CHAPTER 5

# Africa’s youth in the labour market

# Key messages

- **Africa will continue to account for a significant fraction of the global youth population.** It is projected that the continent's share of the world's youth population will grow from one-fifth, as it was in 2012, to as high as one-third by the year 2050. Current trends suggest that much of the bulge will be accounted for by countries in West, Central and East Africa.

- **Insufficient youth wage employment is primarily a demand-side problem.** While reductions in fertility rates and relevant skills development are crucial for Africa to benefit from the type of demographic dividend Asia experienced, labour market demand must be a priority to improve employment levels. While skills development seems promising (as indicated by educational achievements), demand for labour quantity and quality has not been responsive enough to date. In addition, improvements in health care and in education have not significantly reduced fertility across most of Africa.

- Youths continue to constitute the majority of the population in all countries, carrying most of the unemployment burden. However, African economies are heterogeneous, with varying demographic paths, economic structures and youth development policies. This means that **youth policies should be context specific** in order to achieve youth employment outcomes that are both timely and sustainable.

# 5.0 Introduction

In chapter 3 we discussed how Africa's recent growth has not been inclusive. Inequality in human capital formation is one of the major impediments to inclusive growth. Among those who have been left behind, the youth population have been much more affected across various dimensions. Young people experience a diverse set of challenges across socio-economic, geographical, political and cultural divides during their transition from adolescence to adulthood. In today's labour market, the transition from school to work is particularly challenging not only in Africa, but also globally. In Africa, young people are striving to achieve economic independence and to find their identity against the background of weakening family and community structures as well as educational systems that often do not equip them with skills demanded in the labour market. The current generation of youth in Africa is also the largest the continent has ever seen. The growth of Africa's economies has not been successful in absorbing youth into the labour market.

In 2014 the African Union Commission underscored that, at 60% of the continent's 1.03 billion population, those under the age of 35 constitute a valuable resource. If equipped with the right skills and given the right opportunities, this demographic group could help propel Africa onto a higher growth path. At the same time, the risks associated with not fully employing this 'demographic dividend' are significant. In Africa today, the youth are some of the most vulnerable. The majority of the poor (those living on less than $1.25 a day) are young people aged 15 – 24 (Natama, 2014). With youth unemployment rates two to three times as high as adult rates in Africa's middle income countries (MICs) and a high prevalence of 'working poor' in low income countries (LICs), the importance of generating productive jobs for Africa's youth cannot be emphasised enough (AfDB et al., 2012; Filmer and Fox, 2014).

Given Africa's diversity, substantial differences exist across various sub-regions and groups. For example, in MICs the formal sector (public and private) accounts for the larger share of employment, while the informal sector dominates in LICs. Differences in youth outcomes persist between young men and women, those in rural and urban areas, and across vocations. The variety of country–specific contexts in Africa is reflected in the wide range of policies being adopted, with varying degrees of success. This chapter provides an overview of the key measures and programmes aimed at youth wage-employment and entrepreneurship.

Key demographic and employment trends on the continent are analysed using the international definition of youth (ages 15 – 24). The chapter goes on to discuss the concept of youth in the African context and underscores challenges and opportunities that the youth encounter as they strive to integrate into the labour market and society as a whole[43]. It also points to gaps in our understanding highlighting factors that prevent Africa's youth from full participation in the labour market and the economy. Finally, the last section reviews existing and potential labour market policies and programmes targeted at Africa's youth with a view to support employment and entrepreneurship.

43 As in Gumede et al. (2013) we define the labour market as *"...the place where labour services are bought and sold..."*, which includes self-employment activities in addition to formal/informal wage-employment. Appendix 1 presents the *Rosetta Stone for Labour Markets* which provides a concise framework within which to categorize each labour market status.

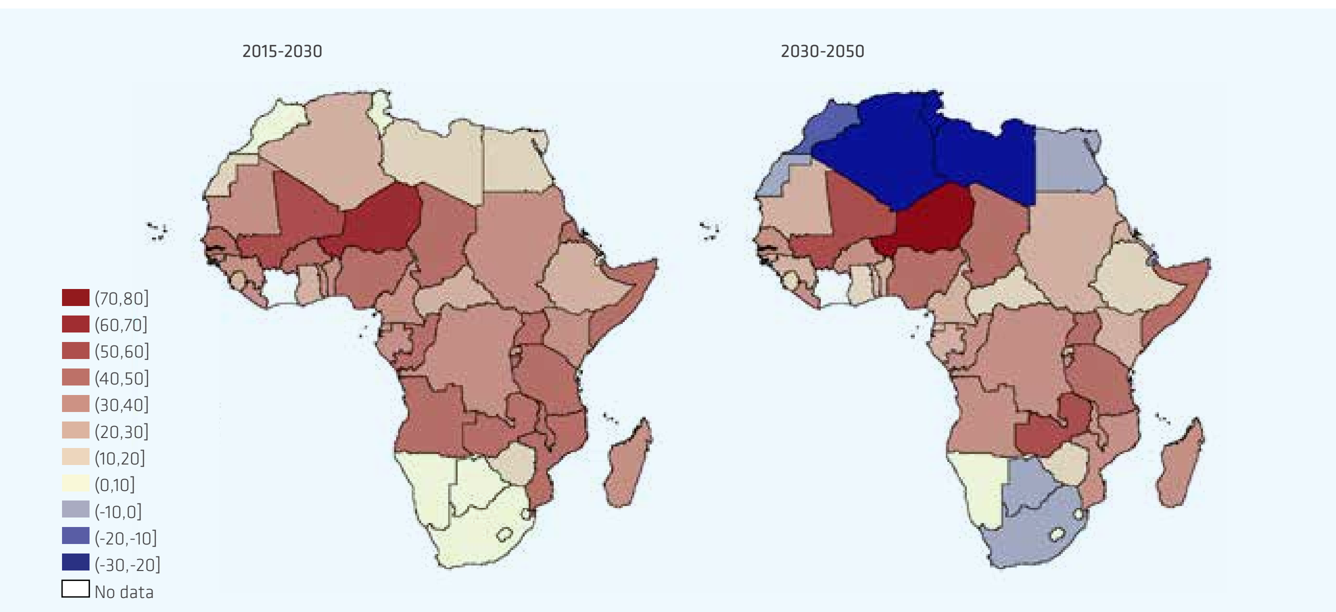
# 5.1 Demographic trends: Africa's 'Demographic Dividend'?

By 2050, one third of the world's youth population will live in Africa: Up from about one fifth in 2012 (Bloom, 2012). However, this growth will be uneven across the African continent (Figure 5.1). In general, Southern and North African countries will be characterised by low or even negative youth population growth over the next 35 years, while West, Central and East African countries will experience large youth population increases. Whether these young people will be able to successfully join the labour market will have ramifications not only for their individual wellbeing but also for the welfare of broader society across the entire African continent.

High levels of African youth 'not in employment, education or training' (NEETs) are often attributed to high youth-to-population or youth-to-labour-force ratios. A 'youth bulge' arises as the delayed impact of a mortality rate falling faster than the fertility rate. This results in a period of above average population growth. After a period of time the fertility rate should also reach a new, lower trend level. At that point the population would have transitioned from a high to a low growth trajectory: A process referred to as a 'demographic transition' (Lam, 2011). These dynamics are usually associated with improvements in child vaccination, which decrease child mortality, and economic development which tends to result in a decline in fertility. Major transmission mechanisms are; improved education; primary health and nutrition outcomes; and, labour market integration for women.

Unlike other developing regions which went through a demographic transition in the 1980s, SSA is still on

**Figure 5.1** Percentage change in youth population



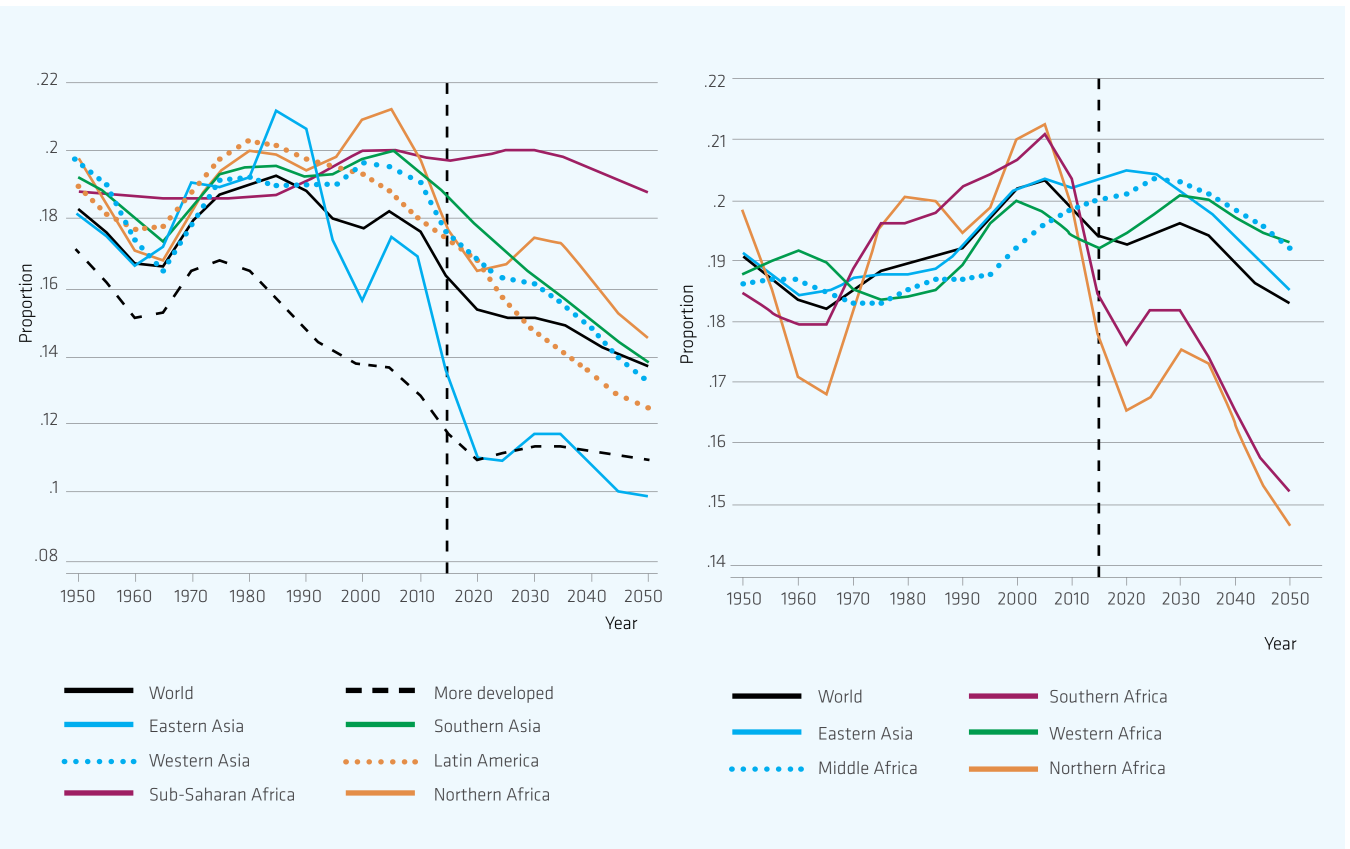

Note: The above figure displays the percentage change in the youth population of each African country between 2015 and 2030, and then between 2030 and 2050. In this and subsequent figures, youth is defined as population aged 15 – 24 years.
Source: the UN Population Divisions estimates (2012 Revision).

the upward slope of the 'youth bulge' (Figure 5.2). The noticeable feature of African demography is that the decline in fertility has stalled in many countries of West, Central and East Africa. This is a major challenge since the demographic dividend will only materialise if fertility starts to fall. UN population estimates predict that SSA's youth population-share will continue to increase until 2030, at which point about 20% of the population will be between the ages of 15 and 24 (28% between the ages of 15 and 29). However, the increase, and subsequent decrease, will be more gradual than that experienced by North African countries in the early 2000s. SSA will thus have a considerably higher youth-to-population ratio over the next 35 years, which highlights the need to prepare for an increasingly young labour force.

The stark contrast between Southern and North Africa, and the rest of Africa, is evident in the below figure. West and Central African countries will be the last to undergo the demographic transition and will continue to have high youth shares (around 19%) until 2050. The implications of these trends for youth employment, however, are not so clear.

The youth population-share can have a very distinct time trend from that of the youth labour force share. While the former may determine a country's position within the 'demographic transition' the latter is a clearer indication of the impact on the labour force. While at an aggregate level, all of Africa's regions have surpassed the peak of the youth labour-force share, considerable regional variation exists (Figure 5.3a). In general, Africa will continue to have a very young labour force. This underscores the need to have a good understanding of how the youth engage with labour markets. Labour market policy will need to address the many challenges

**Figure 5.2** Youth population as a share of total population




Source: UN Population Division (2012 Revision).

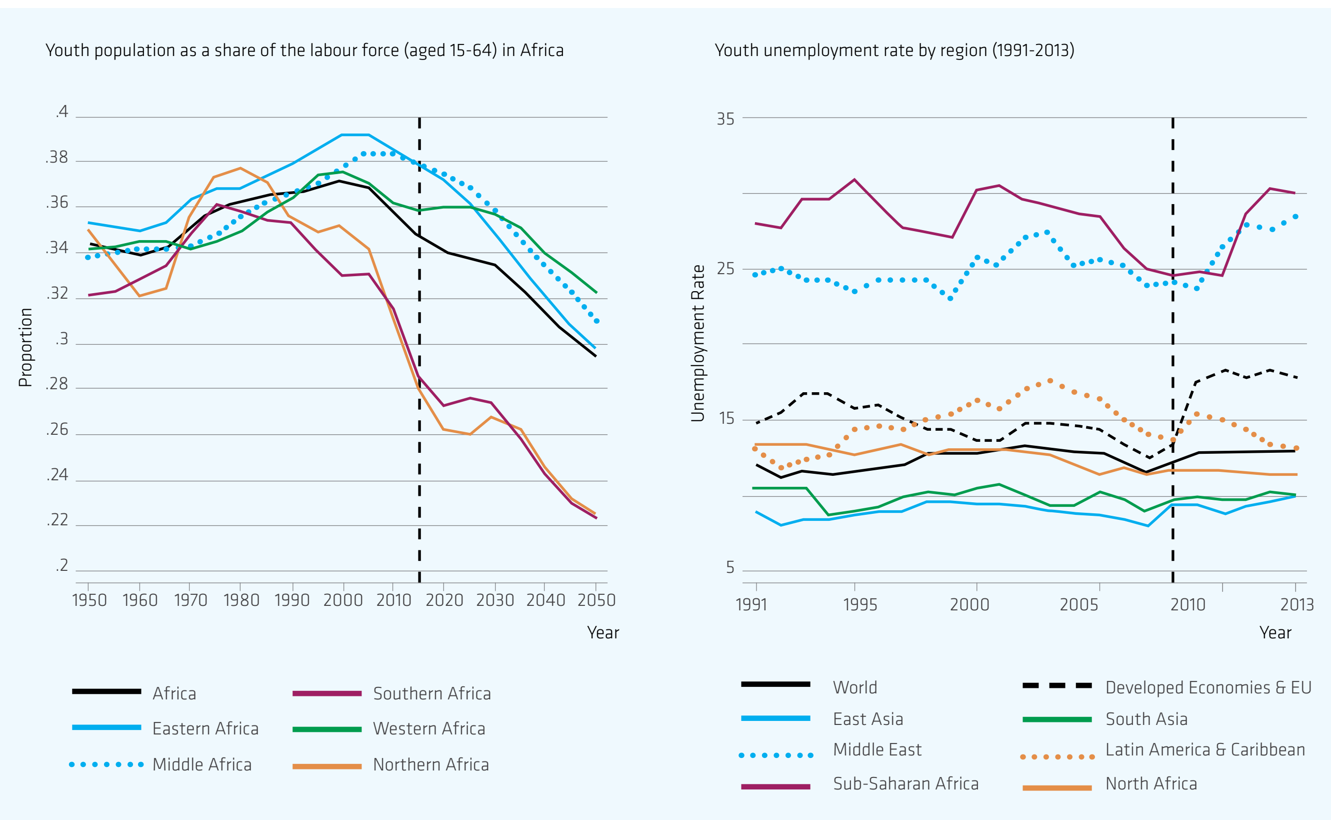
that will continue to arise as result of these fundamental demographic dynamics.

Alongside this demographic transition, many African countries are currently undergoing a period of rapid urbanisation. Again there is variation within the continent, with many of the Southern and North African countries already having an urban majority (over 50% urbanisation) while other countries (especially, Eastern Africa) still have relatively low urbanisation rates, below 30% (UN-Habitat, 2014). UN forecasts suggest that Western, Central and Eastern African countries will experience rapid urbanisation over the next few decades[44]. Freire et al. (2014) argue that many African countries don't fit the standard model of urbanisation, which is based on the industrialisation of cities. Instead, African countries are urbanising at much lower income levels relative to both East Asia and Latin America, while also experiencing declining levels of manufacturing and low levels of infrastructure investment. Instead of industrialisation, the "pull" factor in Africa has been income from resource extraction which has attracted poorer individuals to cities hoping to find employment in low-level service sectors concentrated around the rich few.

In addition, Africa has a larger number of smaller secondary cities than other regions (less than 500,000 people), despite having comparable average levels of population density with East Asia and Latin America (Freire et al., 2014). These smaller cities are often disconnected and productively inefficient. Freire et al. argue that, unless urbanisation is met with sufficient levels of infrastructure investment (including human capital investment)

44 There is debate as to the accuracy of the UN's urbanisation estimates. Potts (2012) argues that Africa's urbanisation is actually much slower than previously reported by the UN-Habitat's 2008 and 2010 *The State of African Cities* reports. A large problem with any demographic or urbanisation estimate is the quality of data. The UN-Habitat's (2014) report acknowledges that there are major gaps in the Western Africa data series.

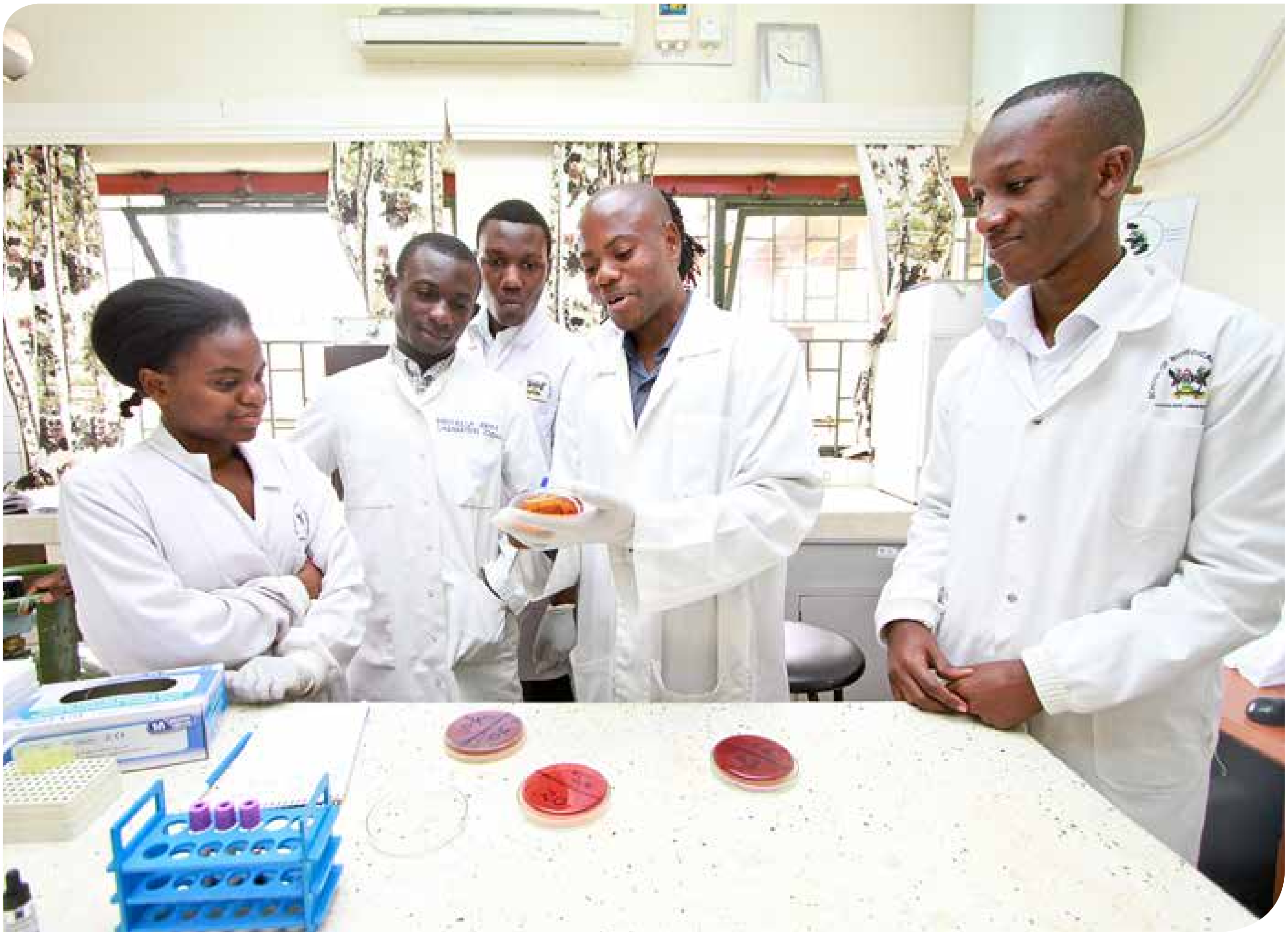
**Figure 5.3** Youth employment and unemployment




Source: UN Population Division (2012 Revision).

and broad-based employment, the region will not gain from the potential returns to agglomeration, and slums will remain a feature of African cities. This has enormous consequences for the urban youth population, who will face more competition in the future as rural-urban migration and population growth make resources and job opportunities scarcer. However, these trends will also provide opportunities for young entrepreneurs to develop businesses that serve an increasingly urban and connected population in an environment which provides higher returns to scale and agglomeration.

African policymakers need to be at the forefront of youth labour market policy to develop a labour market which can absorb and harness the potential value of this growing youth population. Beside a vibrant private sector and merit-based public service, utilising the demographic dividend will require suitable skills and institutions. Youth need to be equipped with skills demanded by the economy and institutions should facilitate effective job matching and entrepreneurial uptake within Africa's fast growing economies. This requires sufficient investment in social infrastructure – especially in urban centres where governments will need to ensure expanding work opportunities for an increasingly young, urban population. If Africa's 'demographic dividend' is to be harnessed then both public and private sectors need to work together to ensure that employment growth matches the growth in the working-age population.



# 5.2 Youth unemployment and employment

Youth unemployment rates in African countries did not rise dramatically during the global financial crisis. However, in some parts of Africa (e.g., Southern Africa) they were already alarmingly high before 2008[45]. North African countries had, on average, the highest youth unemployment rates over this period (Figure 5.3b). Gallup World Poll data shows that in the wake of the financial crisis, jobs in the formal sectors of African economies declined. While employment fell in services (which is the second largest employer of youth in Africa after agriculture), it rose in agriculture and in the informal sector (AfDB et al., 2012). A few countries (e.g., Botswana and Namibia) defied the trend and witnessed growth in employment over this period.

Although substantial variations exist in youth unemployment rates across the continent, the data indicate clustering of unemployment rates within regions (Figure 5.4)[46]. In particular, the 'high unemployment' countries (with youth unemployment rates above 20%) include predominantly Southern and North African countries[47]. In general, Southern African MICs face the challenge of high unemployment among low-skilled workers, who are more likely to work in temporary positions or without contracts. Youth disproportionately occupy low-skill service sector jobs that are more susceptible to market fluctuations and they are less represented in public sector jobs (Brixiová and Kangoye, 2014). North African countries tend to be characterised by 'educated unemployment'. LICs in West, Central, and East Africa have low official unemployment

45 Figure 5.2 suggests that Southern Africa is one of few regions where youth unemployment rates increased between 2000 and 2013.

46 For example, the official youth unemployment rate in Rwanda is close to zero, while more than a half of South Africa's young labour force cannot find a job. However, a young person in Rwanda is more likely to suffer from 'working poverty'. These differences are likely to be driven by differences in informal sector activity and social safety nets.

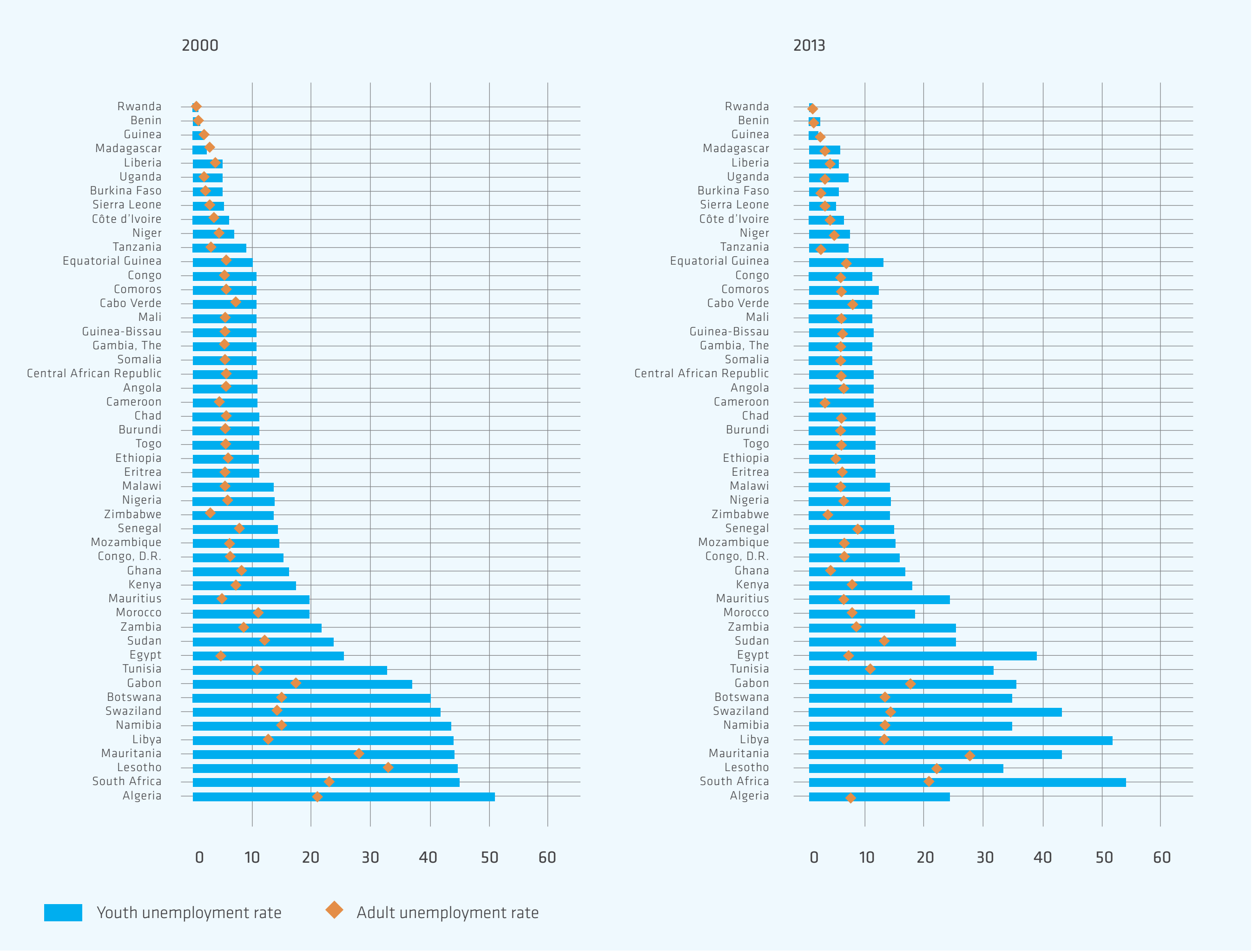
47 There seems to some association between youth unemployment rates and different stages of growth and development. Several Southern African MICs are caught in a 'middle income trap'.

but a high share of youth in the informal sector, in part due to the lack of social safety nets (AfDB et al., 2012).

Countries with high youth unemployment also tend to have high adult unemployment, with the former exceeding the latter (Figure 5.4). This discrepancy is, in part, to be expected because youth do not have the social capital, networks and experience to compete with adults in the labour market. These structural barriers warrant 'youth-specific' employment policies. However, growing divergence between youth and adult unemployment (as in South Africa) suggests that job creation is not able to keep up with youth-population growth and the attendant positive net labour force inflows. Indeed, part of the 'youth employment problem' can only be addressed through overall job creation (Page, 2012).

Comparing only unemployment rates hides vast differences in labour force participation across countries (Figure 5.5). A combination of low youth unemployment and low employment (e.g., Benin) suggests that a large share of the young population is not economically active. At the same time, high labour force participation among those aged 15-24 may reflect poor education opportunities and a 'low-skill' economy. Note that the above figure suggests that labour force participation

**Figure 5.4** Youth unemployment rate, by country (2000 and 2013)




Note: The above figure presents the average unemployment rate facing young people (aged 15 to 24) in 2000 and 2013, by African country. The data is sorted from highest to lowest youth unemployment rate in 2000.
Source: ILO KILM dataset.

is highest among many of Africa's LICs, where urbanisation is lower, and where the informal economy dominates. These conditions are often associated with higher levels of underemployment, the state where people cannot work the number of hours they are willing and able to work. Underemployment is widespread in Africa (UN, 2004). LICs are also characterised by high levels of vulnerable employment: Work based on short term or no contracts (AfDB et al., 2012; Filmer and Fox, 2014). At 77 percent in 2013, Sub-Saharan Africa has the highest levels of vulnerable unemployment in the world (ILO, 2014). This poses special challenges for policymakers as regards how to regulate conditions for workers in the informal sector and the self-employed. Young people in rural areas are more likely to work in either the informal sector or in vulnerable employment, while youth in urban areas tend to experience higher rates of unemployment. Part of this is explained by the fact that the majority of youth in Africa are employed in agriculture (largely subsistence) and services. While agriculture represents the single largest employer of young people (55% of young Africans work in agriculture in LICs compared to less than 10% in upper-MICs), services account for about a third of jobs in upper middle-income countries (AfDB et al., 2012). In Ethiopia small-holder agriculture employs more than 76% of the labour force, which explains the low incidence of open unemployment in rural areas. For instance, in 2007, the unemployment rate for youth

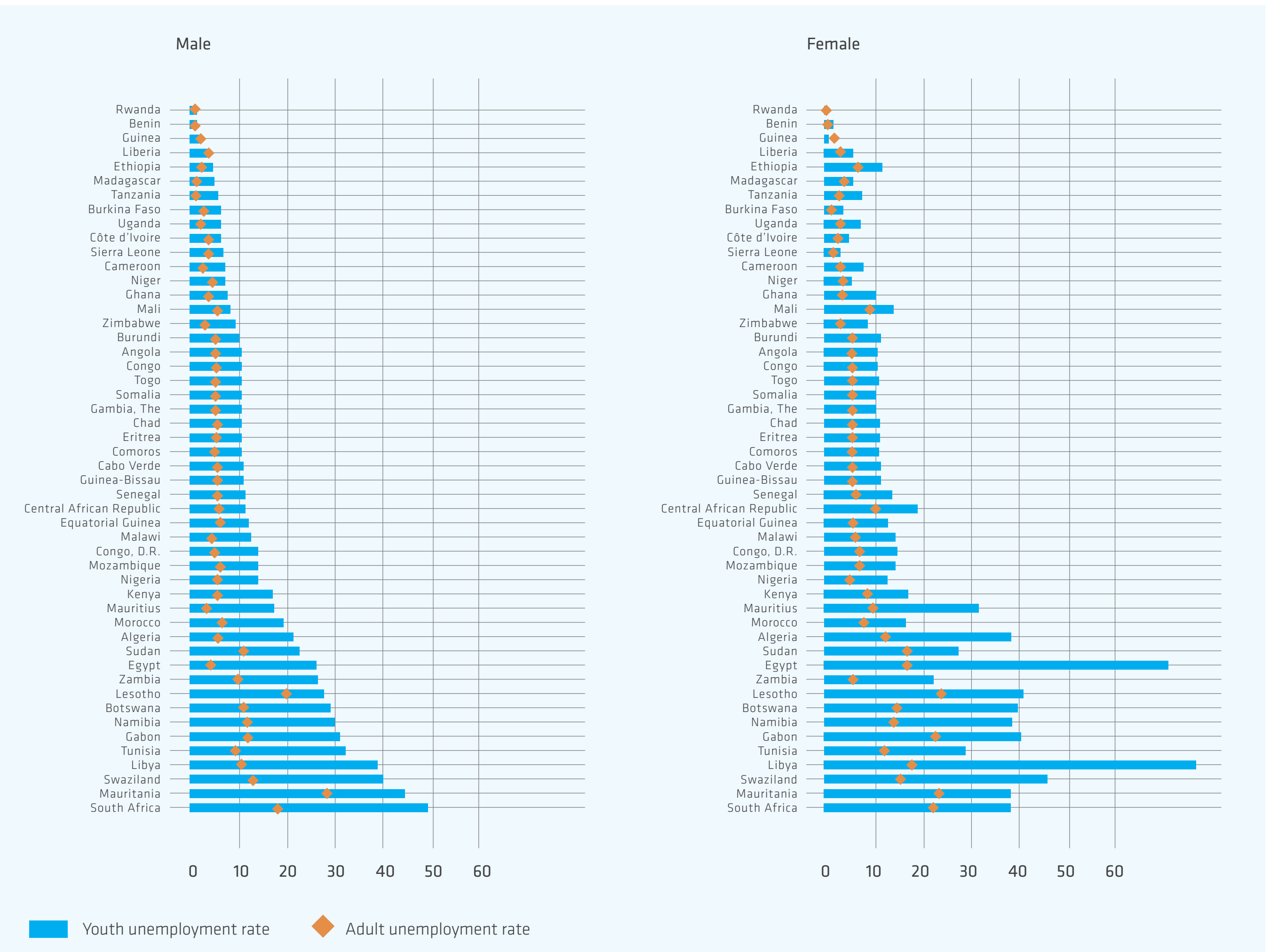
**Figure 5.5** Youth unemployment, employment and participation rates, 2013


Note: The unemployment rate measures the share of the labour force that are unemployed, the employment rate measures the share of the youth population that is employed, and the labour force participation rate measures the share of the youth population that is either employed or unemployed (the labour force). The countries are ordered from lowest to highest unemployment rate.
Source: ILO KILM dataset.

in rural areas was only 2.1% while it was 34.0% in urban areas (MOLSA, 2010). However, according to Broussard and Tekleselassie (2012), about 25% of the rural youth and 29% of the urban youth in Ethiopia were reported to be underemployed in 2005. In Togo, the urban youth unemployment rate is four times the rate in rural areas (Elder and Koné, 2014). In some cases, this difference also reflects higher proportions of discouraged workers in rural areas (Brixiová and Kangoye, 2014). Young people in rural areas experience higher rates of poverty and are more likely to be in vulnerable employment (AfDB et al., 2012). Within rural areas, about half of all work is non-agricultural – in services, sales, manufacturing and construction. This non-agricultural work is more likely to provide full time and wage employment.

In most African countries women – across age groups – experience higher unemployment rates and lower labour force participation than men (Figure 5.6; Elder and Koné, 2014; Stampini and Verdier-Chouchane, 2011). Over 90 percent of all women with jobs work in the informal sector in Benin, Burkina Faso, Burundi, Ethiopia, Madagascar, Mali, Mozambique, Senegal, Sierra Leone, Tanzania and Uganda. In contrast, less than one fifth of the labour force works in the informal sector in Mauritius and South Africa, for example (Gumede et al, 2013). Among the

**Figure 5.6** Youth unemployment rates in Africa, by country and gender




Note: The above figure presents the average unemployment rate facing young people (aged 15 to 24) in 2000 and 2013, by African country. The data is sorted from highest to lowest youth unemployment rate in 2000.
Source: ILO KILM dataset.

youth, gender differences tend to be more pronounced in countries with high levels of youth unemployment. Young women are also more likely to work in the informal sector than young men.

In Sub-Saharan Africa, young people without education are more likely to be unemployed than their better educated peers[48]. Even in North African countries where people with advanced degrees face high unemployment, they are still more likely to eventually get a job than people with less education (AfDB et al., 2012). For example, in Tunisia, the 2007 unemployment rate for university graduates was 40 percent, almost twice the 24 percent rate for non-graduates. However, only 68 percent of non-graduates participate in the labour force, compared to 95 percent of graduates. A higher percentage of graduates in the labour force are employed than non-graduates in the labour force (Stampini and Verdier-Chouchane, 2011). Further, an ILO survey on transition to work in eight SSA countries found that people with tertiary degrees earn three times the income of people without degrees (Elder and Koné 2014).

The labour market outcomes for youth in Africa vary dramatically, however, some general trends that can be drawn. There appears to be distinct differences between LICs and MICs in Africa. LICs tend to be characterised by low official unemployment, high labour market participation (which tends to suggest lower education outcomes), a larger share of agricultural and informal employment, and higher levels of vulnerable jobs or underemployment. MICs tend to report higher unemployment (often among the educated as well), lower participation and more formal sector employment. In addition, rural-urban, gender and education differences continue to be important determinants of labour markets for youth. It is clear that the policy strategies of African governments will be context specific and may differ between regions.

48 In Swaziland, for example, in 2007, the unemployment rate was 32 percent for people with primary education, but only 2 percent for people with tertiary education (Brixiová and Kangoye, 2014).

# 5.3 Being young in Africa: Constraints and opportunities

For the purpose of cross-country comparisons, including with advanced economies, section 5.2 used the international definition of youth (ages 15 – 24). More generally, youth refers to the period of transition from childhood to adulthood in an individual's life. Each society, culture or even community may differ in its requirements for adulthood, making a unified age range for youth problematic.

The transition to adulthood takes place at different ages in different contexts (UNECA, 2011). As a way recognising this diversity the 'African Youth Charter' has adopted a broader definition of youth, including ages 15-34 (AU, 2006). This definition, used by a number of African countries, reflects the continent's development realities and challenges unique to youth as a social group[49]. It encompasses the international concept of youth as people aged 15–24, covering the period of adolescence, an important component of the transition into adulthood.

This section explores the more salient features of being young in Africa. It explores characteristics that might intersect with age to shape individual capabilities and opportunities, and hence the path to adulthood. As young Africans become adults, they grapple not only with changing social expectations, but also with biological changes. Being an adolescent is, in particular, associated with a propensity for higher than average 'problematic behaviour' often resulting from peer pressure (e.g., drug and alcohol use), unemployment or delinquency. Such behaviour tends to diminish in adulthood and forms part of a process of identity formation (Steinberg and Morris, 2001)[50].

The 'Arab Spring' in North Africa and the Middle East, during the early 2010s, gave attention to the potential politicisation and radicalisation of youth, especially when faced with harsh economic and political conditions (Assaad, 2007; Assaad and Roudi-Fahimi, 2007). The literature on youth unemployment often uses the "ticking time-bomb" metaphor, evoking the idea that youth unemployment might lead to unrest. This framing reflects fears about the potential for violence amongst the youth. For example, Swaziland's youth policy notes that: *'The term 'youth' has generally been used to characterise a segment of the population seen as violent, unruly, undisciplined and underdeveloped'* (Government of Swaziland, 2009). However, additional factors must be present for high unemployment to spark political protests. In North Africa, a sense of social injustice and the need for dignity contributed to the uprisings (UNESCO, 2011).

Studies on the youth transition in developing countries often question the assumptions made by researchers in developed economies. For example, education (grade repetition and completion) may differ in developing economies due to unique gender and racial biases within households and other social institutions (Juárez and Gayet, 2014). Child marriage – a common practice in some developing countries – has implications for female labour force participation, human capital formation and fertility rates. Beliefs and cultural practices, such as those surrounding

49 For example, South Africa and Rwanda define youth as the ages 14 to 35, in Nigeria and Swaziland it is 18 to 35, and in Mauritius it is 14 to 29 (Republic of Rwanda, Ministry of Youth Culture and Sports, 2005; Republic of Mauritius, Ministry of Youth and Sport, 2009). These large age categories may not be helpful for policymakers as they may overlook the different needs of more narrowly defined age groups, such as 15 to 20 or 20 to 25 (Altman, 2007, p.15).

50 Behaviour of adolescents can also be defined in biological terms. The parts of the brain responsible for executive control – such as planning, decision-making and emotional regulation – continue to develop into an individual's twenties. However, the parts of the brain that govern reward processing develop earlier. The timing of these developments may explain riskier behaviour and less self-control amongst young people (Sawyer et al., 2012).

the role of women in the household, form part of the transition into adulthood and make it difficult to find a single definition of 'youth' relevant for both the developing and developed world. In addition, globalisation and the formation of a single 'global culture', or the acceptance of universal norms, can be met with resistance by groups in developing countries. This complicates the search for a single, shared agenda for youth in Africa.

Youth are distinguished by much more than just their age. They are identified by their unique and changing relationship with their family and surrounding economy. Young people have a unique (although limited) set of resources and opportunities available to them, such as their ability to turn to their family during stress and their adaptability to technological change. Youth are also known for their progressive attitude towards technology, which can be a source of comparative advantage. The extent to which this holds across societies depends on access to resources, the distribution of power within the household and cultural norms. Below we discuss some of the characteristics unique to youth.

First, the period of youth is associated with a particular and ***changing relationship with the rest of the household and family.*** While an adult is expected to achieve independence from the household within which they were raised, a young individual may be allowed to depend on the family group during uncertain periods. This gives the youth access to a set of resources that might not be available to adults and, in particular, can change how they approach the labour market. Certainly, in a developed context, it is well documented that moving back home with a family can act as a form of insurance against the inability to find work (Card and Lemieux, 2000; Kaplan, 2012; Klasen and Woolard, 2009). In a developing context, families are especially important for young unemployed people looking for work in countries without unemployment benefits (Godfrey, 2003). In an African context, unemployed youth may not move back home, but may still be able to rely on intergenerational household risk-sharing not available to adults. They can also depend on the financial capital of the household to cover search costs and migration. Evidence from South Africa supports this hypothesis (Posel et al., 2006; Ardington et al., 2007; Ardington et al., 2013), and finds that the presence of a state transfer within a household (in particular, the state pension) can provide a crucial safety net to an unemployed individual (Klasen and Woolard, 2009).

Second, ***youth are often depicted as being more innovative*** and having a more progressive attitude towards new technology, in comparison with adults. These are important characteristics that shape the way in which the youth engage with the economy, especially through entrepreneurial activities. For the youth, new technology – especially information and communication technology (ICT) – creates new markets in which young people may have a comparative advantage over adults (World Bank, 2007). This is important for Africa's youth, which is one of the fastest growing markets for mobile phone technology in the world[51]. The relationship that youth have with new technology opens possibilities for their broader relationship with the labour market and the economy.

Third, ***young people face more pressure and unique challenges as they attempt to make the transition into the labour market***. In many cultural contexts, getting a job is an important step in the transition to adulthood (UN, 2004). For this reason, unemployment may be particularly detrimental for the youth: Disadvantaged youth who lack basic education may experience the 'scarring' effects of long-term unemployment (ILO, 2010). This can depress human capital accumulation and impact future earnings (Scarpetta et al., 2010).

Further, ***young people are a heterogeneous group with different opportunities and constraints*** depending on factors such as gender, education, and location. The most salient divisions might differ across countries. Race or ethnicity represents an additional dimension that matters greatly for the experiences of young people. Similarly, physical disability and family income are other dimensions that are not explored here, but will inform and condition the splits between segments of the youth. It is often at the

51 Gabon has among the highest number of mobile telephone subscriptions in the world, at 179.5 per 100 people. Libya, Botswana, South Africa and Egypt also have relatively high rates of subscription (Bilbao-Osorio et al., 2014).

intersection of each of these dimensions – race, gender, education, location, and class - that real differences are observed and experienced, especially as the youth engage with the labour market. The paragraphs below explore some of these factors.

***Gender*** can critically shape the choices available to young people. In most African societies, women work more hours than men because they take care of the household in addition to any other labour market commitments (World Bank, 2007). In some societies, women face pressure to marry early. In others, young women may have to deal with pregnancy outside of marriage. African women experience higher rates of HIV/AIDS, in part, due to gendered social norms (Shisana et al., 2014)[52].

***The rural-urban divide and rural-urban migration*** also shape a young person's opportunities for jobs, education, training, and professional networking. On average, poverty is significantly higher in rural areas, especially among marginalised smallholders who depend on subsistence farming and a small cash income from crop sales, wage labour or remittances (Faurès and Santini, 2008; Barret et al., 2001.). In the context of rural-urban migration, it is important to consider how policymaking in cities may facilitate youth employment, especially since high youth-to-adult unemployment ratios are predominantly urban phenomena.

***Inequality in educational opportunities and attainment*** represents a further dimension which differentiates young people in Africa. In general, poor countries have seen enrolment rates rise from 50 to 80 percent over the past 20 years. However, assessments of the quality of education suggest that these figures are misleading (Jimenez et al., 2012). Poor education outcomes may, in certain circumstances, reflect high drop-out rates. In some countries, gender differences in dropout rates may reflect pressure on young women to get married, discrimination by teachers and parent preference to educate boys first (Bertrand and Crépon, 2014). Further, the ratio of students in secondary school to the number of individuals of secondary-school age in Africa is only approximately 20 percent. For tertiary education it is only 8 percent (World Bank, 2007).

52 For example, in South Africa the HIV prevalence rate amongst young women is between two and four times that of young men (Shisana et al., 2014).

# 5.4 Constraints and opportunities specific to youth

There is a wide range of context-specific factors that may present constraints to, or opportunities for, efforts to establish sustainable livelihoods. They may also affect the effectiveness of policies geared towards youth in the labour market. Such factors include HIV/AIDS, technology (ICT), unmet expectations emanating from democratic constitutions and criminal or terrorist networks.

All young people in Sub-Saharan Africa need to consider the ***prevalence of HIV/AIDS*** in their community and their potential risk of infection, together with the impact infection would have on their transition into adulthood. The incidence of the disease is generally highest among young people, especially young women. The disease has negative effects on productivity and human capital formation. For example, studies find that young children with HIV-positive mothers are less likely to attend school than other children and are likely to perform worse in school (Bertrand and Crépon, 2014). Access to antiretroviral treatment can help minimise these effects. For example, while HIV/AIDS lowers productivity, the provision of antiretroviral treatment can improve labour force participation amongst HIV positive individuals (Bertrand and Crépon, 2014). Youth policy must also deal with the

challenges of social stigma attached to diseases (not limited to HIV/AIDS) that may isolate a young person from necessary treatment and threaten their re-integration with their society and local economy.

***Advances in ICT*** create opportunities for employment and employment promotion measures for the youth, who in turn can further drive innovation. Policymakers can harness technology to implement interventions, especially around efforts to break-down information asymmetries so as to connect people with existing vacancies. In the long-run this could improve labour market matching as students will have a better understanding of the returns and job prospects arising from different training and education options. The Groupe Speciale Mobile Association reports that there are 56 'Mobile for Employment' initiatives in developing countries (Nema, 2014). One example is the JobMatch programme in Rwanda, which seeks to connect prospective employers and disadvantaged youth through a matching system using text messages (Dawes et al., 2014).

Many African countries have ***democratic constitutions***. This formal commitment to democratic governance may create expectations that governments will act in the interests of the majority. These expectations may provide an important context in which frustrations about joblessness translate into protest. Moreover, it may be important to consider electoral incentives in the analysis of policy design and implementation. Governments may be incentivized to prioritise short-term economic outcomes over long-term goals as a way of appeasing and securing political power; consider the trade-off between public sector employment and infrastructure spending.

In some countries – especially North African countries and Nigeria – concerns with youth unemployment stem, in part, from fears that disillusioned young people may be recruited into ***terrorist networks***. A study, based partially on interviews in Northern Nigeria of why young people joined Boko Haram, found that reasons included unemployment and poverty. The study called for the government to support vocational training and enterprise development as measures to help address joblessness amongst the youth (Onuoha, 2014). Expanding work opportunities, education, and health-care in isolated rural communities is an important step towards offering youth a viable and sustainable alternative to radicalisation.

The challenges that young people face should be seen in the context of broader political and economic constraints and opportunities. Factors such as a commitment to democracy, together with an emphasis on private sector innovation and development, should shape youth employment policies. Global concerns with terrorist networks may drive government incentives to shift resources towards specific groups – and to focus efforts on employment and education. HIV/AIDS has undermined the ability of the youth to participate in the economy, but the recent widespread improvements in treatment have reduced this impact. Finally, ICT advances may offer new avenues for development and provide the basis for innovative ways to promote youth employment. The factors covered here are not exhaustive, but hint at additional challenges and opportunities that young people encounter and that societies could help manage.

# 5.5 Policies for youth employment in Africa

Young people in Africa face different options in engaging with labour markets. They can choose to look for a wage job in either the formal or informal sector, work in a family enterprise (usually without pay) or they can choose self-employment and entrepreneurship[53]. In this section we discuss wage employment and entrepreneurship. In particular, we consider the challenges faced by African youth in choosing one of these paths.

## 5.5.1 Wage employment

Lack of work experience tends to be one of the greatest obstacles facing the youth entering the labour market (in particular, the formal sector labour market) (Levinsohn et al., 2014). As education is often a weaker indicator of productivity, employers tend to prefer individuals who already have a reference from a previous employer who will vouch for their productivity. Indeed, a survey of South African firms found that 61 percent of firms identified referrals as the best mechanism for job matching (Schöer and Rankin, 2011). There is, therefore, greater risk in employing an inexperienced youth over an experienced adult, as well as the additional cost of training a young employee. While firms will have a long-run incentive to recruit and train young employees, an employer may be hesitant to invest in training if they are uncertain about a young person's long-run commitment to their firm.

Furthermore, youth tend to lack the social capital and professional networks needed to find job vacancies. The cost of job search and high levels of unemployment can dis-incentivise job search efforts. The long-term effect of this is 'scarring' as the human capital that young workers acquire during their schooling, training or prior work experience rapidly depreciates (Bell and Blanchflower, 2011; Strandh et al., 2014). This can form an unemployment trap, where youth who have been unemployed for a long period of time become somewhat 'unemployable'. It is therefore imperative that youth are able successfully make the transition to the labour market as they end a period of education or training.

Youth unemployment can be explained as a demand-side problem, a matching problem, or a supply-side problem. Moreover, policies will differ depending on the nature of the unemployment problem in any particular country. For example, in Africa's MICs – such as South Africa – the extreme levels of unemployment suggest a surplus in labour supply which needs to be addressed primarily through demand-side policies. In LICs, high levels of vulnerable employment require supply-side policies which focus on improving the human capital of the youth. Policies on youth employment can also be categorised into passive and active policies. Passive policies provide income replacement for people who do not have jobs, while active policies seek to integrate the unemployed back into the labour market (Auer et al, 2008). Even in MICs, where the government offers extensive social welfare transfers such as unemployment insurance and child support grants, unemployed youth tend to be unaffected by passive labour market policies. This is because of their age (not covered by child support grant) and lack of prior employment experience (which makes them ineligible for unemployment insurance).

Active policies include demand-side policies, supply-side policies and mediation policies (see Box 5.1). Policies to increase the demand for labour include: support for entrepreneurs; wage subsides; direct employment; as well as, more general growth and investment (FDI) policies (Betcherman et al., 2004, 2007). Often, however, these

53 There is also the choice of emigration, but we do not discuss this here. See the World Bank's *Africa Migration Project* (in conjunction with the African Development Bank) for more details on harnessing migration, remittances and diaspora resources in Africa.

policies are undermined by rent-seeking. Their success, therefore, depends on a more comprehensive design and implementation framework that addresses this threat. Supply-side policies include: training; and, education. In countries with more elaborate social safety nets, such as South Africa, they may also include measures that would bring workers closer to the labour market, such as phasing out of unemployment benefits. Policies to address labour market mediation and matching include: counselling; job-search facilitation; subsidies; and, job-readiness programmes. Appendix 2 provides a more detailed framework mapping youth policy.

From the supply-side - the youth perspective - the first step in getting a wage job is securing a sufficient level of education, followed by finding out about job opportunities. In this regard, youth labour market policy overlaps considerably with general education policy as it attempts to ensure that dropout rates decline and young people acquire the skills demanded in the labour market. The quality of education is therefore as important as the quantity. As previously mentioned, South Africa has seen a vast improvement in the levels of school completion (matric graduation) yet many firms do not perceive educational attainment to be a sufficient signal of labour market productivity (Schöer and Rankin, 2011). It is therefore imperative that governments concern themselves with the quality and content of education curricula, as well as ensuring greater levels of enrolment and graduation. Bringing curricula in line with changing labour market requirements and technological advances is essential to the integration of future youth cohorts. However, supply-side policies should also look beyond the mainstream primary and secondary schooling system to ensure that sufficient tertiary and trade-specific training opportunities exist for those young people who are currently looking to enter the labour market.

On the supply-side, youth also face the challenge of finding job openings in, what are often very informal, economies. In Africa, labour exchange offices are mostly missing. This also speaks to the matching problem. A recent survey of young people (ages 15 – 29) by the ILO in eight SSA countries found that the majority of the employed youth had used a personal connection – either a family member or friend – to secure their job. Fewer than 10 percent of unemployed young people had registered in an employment centre, and only about 15 percent responded to job ads to find work (Elder and Koné, 2014)[54]. The low reliance on employment offices, where they exist, could indicate a lack of trust, inadequate knowledge of formal institutions, or, the dominance of informal sector activity over formal sector. For example, a survey of youth in Egypt found that, less than one in five respondents were aware of projects designed to help people without jobs (Gumede et al., 2013). *Key policy measures in this regard, then, are the development and promotion of labour exchange offices, as well as outreach to young people and firms so as to raise awareness about the purpose of these offices and to encourage their use.*

Job search can be very costly, especially in urban areas where high transport costs and a higher concentration of unemployed youth both increases the cost, and lowers the expected return to searching. Beyond the establishment of formal institutions to connect the youth with job openings, governments should look for ways to lower the cost or to increase the return to job search activity. As previously mentioned, regarding the South African case, passive policies (i.e. social welfare nets) can provide important capital within the household enabling youth to engage in job search. However, more targeted policies might be more appropriate to support the unemployed youth in their search, such as public transport passes for urban job searches. Wage subsidies – paid to the worker – can also increase the return to finding a job; although such policies are easier administered via the firm, in the form of tax incentives.

54 Similarly, the South African 2005 Labour Force Survey revealed that only 10 percent of people in this age group used networks to find a job. Further, the country's widespread unemployment makes it difficult for the youth to get information about job opportunities through networks, especially since the majority of individuals within their networks are unemployed as well (Altman, 2007).

On their path to productive employment, the youth also grapple with mismatch between the skills they possess and those demanded by the labour market. Estimates for South Africa suggest that, in 2002, there were about 90,700 vacancies, or 4 percent of all high skilled jobs. At the same time, people with diplomas experienced 12 percent unemployment and university graduates faced a 5 percent unemployment rate (Altman, 2007). *Measures including reforms to educational systems, with a view to making them more practical, could go a long way in this regard. According to a survey of youth support in 31 countries, most African countries have implemented some form of training and education reform (AfDB et al., 2012). Holistic entrepreneurship programmes, encompassing assistance with start-up costs together with training on financial literacy and other areas, could also be of interest.*

Youth expectations can also be a supply-side obstacle. In North Africa, young people with good levels of education hold out for public sector jobs and are thus more likely to be unemployed than people with lower levels of education (AfDB et al., 2012). In reality, however, public sector jobs are available to a relatively small share of the youth population. *To avoid queuing for public sector jobs, governments could make criteria for employment in the public sector more meritocratic and be clear about the standards required in the civil service.*

Public opinion suggests that, in MICs, many unemployed young people choose not to work because of the low wages they face in the informal sector or low-skill formal sector. They would rather wait for a higher paid job offer. Unfortunately, it is difficult to collect accurate information

on reservation wages and youth expectations. This is an area of research which is largely under explored across Africa. It may also be a feature unique to MICs. In African LICs, informal sector employment and self-employment dominates. However, in countries where tertiary education graduation rates are increasing (such as in Kenya and Ethiopia) one might expect a reservation wage argument to explain a share of the educated youth unemployment. Although, this is a supply-side problem which speaks to a mismatch between skills demanded and those supplied, the appropriate policy response would be a demand-side policy which looks to increase the demand for these surplus skills.

In many African countries, pre-existing market conditions - that is, high unemployment - present the largest obstacle to youth employment. This points to an overall lack of work opportunities (Elder and Koné, 2014; AfDB et al., 2012; Page, 2012)[55]. Youth wage employment is therefore primarily a demand-side problem. These challenges are related to low growth, or to capital-intensive, rather than labour-intensive, growth. High overall unemployment generally signals a lack of work opportunities for all. In this case, the importance of a *stable macroeconomic and political environment as well as measures geared towards improving the business climate* cannot be emphasised enough.

To generate long-run growth, governments should ensure sustained levels of infrastructure development and a pro-business (formal and informal) policy environment. Fixed capital expenditure on both fixed infrastructure as well as social infrastructure (for example, schools and hospitals) addresses both the supply- and the demand-side components of youth unemployment. A World Bank report on the state of Africa's infrastructure found that, while infrastructure spending has been a vital component of Africa's recent growth revival, the levels of infrastructure investment still lag behind other developing regions. Reducing the cost of infrastructure services (especially transport, energy and ICT services) – some of which is driven by high profits rather than high costs – is key to creating a more business friendly environment (World Bank, 2010b). Fixed capital investment in major infrastructure projects also has the potential to provide substantial employment in Africa. However, achieving cost-effective, efficient and sustainable infrastructure upgrades should be the primary targets of such projects, rather than employment creation. Too heavy an emphasis on the public sector employment potential of such projects could jeopardise the long-run returns on investment.

Beyond targeting long-run private sector growth, stable macroeconomic policy and infrastructure investment; active demand-side youth employment policies are needed. These generally include direct employment programmes (i.e. public works programmes) and employment or on-the-job training incentive schemes (i.e. youth wage subsidies). Direct employment programmes, through public works, have been used in at least 20 African countries (AfDB et al., 2012). These policies are generally seen as a short- to medium-term solution and are often used as part of counter-cyclical fiscal policy. Public works programmes are often designed to help the youth make the initial transition into the labour force, with the hope that the work experience they gain will assist them in securing a job outside of the programme. However, it is essential that such policies have limited life-spans and are seen as short- to medium-term policies.

Finally, it is often existing policies or regulations that hinder efficient labour market activity. Given the risks of employing a young person with limited work experience, restrictive labour regulations, that make it harder to dismiss unproductive employees, may discourage employers from hiring youths in the first place. Employment legislation plays an important role in protecting workers and in ensuring decent standards of work. However, the evidence is mixed with respect to how labour market regulations affect employment outcomes. Still, in some countries, regulations may make it difficult for employers to structure internships or short-term contracts to provide young job market entrants with experience. Companies may prefer informal arrangements if formal contracts are risky, given

55 This applies especially to middle income countries in Southern Africa which have found themselves in a 'middle income trap' (i.e. experiencing extensive periods of low growth). Sluggish growth amongst Africa's MICs and commodity market driven growth for many of Africa's LICs, has resulted in high rates of labour market inactivity and/or unemployment across various levels of education.

## **Box 5.1** Demand-side youth employment policies in South Africa

Policymakers may also try to incentivise the employment of young workers through the subsidisation of leadership programmes, or through tax incentives. Government can subsidise leadership programmes in businesses as a way of reducing the cost of employing younger, less-experienced employees. However, these programmes tend to be run by medium to large firms (especially if the programme is registered and standardised). Larger firms may have fairly inelastic demand for young workers. In such a case, subsidising these programmes would result in a large deadweight loss to society. If a subsidy resulted in an increase in leadership programmes, then it could have a positive net return (Burns et al., 2010). Wages of young employees can also be subsidised directly. These policies tend to take the form of tax incentive schemes that reduce the income tax paid by the firm on young employees. However, by definition, only tax-registered businesses would qualify for such a programme. Such a policy would be, therefore, less effective in many of Africa's LICs, whose economies are largely informal.

Despite its strong economic performance compared to other African MICs, South Africa has one of the highest youth unemployment rates on the continent. In 2011, the youth unemployment rate was more than double the aggregate unemployment rate. Approximately two thirds of the unemployed youth had never had a job (RSA National Treasury, 2011). South Africa's policy response has included a number of demand- and supply-side labour market policies. However, it is arguable that in the context of extreme unemployment (excess supply of labour) the impact of supply-side policies can be limited; thus, South Africa has also invested in demand-side policies. These policies include:

- The Expanded Public Works Programme (EPWP), implemented in 2004 as a short- to medium-term solution, which has provided 1.6 million jobs and is still in place (Ranchhod and Finn, 2014; Meth, 2011);
- Leadership Agreements which provide financial incentives to those firms which offer accredited training programmes for the youth (see Schöer and Rankin, 2011; Burns et al., 2010; RSA National Treasury, 2011); and,
- Most recently, an Employment Tax Incentive (ETI). Below, we provide a brief description of South Africa's ETI as well as a review of Ranchhod and Finn (2014), who investigate the short-term impact of the ETI on youth outcomes.

### South Africa's Employment Tax Incentive (ETI)

#### 1. Design and implementation

South Africa's ETI aims to lower the additional costs associated with employing young individuals, both in relation to the risk of employing someone with little or no work experience, and the cost of training them. Indeed, 61% of South African firms find that referrals are the best mechanism for recruiting which, ex ante, reduces the probability of an inexperienced youth finding a job and confirms the need to compensate firms for this risk (Schöer and Rankin, 2011). Firms which pay their young employees (aged 18-29) between R2,000 and R6,000 a month, and which are registered for income tax, qualify for the ETI subsidy. It is, therefore, targeted at lower skilled employees and has built-in disincentives to not replace existing employees. The programme aims to spend R3 billion over 3 years during which it hopes to create 178,000 jobs at R28,000 per job (see Ranchhod and Finn, 2014).

The ETI took effect on the 1st January 2014. Its launch followed an extensive period of debate on the potential positive and negative impacts of the policy by all potential stakeholders. South Africa's largest labour union federation, COSATU, argued that the subsidy would result in labour market 'churning' and the substitution of adult employment with subsidised youth labour (COSATU, 2012). Moreover, they argued that reducing the cost of employing individuals who otherwise would have been unemployed would result in a 'deadweight loss' to the economy – an impact which has been documented by other international experience (see Betcherman et al, 2004). However, in a survey of firms, Schöer and Rankin (2011) found that, under a hypothetical ETI, 62% of firms would favour youth in new hiring, while 77% confirmed that they would not replace existing employees due to the loss of experience and cost of retrenchment.

#### 2. Policy outcomes: Ranchhod and Finn (2014)

Given Schöer and Rankin's (2011) finding that 38% of firms would hire new labour under the ETI, one would expect a significant positive impact of the ETI on youth employment, even in the short-run. The little information there is about the uptake of the wage subsidy suggests that approximately 56,000 firms are registered for the ETI (Ranchhod and Finn, 2014). Ranchhod and Finn (2014) investigate the short-run (6 months after implementation) impact of the ETI using micro-level data from the South African quarterly labour force survey. They find no evidence of a significant increase in youth employment prospects or the rate of employment uptake after the implementation of the ETI in January 2014. Although their study can only capture the immediate short-run impact of the ETI, they give four reasons for the lack of an employment effect:

- The ETI may require more than 6 months to have an impact on employment outcomes, especially if the rules of the policy are unclear to employers;
- Due to the nature of the tax incentive, it does not reach non-income-tax-registered businesses (predominantly SMEs) nor informal sector enterprises, thus restricting the pool of targeted firms to predominantly medium to large firms which may have more inelastic demand for labour;
- The value of the incentive might be too low to have any significant impact on employment decisions;
- Within larger firms, there may be a disconnect between recruiters and recipients of the ETI deduction. In large companies, with multiple branches, the tax deduction may benefit the central business, while employment decisions are made by unaffected local managers.

Ranchhod and Finn (2011) also argue that the ETI's intended outcomes are rather unambitious given the extent of South Africa's youth unemployment problem. Creating 178,000 jobs over 3 years is a very modest improvement for a country with approximately 3.66 million youths. It would, ceteris paribus, only improve the unemployment rate by approximately 2.6 percentage points from 51% to 48.4% (authors' calculations). Unfortunately, at this point, the evidence points to no significant improvement in employment outcomes and to a potential deadweight loss, as firms receive tax deductions for hiring youth whom they would have hired anyway.

Source: Authors

young people's lack of employment history (Gumede et al., 2013; AfDB et al., 2012).

Further, some labour market regulations put young people at a direct disadvantage to older workers. Severance payments that are proportional to the length of employment make it cheaper for a firm to fire a young person (e.g. a recent hire) relative to those employed for a longer time in the same company. Similarly, strong labour unions favour insiders and negotiate wages, including the minimum wage, that are too high relative to a young person's market value. Even though the youth are typically more mobile than adults, the lack of affordable housing and public transport make it challenging for the youth to tap into this source of comparative advantage. While such labour market institutions may exist in only a few African middle income countries, the low income countries should take these lessons into account as they are designing their own emergent systems. *Overall, it is important to ensure that labour market regulations give explicit attention to facilitating the youth's engagement with the labour market alongside their more traditional concerns, of protecting those already in employment.*

In summary, as they enter the formal or informal labour market, young people are at a disadvantage due to their lack of experience and knowledge of the labour market. It is essential that, through education and training, the youth are equipped with the skills that are demanded in the labour market, taking into consideration changes in technology and the growth of new industries. Moreover, supply-side policies should be used to improve the uncertain return to job searches, especially in urban centres where costs can be higher, and they should assist in matching young people with job openings. In countries with high youth unemployment, supply-side policies may be less effective. Demand-side policies will be needed to ensure job creation that can match the large youth cohort still entering the labour force across Africa. It is essential that macroeconomic policy is used to create a sustainable, pro-employment economic environment that is supported by expanding infrastructure projects. Finally, regulation and existing policy can often be a hindrance to more efficient labour market outcomes.

### 5.5.2 Creating jobs: Youth entrepreneurship

All regions of the world have been experiencing changes in population demographics, technology, and more frequent occurrence of aggregate shocks. These changes have brought about varied responses including, heightened emphasis on entrepreneurship by governments, organisations and the public (Herrington and Kelley, 2012). The interest in entrepreneurship is particularly relevant for Africa, which has a very high share of necessity (or subsistence) entrepreneurs. However, opportunity (productive) entrepreneurship has remained relatively scarce.

For many young people in Africa today, entrepreneurship might be the only viable path to a sustainable livelihood. Moreover, economic policy in many African countries has seen a shift towards supporting entrepreneurs and Small and Medium-Sized Enterprises (SMEs) as a source of both economic growth and employment creation, especially for the youth (Chigunta et al., 2005)[56]. In addition, the opportunities for entrepreneurship in developing countries are far-reaching and central to the economy (Lingelbach et al., 2005).

However, not enough is known about productive entrepreneurship as a source of livelihoods in Africa. For the youth, becoming an entrepreneur may come with a number of challenges, including having acquired the necessary business training to develop a profitable enterprise and securing capital to invest in a new firm. These challenges may also vary by gender and geographical divides. For example, access to capital and training in urban areas is generally better than in rural areas, and, young women may hold other responsibilities within the household that prevent them from securing the training or spending the time necessary on running a business. At the same time, ***the extra challenges provide the basis for intervention in start-up capital, skills, networking and mentoring, to put***

56 While entrepreneurship and SMEs are not identical, most entrepreneurial activities in SSA occur in SMEs.

***the chances of young entrepreneurs on an equal footing with those of adults.*.**

While views on the importance of these constraints for youth start-ups vary, access to finance for young entrepreneurs is a key factor limiting the development of firms in Africa (see, for example, UNDP Swaziland, 2013). Entrepreneurs often depend on informal forms of borrowing (Bygrave, 2003 in Lingelbach et al, 2005), in part, because banks do not find lending to SMEs profitable and most African capital markets do not function smoothly. Government programmes established to provide start-up funds are often not effective in allocating them in the most efficient manner, and are sometimes even stifled by corruption (Global Entrepreneurship Monitor, GEM, 2012). There is also, in general, a shortage of reasonably priced credit available to those without collateral. ***Developing entrepreneurial ecosystems that would include adequate supply of credit for SMEs at reasonable cost, even for those who do not have traditional collateral, could go a long way towards facilitating high growth entrepreneurship.***

Herrington and Kelley (2012) identify the lack of school based skills and knowledge specific to business development, as well as generally low levels of education as major limitations on the development of entrepreneurs in SSA. For example, Bosma and Harding (2006), using GEM survey data, find that lack of financial literacy and low managerial skills limit young entrepreneurs in South Africa (see also, Kojo Oseifuah, 2010). However, entrepreneurs require more than just business training. They need what Chambers and Conway (1992) describe as 'livelihood capabilities'. Chigunta et al., (2005) refer to these capabilities as 'enterprising life skills' which enable an individual to: Recognise their own potential and capacity; Make healthy risk-aware decisions; Navigate conflict; and, Think strategically. ***Preparing youth with both the 'hard' and 'soft' skills for entrepreneurship is essential to enable sustainable livelihoods.***

While entrepreneurial training and education are the most commonly used non-monetary interventions, international experience with these measures is mixed. Youth entrepreneurship training programmes can be successful provided that other necessary preconditions are met, including correct targeting and a good time limit. They can target the most vulnerable (e.g., in rural areas, from low-income families) or maximise the number of potential beneficiaries. A review of almost 300 global studies on youth employment interventions highlighted the following policies/projects as effective demand-side interventions (Puerto, 2007):

- Project Baobab, in Kenya, targeted low-income rural youth. About half of those who received the start-up grant were running businesses with good-to-marginal success during 2000 – 2004.

- Jua Kali Voucher Program (Kenya) for SME training and technology projects in the late 1990s and early 2000s. Almost 40,000 vouchers were issued to SMEs. The scheme boosted employment and business activity for participating enterprises, but the subsidies were challenging to phase out.

- Young Micro Entrepreneurs' Qualification Programme, in Peru, focused on business plans and profitability. The programme led to an 8% increase in entrepreneurs' likelihood to operate a business, and an 8% increase in their average income in the short-term.

- A youth promotion project, in Bosnia and Herzegovina, raised the attractiveness of agribusiness entrepreneurship for the youth and reduced pressures for rural-urban migration. The project offered training in selected agricultural fields and fostered the establishment of small farms.

A key policy message from Puerto's (2007) review and other studies, such as the OECD (2012) study of youth with high potential, is that integrated packages of support are more effective than single instruments (see, Box 5.2). The importance of integrated packages of services, rather than isolated measures, is also a key lesson from entrepreneurship programmes in Africa targeting vulnerable people in general (rather than youth focused). Furthermore, programmes involving start-up subsidies need to have a credible exit strategy. Governments should partner with private actors in carrying out such interventions. In fact, training schemes seem to be more effective when administered by the private sector.

In summary, for many of Africa's young people, entrepreneurship (or self-employment) is the only labour market opportunity they have. An essential component of achieving broad-based economic growth and development in Africa will be harnessing the growth potential of these youth start-ups. Equipping young people with business skills, both while at school and within the market place, is needed to turn, what are often survivalist enterprises, into growth oriented businesses that have the potential to generate employment opportunities for others. Supporting SMEs with affordable credit facilities as well as ensuring the support of infrastructure investment (again, transport, energy and ICT are key) is key to achieving these goals.

**Box 5.2** Avoiding a lost generation: Findings from the G20 countries

The importance of entrepreneurship and SMEs for job creation and economic growth in G20 countries – and elsewhere - cannot be emphasised enough. In G20 countries, SMEs account for two thirds of employment and generate jobs at about twice the rate of their larger counterparts. The global financial crisis has left a legacy of weakened public finances. In the aftermath, policymakers in G20 countries have heightened their interest in entrepreneurship as a source of job generation, support for local communities, and, as an integral part of prosperous societies. Young entrepreneurs (aged 15 – 35), with potential for innovation to spur growth, are of particular interest. Beyond direct economic benefits, young entrepreneurs can serve as role models in their societies and mentor other aspiring entrepreneurs.

The G20 Young Entrepreneurial Alliance (the G20 YEA), a group of NGOs representing over 500,000 entrepreneurs, prioritises the following areas to support high growth entrepreneurs:

- A strong and vibrant research sector;
- The Entrepreneurs' Infrastructure Programme (R&D tax incentives);
- A framework for SME entrance and growth, access to finance and information; and,
- Entrepreneurial skills and capacity, digital know-how.

Jointly with Ernst & Young (EY), the G20 YEA carried out a study to derive effective policies in support of productive youth entrepreneurship. Areas that should be prioritised in a given country or region depend on the main causes of youth unemployment. Specifically, countries are categorised based on the speed of job creation for youth and the quality of these jobs. Four main categories are: (i) Strong economies/strong skill-match (e.g., Australia); (ii) Strong economies/weak skill-match (e.g., China); (iii) Weak economies/strong skill-match (e.g., South Korea); and, (iv) Weak economies/weak skill-match (e.g., Italy). The key policy areas to address in order to support youth entrepreneurship are:

1. Access to finance: Funding should be combined with mentoring and financial literacy training. Other priorities include: Developing venture funding; Facilitating the availability of public funding for start-ups; and, banking funding for expansion capital;
2. Regulations and the tax system: A simpler, SME-friendly environment is needed. In EY's 2013 survey of 1000 entrepreneurs, one third demanded the creation of a single government agency to help new businesses with all regulations and tax filing.
3. Societal attitudes: The public needs to adopt a more positive attitude to start-ups and tolerate failures. The contribution of entrepreneurs as job creators needs to be better recognised.
4. Regional entrepreneurship: Focus on developing a regional entrepreneurship ecosystem and providing funding to regional organisations.

The above measures are also relevant in Africa. Kenya and Nigeria, for example, have already embraced entrepreneurship as a way to generate livelihoods, but are still grappling with access to finance. In other countries, for example in Southern Africa, the youth still views public sector employment as the most desirable, entrepreneurship is a default choice. In all African regions, enabling frameworks for regional entrepreneurship are yet to be developed.

Sources: Ernst & Young (2013) and (2014).

# 5.6 Conclusion

Africa faces a variety of complex challenges as it attempts to move forward along a sustainable growth path to eradicate poverty and achieve broad-based economic development for all. In chapter 3, we discussed the reasons why growth has not been inclusive: Inequality in human capital development is one of the obstacles that needs to be addressed. This chapter analysed various challenges and opportunities faced by youth in the labour market. Given the projected growth of Africa's youth population, as well as the dynamics of rural-urban migration and intraregional migration, it is essential that governments and regional institutions engage with matters concerning the youth.

In particular, the transition to the labour force is a defining characteristic of the broader transition from childhood into adulthood. Africa's MICs currently face some of the highest youth unemployment rates in the world. Many of its LICs appear to have no unemployment problem, which masks high levels of labour market vulnerability and under-employment. Policy responses should, therefore, be context specific, but should in all instances deal with both the demand- and supply-side aspects of youth unemployment.

This chapter addressed the wage- and self-employment opportunities for youth separately and discussed policy responses accordingly. Firstly, it addressed the challenges faced by young people when searching for wage employment. It highlighted the need for improving education outcomes, both in terms of quantity and quality, as an essential supply-side response. However, it argued that in the context of high unemployment, demand-side policies are equally important. Africa needs to generate more jobs, which requires collaboration between government and private sector to create an employment-creating macroeconomic environment through adequate infrastructure investment.

However, many of Africa's youth will not have the opportunity to find wage-earning jobs in the formal sector. Instead, they will look for work within the household, within the informal sector, or, they will migrate in search of work. Others will establish their own businesses. Many African countries have high levels of informal sector activity and self-employment. This entrepreneurial dynamism should be harnessed as a potential source of economic growth and employment.  Supportive policies that provide business training and support to SMEs will play an important role.

Africa's youth face many challenges. There is potential for social exclusion, and even for social and political unrest, if the transition from school to work is characterised by long periods of unemployment. The costs of this to each county are very high. It is the youth who embody the necessary dynamism to enrich Africa's economies. The youth are characterised by a progressive attitude towards technology and innovation that will advantage them in the labour market, whether in paid work or as entrepreneurs. There is a potential 'demographic dividend' here, but governments need to respond with active labour market policies to ensure that this continent's youth are able to reach at least some of their potential.

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# Appendix

**Appendix 5.1** Categorising labour force status

The "Rosetta stone for labor markets" classifies labour market status, and is reprinted below, taken from the 'African Economic Outlook, 2012' (AfDB et al., 2012). NEET stands for 'Not in Employment, Education or Training'.

<table>
<tr><th>1. Labour Force Status</th><th>2. Time Use</th><th colspan="2">3. Employment Status</th><th>4. Working?</th><th>5. Job Quality</th><th>6. Formality</th></tr>
<tr><td rowspan="5">In the labour force</td><td rowspan="3">Full-time worker</td><td colspan="2">Wage employed</td><td rowspan="5">Employed</td><td rowspan="2">Wage employment</td><td rowspan="5">Formal<br>Informal</td></tr>
<tr><td colspan="2">Self-employed</td></tr>
<tr><td colspan="2">Contributing family worker / unpaid worker</td><td rowspan="3">Vulnerable employment[2]</td></tr>
<tr><td rowspan="2">Part-time worker</td><td colspan="2">Voluntary part-time employed</td></tr>
<tr><td colspan="2">Involuntary = Underemployed</td></tr>
<tr><td rowspan="4">Out of the labour force</td><td>Job seeker</td><td>Unemployed</td><td rowspan="2">Broard Unemployment</td><td rowspan="3">NEET*</td><td rowspan="4"></td><td rowspan="4"></td></tr>
<tr><td rowspan="2">Inactivity or housework</td><td>Discouraged</td></tr>
<tr><td colspan="2">Inactive</td></tr>
<tr><td>In education</td><td colspan="2">Student</td><td>Student</td></tr>
</table>

## **Appendix 5.2** A menu of active labour market policies

A mapping of policy regimes might consist of looking at how much governments spend on different kinds of services, the populations targeted for the services and the connection between these policies and other forms of social assistance (Heckman et al, 1999). The framework below comes from the World Bank (World Bank, 2010b).

| Constraints | | Possible ALMP Interventions: Evidence-based interventions | Possible ALMP Interventions: Mixed evidence, theoretically sound |
|---|---|---|---|
| **Job-relevant skills constraints** | **Insufficient basic skills** | • Information abut the value of education | • Second chance progams |
| | **Technical skills mismatch** | • Training "plus"/comprehensive programs<br>• Information on returns to technical specialties | • On-the-job-training |
| | **Behavioral skills mismatch** | | • Behavioral skills training |
| | **Insufficient entrepreneurial skills** | | • Entrepreneurial training |
| **Lack of labor demand** | **Slow job-growth economy** | • Wage or training subsidies | • Public service programs<br>• Labor-intensive public works |
| | **Employer discrimination** | • Affirmative action programs | • Subsidies to employers who hire target groups<br>• Employee mentoring |
| **Job search constraints** | **Job matching** | • Employment services | • Technology-based information sharing |
| | **Signaling Competencies** | | • Skills certification<br>• Training center accreditation |
| **Firm start-up constraints** | **Lack of access to financial or social capital** | • Comprehensive entrepreneurship programs | • Microfinance |
| **Social constraints on the supply side** | **Excluded-group constraints (ethnicity, gender, etc)** | • Target excluded-group's participation in programs<br>• Non-traditional skills training<br>• Safe training/employment spaces for specific groups | • Adjusted program content/design to account for excluded-group specific needs |

Source: World Bank (2010b)