Africa’s Labor Market in the face of shifting Global Trends

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Labor Markets in Western Africa: Evidence and Policy Lesson
Introduction
Structure of Presentation

- Introduction
- Demographic Changes and Labor Market Issues
- Technological changes and Employment Prospects in Africa
- Policy recommendations for African economies
Current context

- Rapid economic growth the past decades:
  - Africa’s growth is positive and resilient
  - Signs of improved structural changes
Africa is not unravelling – growth resiliency

- Africa’s real GDP growth above global average
- Only Emerging Markets and Developing Asia have higher growth
- Growth volatility common feature of all regions
- Impact of global shocks deeper in LAC and G7 countries than for Africa
Actual real GDP growth against long term trend

Africa
Issue of inclusive economic growth

• Poverty rates are still high and issue of inequality

➢ An additional 1 percent GDP growth between 2000 and 2010 resulted in less than 0.4 percent growth in total employment (Page and Shimeles, 2015)

➢ Multi-dimensional poverty fell in 30 out of 35 but 54% of the population in 46 African countries is still considered multi-dimensionally poor (Alkire et al., 2016)
Jobless Growth

• This growth did not translate into better employment prospects: “jobless growth”

- Unemployment remains a major challenge in the continent
- Unemployment is high, particularly in middle-income countries, reaching up to 50% in some countries

• Low-income countries report very low rates of unemployment

- Statistics are misleading, masking high levels of underemployment
Fast growing countries did generate fewer jobs implying jobless growth.
Early deindustrialization in Africa hurt employment generation
Jobless Growth

• large informal sectors with low returns and high rates of vulnerability:
  ✓ much of the labor force is still concentrated in the low productivity agricultural sector
  ✓ informal sector accounts for up to 80% of Africa’s labour force (AfDB, 2016d).
  ✓ Africa’s impressive economic growth has been concentrated in capital-intensive areas, like the extractive sector, or primary products that do not require much labour

• Rapid population growth is an urgent challenge:
  ➢ without diversified, productivity-driven and broad-based growth, Africa will continue to create fewer jobs than there are new entrants to the labour market
Challenge #1
Demographic Change and Labour market issues
Unprecedented demographic change: Rapid and large

- Asia: first continent with the highest share of youth but the trend is declining contrary to Africa (UN, 2015)
  - Asia: 718 Million youth aged between 15-24 years old in 2015
    - 711 Million in 2030 and 619 million in 2060
  - Africa: 226 Million youth aged between 15-24 years old in Africa in 2015 and it is keeps on growing.
    - By 2030 Number of youth increase by 42%. More than doubling its current level by 2055
### Projected population trends, 2013-2063

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Population</th>
<th>Working Age Population (millions)</th>
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<tbody>
<tr>
<td></td>
<td>2013 (millions)</td>
<td>2063 (millions)</td>
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<td><strong>Region</strong></td>
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<tr>
<td>World</td>
<td>7 213</td>
<td>10 338</td>
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<tr>
<td><strong>SSA Share (%)</strong></td>
<td>15.7</td>
<td>29.9</td>
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*Source: Ewinyu et al., using medium variant projections, United Nations, forthcoming AfDB report (2017)*
Working Age Population

• Africa’s working age population (15-64 years) will triple from 627 Million to 1.969 Billion between 2013 and 2063

  ➢ i.e a yearly increase of 2.3% over the period.
  ➢ Opportunity for the continent while other advanced economies are aging...
  ➢ ...high potential risk in terms of social and political stability if good jobs, social protection systems and decent living conditions are not provided
Trend Working Age Population

• Ewinyu et al., forthcoming AfDB report (2017):
  ➢ 9 countries accounting for 60.4% of Africa’ working age population
    ✓ Nigeria (17.7%), Democratic Republic of Congo (9.3%); Ethiopia (7.1%),
      Tanzania (6.3%) Uganda (5%), Egypt, Niger and Angola (between 3.6% and
      4.1%)
  ➢ Rapid working age population growth rate is negatively correlated
    with level of income
  ➢ Cohorts 15-24 and 24-35 years, projected to represent at least 50% of
    the working age population in 2063
  ➢ young cohorts drive population growth until 2033 when greater
    share of older cohorts
Youth Unemployment Issues

• Countries with high number of youth are those with high youth unemployment rate

• Despite their improved education, young Africans still suffer from:
  ➢ lack of employable skills
  ➢ limited access to financial assets to start their own businesses
  ➢ Mismatch between the education curriculum and labour market needs
Youth Employment Status in Africa, 2015

- Vulnerable: 35%
- Unemployed and discouraged: 31%
- Wage employment: 15%
- Inactive: 19%

Source: AfDB (2016c)
Youth Employment Issues

- Across Africa, youth are three times more likely to be unemployed than adults (ILO, 2015).
- Half of all youth are either unemployed or inactive while 35% are in vulnerable jobs (AfDB, 2016d).
- Gender inequality makes the situation worse for females.
- The youth unemployment rate increases consistently with the level of education
  - Africa’s education systems are not preparing people for the labour market.
  - Youth who have completed tertiary education are two to three times more likely to be unemployed than the youth with primary education or less (ILO, 2015).
- Despite the potential for “agri-preneural” activity, Africa’s youth are moving away from agriculture to jobs in the informal service sector
- The service sector is the largest employer for youth in most African countries (ILO, 2015).
Estimation of the Employment needs

• To keep Labor force participation rate and unemployment constant between 2016 and 2063:

  ➢ Employment must triple within 50 years (Ewinyu et al., forthcoming AfDB report (2017))
    ✓ i.e 948.1 Million over the period
    ✓ Put differently, it means 1.7 million jobs should be added monthly across the continent

• Facing and increase in the labor force, this raises the issue of mobility to absorb this excess of labor force but also higher investment in skills
Estimation of the Employment needs by Regions

• Assuming constant labour force participation:
  ➢ Approximately 547,000 jobs will need to be created monthly between 2016 and 2063 in East Africa in order to keep unemployment rates constant.
    ✓ Equivalent to roughly one-third of the monthly job requirement for Africa.
  ➢ In West Africa, this figure is 538,000
    ✓ also roughly one-third of the African figure.
  ➢ In Central Africa, the requirement is 293,000 per month,
  ➢ Southern Africa: 218,000 jobs are required monthly
...but hope is still allowed

- 22% of Africa working age population is starting new business, highest rate in the world (13% Asia; 18% in LAC)
- Firms with fewer than 20 employees and less than 5 years’ experience provide the most jobs in Africa’s formal sector
- 44% of African entrepreneurs start businesses to exploit opportunities in the market, while 33% do so because they cannot find other jobs (AfDB et al., 2017)
...but hope is still allowed

• The share of the labour force engaged in agriculture has substantially declined and the share working in professional service jobs risen (McMillan and Harttgen, 2015)
• The number of rural children in secondary school is higher than ever.
• Africa’s unprecedented demographic growth is underpinned by increases in farming productivity
  ➢ not always visible in official statistics.
• Significant improvements in governance, living standards and human capital
Challenge #2
Technological changes and Employment Prospects in Africa
Technological Change, Structural Transformation and Labor market dynamics

• History shows that the countries which pulled out of poverty are those who were able to experience structural transformation, diversifying away from agriculture and traditional activities to modern sectors (McMillan et al., 2013)

• Structural transformation:
  - Definition: reallocation of economic activities—labor and other factors of production—across the broad sectors of agriculture, manufacturing, and services,
  - It is the speed of such transformations, in which employment generally shifts from agriculture to modern sectors, that determines the pace of poverty reduction (Duenecker and Herrendorf, 2016; Herrendorf et al., 2013; McMillan et al., 2014)
Technological Change, Structural Transformation and Labor Market dynamics

• The fundamental channel through which structural transformation improves welfare is primarily through change in wages—the price of labor (Ngai and Petrongolo, 2014; Barany and Christian, 2014; Duernecker and Herrendorf, 2015)
  
  ➢ important implications on:
  ✓ labor productivity growth
  ✓ hours worked,
  ✓ urbanization,
  ✓ features of the labor market such as labor force participation and job polarization
Technological Changes and Challenges for Africa’s Labor Market

• Today’s realities: Powerful computing and communications technologies, the “internet of things”, artificial intelligence and big data, the sharing economy, and the digitalization of matters such as 3D printing

• Robots are substituting for workers:
  ➢ In complex manufacturing plants
  ➢ at grocery stores, Amazon warehouses, delivering packages, hauling passengers, vacuuming residential and office spaces
  ➢ providing sophisticated security services
Technological Changes and Challenges for Africa’s Labor Market

• This Fourth Industrial Revolution gives more importance to:
  ➢ services and promotes industrialisation based on shifting resources into more sectors than manufacturing alone.
  ➢ Information and Communications Technology (ICT) tends to replace medium and low skilled workers and require more highly skilled workers (Naudé, forthcoming).
  ➢ a lot of machines may replace migrants workers in developed countries
    ✓ above all for the low skilled jobs
    ✓ will imply a decrease in demand for youth labor
How technological changes will affect Africa’s labor market?

• The current industrial revolution is impacting Africa’s industrialisation through three major technologies:
  ➢ robotics, automation and artificial intelligence
  ➢ Additive manufacturing (e.g. 3D-printing)
  ➢ the Industrial Internet and data analytics (Naudé, forthcoming).
How technological changes will affect Africa’s labor market?

• The fast-changing technology in advanced countries that could replace human labor will imply important employment challenges in Africa:

  ➢ Consequences for African economies in terms of competitiveness and employment
  
  ➢ If Africa is unable to shift its labor force from agriculture to the modern sector, technological shifts in advanced countries could be bliss or burden for the existing jobs challenges.
Potential to Leverage

• Most African countries not yet equipped to transition to a Fourth Industrial Revolution economy (AfDB/WB/WEF, forthcoming).

However.....

• New technologies can also help Africa create jobs and industrialize:
  
  ➢ Open up possibilities for new sectors to emerge.
    ✓ Cape Town, Lagos and Nairobi emerging as hubs for global start-ups, (e.g financial technology and renewable energies)
Potential to Leverage

• New technologies facilitate small-scale manufacturing:
  - Allow firms to cut down on production, by reducing the cost of customisation.
  - Enable creative firms to compete thanks to their knowledge of local needs.
  - Collaborative economy allow small firms to take advantage of under-utilised resources (e.g. computing power, transportation vehicles and office space.

Potential to Leverage

• New communication technologies can help firms participate in global trade:
  ➢ Using Internet, companies can reach markets beyond their geographical location.
  ✓ “a 10-percent increase in internet use in the exporting country is found to increase the number of products traded between two countries by 0.4 percent” (World Bank, 2016).
  ➢ New technologies also offer ways to fill Africa’s infrastructure gap. Digital technologies allow governments to reach citizens, particularly disadvantaged populations.
Potential to Leverage

• Africa has already made a head start in several areas.
  ➢ Kenya and Nigeria are more advanced in mobile banking than many OECD countries.
  ➢ Sub-Saharan Africa has over 222 million mobile money accounts, more than all other developing regions combined (GSMA, 2015).
  ➢ In South Africa, the company Lonmin uses smart machinery in its largest platinum smelter.
Policy Implications
Policy Implications

1. Africa needs structural economic transformation: the large-scale shift of labour from low to more productive sectors or activities.

2. Partnership initiatives such as the ENABLE Youth Program:
   - focuses on agribusiness as a means of economically empowering Africa’s youth
   - with target investment of USD 12.5 billion to support enterprise and job creation for youth and women in 25 African countries.

3. Africa’s governments need to launch bold reforms but the trends do not seem to go into that direction in most of the countries.

4. Target employment policies for youth as a priority
Policy Implications

5. Industrial policies should be focusing on growth led by labour intensive sectors

6. More efforts is facilitating innovation, and investment in quality education system and new skills to face the rapid increase of skilled workers involved by skill biased technology

7. Opportunities to create new jobs in Africa: Investment in high technology

8. Governments investments in social protection mechanisms: pension systems, health care