

+ 789 MILLION AND COUNTING: THE SUB-SAHARAN AFRICAN EQUATION

The employment challenge in Africa is persistent and unique. It is not solely a challenge of unemployment, but one of providing quality jobs for a rapidly expanding, and markedly young, labour force. This research brief explores the opportunities that economic diversification offer to foster structural transformation in sub-Saharan Africa. It highlights three interconnected actions needed to achieve this goal: (i) supporting evidence-based multi-sectoral development strategies; (ii) supporting family farmers and diversification of rural incomes; and (iii) strengthening rural-urban linkages and promoting territorial policies.

Within the next 15 years, some 375 million youth will become of working age in sub-Saharan Africa (SSA), equivalent to the current combined populations of Canada and the United States.¹ Moreover, by 2050, SSA youth, ages 15 to 24, will account for 30 per cent of all youth around the globe. Accordingly, addressing youth employment challenge will be paramount if SSA is to realize the 2030 Agenda for Sustainable development.

Rapid growth of working age population suggests a potential demographic dividend. By 2050, SSA's labour force is expected to expand by 789 million individuals, equivalent to 62 per cent of the projected global expansion. If appropriate social and economic policies are in place, this could offer enormous potential for accelerated growth and increases in per capita income. However, capitalizing on these trends will require strong commitment and coordinated action to facilitate structural transformation. This includes strengthening development strategy design and knowledge creation, supporting family

¹ This brief was written by Fernanda Barcia de Mattos and Bruno Losch, based on Losch, B.: Structural transformation to boost youth labour demand in sub-Saharan Africa: the role of agriculture, rural areas, and territorial development (Geneva, ILO, 2016).

farmers and rural income diversification, and reinforcing rural-urban linkages with the adoption of a territorial approach.

Structural transformation: From historical evidence to new challenges

Historically, technological advances have led to increased agricultural productivity, which in turn released labour and capital for other economic activities. This process was accompanied by a progressive restructuring from agriculture to industry, and migration from rural to urban areas. Hand in hand with medical progress and decreasing mortality and, later, lower fertility rates, these changes have traditionally led to higher incomes and gradual improvements in welfare.

In spite of these trends, agriculture remains the world's largest employer. According to the Food and Agriculture Organization, it accounts for 40 per cent of the economically active population globally, largely a reflection of sizeable agricultural populations in Africa and Asia.² In these regions, agriculture accounts for approximately 60 and 45 per cent of the workforce respectively, whereas it comprises 5 per cent of the labour force or less in Europe and North America.

In Africa, most of sub-Saharan countries are "late" to this transformation process; 34 out of 48 least developed countries, as defined by the United Nations, are in Africa. These countries are characterized by low socio-economic development in terms of welfare and skills, and by economic vulnerability. In the context of the twenty-first century, they face new challenges which put into question the replication of historical development and transformation processes.

The first challenge relates to growing asymmetries in a globalized economy. On the one hand, globalization allows African producers to participate in global value chains and

² ILO estimates the sector accounted for 31.8 per cent of global employment in 2013 (ILO, 2014).

access far-flung markets. On the other, competition in foreign and domestic markets is complicated by gaps in productivity and competitiveness.

A second challenge concerns the resource-intensity of the current global growth regime, heavily reliant on fossil fuels and other non-renewable natural resources. Climate change and the depletion of natural resources are a particular concern for Africa and impede the reproduction of traditional processes of structural transformation. These concerns lie at the center of the recently adopted Sustainable Development Goals and the COP21³ agreement.

Yet another challenge results from an observable contradiction between a steady demographic and labour force growth with concomitant advances in productivity due to technology which often reduces, and at times eliminates, requirements for human labour, particularly at the lower end of the skill spectrum. Increasing mechanization and automation can have negative impact on wage labour, traditionally the foundation of wealth distribution and rise of mass consumption. It can also contribute to increasing inequality between higher skilled high-wage labour and lower skilled low-wage workers (Autor, 2014; ILO, 2015).

The unique situation of Africa and the continent's employment challenge

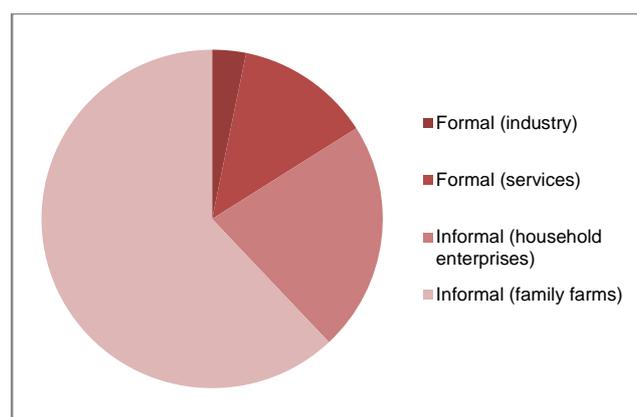
Africa is a diverse continent, yet SSA countries – excluding and Northern and South Africa – share a number of characteristics which indicate a common equation could potentially address prevalent concerns. Of 48 SSA countries, 32 have per capita income below \$1,500, prominent agriculture and extractive sectors in GDP and employment, and remain largely rural and marked by high fertility rates. Moreover, SSA represents only 45 per cent of the continent's total wealth, while it comprises 75 per cent of its population.

Relative to other regions, SSA's macroeconomic structure changed little over the past 50 years despite a strong urbanization process. Agriculture, mining and fossil fuels account for over 30 per cent of GDP in two-thirds of SSA. In 17 of 48 countries, these sectors comprise over half of GDP. In contrast, manufacturing remains limited: only 18 countries have an industrial added value that exceeds 10 per cent of GDP.

Agriculture still occupies the vast majority of the labour force, reaching 75 per cent or above in certain Sahel and East African countries. The sector is a prominent employer not only for the

rural population, but also for persons in urban and peri-urban areas. Other important sectors for employment include services (predominantly trade and transport and, to a lesser extent, government and banking), handicrafts, public works and construction. Employment in manufacturing remains markedly low.

Figure 1. Employment structure in SSA in the early 2010s



Source: Losch, B. (2016), *op.cit.*, based on Filmer and Fox (2014).

Only 16 per cent of the labour force in SSA engages in formal wage work. The remaining 84 per cent work in the informal sector, largely on family farms (62 per cent) or small household enterprises (22 per cent). Prevalence of informal economy jobs provides, on the one hand, flexibility and resilience in face of hazards, and on the other, it is characterized by underemployment related to seasonal activities, low-quality, low-income work.

The structure of the labour market, coupled with low incomes and limited social protection systems, has led to stagnation of living standards and persistent poverty. Approximately 70 per cent of SSA's population live below \$2 PPP per day; and extreme poverty (at the \$1.25 PPP per day threshold), afflicts approximately half of SSA people.

SSA's population distribution also sets the region apart. While the world reached the tipping point with a slight majority of urban dwellers at the end of the 2000s, SSA remains approximately 60 per cent rural in 2015. Despite a tenfold increase in SSA's urban population since the early 1960s, the region will not become predominantly urban before 2040. Moreover, SSA is

³ The 2015 United Nations Climate Change Conference.

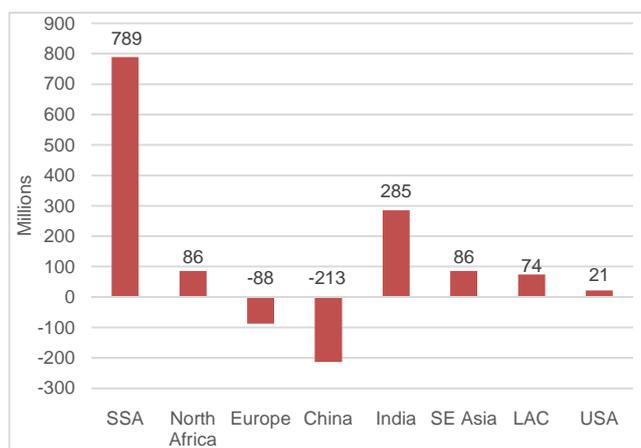
the only region globally where the rural population will continue to grow well after the middle of the century.

Projections suggest high fertility rates will drive strong demographic growth until after 2100 with an expected demographic push of 1.35 billion persons between 2015 and 2050. As a result, SSA's labour force will increase dramatically over the next decades. In sharp contrast, Europe and China experience shrinking trends, and much milder growth is forecast for India.

SSA's labour force is expected to surge by 789 million by 2050, roughly two-thirds of the global increase. Approximately one in three entrants should be in rural areas (or 270 million). The age structure will undergo a narrowing of the base as fertility rates decline, lowering the young-age dependency ratio and creating potential to reap the benefits of a demographic dividend, if accompanied by appropriate policies and commensurate job growth. However, this potential dividend will never reach the same size as other regions, notably Asia, because fertility rates will remain high while life expectancy is progressively improving.

Therefore, the "SSA's equation" is about dealing with this dramatic "job challenge" (Bhorat and Naidoo, 2013), with very undiversified economic structures, while simultaneously managing new constraints related to natural resources depletion and the impact of climate change (Losch, 2015)

Figure 2. Projected labour force change by major regions and countries, 2015-50 (millions)



Source: Losch, B. (2016), *op. cit.*, based on *World Population Prospects 2015*.

From sectoral priorities to development strategies

There is intense debate on the best development pathway for SSA with industrialization proponents on one side and agriculture advocates on the other.

Industrialization advocates argue reliance on low productivity agriculture prevents SSA's socio-economic development. The response, according to them, lies in agglomerations and economies of scale. Light manufacturing and intra-firm trade (with lower investment and skills requirements), coupled with rising wages in Asia and SSA's expanding labour force, harbour potential to transform SSA into the new "factory of the world".

On the other side of the debate, agriculture proponents defend that even with a new decade of significant growth, structural transformation will be slow and the majority of the labour force would likely continue to live in rural areas. Therefore, agriculture will remain paramount for poverty reduction, with impacts on rural diversification, up- and downstream activities and possible positive spillover effects on other sectors.

Other policy options include leapfrogging towards a service economy, and green growth with adequate governance of natural resource exploitation. Technological advances have permitted fast expansion of employment in tradable services. Service sectors based on location-specific resources, e.g. tourism and culture, can be particularly promising. The revenues from controlled exploitation of natural resources could be used to support development and economic diversification through strategic investment and move towards a greener growth path.

While there are virtues associated with each sectoral approach, they all present serious shortcomings. Industrialization has been slow relative to urbanization, free trade zone experiments have produced mixed results, infrastructure development would require substantial investments, and job creation in tourism or culture cannot suffice to keep pace with labour force expansion. Moreover, productivity gaps in agriculture between SSA and other regions of the world are stark and global competition in services is fierce. Furthermore, moving towards a green growth path poses the challenge of inventing a new development model.

There is no sectoral silver bullet to deal with SSA's structural and employment challenges. It is, however, clear that supporting SSA's social and economic development requires a paradigm shift away from the dominant African stance based on sector-specific intervention towards a broad-based approach.

Such multi-sectoral development approaches necessitate defining national priorities based on a vision of the future shared by all stakeholders, and designed through an inclusive process. It also requires coordinated action on a number of key areas.

Further, sustainable and inclusive growth in SSA will not be achieved without addressing the youth employment challenge. Youth ages 15-24 amount to nearly 200 million today, roughly one in five persons in SSA and 37 per cent of the labour force – the highest share in the world. By 2050, young people will account for 400 million persons.⁴

Yet, youth employment remains marginal in development debates and planning, particularly rural youth. When programmes do exist, they tend to consider youth as a homogeneous group (Sumberg et al., 2012). Furthermore, these programmes often consider youth in isolation, while the challenge of youth employment is intrinsically embedded in the complexity of Africa's transformation. Youth employment policy should stem from, and be considered within, a broad-based strategy for inclusive economic and social development.

The new emerging rural Africa

Although the majority of SSA's population remains in rural areas, rural reality is changing. Demographic trends, infrastructure improvements and the mobile phone revolution suggest a 'new rurality', characterized by new migration patterns, spatial dynamics, and diversification of livelihoods (Losch et al., 2013; Pesche et al., 2016).

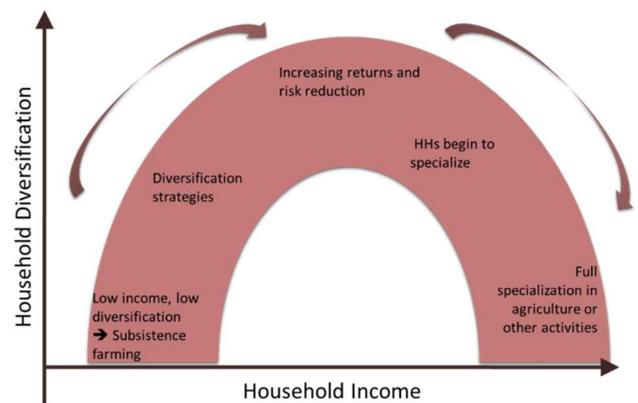
This 'new rurality' has contributed to rural diversification in two ways. First, short and temporary migration, from a few hours to a few days or weeks, have joined seasonal and long term migration patterns. Second, this increased mobility changes family structures, lifestyles and livelihoods. Both have allowed for the development of new activities and income sources in addition to traditional on-farm activities, and have strengthened linkages with urban areas. This diversification occurs within rural households.

Still, the degree of development of rural non-farm activities remains uneven and the rural off-farm sector is characterized by high levels of self-employment, petty services and few formal opportunities and wage jobs. Data on the average income structure for 19 regions in four SSA countries suggests on-farm activities remain the backbone of rural economies.⁵ These findings indicate that although diversification is now the norm in much of rural SSA, supporting small family farms remains paramount for SSA's development.

Literature highlights a strong relationship between diversification and income, which follows an inverted U-shaped

pattern (Reardon et al., 2000; Aloba Loison, 2015). At very low income levels, survival strategies and food security concerns prompt workers to engage full-time in farm activities. As incomes rise, households can develop more room for manoeuvre and begin to diversify activities and find additional sources of revenue. This process of diversification continues until households develop sufficient wealth and asset base to allow adequate earnings through specialization, whether on- or off-farm. At this stage, diversification occurs between and not within rural households.

Figure 3. Stylized representation of the inverted U-shaped pattern of rural households' income diversification



Source: Losch, B. (2016), *op. cit.*, based on Losch et al. (2012).

Most of SSA is on the left leg of the U, characterized by low but increasing income and diversification. As a result, policies must address food and economic insecurity, improving market access, lower transaction costs and expand agricultural productivity. It also necessitates strengthening the provision of public goods facilitating the development of other activities.

Booming labour force and enduring high share of rural population in the coming decades, coupled with limited capacity for labour absorption in other industries of poorly diversified SSA economies put agriculture at the centre stage for employment of adults and youth. However, 'business as usual' is not an option and existing agricultural development models must be reassessed.⁶ This is key for designing adequate national and

⁴ Based on the estimated share of rural population in 2050 (45 per cent), the number of rural youth ages 15-24 should grow from 120 to 180 million in 2050.

⁵ This result is based on rural household surveys simultaneously implemented in 2008 by the RuralStruc programme in seven countries

of sub-Saharan and North Africa and Central America (see Losch et al., 2012).

⁶ SSA agriculture has grown on a model of land use expansion rather than intensification, creating challenges in resource management. There are also increasing concerns over large scale international investment in

regional strategies with a strong focus on sectoral labour absorption capacities and sustainable land management.

Agriculture's effective capacity to absorb the growing labour force will depend on land availability and profitability of farm activities. Even if the current knowledge about land availability and land utilization is very poor due to weak statistical systems, we know that pressure on land is critical (Chamberlin et al., 2014). Depending on population patterns and densities, declining farm sizes is already a common feature. In the future, land pressure will depend on demographic growth and non-farm employment opportunities. However several countries face quite dire prospects which stress the importance of adequate development strategies.

On the profitability side, limited outputs and market inefficiencies characterize the agricultural sector, contributing to the incidence of poverty among farm households. However, there is great potential: in 2014, the value of food imports into sub-Saharan Africa was \$31 billion. Moreover, the value of food markets are expected to increase nearly threefold, from \$313 billion in 2010 to \$1 trillion in 2030 (World Bank, 2013). Reaping these benefits necessitates strategic policy choices. These include raising the value of farm output through diversification towards high value crops, improving market systems, and expansion of food processing and other up- and down-stream activities which all have a significant employment potential. Further benefits could be achieved by improving land and labour productivity, which currently stand below global levels.

The African Union's Comprehensive Africa Agriculture Development Programme (CAADP), launched in 2003 and confirmed in 2014 (Malabo Declaration), demonstrates strong commitment to agriculture modernization. However, the adopted modernization pathway should be addressed in order to give rural employment a core position. Furthermore, there is growing evidence of difficulties in ensuring the sustainability of a model reliant on fossil fuels, inorganic fertilizers, and limited crop rotation. SSA's demographic profile suggests agro-ecological practices, focused on ecological processes and sustainability, offer significant opportunities for a growing rural labour force (Pretty et al., 2011). Despite limited data, it is estimated these farming systems require 35 per cent more labour and rely more on local ecosystem knowledge than on capital. Nevertheless, adoption of agro-ecological farming systems will depend on profitability, which could be supported by payments for environmental services.

farmland and land concentration in the hands of increasingly wealthy urban dwellers which put at risk land access for local farmers.



Building blocks for an inclusive growth process for youth

Understanding past and current patterns and processes is critical for strategy and policy design. The questions of where people live and what people do must be central if a development strategy is to succeed. Therefore, based on the analysis presented in previous sections, it is possible to prioritize three courses of action: (i) promote evidence-based multi-sectoral and place-based development strategies, (ii) support to smallholder agriculture and diversification of rural incomes, and (iii) improve rural-urban linkages and promote territorial development.

Accordingly, the first step for drafting appropriate strategies is to reinvest in knowledge creation. Improved data are necessary for understanding the dynamics of evolving economies – including mobility of people and spatial dynamics – and resource base – particularly land and other assets such as skills and cultural heritage. Yet, statistics often remain limited and unreliable in Africa. Statistical blind spots are particularly acute in rural areas, where collected data mainly concerns agriculture, with a focus on agricultural production in lieu of rural household activities. This reinvestment will allow for evidence-base strategy and policy design, and to track progress. Priorities must be identified on the basis of shared diagnoses involving stakeholders at local and national levels; and sectoral policies must be articulated and their complementarities emphasized with awareness of their labour content.

Agricultural development is key as the majority of the workforce remains in the sector and because increasing outputs can facilitate labour-intensive up- and downstream activities. Increasing farmers' income is also essential for boosting rural demand and fostering rural diversification. Policy focus should, thus, be on unleashing the potential of smallholder agriculture to increase production on one side, and, on the other, to help develop new jobs in up- and downstream activities. This also requires addressing the growing disinterest of youth in farming by showcasing the potential for profitability, and by changing the status of the sector in politics, the media, schools and society as a whole.

Specific areas for intervention include reducing risks through promotion of more productive and efficient farming systems, improving market environment, consolidating land rights, and providing public goods such as health, education and infrastructure as well as social protection. In addition, farmers' organizations represent a powerful mechanism to offset limitations of small size production and capturing benefits of economies of scale in sourcing inputs, marketing outputs and transforming products. Moreover, these policies should be pursued in conjunction with promotion of environmental-friendly practices.

In addition, improving agricultural lives necessitates an integrated policy framework for the promotion of decent work for all. This includes the enforcement of an agricultural or rural minimum wage, facilitation of skills acquisition, entrepreneurship and enterprise support, engaging the youth, strengthening occupational safety and health, and progressive adoption and expansion of social security. Last but not least, a stronger legal framework for family farming needs to be developed and implemented addressing more particularly the intergenerational transfer of assets which is a strong binding constraints for innovation and development today.

The growing food demand in Africa is a major avenue for agro-processing, which can be developed by supporting small and medium-sized enterprises and intermediate technology. This option requires limited capital, is labour intensive and facilitates development of rural boroughs and small towns, offering employment and entrepreneurial opportunities, local value added, and new incomes.

Hence, diversification of the rural economy must be fully embedded in territorial policies and development. Currently, Africa is marked by territorial inequality, with significant concentration of economic activity, investment, and population in metropolises. Many secondary and tertiary cities, with potential for strengthening rural-urban and on- and off-farm linkages, have often been neglected for public investments.

Agriculture must be reconnected to rural development, and rural development to a comprehensive framework of integrated, multi-sectoral and territorial development. Investing in smaller cities would provide increased opportunities for non-farm activities by facilitating access to services, improving market access, and supporting urban-rural linkages and complementarity. At the same time, this would mitigate concerns associated with mega-urbanization.

The way forward

The continent's youth population is central in resolving the "sub-Saharan African equation". It also represents great potential to support SSA's structural transformation. Rapid growth of working age population suggests a potential demographic dividend, if appropriate social and economic policies are in place. Socio-economic progress must be achieved in an unprecedented context of natural resource depletion, climate change and unbridled international competition. This prevents replication of past structural shift pathways and requires a new paradigm for development in SSA.

SSA's expanding population and labour force are still largely rural and will remain so in the next decades. At the same time, rural livelihoods have been diversifying. On the one hand, agriculture remains the backbone of the rural economy and necessitates continued support to family farms. On the other, mostly informal off-farm activities require support in terms of skills, infrastructure and stronger rural-urban linkages.

Looking forward, SSA could leapfrog environmentally damaging development processes experienced elsewhere in favor of a new pathway based on inclusive and green growth geared towards sustainable, and strongly-linked cities and rural areas.

Foresight, vision and political leadership must be supported by capacity building, stronger dialogue between multiple stakeholders (including African civil societies, governments, workers and employers, and youth) and a clear strategy to mobilize different levels of government in priority areas for action. Moving away from the prevailing silo approach towards comprehensive strategy design, with enhanced articulation of sectoral policies fostered by the adoption of territorial policies is an imperative. And the key for success will be a massive reinvestment in the knowledge base, skills and participation of stakeholders.

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ILO International Training Centre in Turin, Italy, for training courses on the rural development (<http://www.itcilo.org/en/areas-of-expertise/rural-development>) and on youth employment policies (<http://www.itcilo.org/en/areas-of-expertise/youth-employment>)

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