growth Sectors for Youth Employment: An AERC–ODI–ERF–INCLUDE Collaborative Research Project*. While the te Velde paper gives a broad spectrum of possible causal relationships between sector development and (youth) employment, the Mendez-Para paper focusses solely on how inter-sectoral linkages can be captured through an input-output framework, a subject also treated in the te Velde paper. Therefore, this synthesis gives, after this introductory section, in Section 2, a short overview of employment and youth employment in Africa and pursues, in Section 3, the main train of thought of the te Velde framework paper, and also including the main gist of the Mendez-Parra framework paper.

One of the findings of these two framework papers is that, for productive (youth) employment to increase, structural transformation in Africa is necessary. Structural transformation in earlier developing countries was led by industrialization, but some analysts, because of current global trends, throw some doubts on this. Therefore, Section 4 of this paper reviews recent research, whether and how important industrialization is for employment and income generation in African countries, and what possible alternatives for creating productive employment could be. This is followed by Section 5 reviewing how these possible responses to the current global trends affecting Africa can also provide a boost to youth employment. Finally, Section 6 concludes and discusses some policy considerations.

## 2. A short overview of employment and youth employment in sub-Saharan Africa<sup>1</sup>

From 2000 to 2019, employment in Africa grew at an annual rate of between 2.5% and 3% (International Labour Organization [ILO], 2020). Additionally, Africa's employment-to-population ratios (EPRs) are high as compared to global, and characterized by huge differences between men and women, with the EPR for men in 2019 being over 17.3 percentage points higher than for women. This is mainly owing to more people taking up employment—including informal employment—as they simply cannot afford not to work.

With only a small decline in employment share, agriculture remains the sector employing most people in Africa, with 50.5% of all employment in 2020, down from 53.5% in 2011. The industry sector continued to lag a long way behind the services sector's share of employment, although it increased to 36.1% in 2019, from 34% in 2011. Furthermore, those employed in the agricultural sector in Africa are predominantly women (i.e., 54% in 2019).

There is a wide disparity in sectoral employment in Africa as a whole. Agriculture is the main sector for employment in eastern Africa, central Africa, and western Africa. Employment in southern Africa, on the other hand, is concentrated in the services sector and lowest in the agricultural sector. The employment share for industry is highest in northern Africa. The share of informal employment and its components in total employment ranges from 40.2% in southern Africa to over 90% in central, eastern, and western Africa. Sub-regions with higher informality in employment also registered higher agricultural employment.

A gender dimension is also observed by ILO (2020), with close to 80% of women's total employment being in the informal economy compared to only 68% for men. Moreover, there is an education gradient within employment, with the less educated more likely to be employed informally. Nearly 34 million people were unemployed in Africa in 2019. Furthermore, the unemployment rate for women (7.5%) was higher than for men (6.3%). This was true at the sub-regional level as well: in western Africa, for example, the unemployment rate for women was 6.6% compared to 5.6% for men.

ILO (2020) stresses that Africa is a young continent, with the youth comprising more than a third (34.2%) of the population, and that it is the only region in the world today whose labour force is expanding rapidly. Working poverty for the youth is falling, albeit not as quickly as in other regions. In 2019, 63% of young workers lived in poverty

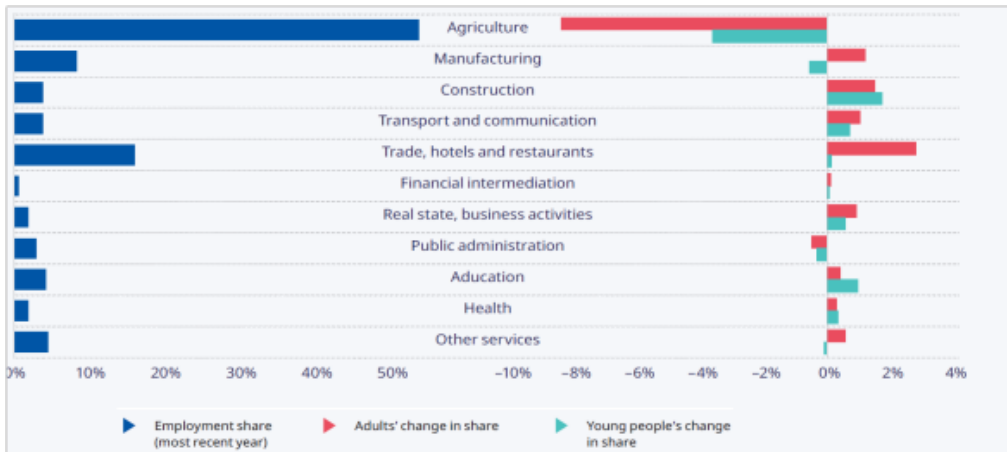
in Africa compared to 51% of adults. The youth unemployment rate was highest in southern Africa at 50.3% in 2019. Eastern Africa had the lowest youth unemployment rate at 6.2% in 2019. The not in education, employment or training (i.e., NEET) rates among youth in Africa are higher than the unemployment rates. In 2019, labour markets, particularly for youth, the NEET rate was 21.5%. This indicates that possibly one in five young Africans neither has a job nor is enrolled in education or training.

### **3. A synthesis of te Velde and Mendez-Parra framework papers**

A major and valid prior of te Velde (2021) and Mendez-Parra (n.d.) is that stimulating demand for labour in a particular sector correlate strongly with stimulating youth employment in that sector. Another prior is that inter-sectoral linkages are important in tracking the overall employment effects of an expanding sector: while a certain sector in itself might not be labour-intensive, the inter-sectoral demand, or creation of value-added in that sector, may boost growth in another sector that is more labour-intensive, resulting in a more than proportional increase in total employment. Hence, the interest in all African countries for structural transformation<sup>2</sup> and virtuous growth patterns, where through good economic and social policies productivity increases in expanding sectors leads to more private and public investment, job creation, and higher household incomes.<sup>3</sup> A third prior is that, in the foreseeable future, there will be no shortage in the overall supply of labour in Africa, be it is that there might well be a shortage of supply of certain kinds of labour.

For te Velde (2021), identifying promising sectors for job creation is a crucial step in creating employment opportunities for young men and women in Africa, because many labour market entrants in Africa are young and the level of education is not the only or most obvious determinant of employment. Te Velde (2021) agrees with Fox and Filmer (2014) and Fox et al. (2020) that youth unemployment is essentially a missing jobs crisis. ILO (2020) highlights that the youth jobs crisis in Africa is not a simple supply-side or education and skills challenge. Te Velde (2021) emphasizes, therefore that, it is important to consider in which sectors growth can pull in employment opportunities, also referring to ILO (2020) which submits that “youth employment can be promoted by focusing on those sectors and enterprises best able to create productive wage and salaried jobs”. One of the challenges is that youth population in Africa grew by 22.4% over the period 2005–2015, but non-agricultural jobs grew only by 5.6% (ILO, 2020), which means it is important to focus on creating more opportunities in non-agricultural sectors (Figure 1). A further concern is that young people's employment is disproportionately linked to informality, as a staggering 95% of young African workers are in informal employment.

**Figure 1: Sectoral employment shares and changes for young people and adults in Africa, 2006 and 2016**



Source: ILO (2020), reported in te Velde (2021).

Te Velde (2021), therefore, proposes a 4-step framework to identify and create opportunities for creating jobs for young men and women.

- Identifying promising sectors and activities with high growth and (youth) employment potential.
- Identifying economic and political constraints to developing key sectors.
- Identifying general enabling and targeted policies for youth employment.
- Understanding the political economy around immediate actions.

The gist of his proposals is synthesized in the following subsections

### **Identifying promising sectors and activities with high growth and (youth) employment potential**

A range of analyses can guide policy decisions as to which sectors have greatest potential to create jobs, including for the young. Increased growth of sectors will lead to an increase in the demand for jobs, including for the young directly and indirectly, other things being equal. Increased competitiveness of a sector will in the long run help to develop the sector, even though labour productivity changes in the short run may lead to less demand for labour. To know whether a sector is *competitive globally*, te Velde suggests using IMF's export diversification index and export quality measures, which policy makers can use to explore diversification. Increased participation in global value chains can lead to productivity gains. Sectoral data can be used to provide

a good idea of the degree of export orientation of the target sector vis-a-vis other sectors or the same sector in comparator countries and the degree of participation of the country within Global Value Chains (GVCs), where greater levels of participation in both metrics tend to result in higher levels of productivity and growth.

The use of production-based analytical measures can further help to understand promising and competitive sectors relevant for job generation and guide policy decisions, including sectoral value-added and employment data using national data sources and internationally comparable sector databases with gender dimensions. It might also be useful to analyse sector labour productivity levels and trends which can show productivity gaps between sectors in a country and examine the extent to which productivity change owes to structural changes between sectors or innovation within sectors (McMillan & Rodrik, 2011).

A further important policy tool is to use *employment/value-added multipliers of different sectors using input-output models* in understanding how sector shifts can affect output and employment (and other factors of production) in other sectors. Growth in one sector may not be very employment intensive, but if that sector has forward linkages into other sectors or is supplied by other sectors which are employment intensive, including where young work, it should inform appropriate sector policy. Developing a sector that is not job-intensive may yet be an effective job creation strategy depending on production linkages amongst sectors.<sup>4</sup> Mendez-Parra (n.d.) analysing social accounting matrices (which include input-output tables) in Kenya and Ethiopia argues that the analysis of the linkages and employment effects using multipliers allows for the identification of sectors and products with high output and employment generation potential. Policies that can help generate additional exogenous demand, for example through exports, are effective for employment creation in sectors with high multipliers in both output and employment. Export promotion activities, production development and secure additional market access in other countries in these sectors would pull strongly in the economy, in employment and income. Agricultural products (sugar, other roots, fruit and nuts, and other cereal) present strong output and employment effects. Some services sectors, particularly those that can be associated to tourism, such as hotels and catering, feature high employment effects, although their ability to generate output in the rest of the economy is yet more limited.

For te Velde (2021), using input-output analysis brings out clearly how employment impacts are likely to differ by sector (Table 1). There are differences between, for example, manufacturing, where direct job impacts are important (e.g., garments) and infrastructure or financial services investments, which have stronger induced/second-order job impacts.

**Table 1: Heterogeneity in expected (young) employment impact across sectors**

<b>Sector</b>	<b>Direct Jobs Impact</b>	<b>Indirect Jobs Impact</b>	<b>Induced/Second-Order Job Impact</b>
Manufacturing	Very Important	Potentially Important	Less Important
Tourism	Medium Important	Very Important	Less Important
Infrastructure (e.g., energy, roads), financial services	Less Important	Temporary	Very Important
Agriculture	Very Important	Less Important	Less Important

Source: Jouanjean and te Velde (2013), quoted in te Velde (2021).

*Firm-level productivity analysis using firm-level surveys in a comparative context* can inform on average productivity levels and changes of a number of firms in the same industry in different countries (Saliola & Seker, 2011). Firm-level Total Factor Productivity (TFP) analysis can also be used to understand how far firms are from the global technological frontier. This can also compare sectoral average TFP with the national level TFP, which helps us understand how far the firms in a sector are from the national technology frontier, or, compared with the US TFP as the current technology frontier country (Dabla-Norris et al., 2015).

## **Identifying economic and political constraints to developing key sectors**

Many countries have been the subject of analyses around *binding constraints to economic transformation and job creation*. McMillan et al. (2017) distinguishes between *general constraints that apply across all sectors and specific issues that constrain the development of the promising sectors and value chains*. Constraints can be distinguished further between economic, political, and institutional constraints. A reasonable consensus appears on the broad constraints, with skills being one important constraint but not the only one. McMillan et al. (2017) classify a range of public policies that can be used to support sector growth and economic transformation, summarized in Table 2.



**Table 2: Typologies of public actions used to promote sector growth and economic transformation**

	<b>General Enabling Interventions</b>	<b>Targeted Interventions</b>
Public actions to support structural change	<ul style="list-style-type: none"> <li>• business environment/ investment climate reforms (e.g., registration, land, tax, contracts)</li> <li>• financial sector development</li> <li>• strengthening State Business Relations (SBR)</li> </ul>	<ul style="list-style-type: none"> <li>• export push policies</li> <li>• exchange rate and tariff protection</li> <li>• selective industrial policies</li> <li>• spatial industrial policies</li> <li>• national development banks</li> </ul>
Public actions to support within-sector productivity growth	<ul style="list-style-type: none"> <li>• building fundamentals (e.g., infrastructure, education)</li> <li>• investments in basic production knowledge</li> <li>• managerial good practices as public goods</li> <li>• innovations</li> <li>• promoting competition</li> </ul>	<ul style="list-style-type: none"> <li>• management training</li> <li>• attracting FDI</li> <li>• export diversification</li> <li>• developing GVCs</li> <li>• increasing agricultural productivity</li> </ul>

Source: te Velde (2021) based on McMillan et al. (2017).

## Identifying general enabling and targeted policies for youth employment

It is important to consider complementarity between policies. Rodrik (2013) calls for complementary policies that improve both ‘fundamentals’ such as education and infrastructure, and policies that target growth in high-productivity sectors. Furthermore, Kilimani (2017) argues that beyond human capital and a business environment, greater support for labour-intensive sectors and public works is required, with strong arguments for more integrated and coherent policy across education, labour markets, financial services, and infrastructure to address the youth employment challenge.

However, more education is not necessarily the most immediate or effective solution for job creation. ILO (2020) argues there is an excess of tertiary graduates in several African countries which has led to a fall in the returns to tertiary education over the last decade. Further evidence suggests that, access to good quality and relevant skills development remain a large issue, especially for youth in rural areas. Informal apprenticeships account for more than 90% of training received by young people in some African countries. Targeted active labour market programmes can help in raising employment prospects of the young, especially in the short run.

## Understanding the political economy around immediate actions

It is widely accepted that political economy challenges at both national and sector levels hamper effective industrial policy. The discussion on the public action matrix in the foregoing sub-section suggests that targeted policies are crucial, but these also carry more risk and involve failures compared to general enabling policies. It is possible to get it wrong. The literature discusses several conditions that are crucial for effective industrial policy and sector growth. Contributions in the Velde et al. (2015) include: (i) mechanisms that enable transparency, ensure the likelihood of reciprocity, increase credibility of the state among the capitalists, and establish high levels of trust between public and private agents; (ii) mutual interests, pockets of efficiency, and learning for productivity; (iii) embeddedness, discipline, and accountability; and (iv) commitment, focus, experimentation, and feedback. It is also important to understand the political narratives around young people at country level. Balchin et al. (2019) discuss four key political economy issues to develop the targeted sectors, as summarized in Table 3; they are:

- Political economy relations that support collaboration.
- A credible public-sector commitment leading to consistent policy.
- Provision of appropriate public goods.
- Investment facilitation through coordination and problem-solving approaches.

**Table 3: Political economy issues to develop targeted sectors: Summary**

Issue	Policies	Positive examples	Negative examples
Political economy relations	Institutional arrangements to foster collaboration (e.g., state business relations, social dialogue).	Good quality interactions amongst actors around targeted sectors (Ethiopian airlines, South African automobiles, Mauritius).	Malawian maize, Tanzanian rice.
Credible commitments	Long-term policy consistency (vs policy reversals), stretching beyond short-term electoral cycles.	Long-term policies behind Ethiopian airlines and South African automobiles.	Undermining of policy stance on Mozambican cashews, Tanzanian rice, and Malawian rice.
Appropriate public goods	Targeted public goods support (roads, transport, and energy) around sectors of interest.	Ethiopian SEZs, industrial parks in South Africa.	Poor rural roads and weak extension services affected the maize sector in Malawi negatively.
Investment facilitation	Coordinating role of state in facilitating investment in key sectors.	Ethiopian garments sector, complementary trade policy support for South African automobiles.	Withdrawal of/failure to support maize in Malawi, cashews in Mozambique.

Source: Table 7 in te Velde (2021).

## 4. How important is industrialization still for African countries

### Is manufacturing industry still driving structural change?

Diao et al. (2021) remark that COVID-19 has unsettled the world economy in many ways, creating a significant setback for the development prospects of low-income countries, but that even after the immediate COVID-19 crisis dissipates, slower expansion of world trade and a general trend towards reshoring of supply chains may make it difficult for these countries to fully reap the gains from the global division of labour, causing for concern of a different sort: an analysis of the manufacturing sectors in Ethiopia and Tanzania reveals a *dichotomy between larger firms that exhibit superior productivity performance but do not expand employment much, and small firms that absorb employment but do not experience much productivity growth*, while typically, economic development happens when the productively dynamic parts of the economy absorb resources from the rest. By contrast, they point to the choice that *African manufacturers seem to face is either to increase productivity or to increase employment*, and doubt that this pattern can be explained (only) by factor-price distortions or other institutional shortcomings specific to the African setting. Their interpretation is that the technologies available on world markets restrict the range of production techniques that can be used by firms: as the capital- (and skill-) intensity of global technology has increased, the gap with low-income countries' factor endowments has opened very wide. Becoming more productive requires adopting technologies with factor input combinations that are increasingly at variance with African countries' factor abundance.

Diao et al. (2021) found that Ethiopia and Tanzania, countries on which their research focussed, have been losing comparative advantage in traditionally labour-intensive manufactures due to a trend reduction in their labour intensity, which implies a loss in the gains from trade and a lower of the ceiling on industrialization, constraining the capacity of manufacturing to absorb labour productively. They don't argue that manufacturing cannot play an important role in in the development of these countries: productivity growth in the large manufacturing firms in Tanzania and Ethiopia has been impressive and could create jobs indirectly. For example, while the manufacturing of food products is capital-intensive, smallholder farming is labour-intensive. Worker training programmes associated with industrialization

strategies could also enhance the capabilities of smaller firms. And the managerial and logistical capabilities of large manufacturing firms could be transferred to other activities through worker turnover or informal networks (Abebe et al., 2018).

## **In search of productive sectors**

Newfarmer et al. (2018) observe that, labour in Africa began to move from agriculture into more productive employment after 2000, but that 80% of workers have moved into retail trade and distribution (de Vries et al., 2013), not into industry. Referring to Rodrik et al. (2019), they suggest that in contrast to East Asia, where both structural change and within-sector labour productivity growth contributed strongly to overall growth, structural change in African countries may be driven mainly from the demand-side by external transfers or increased agricultural incomes. As incomes rise, demand increases for a range of ‘urban products,’ including simple manufactures and services. Under these circumstances, labour productivity in the modern sector may decline, as less productive firms are drawn into production for the domestic market. Another difference that distinguishes Africa from Asia’s pattern of structural transformation, according to Newfarmer et al. (2018), concerns the underlying demographics. Between 2000 and 2016, the labour force grew by 0.8% in East Asia and 1.6% in South Asia—while in sub-Saharan Africa (SSA), it grew far more rapidly at 2.9% annually. The median age in Africa is 18 years, seven years younger than in South Asia (Fox et al., 2017). Because jobs created in off-farm activities were insufficient to absorb these rates of labour force growth, labour had no choice but to stay on the land or seek informal employment. They stress that expanding population pressure on the land weighs heavily on labour productivity in agriculture, and even modestly higher wages off-farm are likely to be sufficient to entice young workers to move.

While the export-led mass manufacturing model used with great success in Asia over the past 50 years represents one potential path for Africa toward structural transformation and job growth, Newfarmer et al (2018) fear that changes in manufacturing technology and in the global market for manufactured goods may pose new challenges: on average, countries across all income levels now have a lower manufacturing share than before, and they reach their peak employment and value-added shares at a lower income than in previous decades (Rodrik, 2016). As Africa enters its next phase of development, it confronts a global economy substantially different from previous ‘late industrializers’. These trends allow more limited space for employment-creating industrialization. At the same time, changes in the global economy may create an opportunity for a different path of structural transformation. Newfarmer et al. (2018) suggest four global trends presenting new opportunities for Africa:

- a revolution in trade in services,
- the marked change toward ‘servicification’ of manufacturing production,

- the rise in global value chains, and
- major developments in technology markets may permit Africa to leapfrog to transformative technologies.

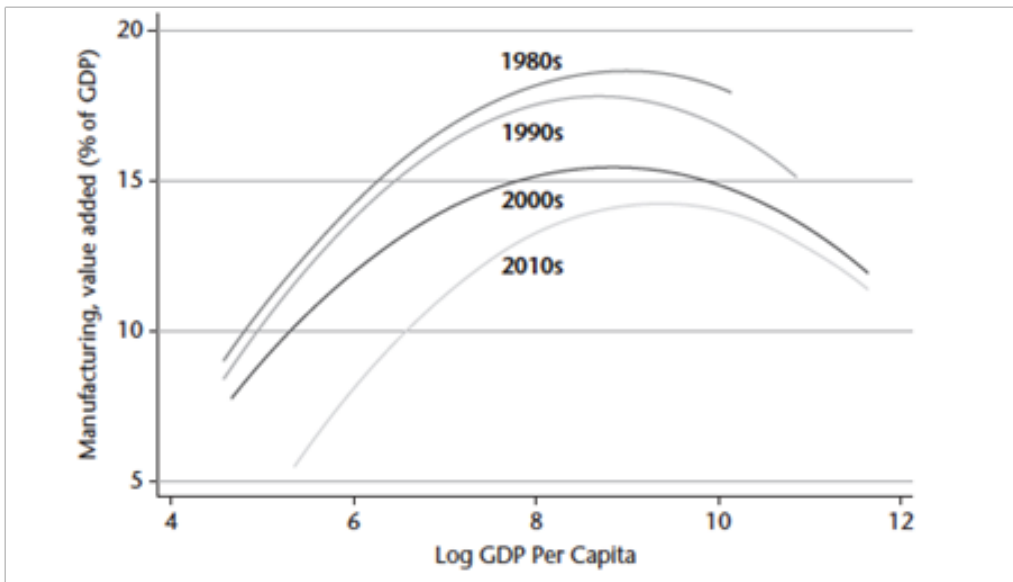
In each of these four areas, major progress in technology and rapid reductions in costs are creating new opportunities for Africa.

## **A global services revolution**

Newfarmer et al. (2018) recall that economists have traditionally viewed services as the quintessential ‘nontraded’ activity. This meant that trade in services depended on the physical movement of service providers or customers to the location in which the service was to be given. As Hoekman (2018) argues, the need for such movement has been declining as a result of changes in technology that allow many services to be digitized and provided across borders through ICT networks: since the 1980s, global trade in services has grown faster than merchandise trade. Modern service exports (computer and information services, financial services, business services and communication) are also growing much faster than traditional service exports such as travel, tourism, and transport. While sub-Saharan Africa (SSA) trails other developing regions in the growth of services exports, Newfarmer et al. (2018) find that service exports have nevertheless grown at about 10% per year between 1998 and 2015, more than six times faster than merchandise exports. As exports of services are about 11% of the total exports of the average SSA country, they see potential for expansion, although levels vary widely across countries.

## **The ‘Servicification’ of manufacturing production**

Hoekman (2018) argues that much of manufacturing is undergoing a process of servicification, involving a focus on the provision (sale) of the services that are generated by products as opposed to simply the fabrication and sale of tangible goods. Distinguishing between manufacturing and services sectors is rapidly becoming less meaningful. At the same time, services sector firms have become larger, providing a range of specialized services, e.g., engineering design work, legal services, and accounting. These changes in the boundaries of manufacturing are in part responsible for the ‘premature deindustrialization’ (Figure 2).

**Figure 2: Manufacturing as a share of GDP on average declines over four decades**

Source: Figure 1.2 in Newfarmer et al. (2018).

Newfarmer et al. (2018) note that, in many manufacturing and service activities, a production process can be decomposed into a series of steps or tasks: sharp declines in transport and communication costs have enabled companies to relocate selected tasks to low-wage countries around the world. The rise of global value chains has contributed to the reduction in the role of manufacturing. They follow Baldwin et al. (2014) arguing that out-sourcing and off-shoring of production to low-wage countries has meant that the value-added share in manufacturing has declined relative to services-based tasks such as design work, R&D, and marketing, often associated with lead firms, and that GVCs are also important outside manufacturing: the transport of fresh fruit, vegetables, and flowers over long distances became possible with the development of ‘cold chains’ linking production and consumption points.

## Disruptive new technologies?

The fourth change in the global environment is that the pace of technological innovation and diffusion is accelerating—creating vast opportunities to leapfrog and, in some cases, capture first mover advantages. Murray (2018) points to clusters of technology that offer a range of new and unprecedented applications in Africa and argues that some have the potential for overcoming distance through e-commerce, mobile money, business process outsourcing (BPO), and lowering transport costs (for example drones). The bottom line is that Africa has abundant opportunities to adapt newly created technologies (e.g., mobile money and drone transport) to its own situation, develop and expand technologies that make intensive use of Africa's resource endowments (solar power), and use these to create new and unforeseen sources of competitive advantage.

## Sectors benefitting from the four major global changes

Newfarmer et al. (2018) observe three major sectors in Africa which they label ‘industries without smokestacks, ‘which have mostly benefited from the global changes described above:

- agro-industrial and horticultural value chains;
- tourism; and
- business and trade services (including information and communications based (ICT) services and transport and logistics).

They found that these activities are among the most rapidly growing sectors of the global economy, and are increasingly important across a wide range of countries in Africa, and pose the question whether *these industries without smokestacks can play the role in structural transformation historically played by manufacturing*, for which the answer depends on the characteristics of both existing manufacturing and of the new activities: in cases where the manufacturing sector exhibits little employment or productivity growth while services or agro-industrial productivity and employment are growing, these sectors can very well lead growth enhancing structural change.

Case studies in Newfarmer et al. (2018) suggest that a broader definition of the higher-productivity ‘modern sector’ is needed in thinking about structural transformation in Africa. Modern, tradeable services, such as ICT-based services, tourism, and transport and logistics have the potential for strong within-sector productivity change and contribute to raising productivity in other sectors of the economy. Agro-industrial production and horticulture offer the potential for productivity growth and exports. Some of these industries have the capacity to absorb large shares of Africa's growing urban labour force. Newfarmer et al. (2018) see, therefore, a possibility that industries without smokestacks offer the potential for a new—or at least complementary—path towards structural transformation. But they argue also that *it is important not to overlook manufacturing, which has in recent years been growing at more than 7% per year in several African countries*. Today, many countries are integrating industrial development strategies that use various policy instruments into major development efforts.

## 5. Youth employment policies in the wake of challenging and changing global trends

Fox and Gandhi (2021) note that, a stylized fact of development today is that until countries reach at least upper-middle-income status, the majority of jobs therein will be found in small-scale household farms and firms; sub-Saharan Africa is no exception and hence a key employment challenge for policy makers is *how to raise incomes in the informal sector as they work to create the conditions in the formal economy to allow the share of employment in the informal sector to decline*. They find that youth entering the labour market seeking employment face a set of constrained choices. These constraints include the level of economic development and transformation—which creates better employment opportunities for all; and the rate of labour force growth—which limits the share of youth that can get those opportunities; when countries achieve balanced economic growth and transformation, better employment opportunities follow. SSA outcomes are like those found in developing countries in other regions: after controlling for income level, SSA countries are mostly not behind the rest of the world. Fox and Gandhi (2021) found that Lower-Middle-Income countries (LMICs) in SSA have more wage employment, less underemployment, and less employment in agriculture (a sector characterized by underemployment, low earnings, and income risk). Youth unemployment is an exception, as it is higher in SSA LMICs than in low-income countries (LICs). But, once again, this SSA result is consistent with international experience as youth unemployment tends to rise with a country's income level until countries reach upper-income status. Employment outcomes tend to be worse in LMIC resource-rich countries because income improvements do not correlate well with development outcomes—either in the labour market or outside of it. Fox and Gandhi (2021) stress that young women in SSA face several gender-specific obstacles to better employment outcomes: too many young women are married and have children before the age of 18, limiting educational attainment and the development of socio-emotional skills, as well as leading to worse health outcomes during pregnancy. Moreover, at the macroeconomic level, early pregnancy contributes to higher fertility. Once women have entered the labour force, a range of social factors impede their ability to earn income, including lack of secure access to land and other assets, credit, as well as occupational segregation and workplace harassment norms that impede equal pay.

Fox and Gandhi (2021) argue that the *employment policy agenda in SSA is first and foremost an economic transformation agenda*, including raising within-sector



productivity in lower productivity sectors such as agriculture and expanding output and employment in higher productivity sectors. Supporting firm entry and growth—both of which are low at present—should be a priority. These changes will widen economic opportunity choice sets for youth. However, they add that even with the best economic policies, owing to high labour force growth, *informal will be normal for several decades in SSA. The SSA employment agenda in LIC and LMICs needs to tackle productivity issues in this sector, both on and off the farm and in urban areas.* Improving access to digital services has demonstrated its value and should be a high priority, for the most part through investments and policies to lower ICT service costs.

They also posit that the employment policy agenda should also include tackling medium- and long-term challenges, including SSA LICs and LMICs poor learning outcomes, which limit the contribution of education to incomes and economic transformation. Another challenge for them is SSA's stubbornly high fertility. These two challenges are related: projected slow fertility decline will cause labour force growth to continue at a high level, which tends to reduce employment transformation. But it will also limit the capacity for improved educational outcomes, given the need for constant growth in service units to serve a growing population of children.

## 6. Conclusions and policy considerations

The two studies synthesized in this paper both point to the need for a well-designed sectoral approach in Africa's structural transformation to generate full and productive employment, especially for youth. While an industrial sector itself might not be labour-intensive, the inter-sectoral demand, or creation of value-added in that sector, can boost growth in another sector that is more labour-intensive, resulting in an increase in total employment. Inter-sectoral linkages are, therefore, important in tracking the overall employment effects of any expanding sector.

Te Velde (2021) proposes a 4-step policy framework to create jobs for young men and women: 1) identifying promising sectors and activities with high growth and (youth) employment potential; 2) identifying economic and political constraints to developing key sectors relevant for youth employment; 3) identifying general enabling and targeted policies for youth employment; and 4) understanding the political economy around immediate actions to support youth employment. Of course, these policy proposals, discussed in the main body of this paper, need to be contextualized for individual country settings.<sup>5</sup>

An important question is whether current global trends might throw some doubts on whether in Africa an exclusive reliance on industrial sectors remains a path for structural transformation that was followed mainly by earlier developing countries. Newfarmer et al. (2018) single out four global trends presenting new opportunities for Africa: 1) a revolution in trade in services, 2) a marked change toward 'servicification' of manufacturing production, 3) the rise in global value chains, and 4) major developments in technology markets which may permit Africa to leapfrog to transformative technologies. They highlight three sets of industries relevant for structural transformation and employment creation in Africa: a) agro-industrial and horticultural value chains, b) tourism; and c) business and trade services (including information and communications based (ICT) services and transport and logistics), but however argue that, it is important not to overlook the manufacturing sector which has in recent years been growing at more than 7% per year in several African countries and can, with a coherent set of multisectoral policies, still be a force in the Africa's transition process.

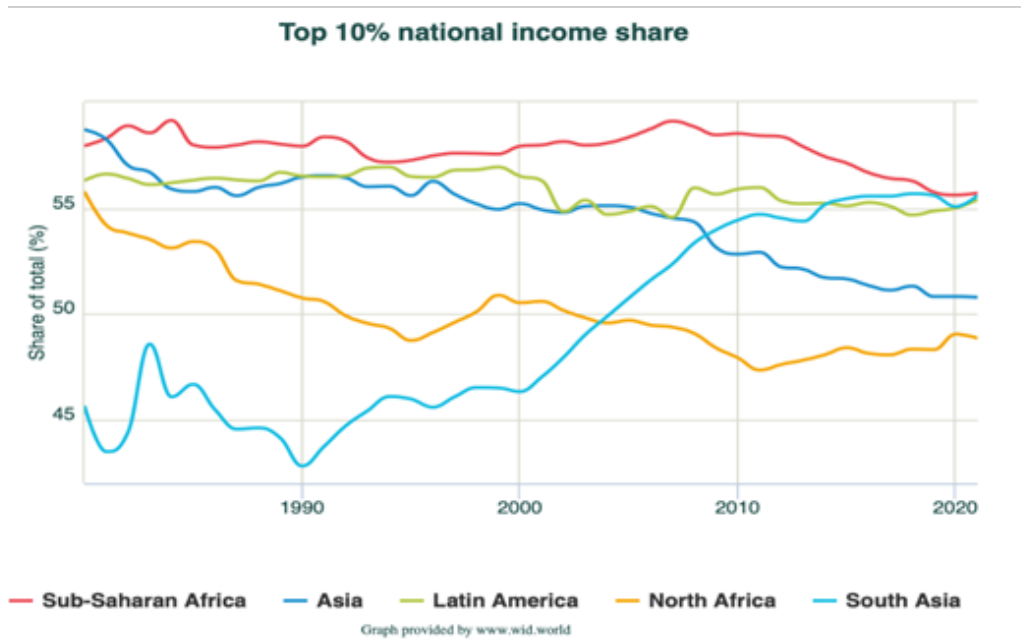
The need for a more integrated sector approach is also emphasized by Diao et al. (2021) who observed in Ethiopia and Tanzania a dichotomy between larger manufacturing firms that exhibit superior productivity performance but do not expand

employment much (due to the technologies available on world markets restricting the range of production techniques that can be used in Africa) and small firms that absorb employment but do not experience much productivity growth. However, they argue that this observation should not lead to a policy stance neglecting the industrial sector as productivity growth in large manufacturing firms has been impressive and has created jobs indirectly. A conclusion that also stems from the framework paper of Mendez-Parra (n.d.) and from the country analysis in several of the case studies of the project.<sup>6</sup>

Fox and Gandhi (2011) find that, given the right incentives, both FDI and domestic investment can create modern firms creating employment, but that, because of still high labour force growth in Africa, 'informal will be normal' for some time. An employment agenda needs, therefore, also to tackle productivity issues in this sector, both on and off the farm and in urban areas. Improving access to digital services has demonstrated its value and should be a high priority. For the most part, this means investments and policies to lower service costs. Other factors that, according to Fox and Gandhi (2021), continue to hold back employment outcomes for Africa's youth include: fragility and conflict (which lower economic growth, reduce public investment, and inhibit human capital development); poor economic governance in resource-rich economies; high fertility (which inhibits human capital development, crowds youth and adults into the informal sector, and, through early childbirth, negatively affects women's economic prospects); and laws and norms (which permit or encourage early marriage and reduce economic opportunities for women). Finally, several African countries are entering or have recently entered the resource-rich club (wherein 50% of their exports are minerals). These countries should take care to avoid the mineral curse, with its negative effects on economic growth and non-mineral tradeable sectors, because the knock-on negative effects on youth employment outcomes could be serious.

Although falling beyond the remit of this paper, two final observations are in order: Firstly, the likelihood that newly created industries in Africa create, certainly when well-managed as in Ethiopia, additional value-added but less employment than previously expected, puts another burden on African policy makers as to how to ensure that the additional value-added created in the growing industrial sector finds its way to stimulate more labour-intensive activities, and thus providing new jobs for youth entering the labour market (van der Hoeven, 2019). As income inequality in Africa remains high (Figure 3), greater emphasis on redistributive policies will lead to demand impulses for a more virtuous growth path and providing more jobs for the youth through employment creation, as it happened in the earlier transforming countries in East Asia (van der Hoeven, 2010).

**Figure 3: Top10% National Income share, developing regions.**



Secondly, many countries in Africa were severely hit by the outbreak of the COVID-19 pandemic, with severe consequences for employment, especially for youth and female workers. This, once again, demonstrated that the current International Fiscal and Financial System (IFFS) is not fit for purpose and failed, especially to the least developed countries in Africa. An overhaul of the IFFS is, therefore, urgently needed (van der Hoeven & Vos, 2022) for a genuine transformation in Africa as suggested by Lopez (2019).

## Notes

1. This section draws on ILO (2020).
2. “The quality of the jobs generated is low. African countries have managed to absorb the volume of young people migrating from rural areas by generating low productivity, low paid jobs in traditional services sector in their cities. The development of key sectors with productivity growth potential (sector transformation) and structural change is critical for the economic transformation process, and hence for increases in jobs and income, including for the young”, Te Velde (2021).
3. “COVID-19 has affected economic structures and consumer preferences, production processes, and trade practices. The crisis has accelerated previous trends (e.g., e-commerce) and led to new demand and production patterns (e.g., more home working). The dramatic fall in the global demand of garments and travel, to name a few of the manifestations of the crisis, may require recalibrating economic transformation and development strategies”, Te Velde (2021).
4. For example, agro-processing and financial services, both of which are capital-intensive, but which also have strong backward and forward linkages into job creating sectors.
5. More precise policy details for Egypt, Ethiopia, Nigeria, Mali, Senegal, Tunisia, Kenya, Mozambique, and Uganda can be found in the following AERC country case studies synthesis papers presented at the AERC regional Policy Forum 28 March 2022: 1. *Potential Sectors for Greater Employment Generation in the MENA REGION: The Case of Tunisia and Egypt* by Prof. Chahir zaki, Cairo University and Economic Research Forum; 2. *Work and Income for Young Men and Women in Africa: Similarities and Differences in the Potential Employment Sectors and Sub-sectors in African Economies* by Dr. John Mutenyo, Makerere University; and 3. *Growth Sectors, Youth and Employment: Challenges and Way Forward* by Dr. Jacob Omolo, Kenyatta University.
6. See footnote 5.

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