



# Structural change and employment in Africa

State of play and development challenges

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## **Structural Change and Employment in Africa: situation and development issues**

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All over the world, issues pertaining to employment are at the heart of public debate. They address both access to employment as well as working conditions (remuneration, types of employment contracts). In the richest countries, the economic crisis has led to structural unemployment and growing inequality. In the poorest or middle-income countries, where labour markets are incomplete due to a large informal sector, the heart of the debate is elsewhere and is expressed through the question of youth employment - whether they are qualified or not -, access to wages (seen as a way out of the insecurity of the informal economy) and the conditions of wage labour in the absence of social norms.

The issue of employment in Africa is particularly acute because of the large population, which has resulted in a rapid increase of the labour force. This growth in the labour force has happened in real but also in relative terms - vis-à-vis the unemployed population - and it will gradually improve the performance of African economies with two consequences: productive capacity will grow with an increase in the amount of work available; living standards will improve as the ratio of the number of hands in relation to the number of mouths to feed becomes more favourable.

This process which is linked to the growth of the age structure of the population is called "demographic dividend" and offers a unique and particularly opportune moment to accelerate change. This is why it is also sometimes referred to as "demographic bonus". In order for this bonus to actually exist, however, it is obviously necessary that the economic conditions and the institutional environment be favourable to the activity, and that there are growth drivers capable of maximising the full potential of labour. Otherwise, the pressure created by the working population can quickly become a source of social and political tensions.

One of the major macro-economic issues which African countries face today is how best to manage this growth in the labour force, in order for it to constitute a real factor of economic development. The region's economies are still characterised by poor diversification, the weight of the agricultural sector and of the informal sector in general.

To inform the debate, this paper examines the characteristics of growth in the labour force, defined by the weight of the active population resident in rural areas. It then briefly describes the current state of economic activity and the employment sector. Finally it looks at the various alternatives with regards to the sectoral capacity for the absorption of the workforce.

## **1 / Population growth in Africa: how large will the labour force be, and where will it be situated?**

In order to describe the challenge of employment in Africa in the coming decades, it is important to estimate both the growth of the labour force and its spatial distribution. Population distribution is indeed a crucial factor in assessing the expected performance of different sectors of activity and their development. There are few usable parameters. The economic growth projections are extremely uncertain due to the extremely wide range of scenarios<sup>1</sup> and the characteristics of intersectoral labour transfers are even more difficult to predict. These are the population forecasts which provide the most solid framework for thinking in the sense that they help define the orders of magnitude of labour supply. Two sets of projections can be looked at: population changes by 2050 and growth in the rate of urbanisation which indicates rural/urban distribution according to scale of population transfer from rural to urban areas and the endogenous growth of each group (Box 1).

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<sup>1</sup> The exhaustion of a world growth model that is based on non-renewable fossil resources and climate change are two global challenges; the responses of the international community to these challenges will critically determine future economic possibilities. The range of possible responses is extremely broad, ranging from strengthened multilateral cooperation to open conflict.

BOX 1: THE LATEST WORLD POPULATION PROJECTIONS

*The demographic data presented here reflects the latest estimates and projections from the United Nations World Population Prospects, 2010 revision, and World Urbanisation Prospects, 2011 revision. These projections suggest four assumptions with regards to fertility (number of children per woman): constant, low, medium and high (adopted in this document).*

*The gap between the low and the constant assumptions in world population by 2050 is 2.8 billion people (8.1 and 10.9 billion respectively). The low estimate is widely regarded as unrealistic and the average estimate (9.3 billion) seems to be the most optimistic projection.*

*Among the main points of distinction with previous projections (2008 and 2007 revisions), the following should in particular be taken note of:*

- (a) a 2010 world population slightly revised downwards;
- (b) a slower population growth, but which will last longer, with a larger population around 2050 (+150 million), this additional growth occurring in sub-Saharan Africa;
- (c) slower urbanisation than previously projected, particularly in sub-Saharan Africa, where rural populations will remain larger until at least 2035, instead of 2030.

If demographic projections lead to very different scenarios, urbanisation prospects are just as sensitive because they can be strongly affected by the economic situation, or even be altogether undermined by extreme events (conflicts, epidemics, accelerated climate change, urban crises). This was the case in Africa, where urban growth projections in the 1970s were not realised.

### What do the demographic projections say?

#### Population growth

According to the United Nations medium assumption, world population should grow by 2.4 billion by 2050 (see Table 1). This growth will occur primarily in Africa, which will have almost 1.2 billion more people, followed by South and Central Asia (+710 million including +470 in India). The Americas continue to experience slight growth; but Europe and - most importantly - East Asia will experience a decline in population (particularly China: -45 million).

This development will alter the world population map considerably, as sub-Saharan Africa (SSA), for example, will overtake China and will have 2.7 times more inhabitants than Europe. In one century, Europe and Africa would have reversed their relative demographic weight.

TABLE 1 : WORLD POPULATION GROWTH BY MAJOR REGION (1950-2050), IN THOUSANDS

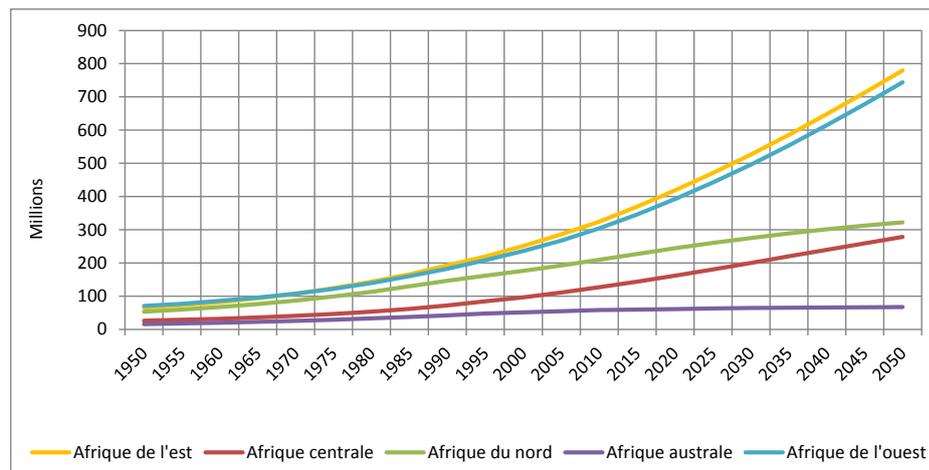
	1950		1970		1990		2010		2030		2050		2010-2050	
Afrique	229 895	9%	368 148	10%	635 287	12%	1 022 234	15%	1 562 047	19%	2 191 599	24%	1 169 365	114%
Afrique du nord	52 982	2%	86 943	2%	146 188	3%	209 459	3%	275 131	3%	322 458	3%	112 999	54%
Afrique subsaharienne	186 103	7%	295 971	8%	515 593	10%	856 327	12%	1 353 772	16%	1 960 102	21%	1 103 775	129%
Asie	1 403 389	55%	2 134 993	58%	3 199 481	60%	4 164 252	60%	4 867 741	58%	5 142 220	55%	977 968	41%
Asie de l'Est	672 432	27%	984 073	27%	1 359 149	26%	1 573 970	23%	1 625 463	20%	1 511 963	16%	(62 007)	-4%
Asie du Sud et Centrale	507 072	20%	778 832	21%	1 246 396	23%	1 764 872	26%	2 215 897	27%	2 475 684	27%	710 812	40%
Amérique latine et Car.	167 368	7%	286 377	8%	443 032	8%	590 082	9%	701 606	8%	750 956	8%	160 874	27%
Amérique du nord	171 615	7%	231 284	6%	281 162	5%	344 529	5%	401 657	5%	446 862	5%	102 334	30%
Europe	547 287	22%	655 879	18%	720 497	14%	738 199	11%	741 233	9%	719 257	8%	(18 941)	-3%
Océanie	12 675	1%	19 506	1%	26 967	1%	36 593	1%	47 096	1%	55 233	1%	18 641	51%
<b>Monde</b>	<b>2 532 229</b>	<b>100%</b>	<b>3 696 186</b>	<b>100%</b>	<b>5 306 425</b>	<b>100%</b>	<b>6 895 889</b>	<b>100%</b>	<b>8 321 380</b>	<b>100%</b>	<b>9 306 128</b>	<b>100%</b>	<b>2 410 239</b>	<b>35%</b>

Source : World Population Prospects, 2010 revision {ut}

Africa's population will double in forty years, due mainly to the population dynamics of SSA, and will continue to grow after 2100. It will however be the only region, in this case with North America, that will have much lower numbers <sup>2</sup>.

Regional situations, however, are contrasting. In sub-Saharan Africa, the strongest growth will occur in the sub-regions of East and West Africa<sup>3</sup>, which will reach about 800 million each in 2050. Central Africa, long underpopulated, will overtake North Africa with over 300 million people. Only Southern Africa will see its population capped, with a projected growth of 10 million people only. It will reach its peak population in 2067, unlike other regions which will continue to grow. North Africa will also see its population grow by more than 50%, reaching reach its peak in 2083. (See Figure1).

FIGURE 1: TOTAL POPULATION GROWTH IN MAJOR PARTS OF AFRICA (1950-2050)



Source : *World Population Prospects, 2010 revision (utl)*

### Major trends in the labour force

Because of the modalities of the demographic transition <sup>4</sup> and the changes in the relationship between employed and unemployed vis-à-vis age pyramids, the dynamics of the active population <sup>5</sup> will be even more contrasting (Figure 2). In the next 40 years, the number of employed people globally should grow by 1.4 billion, with 800 million (60%) in Africa alone, followed by Asia (350 million for India). But the population will decrease in Europe (-90 million) and - also - in China (-180 million). The employment growth rate in North Africa will approach the level of Latin America and the Caribbean (nearly 80 million against 90 million).

An analysis of the flow of workers (and not only of stocks) highlights an even more contrasting dynamic. Indeed, an examination of annual cohorts of young workers entering the labour market <sup>6</sup>

<sup>2</sup>In 2100, Africa will account for 35% of the world population, with 3.7 billion people. Asia will account for 45% (China 9% and India 15%), whereas Europe and Latin America (including the Caribbean) would each represent 7% and North America 5% of the total world population.

<sup>3</sup> According to the regional division by the United Nations.

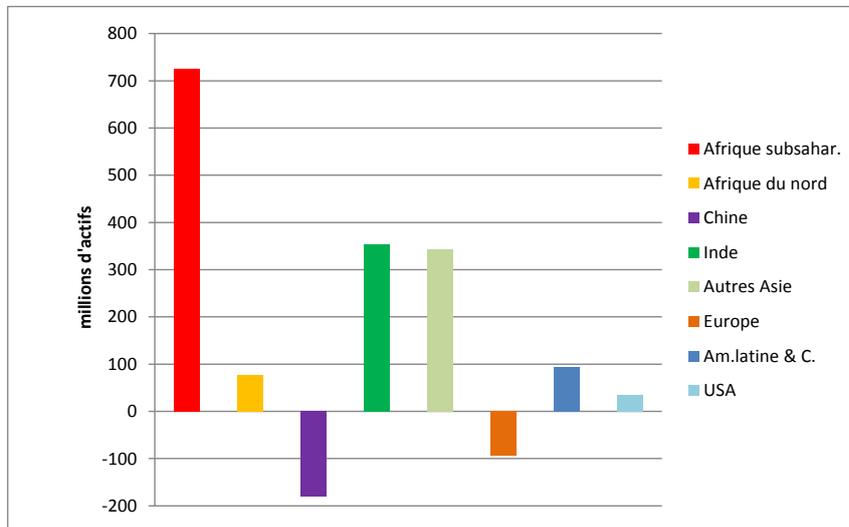
<sup>4</sup> The term demographic transition refers to the transition from high birth and death rates to low birth and death rates. The time lag in the drop of the different rates (mortality decreasing faster) results in high population growth.

<sup>5</sup> According to the standard definition, the active population refers to the 15 to 64 age group.

<sup>6</sup> The annual cohort of workers entering the labour market, or reaching the age of finding an income-generating activity, is 1/10 of the 15-24 year age group. Compared to the increase in the total number of workers (which

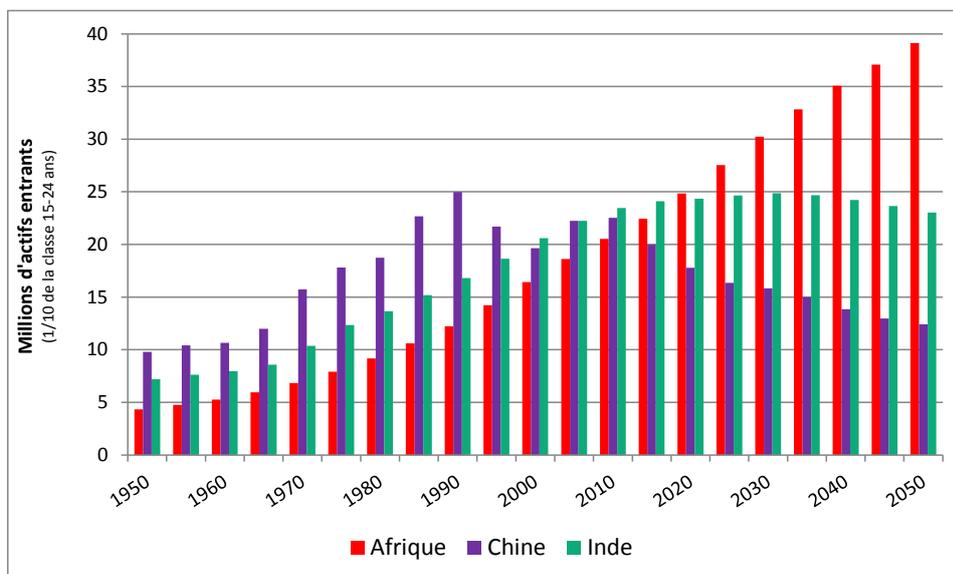
(Figure 3) shows that Africa is the only region where the flow of workers will continue to grow massively after 2050, with nearly 40 million new workers forecast for that date. The growth continues in North America (with a slow progression beyond the middle of the century) and India until the 2030s. In contrast, there is already a decrease in flow in Europe and especially in China.

FIGURE 2: GROWTH OF THE LABOUR FORCE BY MAJOR REGION AND COUNTRY (2010 TO 2050)



Source : *World Population Prospects, 2010 revision* , author's calculations

FIGURE 3: ANNUAL COHORTS OF WORKERS ENTERING THE LABOUR MARKET: AFRICA, CHINA, INDIA (1950-2050)



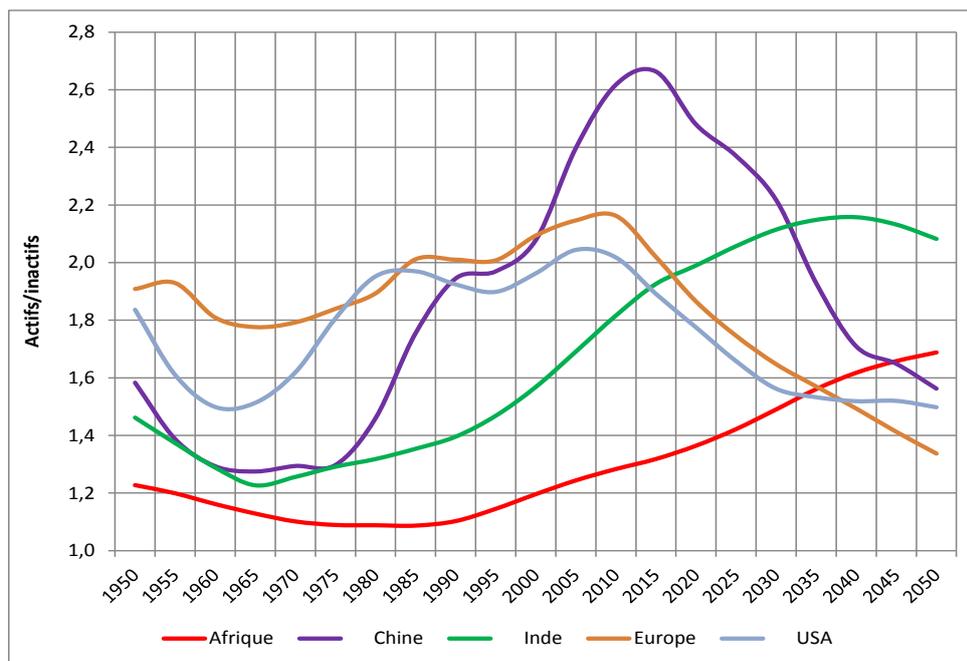
Source : *World Population Prospects, 2010 revision* , author's calculations

These major reconstructions indicate different stages in the demographic transition of major world regions. They reflect a change in the rapport between employed and unemployed, and show a gradual improvement of the situation in Africa.

takes into account the number of people moving from the 15-64 age group to the 65+ group), the annual cohort of new workers gives an opportunity to highlight the weight of youth and to avoid major uncertainties about leaving the work force after age 64. These uncertainties are particularly strong in countries without a formal labour market and generalised pension system (generally speaking the majority of the population of non-OECD countries).

Indeed, Africa experienced very unfavourable ratios of activity between 1975 and 1995, with a rate of virtually one employed person to one unemployed person: an extremely disadvantageous position in terms of growth, that occurred during the period of economic crisis and austerity measures. At the same time, China reached a ratio of 2 employed persons for every 1 unemployed person (in the decade of the 1990s) and today it has a ratio of 2.7 which is a tremendous growth engine (Figure 4). This ratio, however, will decrease rapidly with the ageing of the population <sup>7</sup>, a process that is already occurring in Europe but also in the United States. For Africa, the peak of activity will happen well after 2050.

FIGURE 4: DEVELOPMENT OF ACTIVITY RATIO BY MAJOR REGIONS AND COUNTRIES (1950-2050)



Source : *World Population Prospects, 2010 revision* , author's calculations

### Spatial distribution of the population

#### Urban and rural areas: the specificity of Africa

Although the definition of urban and rural statistical categories presents many challenges (Box 2), urbanisation is the major phenomenon of the last century. The latest projections are evidence of a certain slowdown, more severe in SSA than elsewhere, which moderates - without stopping it of course - the big move of the global population towards urban areas. Between 1960 and 2010, urban share rose from 30 to 50%. It is expected to be 67% in 2050. While the Americas and Europe were already largely urbanised, the most dramatic development occurred in Asia and especially in sub-Saharan Africa.

There are still 3.3 billion people living in rural areas today, however, and the growth in the world's rural population over the next forty years deserves the greatest attention. Indeed, by 2050, the rural population should generally drop by 283 million people. A decrease is expected in all regions of the world (with nearly -500 million for the whole of Asia) <sup>8</sup>, except Africa (Table 3).

TABLE 3 : RURAL POPULATION BY MAJOR REGIONS (1950-2050), IN THOUSANDS

<sup>7</sup> In China, the share of over 65s will rise from 8% today to 26% in 2050 (accounting for about 330 million people).

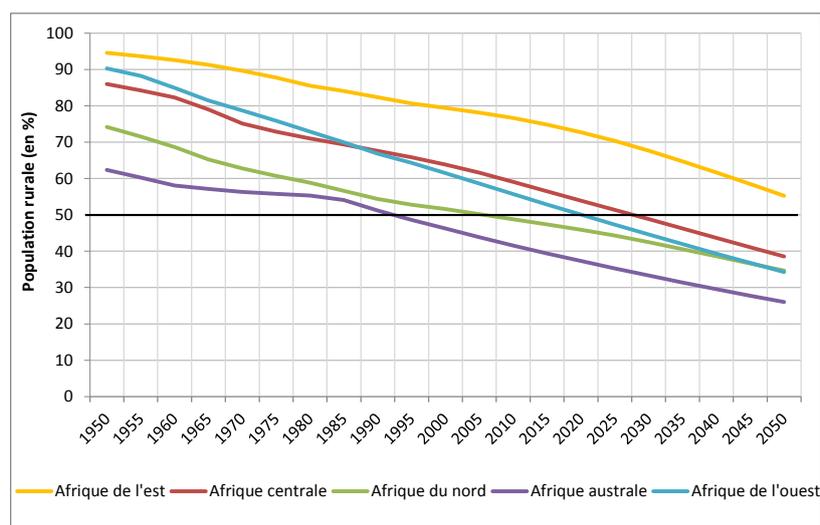
<sup>8</sup> Of which -390 million in China and -30 million in India.

	1950		1970		1990		2010		2030		2050		2010-2050	
Afrique	196 891	11%	281 580	12%	431 904	14%	621 583	19%	817 562	24%	926 970	30%	305 387	49%
Afrique du nord	37 193	2%	52 160	2%	76 182	3%	97 262	3%	110 088	3%	104 011	3%	6 749	7%
Afrique subsaharienne	159 698	9%	229 420	10%	355 722	12%	524 321	16%	707 474	21%	822 959	27%	298 637	57%
Asie de l'Est	552 747	31%	737 958	31%	897 502	30%	718 133	22%	460 504	14%	312 725	10%	(405 407)	-56%
Asie du Sud et Centrale	423 019	24%	619 261	26%	907 487	30%	1 190 834	36%	1 308 058	39%	1 175 086	38%	(15 748)	-1%
Amérique latine et Car.	98 104	5%	122 975	5%	131 411	4%	124 836	4%	116 260	3%	100 476	3%	(24 359)	-20%
Amérique du Nord	61 948	3%	60 594	3%	69 074	2%	62 049	2%	57 213	2%	50 878	2%	(11 172)	-18%
Europe	266 685	15%	243 679	10%	217 514	7%	201 588	6%	167 739	5%	128 216	4%	(73 372)	-36%
Autres régions	187 340	10%	277 720	12%	370 128	12%	418 289	13%	410 137	12%	359 602	12%	(58 687)	-14%
<b>Monde</b>	<b>1 786 734</b>	<b>100%</b>	<b>2 343 767</b>	<b>100%</b>	<b>3 025 020</b>	<b>100%</b>	<b>3 337 311</b>	<b>100%</b>	<b>3 337 472</b>	<b>100%</b>	<b>3 053 953</b>	<b>100%</b>	<b>(283 358)</b>	<b>-8%</b>

Source : *World Urbanization Prospects, 2011 revision*

On the continent, the rural population is in fact expected to grow by 305 million people due to continued population growth and the relative slowdown in the rate of urbanisation - a consequence of the crisis of 1980s-90s and poor employment prospects in urban areas. Rural populations will constitute an overall majority to between 2035 and 2040, but with sharp regional differences (Figure 6): Southern Africa and North Africa are the most urbanised parts of the continent and the rurality rate has already dropped below 50%, whereas West and Central Africa will only reach this stage in the 2020s and 2030s. East Africa will remain rural the longest (until the end of the 2050s), particularly due to the high densities recorded in the rural areas of the Great Lakes and in the Ethiopian highlands.

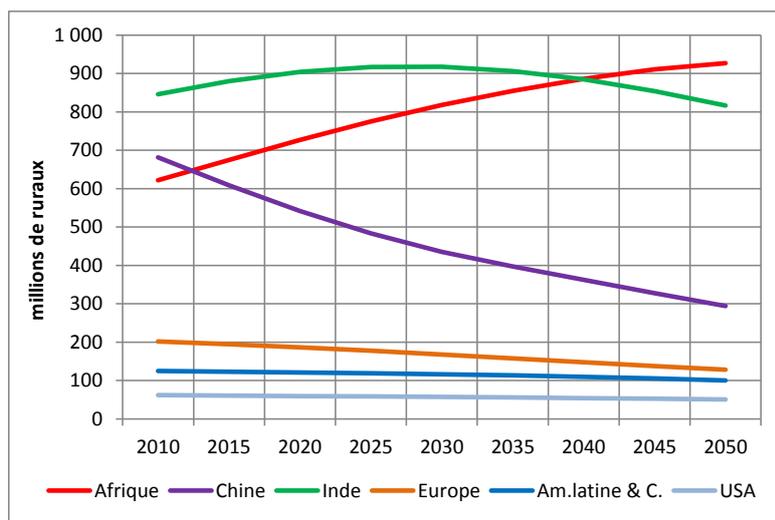
FIGURE 6: TREND OF RURALITY BY MAJOR REGIONS OF AFRICA (1950-2050)



Source : *World Population Prospects, 2010 revision* , author's calculations

Another world exception is that even if the African rural population decreased in relative size, it should continue to rise long after 2050 (Figure 7). By that time the figure will reach nearly 930 million people, with 105 million in North Africa and 820 million in sub-Saharan Africa. This increase will result in great pressure on land and water resources, whereas the situation in several regions is already already critical (Maghreb, Rift Valley and highlands of East Africa, Northern Nigeria for example).

FIGURE 7: RURAL POPULATION GROWTH BY MAJOR REGION AND COUNTRY (2010 - 2050)



Source : *World Population Prospects, 2010 revision* , author's calculations

#### BOX 2: THE DIFFICULT DEMARCATIION OF RURAL AND URBAN AREAS

There is no standard definition of urban and rural areas and of the people who live in them. United Nations projections merely repeat the distribution figures adopted by the various national statistical agencies, which offer extremely variable definitions, based on completely heterogeneous criteria: the settlement level (an agglomerated population figure ranging from 2 500 to 10 000 inhabitants), an administrative status, or the importance of farming for example.

Urban and rural categories therefore offer only a vague - and wrong - idea of the reality, and demographic projections for twenty, thirty, forty years are even more uncertain. This imprecision is reinforced by the practices of the population, whose activities and lifestyles are increasingly caught between these two areas, a situation that is entrenched by advances in transportation and communication.

#### **The importance of rural workers**

Translated into activity data <sup>9</sup>, this spatial distribution of the population means that the world's rural population will decrease by 260 million by 2050, but that the rural population in South and Central Asia and in Africa will grow by 30 million and ... 230 million respectively.

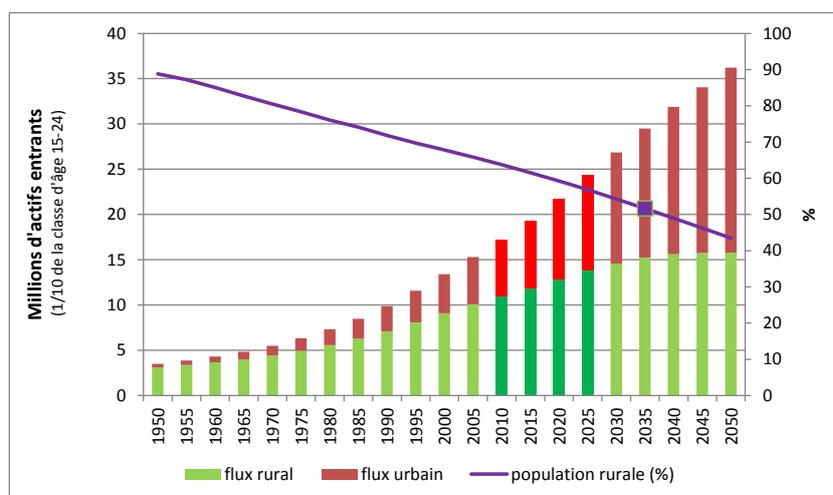
The African situation is doubly peculiar: by virtue of the significant growth of its active population and by virtue of the weight of its rural workforce.

An analysis of the annual inflow into the labour market reveals particularly strong pressure on rural employment, in particular in sub-Saharan Africa, and this for the next two decades. Indeed, considering the 2025 outlook where uncertainty is low <sup>10</sup>, cohorts of new workers will increase from 17 million to 25 million, representing a combined workforce of 330 million - the current population of the United States. But two-thirds of these new workers will be in rural areas, and these are 200 million rural youth who will need to find a job or an activity capable of providing them with an income (Figure 8). In North Africa, where urbanisation is greater, cumulative cohorts over the period 2010-2025 will be approximately 50 million new workers, with only 21 million in rural areas (43% of the total).

<sup>9</sup> Applying the rural / urban ratio to the 15-64 age group.

<sup>10</sup> In a 15-year outlook (2010-2025), new workers in the age group 15-24 years have already been born.

FIGURE 8: ANNUAL COHORTS OF RURAL AND URBAN WORKERS IN SUB-SAHARAN AFRICA (1950-2050)



Source : Losch 2012

## 2 / Main characteristics of employment in Africa

The employment situation in Africa today reflects the structure of the economies on the continent and the distribution of its population. Workers are mainly located in rural areas and carry out most of their activities in the agricultural sector; urban workers are mainly involved in the so-called informal sector.

The weight of the informal sector in general, and agriculture in particular, illustrates an African specificity: the weakness of structural change, that is evidence of an embryonic economic transition which will result in limited economic diversification, which will in turn reduce the options in terms of creating employment.

### The weakness of structural change

The concept of economic transition refers to the process of structural change that has historically characterised the different regions of the world. This process is characterised by the gradual transition of agriculture-based economies to more diverse configurations based on industry and services. Technological advances are one of the major determinants of change, especially productivity gains in agriculture, since they allow for the transfer of labour and capital to other sectors.

These processes have historically been accompanied by a gradual spatial restructuring, by which scattered activities (typically agriculture) have given way to more focused activities (typically trade and industry), with labour and population migration from rural areas to cities. This growing urbanisation, with its attendant economic and social transformation, has generally led to higher incomes and better living conditions. It is these changes, combined with medical advances, that have contributed to the demographic transition, with a strong link between the two transitions.

The structural transformation of African economies in recent decades has been extremely slow, which is a paradox in view of the high rate of urbanisation. The situation in the 55 countries that make up the continent is obviously very diverse; however, globally speaking, agriculture remains the principal activity for a population that is still largely rural. Urban development happened without industrialisation, and the ways in which the continent has experienced globalisation have changed little: Africa remains an exporter of largely undiversified raw materials and an importer of manufactured products, a position which has proved so far to be the source of vulnerability and poor

development. Only the countries located at the northern and southern ends of the continent are true exceptions to this, with richer, more diversified economies, and backed by a strong economic urbanisation (Losch et al. 2013).

The explanation for this structure of inertia is of course complex. It has many causes, such as joining the global economy late (Grataloup 2007), the recent and binding nature of colonial rule, which lasted until the 1960s and even 1970s, with a fragmentation of territories that were unified at independence, but also an urbanisation that occurred very late (second half of the Twentieth Century) and that is a "collector", relying on state administration and raw materials (Jedwab 2012).

The relative youth of most African states - compared to other countries around the world - and the simultaneous challenges including the need to "build" national economies, high population growth rates and globalisation (while dealing with the austerity measures of the 1980s), left little leeway to undertake proactive modernisation policies that could have accelerated structural change, as was the case with countries in Asia and Latin America.

### **The size of the informal economy and the agricultural sector**

Major economic aggregates and, in particular, the structure of the Gross Domestic Product (GDP) only offer a vague idea of the reality of African economies. In fact, in terms of average weight across the entire continent - and therefore with very strong national variations - agriculture accounts for 30% of GDP, the extractive sector (mining and petroleum) and manufacturing account for around 15% and 10% respectively, and services represent the remaining 45%.

But this sectoral distribution of GDP, which informs the value of output, says nothing of those sectors in which African workers commit their efforts. In fact, the extractive sector creates very few jobs and it is agriculture - the principal activity of rural populations, who make up the bulk of the population - which remains by and large the main activity.

While employment in agriculture is reduced to less than 5% in the richest economies (most OECD countries) - thus illustrating the process of economic transition that, in its historical version, results in "a world without farmers" (Timmer, 2009, Dorin et al. 2013) - Africa, with South Asia, has the world's highest proportion of agricultural workers. With the exception of South Africa, where employment in agriculture is marginal - for reasons related to the very specific history of the country - agriculture still occupies 50-60% of the labour force in the vast majority of SSA. This rate rises to 75% and higher in some countries (Sahel, East Africa). In North Africa (with the exception of Libya), agriculture still accounts for one quarter of workers. The peculiarity of agricultural employment and its definition does not, however, signify exclusive occupation in agriculture. There is a general situation of multiple activity (Box 3).

Other sectors are mainly services (government, banking, trade, transport), construction and public works (CPW) - driven by urban growth - and handicraft. Employment in industry remains extremely low - a few hundred thousand jobs in most countries (and sometimes less) - whereas it has historically been the lever for change in other regions of the world.

A cross-sectional feature of this business structure is the importance of what is commonly called the informal economy or sometimes the popular economy. There is no standardised definition and the notion of the informal is disputed, but the informal economy is generally defined in the negative, that is by saying what it is not: the number of businesses and self-employment activities declared and registered with the tax authorities, which consequently apply proper accounting rules and, most often, economic and social standards relating to labour law (hiring, firing, minimum wage) and working conditions (Charmes 2011).

This informal sector is largely in the majority in most African countries, because agriculture is almost exclusively family farming <sup>11</sup>, practised outside any standard environment - even if some countries recognise the profession of farmer - but also because urban employment happens mainly through self-employment activities or small businesses which have no legal or tax status. Industrial employment or business services that operate within the norms and standards of business law is rare.

### **Box 3: Agricultural employment and agricultural workers**

According to the FAO and its FAOStat database **the agricultural population** is defined as follows: " *everyone living from agriculture, hunting, fishing or forestry. This estimate includes all persons engaged in agriculture as well as their unemployed dependants. It is not necessarily a group drawn exclusively from the rural population* ".

The agricultural labour force is that " *part of the working population that has a job or that is seeking employment in agriculture, hunting, fishing or forestry* ", because according to the ILO the labour force includes " *all persons who, during a specified reference period, are considered as being employed or unemployed, and who make up the work force* ".

Data on agricultural activity and agricultural employment is produced by the FAO and regularly updated on the basis of national population census. It is linked to the United Nations population estimates (World Population Prospects, 2010 revision) and to the ILO's activities and employment estimates (Laborsta 5th edition 2008). ILO statistics are however very incomplete, especially on Asia and even more so on Africa (many countries are missing and often only a few years are available).

According to the FAO, the agricultural workforce always accounts for nearly 40% of the global workforce. It is distributed overwhelmingly in Asia (78%), followed by Africa (17%), the remaining world agriculture only accounting for 5% of workers. FAO employment data is often criticised, especially for overestimating the total agricultural labour force in some countries; but FAOStat remains the only database which covers all countries of the world over a long period. China is the most problematic case because the difference between FAO and ILO statistics, which vary depending on the year, amount to tens of millions of agricultural workers. Part of this difference relates to an estimation the total labour force in the case of the FAO, and an estimation of total employment in the case of the ILO (a difference 58 million in 2010).

Undertaking an agricultural activity qualifies a person to be classified as an agricultural worker, even if they do so on a part-time basis, while undertaking other activities simultaneously, taking advantage of quiet periods in the agricultural cycle or because returns and revenue are insufficient. However, the exercise of multiple activities is widespread in Africa and, if the vast majority of rural households are agricultural, they usually also undertake other non-agricultural work (handicraft, petty trade, transport) to improve their income.

Thus the informal economy supposedly employs 75 to 95% of the continent's workers (Jütting & Laiglesia 2009), with the exception of South Africa, where the rate would be only 50%, and the countries in North Africa where it would be around 40% (except in Morocco where it is higher: 65%). The specificity of this informal economy is its great flexibility, which gives it a strong resilience against hazards, a situation which is balanced by the uncertainty associated with low to very low levels of remuneration. This is due to reduced labour productivity but also structural unemployment, namely the low number of hours worked per individual worker. Under-employment is a characteristic of the agricultural sector, marked by the seasonality of the activity (with periods where the demand

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<sup>11</sup> There is an agricultural enterprise sector, little known and poorly developed, mainly for agricultural export (agro-industrial plantations, large mechanised farms). It represents little in terms of jobs and even less in relative terms: in countries where it is best established (in East Africa in particular), the numbers rarely exceed 100,000 jobs compared to the millions of family farms.

for labour is limited and peak periods - such as harvesting - where there can be a labour shortage), but it illustrates more generally the strategy by which workers remain occupied when there is a shortage of decent employment opportunities, which leads them to accept any job opportunity, even part-time and poorly paid (Beaujeu et al. 2011).

In conclusion, it is possible to make a deliberately brief summary of the employment situation in sub-Saharan Africa (excluding South Africa) in the following orders of magnitude: 55-60% of workers are employed in agriculture; 35-40% in the informal non-agricultural sector, principally urban, which mainly involves services, handicraft, CPW; and 5-10% in the formal wage sector (industries and services, including administration).

### **3 / What are the options in response to the growth of the labour force?**

In recent decades, African economies have been able to absorb an ever-growing labour force, but this use of workers often occurs in sub-optimal conditions, due to an unfavourable economic and institutional environment, with limited access to finance and technology, which in turn limits productivity gains. The result has been a very small rise in living standards (sub-Saharan Africa remains the poorest region in the world), with a long stagnation that has only been interrupted by growth in recent years. This situation should not, however, create illusions because, with the exception of a few countries, this growth was mainly driven by the extractive sector. However, these activities create few jobs and do not involve the majority of the population. They are more likely to stimulate urbanisation through investment in construction, public works and urban services and often lead to the neglect of agriculture.

Over the last fifteen years, 280 million young people have joined the workforce in Africa. By 2025 there will be an additional 380 million, including 220 million in rural areas and 160 million in urban areas. These young people will need to find employment or an activity in the informal sector of urban and rural areas; they will often be self-employed entrepreneurs or farmers. The replacement of people leaving the workforce will provide a natural outlet <sup>12</sup> but, because of the net growth in the number of workers, new employment activities and new jobs will need to be found.

The question of the sectors of absorption of this new work force is thus a real challenge for public policy, which must facilitate and support private initiative and the development of economic activities. This employment challenge is recognised by the international community, as evidenced by the recent publication of numerous reference documents, such as the last *Report on World Development* by the World Bank focusing on employment (World Bank 2012) or the last issues of the *African Economic Outlook* published by the OECD (OECD 2012) <sup>13</sup>.

The challenge, therefore, is clearly to identify the most strategic sectors capable of transforming this potential of new activities - and the approaching demographic dividend whose window of opportunity will be very brief <sup>14</sup> - into a veritable engine of growth and development.

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<sup>12</sup> According to statistics, the absence of developed social security systems means that workers retire at the age of 64. The limiting factors are usually physical health needed to pursue an activity and, of course, death.

<sup>13</sup> See also the recent ILO report on recent employment trends for youth (ILO 2012), the report of the Africa Commission on the potential of African youth (Africa Commission 2009) or the work of the FAO on the employment of rural youth (van der Geest 2010).

<sup>14</sup> The dividend is only "distributed" over a few decades, until the ageing population reverses the employed / unemployed ratio.

### **An imperative: take into account the reality of national economies and their environment**

In order to meet the challenge of employment, the imperative is to reinvest in development strategies which articulate long-term vision and sectoral approaches based on a realistic analysis of the structural situation of national economies and their international environment.

The large majority of African economies are still defined by the weight of the primary sector (agriculture and mining) and the activity structure of a population that is still predominantly rural and for whom agriculture is still a pivot. The aim is undoubtedly to support and strengthen the process of change towards more diversified economies, with higher added value, which allow for improved living standards; but this diversification is a gamble in an increasingly integrated global economy.

Globalisation offers many new opportunities in terms of access to new markets. It facilitates access to assets in terms of knowledge and technical progress, which the richest countries today did not have. But this is also accompanied by constraints linked to significant skewness of productivity and competitiveness, which makes competition with foreign companies - especially those in large emerging countries - more difficult<sup>15</sup>. Not only in international markets but also in domestic markets, through imports.

These asymmetries affect not only the overall macro-economic situation but also the local dimension of structural change, since competition weakens local links between agriculture, industry and urbanisation, which have contributed greatly to economic transitions in the past (UNRISD 2010). Imports have modified urbanisation patterns for example, and cities (especially large cities) often resort to imports rather than make use of local economic resources. African food markets have been relatively resilient to external competition, but processing activities are often weakened, which limits employment opportunities. At the same time, liberalisation has profoundly constrained opportunities for state support which played a key role in past transitions (Chang 2002).

It is helpful to use lessons learned from historical transition in order to guide further action; however, it can be especially useful to show the differences which highlight the difficulty of economic transition in an open global economy. The "moment" of the transitions is important and, even if the major regions of the world undertook their structural change by following some characteristics of European transitions, opportunities for duplication/replication are now being questioned. Indeed, Europe has taken full advantage of its hegemonic position to consolidate its transformation (captive markets with reduced competition, the possibility of significant migration to the "new worlds"). Latin America and Asia, with many variations, have embarked on their development in a context of strong state intervention, characterised by import substitution, protection of infant industries (Evans 1995, Amsden 2001) and major support for the modernisation of agriculture (Djurfeldt et al support. 2005). This period, which began between the two wars as an aftereffect of World War I and the crisis of 1929, continued until the late 1970s which marked the turning point of liberalisation, disengagement of the state and - precisely - entry into globalisation.

### **Sectoral priorities and territorial dimension**

The debate is clearer than ever today, with extremely contrasting points of view between proponents of industrialisation and the strengthening of urban dynamics on the one hand, and proponents of "agriculture first" on the other hand. This debate is also blurred by aid agencies, which sometimes adopt contradictory positions: such as the World Bank, in its *Report on World Development 2008*, which developed a detailed argument on the central role of agriculture in development (World Bank

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<sup>15</sup> In the case of SSA, the difference in average productivity with other developing countries is 1 to 5, and 1 to 100 with OECD countries (UNCTAD 2006).

2007). This was immediately followed by UNIDO's *2009 Report on Industrial Development*, which advocated instead for industrialisation as the principal engine of growth and change (UNIDO 2008). The following year, the same World Bank spoke in defence of the process of agglomeration and economic density brought about by urbanisation (World Bank 2008).

As far as the "industrialists" are concerned, only manufacturing development can meet the scale of the challenges facing Africa: agricultural productivity is too low and the expected progress too slow to allow for a rapid escape from poverty; the solution for the future of the rural poor lies in the cities<sup>16</sup>.

The arguments refer to the change in the international economic environment that would offer new opportunities for industrialisation: an improved business climate in many countries, the gradual increase in manufacturing costs in Asia due to higher wages (especially in China) and the prospects offered by the manufacture of certain parts of industrial products rather than the manufacture of finished products (UNIDO 2008). This new type of industrialisation - or *light manufacturing* (Dinh et al. 2012) - is possible due to globalisation, which has strengthened the internationalisation of supply chains in the context of intra-firm trade, outsourcing and offshore outsourcing. It is more accessible to least developed countries to the extent that it requires less capital and technical and managerial skills, and remains manageable in a more fragile economic and institutional environment. This approach will go as far as to include the service sector, in regard to the potential offered by new information and communication technologies, that can greatly expand outsourcing opportunities.

These are undeniable areas of diversification and opportunities that should be seized: the new emerging geography of the global workforce will give Africa a decisive advantage; the increased costs of production experienced by its main competitors in the developing world will gradually strengthen its competitiveness; and it is unrealistic to imagine a future Africa "factory of the world" that could take the place of China.

But it is important to take into account the current structural situation and take the necessary time to consider proper industrial development. There has not been significant industrialisation in SSA over the last fifty years despite formidable urbanisation<sup>17</sup>. Examples of industrial free trade zones have produced mixed results and, most importantly, have only helped create tens of thousands of jobs whereas hundreds of thousands of jobs are required annually. Finally, the new comparative cost advantages - which are progressive - are insufficient<sup>18</sup>. Heavy investments are needed in infrastructure, training and support to businesses and it will be difficult to create millions of industrial jobs each year in the near future to meet the demand for jobs<sup>19</sup>.

This finding argues in favour of prioritising support for existing activities, which are mostly those of the informal urban and rural sectors: consolidation of production facilities, modernisation of

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<sup>16</sup> Several writings by Paul Collier illustrate this vision (Collier 2008, 2009).

<sup>17</sup> Yet this urban growth offered all the economic benefits of density *touted by the World Development Report 2009*.

<sup>18</sup> If China's economic and social dynamics result in a rapid rise in the standard of living and the cost of production, we must remember the importance, the diversity and the competitiveness of other emerging economies; but also that competitiveness cannot be reduced to costs and that it includes product quality and production capacity (the volume of supply).

<sup>19</sup> In this regard, the Chinese example of "business towns and villages", which were the backbone of rural industrialisation, is interesting. The policy of managing rural employment and limiting rural exodus, initiated in the 1960s, has developed all the way into the 1990s thanks to strong support and protection. The industry reached a maximum of 135 million jobs in 1996 but has not developed further since then, due to heightened competitive conditions (Vendryes 2012).

production base, densification and strengthening of intersectoral links and links between urban and rural areas.

Regarding the informal urban sector, there is a certain shift in the view of policy makers, with greater consideration for its potential for modernisation (Fox & Sekkel Gaal 2008 Beaujeu et al. 2011). Because if there is an informal buffer-type sector ( *sponge like* ), with very low productivity <sup>20</sup>, there is also an informal sector with a great potential for modernisation, based on significant production tools, and strong innovation dynamics (Ranis and Stewart 1999). This sector, which is the main provider of urban employment, should be supported.

Regarding the rural informal sector, which includes the majority of the active population in most African countries, the role of the agricultural sector remains central and crucial, both to absorb an ever-growing rural labour force - at the risk of making urban adjustments even more difficult due to increased exodus - and to accelerate the process of economic diversification.

This brings us to the second part of the debate on the priorities for action, which is championed by the "pro-agriculture" group. The first argument is "basic arithmetic" of large numbers (Headey et al. 2010): the rural population is still widely predominant and will remain so for two to three decades, and the vast majority of the rural population is engaged in agriculture. Consequently, it is the development of this sector and higher incomes from agriculture that will generate a rise in rural demand, and strengthen the dynamics of diversification which are necessary for structural change. This training role of the agricultural sector, and its effects on intersectoral links, are fundamental aspects of the literature on economic development (Johnston & Mellor 1961 Kilby & Johnston 1975), and African development in particular (Delgado et al. 1998 Diao et al. 2007).

It is reinforced by the essential contribution of agriculture to the reduction of rural poverty. Two-thirds of the world's rural poor live in SSA, and so improving agricultural performance is paramount, as demonstrated by the rapid progress in East and South East Asia (World Bank 2007). Several recent studies have confirmed the comparative potential of agricultural growth with respect to urban development: Dorosh & Thurlow (2012) have shown, on the basis of growth models applied to Ethiopia and Uganda, that if cities were still the unquestionable source of growth and structural change in the long term, it is actually agricultural activities that are likely to have the fastest impact on poverty reduction.

These findings on the strategic role of agriculture, confirmed by numerous recent studies, do not mean that agriculture is the only activity in the countryside; on the contrary (Box 3): rural households are increasingly diverse and this diversification has been the norm for a long time (Bryceson 1999, Barrett & Reardon 2000 Haggblade et al 2007). However, while these non-agricultural activities are struggling to produce any significant revenue, agriculture continues to play a decisive role in household activities.

The real strategic challenge today is not to choose the wrong development model. Because of a generally weak performance in the past (Benoit-Cattin & Dorin 2012), there is very important room for improvement in African agriculture; but the arrival of new investors, who propose large-scale farming models, changes the paradigm <sup>21</sup>. This new situation has reopened an old debate about the

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<sup>20</sup> This buffer sector absorbs surplus labour, especially arising from rural exodus created by workers leaving of the agricultural sector. It represents many "odd jobs" and incomes can sometimes be lower than in rural areas.

<sup>21</sup> These new investments were triggered by the fear of shortages of agricultural products, revived since the crisis of agricultural prices in 2008-2009, and by the new needs for biofuel. They are favoured by the

relative merits of different sizes and types of farms (Losch & Fréguin Gresh-2013) and tends to obscure a central issue: the need to increase production, while creating employment in agriculture as well as in upstream and downstream activities, by strengthening value chains and improving the incomes of farmers who are levers of rural demand and economic diversification (Losch et al. 2012).

In this context, and in order to secure the maximum impact, the primary target of public policy in this area should be the broad masses of farmers and family farms. They offer a great potential for the integration of young people, provided however that attention is paid to improved working conditions in order to make farming more attractive (Proctor & Lucchesi 2012, Sumberg et al. 2012). Agricultural development in other parts of the world demonstrated the true capacity of family farms when they received the necessary support. A recent comparison between African, Brazilian and Thai agriculture - whose successes are undisputed, despite very different contexts - have shown that African farming operations would be competitive just as soon as the recurring obstacles of supply and marketing are removed. If the image of the "sleeping giant" (World Bank 2009) hardly corresponds to the reality of rural Africa, which is in the throes of profound changes, supporting this "struggling giant" constrained by today's sluggish environment will allow for margins of considerable progress to emerge.

If the answer to the challenge of employment requires reinvesting in development strategies, resulting directly in significantly improved knowledge of rural realities, which are largely restructured and largely unknown to existing information systems, then these strategies will also need to reclaim a territorial dimension: the space occupied by economic actors and African households, over which there is increasing exchange between the rural and the urban in daily life. This dimension, which has long been abandoned in favour of segmented approaches - thematic and sectoral - appears to be the appropriate level at which to consider future possibilities and seize the potential for innovation.

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(debatable) reputation for available land on the continent and the willingness of many governments to attract foreign capital (Cotula et al. 2009).

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