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August 2012

Africa at work: Job creation and inclusive growth

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Africa at work: Job creation and inclusive growth

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Africa today …

382 million
in Africa’s workforce

42%
of workforce employed outside agriculture

28%
of workers earn a wage vs. 24% in 2000

Retail and hospitality accounted for

18%
of new wage-paying jobs since 2002 vs. 11% from manufacturing

32%
of African businesses surveyed cite access to finance as a major constraint on growth

… and in 2020

122 million
more workers, more than any other region

72 million
new wage-paying jobs could be created by 2020

36%
of workforce in wage-paying jobs
if this potential is realized

128 million
consumer households, up from
90 million in 2011

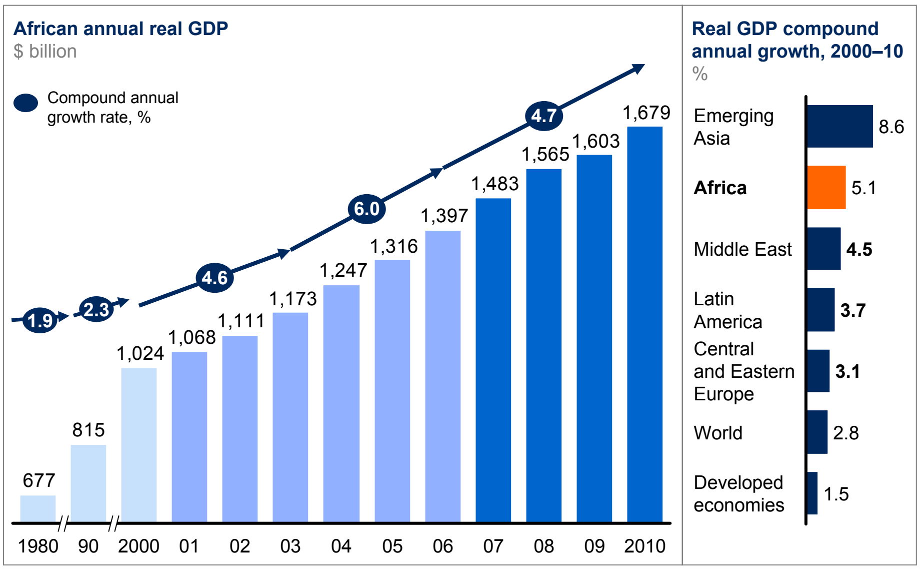
48%
of Africans with
secondary or
tertiary education

Executive summary

African economies are on the move. The continent has been the second-fastest-growing region in the world over the past decade (Exhibit E1). GDP is on course to expand by 4.8 percent in 2012. The acceleration in Africa's growth over the past ten years reflects fundamental improvements in the macroeconomic landscape, political stability, and the business environment. Our 2010 report *Lions on the move: The progress and potential of African economies* found that Africa is harnessing its natural wealth, and that sectors across the economy are growing rapidly. These sectors include agriculture, manufacturing, and local services such as retail, banking, and transportation and communications, in addition to the natural resources sector, which was the largest single contributor to growth.[1]

Exhibit E1

Africa's economic growth accelerated after 2000, making it the world's second-fastest-growing region



SOURCE: Global Insight; McKinsey Global Institute analysis

The benefits of economic growth appear to be reaching many of Africa's people. Poverty is falling. Around 90 million African households had joined the world's consuming classes by 2011—an increase of 31 million households in barely over a decade.[2] Income inequality, however, remains unacceptably high and is falling in only about half of Africa's countries; hundreds of millions remain trapped in poverty. Africa's growth needs to be inclusive if it is to improve human welfare and ensure increasing social and political stability.

1 *Lions on the move: The progress and potential of African economies*, McKinsey Global Institute, June 2010 (www.mckinsey.com/mgi).

2 We define consuming-class households as those with annual incomes of $5,000 or above measured at purchasing power parity (PPP). At this level of income, households begin to spend at least half of their income on categories beyond food and basic necessities.

Economic growth reaches most people through employment income, so Africa's challenge is to ensure that economic growth translates into the stable wage-paying jobs that are the key to the continued expansion of the consuming class. Africa has begun to create the wage-paying jobs that are necessary to meet the needs of an expanding labour pool—37 million of them over the past decade. But accelerating the pace will be critical.

In this report, the McKinsey Global Institute (MGI) presents a comprehensive exploration of Africa's employment landscape. This research includes quantitative analysis of available national employment data, a survey of more than 1,300 companies in five African countries, and interviews with dozens of business leaders and policy makers. We look at employment patterns across countries and sectors, and assess prospects for job creation to 2020. We identify a range of barriers to creating jobs that African leaders must tackle and suggest how policy makers and business leaders can develop strategies for boosting job growth. Among our key findings:

- The continent is poised to reap a demographic dividend, courtesy of its young and rapidly growing workforce and declining dependency ratio. Africa will add 122 million people to its labour force between 2010 and 2020. By 2035, the continent's labour force will be larger than that of any nation, including China or India. Over the same period, the number of children and retired people that each worker supports will fall from the highest level in the world today to a level on a par with the United States and Europe in 2035.

- The continent's official unemployment rate is only 9 percent. Today, however, just 28 percent of Africa's labour force has stable wage-paying jobs. With few social safety nets, most adults must work to survive; therefore, the larger problem is that the majority of adults are engaged in subsistence agriculture and informal self-employment and have few prospects for raising their living standards—a situation that we term *vulnerable employment*.

- Africa has the potential to create between 54 million and 72 million more stable wage-paying jobs by 2020, with much of the job growth coming from manufacturing, agriculture, and retail and hospitality. This would raise the share of workers with wage-paying jobs to between 32 and 36 percent by 2020. In Africa's most diversified economies, such as South Africa, Egypt, and Morocco, the number of wage-paying jobs could grow faster than the number of new entrants to the labour force over the next decade.

- The continent's workforce is more educated and is employed in a more diverse array of sectors than is commonly perceived. Just ten years ago, only 32 percent of Africans had secondary or tertiary education, but by 2020, that number will rise to 48 percent. Worker skills are not seen by business leaders as the most prominent obstacle to job creation in Africa today. The challenge for stakeholders will be to create opportunities for individuals to gain work experience and to build more practical vocational and tertiary programmes that develop the skills needed by business.

- Economic growth is a prerequisite for job creation. But some sectors that contribute to GDP growth may not create many new jobs. Natural resource sectors (mining, oil, and gas) make crucial contributions to Africa's GDP, government revenue, and export earnings, but they employ less than 1 percent of Africa's workforce. Boosting employment requires targeted strategies implemented by government and business leaders to spur growth in sectors with the greatest job creation potential.

The experiences of other emerging markets and of African countries themselves illustrate how to accelerate employment growth successfully. Jobs strategies should focus on those sectors that are the most promising job creators, taking an end-to-end approach that removes the many barriers to growth along specific industry value chains and puts in place the infrastructure, financing, business environment, and workforce skills needed for the target industries to thrive. Examples of success are emerging across the continent, including Mali's mango exports, Morocco's automotive parts industry, and Lesotho's textiles. If such achievements can be replicated more broadly across the continent, Africa has the opportunity to lift hundreds of millions of people out of poverty, give its consumer class a continuing boost, and emerge as a key part of the global labour market.

AFRICA HAS A POTENTIAL DEMOGRAPHIC DIVIDEND BUT NEEDS TO CREATE JOBS AT A FASTER PACE TO ABSORB ITS GROWING LABOUR FORCE

Africa's labour force is growing strongly. By 2020, it is projected to add 122 million workers, creating a continent-wide labour force of more than 500 million. The dependency ratio—the number of young children and retired people that each person of working age has to support—is set to decline from being the highest in the world by a considerable margin to being on a par with North America and Europe by 2035.[3] This potential demographic dividend could raise per capita income and enable more discretionary spending.

Africa's opportunity is to create sufficient stable employment to absorb this growing potential labour force. The continent's unemployment rate is relatively low at an average of 9 percent. But this figure disguises the fact that many people do not turn up in official unemployment figures because, in the absence of social-welfare programmes, few Africans can afford not to work. Instead, they engage in subsistence agriculture or informal self-employment or work for a family member to survive. Over the past decade, the number of people in these activities, which we call vulnerable employment, has grown.[4] Over the past ten years, Africa's labour force has expanded by 91 million, but only 37 million of the new entrants were employed in wage-paying jobs. Two million joined the ranks of the unemployed, and the majority—some 52 million people—turned to subsistence activities to earn income. If current trends continue, the number of people in vulnerable employment will continue to rise until around 2085.

Of course, Africa's 54 countries are a diverse mosaic, and the employment landscape differs significantly among them. In this research, as in our 2010 report, we divide African countries into four groups based on the level of diversification of their economies and their per capita exports: pre-transition, transition, diversified, and oil exporters. The share of stable wage-paying jobs ranges from only 9 percent in pre-transition countries, such as Ethiopia, Mali, and the Democratic Republic of the Congo to 61 percent in Africa's diversified economies.

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3 This also reflects the rising dependency ratio in Europe and North America. *The world at work: Jobs, pay, and skills for 3.5 billion people*, McKinsey Global Institute, June 2012 (www.mckinsey.com/mgi).

4 We define *stable employment* as including wage and salaried employees and business owners, and *vulnerable employment* as including subsistence farming, informal self-employment, and work for family members.

Africa's employment landscape reveals some surprises. One of these is that the continent's workforce is more educated and employed in a more diverse set of sectors than is commonly perceived. Today, 40 percent of Africans have a secondary or tertiary education, up from 32 percent ten years ago. By 2020, that share is set to rise to 48 percent, bringing Africa's educational attainment levels broadly in line with India's, though still lagging behind those in China.

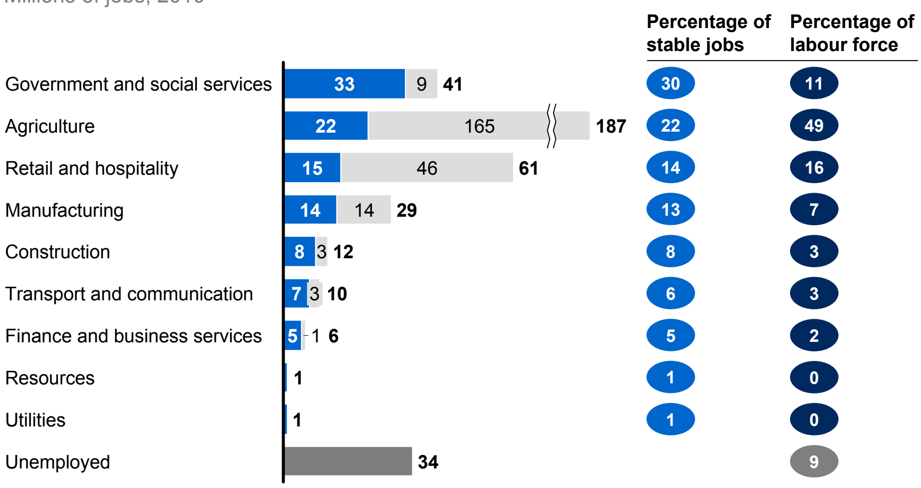
Breaking down employment by sector, we find that less than half of African workers (49 percent) are engaged in agriculture today, although it remains the sector that employs the most people (Exhibit E2). Retail and hospitality is the next-largest employer, accounting for 16 percent of the labour force. Government and social services (including health care and education) employ 11 percent of Africans, followed by manufacturing, with 7 percent of the labour force.

Exhibit E2

Apart from government, most stable jobs in Africa are in agriculture, retail and hospitality, and manufacturing

Millions of jobs, 2010[2]

Stable jobs[1]
Vulnerable jobs[1]
Unemployed



1 Stable employment includes wage and salary employees and business owners; vulnerable employment includes subsistence farming, informal self-employment, and work for a family member.
2 Estimated using data for Algeria, Angola, Egypt, Ethiopia, Kenya, Morocco, Mali, Nigeria, Senegal, South Africa, and Uganda.
NOTE: Numbers may not sum due to rounding.
SOURCE: International Labour Organization; McKinsey Global Institute analysis

AFRICA CAN ACCELERATE ITS CREATION OF STABLE JOBS

The experience of other emerging economies suggests that over the coming decade, Africa can dramatically accelerate the rate at which it is creating stable jobs. Based on current trends, we estimate that the continent will generate 54 million stable jobs by 2020. The share of workers in stable employment will rise to 32 percent from 28 percent today. Retail and hospitality, manufacturing, and agriculture will each account for roughly 15 percent of the additional wage-paying jobs at current trends, and government and social services will account for 30 percent.

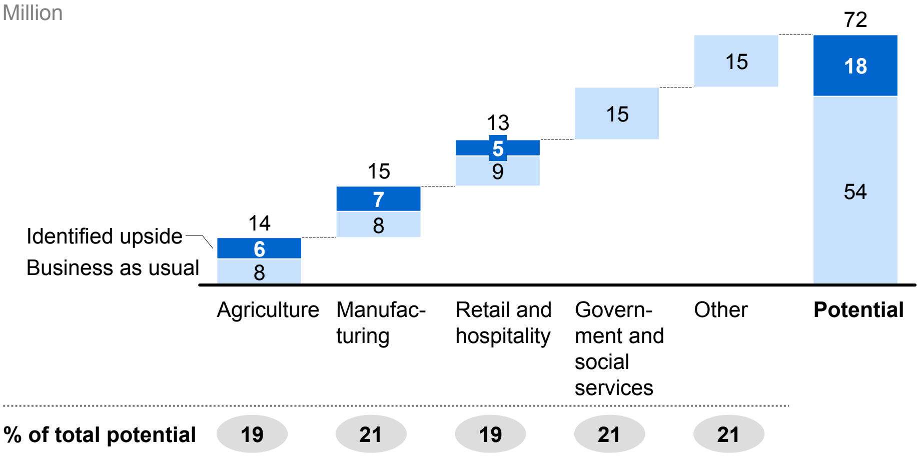
But the experience of other countries shows that Africa could create stable jobs at a faster rate. Thailand, South Korea, and Brazil, for instance, created stable jobs at double and triple the rate of Africa today when their economies were at similar levels of development—and sustained such rates over long periods.[5] If Africa came closer to matching the experience of those countries, it could lift millions more out of poverty and raise living standards for Africa's emerging consuming class, entrenching economic growth.

Our analysis of three sectors (agriculture, manufacturing, and retail and hospitality) suggests that Africa can accelerate employment growth in these sectors, with the potential to create up to 72 million wage-paying jobs across all sectors by 2020—an additional 18 million jobs over present growth levels. Within these sectors, growth in jobs could be more than 50 percent faster than in the base-case scenario if policy makers remove obstacles to private-sector growth (Exhibit E3). Capturing this potential would move Africa closer to matching the job-creation trajectory of South Korea and other successful emerging markets.

Exhibit E3

If Africa accelerated job creation, it could create 72 million additional stable jobs by 2020

Additional wage-paying stable jobs, 2010–20[1]
Million



1 Estimate based on ten countries: Algeria, Angola, Egypt, Ethiopia, Kenya, Morocco, Nigeria, Senegal, South Africa, and Uganda. Business as usual based on consensus GDP forecasts and trend rate of employment growth. Upside scenario based on accelerated growth in three sectors: agriculture, manufacturing, and retail and hospitality.
NOTE: Numbers may not sum due to rounding.
SOURCE: McKinsey Global Institute analysis

- **Agriculture** is set to create eight million stable jobs at current trends over the decade to 2020 but could add six million more if the continent accelerates the development of this sector.[6] This upside would come from two sources in particular: expanding large-scale commercial farming on uncultivated land, and shifting from low-value grain production to more labour-intensive and higher-value-added horticultural and biofuel crops.

- **Manufacturing** will create eight million jobs to 2020 at current trends but could nearly double this tally to create an additional seven million. Across

5 China has moved hundreds of millions of people out of low-productivity rural agriculture and into urban manufacturing and service industries in recent decades. However, because of China's unique circumstances and its lack of reliable data on employment status over many decades, this report instead explores the experience of other emerging economies for which such data are available.

6 In our 2010 report, we projected that Africa's agricultural revenues could nearly double, to $500 billion, by 2020 and then exceed $800 billion by 2030. For more details, see *Lions on the move: The progress and potential of African economies*, McKinsey Global Institute, June 2010 (www.mckinsey.com/mgi).

a sample of 27 major African economies, the GDP share of manufacturing has fallen from 15 percent in 2000 to 12 percent in 2010. Africa must reverse this decline—and has the potential to do so, if countries understand their comparative advantages. The continent's pre-transition and transition economies have wages and productivity levels that are competitive with other global low-cost manufacturing hubs and could develop labour-intensive manufacturing. Countries with large agricultural sectors can develop downstream agro-processing industries, such as food and beverage manufacturing, textiles, leather goods, and wood products. Oil exporters may find opportunity in manufacturing for growing domestic markets. Africa's diversified countries have higher labour costs but also more skilled workforces and better infrastructure. They can succeed in higher-value-added categories of manufacturing, as Morocco has done in the case of automotive parts and assembly. To realise these opportunities, however, African countries need to address high costs for transportation, inputs, duties, and bureaucracy.[7]

- **Retail and hospitality** are on track to add nine million stable jobs by 2020, but could add five million more. Retail is growing rapidly but remains largely informal and has low productivity in most countries. For example, Nigeria has only six formal shopping malls serving a population of 19.5 million in its four largest cities. Removing hurdles to the formalisation and modernisation of the sector is necessary to unlock growth. Hospitality and tourism is already growing strongly, but there is potential for greater gains. In particular, Africa's diversified countries today attract around 70 percent of the continent's tourism spending and international visitors, but transition countries could catch up if they address inadequate and costly air travel and visa requirements, poor surface transportation, and problems related to land use and development rights. The investment required to support job creation in this sector is relatively low.

Beyond the three sectors on which we focus, construction, transport and communication, and financial services are all showing strong employment growth, albeit from a low base, and have potential to expand wage employment further. The government and social sectors will also remain strong contributors to employment growth as countries expand education and health care. Underlying much of the development in social and government services are Africa's natural resource sectors. New discoveries of oil, gas, and hard minerals in many countries have the potential to spur development in other sectors and benefit the local population—but only if governments harness the wealth created by these sectors appropriately.

7 Hinh T. Dinh et al., *Light manufacturing in Africa: Targeted policies to enhance private investment and create jobs*, World Bank, February 2012.

AFRICA FACES A RANGE OF BARRIERS TO JOB GROWTH THAT NEED TO BE ADDRESSED

To improve our understanding of the factors preventing businesses from growing and hiring, we commissioned an in-person survey of 1,373 business leaders across five countries (Egypt, Kenya, Nigeria, Senegal, and South Africa). While this survey was not a fully representative sample of African businesses, the results provide qualitative insight into the key obstacles constraining private-sector growth.

When asked to name the top three barriers to growing their firms, 55 percent identified macroeconomic conditions and 40 percent cited potential political instability. Despite more than a decade of faster economic growth, businesses remain concerned about insufficient demand and the potential threat of inflation. Worries about political stability were especially prevalent in Egypt. The third most frequently cited issue was access to finance, named by 32 percent of respondents. Infrastructure shortcomings, including electricity and transportation, were also highly cited barriers to growth.

Difficulty in finding workers with appropriate skills and work experience was a much lower-ranked obstacle to business growth. This reflects the more fundamental nature of constraints in finance, infrastructure, and overall macroeconomic conditions. That said, companies did note that a lack of worker qualifications and skills was sometimes an issue when hiring. Among larger firms and in more developed countries such as South Africa, employers cited a lack of technical skills as an obstacle to hiring. For small and micro businesses in less developed countries, employers reported that job applicants commonly lack soft skills such as the ability to manage time, be punctual, and communicate effectively.

The relatively low emphasis on workforce skills in these survey results should not be interpreted as minimising the importance of improving education in Africa. While worker skills may not be the most prominent obstacle to job creation in Africa today, there can be no doubt that all countries would benefit from new investment and reforms to raise the quality of the educational system. Such investment should be aimed not only at primary and secondary education. Significantly more vocational training and a refocusing of tertiary education on engineering, mathematics, science, and other marketable skills are also necessary.

The survey results make clear that there is no simple solution to boosting job growth in Africa. Programmes such as worker training or entrepreneurship support, enacted alone, are unlikely to have significant impact. Employers report that the barriers to job growth are the same factors that dampen Africa's overall economic growth. But with targeted reform programmes, governments can remove these barriers and unleash private-sector growth.

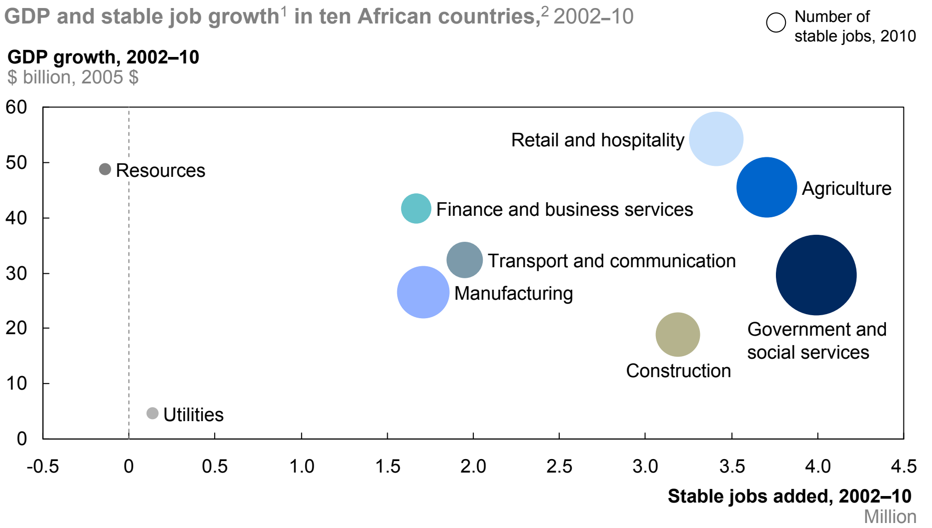
COUNTRIES NEED FOCUSED JOB CREATION STRATEGIES

Robust GDP growth is a necessary condition for accelerating the creation of wage-paying jobs in Africa. The continent's leaders must ensure that the improved macroeconomic and political stability of the past decade is maintained, and they must continue to pursue microeconomic reforms that create a more attractive business environment. But focusing on GDP growth alone will not be enough to transform Africa's employment landscape fundamentally or to ensure inclusive growth and wider opportunities for Africa's people. To harness growth for job creation, African leaders should focus on reforms to the business environment in the labour-intensive sectors that have the potential to create large numbers of jobs (Exhibit E4). The experience of countries in Africa and elsewhere has shown that creating an explicit strategy aimed at encouraging growth in labour-intensive sectors, executed in conjunction with the private sector, can have striking results.

Exhibit E4

Sectors that drive GDP growth do not always create the most jobs

GDP and stable job growth[1] in ten African countries,[2] 2002–10



1 Stable employment includes wage and salary employees and business owners; vulnerable employment includes subsistence farming, informal self-employment, and work for a family member.
2 Countries included are Algeria, Angola, Egypt, Ethiopia, Kenya, Morocco, Nigeria, Senegal, South Africa, and Uganda. These countries accounted for 70 percent of Africa's GDP in 2010.

SOURCE: Global Insight; McKinsey Global Institute analysis

A jobs strategy is very different from the broad-based industrial policies that have often proved ineffective in countries around the world. Action aimed explicitly at encouraging the creation of jobs is not about protecting domestic industries from foreign competition through tariffs and quotas, supporting companies through local content rules, or directing credit to particular companies or sectors. Nor is it about creating "trophy" industries, such as automotive or semiconductors, or national champions in core industries. Governments around the world have wasted billions of dollars on failed attempts at industrial policies in the past.[8]

Instead, a jobs strategy should begin with a fact-based assessment of a country's global competitiveness in different products; it should select subsectors that build on national endowments and have the most potential to create jobs. The next task is to identify and remove regulatory blockages that restrain growth and ensure that fundamentals such as infrastructure and a skilled workforce are in place.

8 See *How to compete and grow: A sector guide to policy*, McKinsey Global Institute, March 2010 (www.mckinsey.com/mgi).

Africa's development needs are vast, and national economic development plans can often be hundreds of pages long. Many well-intentioned reform programmes enact numerous policy changes but have limited practical success, as resources and attention are spread too thinly or political interests are not aligned. A more pragmatic approach is to remove all obstacles to growth end-to-end in specific industry value chains and then build more broadly on this narrow success.

A 21st-century strategy for job creation should include five elements:

1. Identify one or more labour-intensive subsectors in which the country has a global competitive advantage or enjoys strong domestic demand, and which can create large numbers of jobs. Selecting the appropriate sectors requires rigorous benchmarking and a clear view of the country's strengths and weaknesses. For instance, Morocco assessed the potential of more than 600 automotive parts before selecting around 100 parts in which to compete. The sectors in which to begin such an assessment will vary according to the level of the country's development and its natural endowments.

2. Improve access to finance for businesses in those subsectors by providing incentives for the banking sector to increase lending (e.g., partial loan guarantees), opening access to foreign investors, and educating new borrowers. In India's IT services and business process offshoring, for instance, foreign companies were allowed 100 percent ownership, and they played a critical role in providing both capital and know-how in the early days. Requiring lending to specific sectors is not effective and often has the perverse effect of constraining overall lending and reducing the stability of the banking system; incentive-based systems are often more effective.

3. Build suitable infrastructure to support economic activity in these subsectors and in the particular geographic regions needed for success in those subsectors. The scale of unmet need can be daunting, so it is important to prioritise high-potential sectors. Mali's integrated investment in road, rail, and other transportation to facilitate mango exports and Morocco's two free-trade zones for automotive companies are examples of targeted infrastructure tailored to specific sector opportunities.

4. Cut unnecessary regulation, bureaucracy, and corruption, all of which raise the cost of doing business and limit growth and investment. Removing regulatory obstacles has the advantage of costing governments virtually nothing while having very rapid impact. In the past decade alone, Nigeria's telecommunications sector is estimated to have generated up to three million jobs in the absence of the state telecom monopoly.[9]

5. Finally, a jobs strategy must ensure, through strong collaboration between the public and private sectors, that there is a sufficient pool of workers with the education and skills needed in the targeted sectors. For example, English- and French-speaking countries could provide vocational programmes for call centre workers if business process outsourcing were targeted.

9 Overall, employment in the telecommunications, transport, and storage sectors in Nigeria rose by 3.5 million between 2002 and 2010. A majority of that employment appears to be in the telecom sector, but data to precisely quantify the number of telecom jobs alone are unavailable.

The final element in a successful jobs strategy is effective execution. In developing countries today, poverty is rarely the result of not knowing which policies would foster growth. Rather, political obstacles often stand in the way of progress, since reforms may entail trade-offs that are detrimental to industry incumbents.[10] Successful jobs strategies will require crossing traditional silos within governments as well as creative problem solving. Implementation requires aligning disparate strategies between government departments, matching budget allocations to the needs of the jobs strategy, and ensuring that programmes are held accountable against measurable and transparent milestones. The private sector has a vital role to play in identifying potential opportunities as well as the barriers to capturing them. Engaging the wider public in the effort is also helpful in creating broad support for the jobs plan, building civic engagement, and creating a common vision for the future.

□ □ □

Sustained and robust GDP growth is a prerequisite for expanding employment in Africa. But to create better outcomes for workers and economies as a whole, policy makers and business leaders need to work together to accelerate the creation of wage-paying, productive jobs across the continent. Achieving this will require many of Africa's governments to operate in new ways—and to work together with the private sector. But, possibly for the first time in Africa's history, the continent has a chance to achieve transformative growth that is widely shared. It is now up to Africa's leaders, both public and private, to seize this opportunity.

10 Daron Acemoglu and James Robinson, *Why nations fail: The origins of power, prosperity, and poverty* (New York: Crown Business, 2012).

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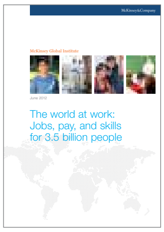
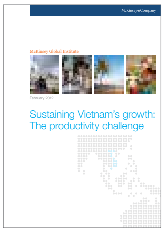


The world at work: Jobs, pay, and skills for 3.5 billion people (June 2012)

Over the past three decades, as developing economies industrialized and began to compete in world markets, a global labor market started taking shape. This report explores the hurdles, based on population, education, and labor demand, which the global economy faces as the global labor force approaches 3.5 billion people in 2030.

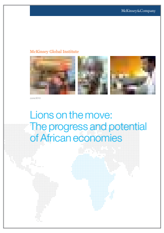
Help wanted: The future of work in advanced economies (March 2012)

Some 40 million workers across advanced economies are unemployed. With many nations still facing weak demand, hiring has been restrained. Yet there are also long-range forces at play that will make it more difficult for advanced economies to return to pre-recession levels of employment in the years to come. This report offers some thoughts about what policy makers and business leaders might do to address these trends.



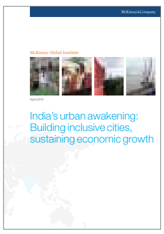
Sustaining Vietnam's growth: The productivity challenge (February 2012)

Vietnam's economy has come an extraordinarily long way in a short time. China is the only Asian economy that has grown faster since 2000. But today Vietnam's economy faces complex challenges that require a transition to a productivity-driven growth trajectory. Vietnam now needs to boost labor productivity growth by more than 50 percent to maintain its rapid growth.



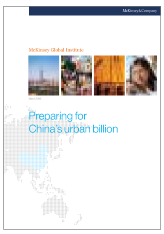
Lions on the move: The progress and potential of African economies (June 2010)

Africa's economic growth is creating substantial new business opportunities that are often overlooked by global companies. Consumer-facing industries, resources, agriculture, and infrastructure together could generate as much as $2.6 trillion in revenue annually by 2020, or $1 trillion more than today.



India's urban awakening: Building inclusive cities, sustaining economic growth (April 2010)

India's lack of effective policies to manage its rapid and large-scale urbanization could jeopardise the nation's growth trajectory. But if India pursues a new operating model for its cities, it could add as much as 1 to 1.5 percent to annual GDP growth, bringing the economy closer to the double-digit growth to which the government aspires.



Preparing for China's urban billion (February 2009)

The scale and pace of China's urbanization continues at an unprecedented rate. If current trends hold, China's urban population will hit the one billion mark by 2030. For companies in China and around the world, the scale of China's urbanization promises substantial new markets and investment opportunities.

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