

African Economic Outlook 2012

SPECIAL THEME:
Promoting Youth Employment

- Algeria
- Angola
- Benin
- Botswana
- Burkina Faso
- Burundi
- Cameroon
- Cape Verde
- Central African Rep.
- Chad
- Comoros
- Congo, Dem. Rep.
- Congo, Rep.
- Côte d'Ivoire
- Djibouti
- Egypt
- Equatorial Guinea
- Eritrea
- Ethiopia
- Gabon
- Gambia
- Ghana
- Guinea
- Guinea-Bissau
- Kenya
- Lesotho
- Liberia
- Libya
- Madagascar
- Malawi
- Mali
- Mauritania
- Mauritius
- Morocco
- Mozambique
- Namibia
- Niger
- Nigeria
- Rwanda
- São Tomé and Príncipe
- Senegal
- Seychelles
- Sierra Leone
- South Africa
- South Sudan
- Sudan
- Swaziland
- Tanzania
- Togo
- Tunisia
- Uganda
- Zambia
- Zimbabwe



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African Economic Outlook 2012

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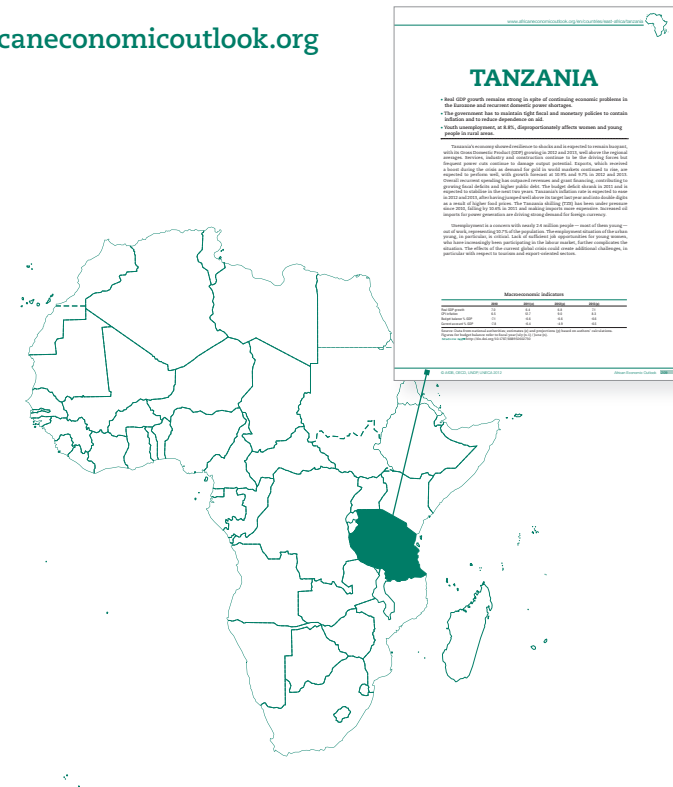
What is the African Economic Outlook (AEO)?

The AEO report is an essential reference for monitoring the economic, social and political developments of the African continent. The 2012 edition contains:

- original macroeconomic analysis and forecasts,
- rigorous and politically independent analysis,
- a special focus on how to promote youth employment in Africa,
- a rich statistical annex,
- in-depth country notes for 53 of the 54 countries in Africa – not included is Somalia. These notes are updated annually and provide strictly comparable data and analysis, including a synopsis of the overall state of the economy, recent economic developments and prospects, macroeconomic policy, economic and political governance, social context and human development and an analysis of the youth employment situation and related policies.

The report, including all country notes, can be accessed free-of-charge on the website:

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A Collaborative Approach

The AEO is the result of a unique partnership between four international organisations:

- African Development Bank
- OECD Development Centre
- United Nations Development Programme
- United Nations Economic Commission for Africa

The AEO is published annually with additional financial support from the European Union and the Committee of African, Caribbean and Pacific Group of States (ACP).

The Pocket Edition

The Pocket Edition of the AEO 2012 is meant to provide you with the key facts and data of this year's report in a portable format. The complete chapters, individual country profiles as well as the statistical annex can also be viewed online at

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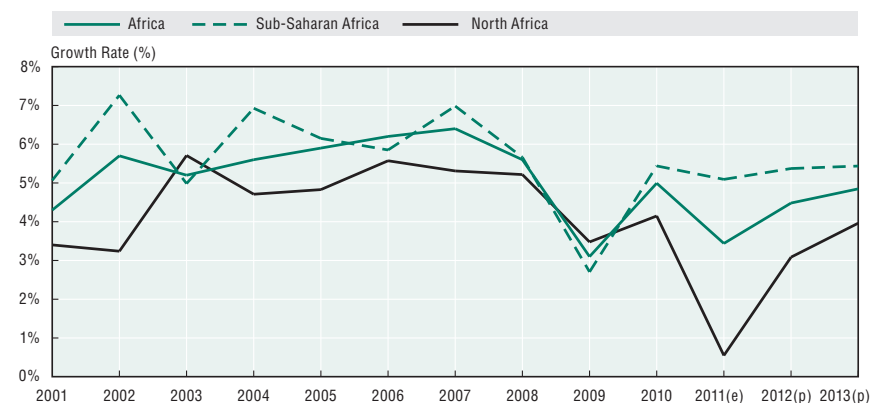
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Macroeconomic Prospects

After an initial rebound from the 2009 world economic crisis, Africa's economy was undermined last year by the Arab uprisings. The continent's growth fell back from 5% in 2010 to 3.4% in 2011. With the recovery of North African economies and sustained improvement in other regions, growth across the continent is expected to accelerate to 4.5% in 2012 and 4.8% in 2013. Short-term problems for the world economy remain as Europe confronts its debt crisis. Commodity prices -- crucial for Africa -- have declined from their peak due to weaker demand and increased supply, and some could fall further. But prices are expected to remain at levels favourable for African exporters, significantly above the average levels of the five years before the global 2009 crisis.


While keeping an eye on new economic storm clouds in Europe, Africa must keep its focus on reforms that encourage growth and ease the social tensions that set off the Arab revolutions and caused North Africa's Gross Domestic Product growth to decline by 3.6 percentage points to near stagnation in 2011.

Figure 1. Africa's Economic Growth (%)



e: estimates; p: projections.

Source: Authors' calculations.

StatLink  <http://dx.doi.org/10.1787/888932599899>

The slowing of the global economy has hit some African countries, notably those whose main export markets are in Europe and the United States. Our forecast for Africa assumes that world output growth will slow to 3%-3.5% in 2012 (from 3.8% in 2011 and 5.2% in 2010) and to recover gradually to close to 4% in 2013. World trade

Figure 2. Growth of GDP by countries (%)

volume growth is projected to slow from around 7% in 2011 to less than 4% in 2012 and to accelerate again to around 5.5% in 2013. This projection implies that growth of global output and trade will not return to pre-crisis levels.

Africa's domestic demand was boosted through higher private investment, public consumption, infrastructure investment and private consumption. Consumers have kept spending despite high food and fuel prices and this has been supported by higher wages and food and fuel subsidies. Africa's growing middle class continues to boost consumption, residential construction and private investment.¹ Inflows of remittances and Foreign Direct Investment (FDI) also supported domestic demand in many countries. The broadening growth pattern is also reflected on the supply side. In resource-rich countries, oil and mining continues to boost growth but non-resource sectors are also expanding, although from a low base.

The relatively broad-based recovery of African economies is also reflected in the similar growth pattern of oil-importing countries compared to oil-exporters (excluding Libya). In 2011, oil importers recorded slightly higher growth than oil exporters and this trend is expected to continue in 2012 and 2013 although the difference is too small to be significant.

Due to the political events, growth in *North Africa* slowed in 2011 to near stagnation. Given North Africa's weight of around a third of the continent's GDP, the economic disruption in the region reduced Africa's growth in 2011 by more than one percentage point. The projected recovery of the region will boost Africa's growth in 2012 by almost the same amount. *West Africa* is expected to continue its rapid growth with rates of 6.7% and 6.4% in 2012 and 2013 after 6.2% in 2011. Despite the food crisis in parts of *East Africa*, most countries in the region, which are covered in this report (Somalia is not included) continued on a relatively steep growth path. In 2012 growth is expected to slow to around 5% (from 6% in 2011). The main reason is the more moderate growth in Ethiopia and the slow-down of growth in Sudan. In *Central Africa*, GDP is likely to continue to grow at about 5% while in *Southern Africa*, growth is expected to accelerate to 4% and 4.5% in 2012 and 2013 (up from 3.5% in 2010 and 2011).

¹ According to AfDB estimates Africa's middle class amounted in 2010 to 313 million people or 34% of Africa's population. Under a more narrow definition, the figure is 123 million people or 13% of the population. The middle class has increased over 20 years by 162 million and 42 million people respectively. The lower figure refers to people with per capita daily consumption of between USD 4 and USD 20 in 2005 purchasing power parity. The higher figure includes in addition people with per capita consumption between USD 2 and USD 4 (the so-called floating class) (AfDB 2011a).



Source: Authors' calculations.
StatLink <http://dx.doi.org/10.1787/888932599937>

Rising food and fuel prices caused Africa's median inflation rate to increase from 5.8% in 2010 to 7.9% in 2011. In several countries weakened currencies exacerbated imported inflation. This rate is expected to gradually ease in 2012 and 2013. Some countries tightened monetary policies in 2011 to contain inflation. Others worried more about weak growth and refrained from raising interest rates.

Future monetary policy will be dictated by whether there is a bigger worry about inflation or the risk of a new global downturn. In countries where inflation remains low or declines, central banks may see some room to reduce interest rates. But given the relatively weak transmission from policy rates to lending rates in many African countries, the decline of financing costs for investors is likely to be limited.

Fiscal consolidation is a priority in many countries

During the 2008/09 economic downturn lower government revenues and counter-cyclical spending caused budget surpluses to shrink and deficits to widen. Several countries changed course and took measures to contain spending while other countries continued to boost demand to prevent a weakening of economic activity or increased subsidies and social benefits to cushion the impact of high fuel and food prices. As a result of counter-cyclical spending in several countries fiscal deficits remained relatively high in many countries. This limits the space for counter-cyclical measures in case of new external shocks.

Restoring public finances remains a priority in countries where public sector deficits remain high, especially those who rely on oil imports. This would create fiscal defences against future adverse shocks, increase domestic saving, reduce fiscal dominance in financial markets and help the financing of private investment. In resource-rich countries fiscal prudence can be achieved through medium-term fiscal planning with conservative assumptions about future commodity prices and putting additional cash into sovereign wealth funds to be better prepared when receipts fall.

External positions vary widely across the continent

The fallout on trade appears to be the biggest risk. Higher food and energy costs made import prices increase much faster than export prices in many African countries and the weakened terms of trade pushed national income growth below GDP growth. In oil-importing countries, current account deficits increased and are likely to remain on average around 6% of GDP in 2012/13. By contrast, oil-exporting countries improved their current accounts in 2011 and are expected to see their surpluses rise above 4% of GDP. Trade suffers the most from troubles in other regions. A deeper crisis in Europe would have a direct impact on countries which rely on the European market, notably North and West Africa, but also South Africa and some countries in East Africa, such as Kenya.

The overall effect on Africa would depend on the depth and duration of the crisis in Europe and how much it touches the rest of the global economy. If Europe's debt crisis worsens, it could affect Africa through lower earnings from exports of goods, services and tourism. There could also be reduced official development assistance, foreign direct investment and of remittances from migrant workers. In addition, the debt crisis could have a contagious effect on African banks. This would lead into a more pessimistic scenario than this study assumes, causing lower earnings from exports and tourism, contagion effects for African banks, lower inflows of official development assistance, foreign direct investment and worker's remittances. It has been estimated that a one-percentage point decline of GDP in OECD member countries causes African GDP to decline by about 0.5% and Africa's export earnings by about 10%.

Within Africa, much attention will be given to Tunisia, Egypt and Libya. After their uprisings, the new governments must establish political stability and improve economic and social conditions. There are also worries about the new state of South Sudan and its relations with Sudan. Several other African countries face social discontent and regional tensions. Drought and floods have also affected agricultural production and food security for many countries, especially in the Sahel region. African policy makers and the international community must be aware of these global and domestic risks.

Overall, the 2012 African Economic Outlook presents an optimistic scenario for the continent. Africa's impressive growth for more than a decade and its resilience to the deep global recession support such optimism.

Table 1. Macroeconomic developments in Africa

	2010	2011(e)	2012(p)	2013 (p)
Real GDP Growth (%)				
Central Africa	5.7	5.1	4.9	4.8
Eastern Africa	7.1	6.0	5.1	5.6
Northern Africa	4.1	0.5	3.1	4.0
Southern Africa	3.5	3.5	4.0	4.4
Western Africa	6.9	6.2	6.9	6.4
Africa	5.0	3.4	4.5	4.8
Memorandum items				
North Africa (including Sudan)	4.2	0.7	3.0	3.9
Sub-Saharan Africa	5.5	5.1	5.4	5.4
Oil-exporting countries	5.3	2.9	4.7	5.0
Oil-importing countries	4.5	4.1	4.2	4.7
Consumer Prices (Inflation in %)				
Central Africa	5.4	4.5	5.5	4.9
Eastern Africa	9.7	17.0	16.5	12.1
Northern Africa	6.2	7.4	7.0	7.0
Southern Africa	6.2	6.7	6.8	6.1
Western Africa	10.5	8.8	8.5	7.1
Africa	7.4	8.5	8.4	7.3
Memorandum items				
North Africa (including Sudan)	7.0	8.1	7.9	7.7
Sub-Saharan Africa	7.9	8.8	8.6	7.0
Oil-exporting countries	9.7	10.0	9.5	8.7
Oil-importing countries	5.0	7.3	7.4	6.0
Overall Fiscal Balance, Including Grants (% GDP)				
Central Africa	1.7	2.8	2.4	1.6
Eastern Africa	-4.3	-5.0	-5.0	-5.1
Northern Africa	-3.0	-6.5	-4.7	-4.8
Southern Africa	-2.6	-2.5	-2.6	-2.4
Western Africa	-6.7	-1.7	-0.9	-1.0
Africa	-3.5	-3.6	-2.9	-3.0
Memorandum items				
North Africa (including Sudan)	-3.0	-6.3	-4.6	-4.8
Sub-Saharan Africa	-3.7	-2.1	-1.9	-2.0
Oil-exporting countries	-2.8	-2.7	-1.6	-1.9
Oil-importing countries	-4.4	-4.9	-4.8	-4.6
External Current Account, including grants (%GDP)				
Central Africa	-5.6	-2.7	-1.0	0.5
Eastern Africa	-6.9	-7.7	-10.1	-9.3
Northern Africa	1.7	-0.8	1.0	2.1
Southern Africa	-1.8	-1.0	-1.9	-2.0
Western Africa	1.8	4.5	4.8	3.8
Africa	-0.6	-0.6	-0.4	0.0
Memorandum items				
North Africa (including Sudan)	0.8	-1.4	-0.1	1.3
Sub-Saharan Africa	-1.6	-0.2	-0.5	-0.8
Oil-exporting countries	2.8	3.6	4.2	4.8
Oil-importing countries	-4.7	-5.7	-6.0	-6.0

e : estimates; p : projections

Source: Statistics Department, African Development Bank.

Domestic and External Financial Flows

External resources flowing to Africa peaked in 2011 following a decade of sound macroeconomic policies and sustained average annual growth of over 5%. As a share of Africa's gross domestic product, external flows doubled from 6.8% in 2000 to 12.3% in 2006, but were still down at an estimated 8.2% in 2011.

Table 2. Summary of external financial flows and tax receipts in Africa (2000-12)

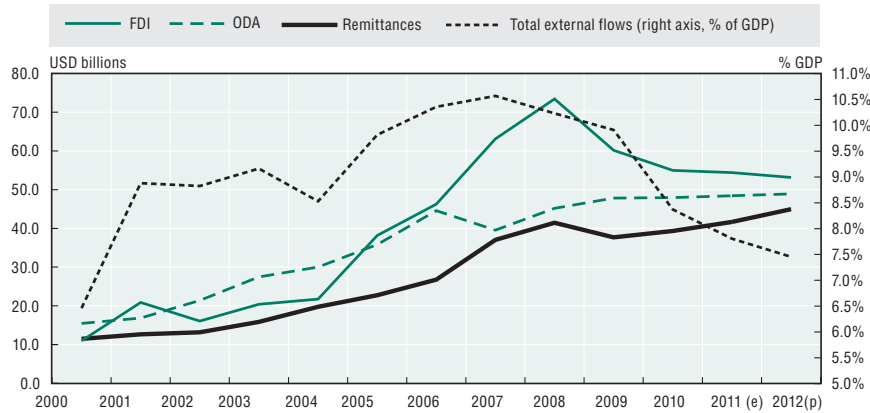
Flows (real USD Billions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 (e)	2012 (p)
1. ODA, net total, all donors	15.5	16.8	21.4	27.4	30.0	35.8	44.6	39.6	45.2	47.8	47.9	48.4	48.9
2. Portfolio investments	1.9	-3.3	-0.1	-0.4	6.8	5.8	22.2	12.8	-27.0	-2.1	12.2	7.7	16.2
3. FDI inward	10.9	20.9	16.1	20.4	21.7	38.2	46.3	63.1	73.4	60.2	55.0	54.4	53.1
4. Remittances	11.5	12.6	13.2	15.8	19.8	22.7	26.8	37.0	41.5	37.7	39.3	41.6	45.0
5. Tax revenues	141.0	131.7	123.9	159.0	204.6	262.4	312.5	357	458.5	339.2	416.3
Total External flows (1+2+3+4)	39.7	47.1	50.6	63.3	78.3	102.5	139.8	152.5	133.1	143.5	154.4	152.2	163.2
North Africa	11.7	14.2	13.6	15.0	20.2	27.4	37.2	43.4	33.5	23.7	37.5	27.6	31.6
West Africa	7.5	8.0	9.6	10.7	13.9	23.6	34.0	32.2	33.6	37.6	37.7	42.4	45.2
Central Africa	1.7	2.8	4.0	8.8	5.1	6.0	6.0	8.0	4.6	7.0	9.5	8.4	8.6
East Africa	6.9	8.1	8.7	11.3	13.1	14.5	19.0	22.3	24.5	25.2	23.4	26.1	26.7
Southern Africa	10.6	12.5	13.0	14.9	23.3	28.2	40.5	42.5	31.9	44.2	41.2	39.1	45.9

Source: OECD/DAC, World Bank, IMF and African Economic Outlook Data. Author's estimates for 2011 ODA data, by using the forecasted rate of increase for Country Programmable Aid in the 2011 OECD Aid Predictability Report. Projections for 2012: FDI and portfolio: IMF, Remittances: World Bank, ODA: OECD/DAC (author's calculations). (This table excludes loans from commercial banks, official loans and trade credits).

Foreign Direct Investment

The strong recovery of foreign investment, with the exception of Northern African countries, spurred external flows. The appetite of Asian and Latin American emerging economies for natural resources triggered a boom of international commodity prices, which underpinned resource-seeking investment in Africa. Yet, this strong growth and surge in FDI did not translate in greater economic opportunities for the entire population, nor did it create enough employment to meet demand. Africa needs to attract more productivity-enhancing FDI to diversify its economy, develop its private sector and benefit from technology transfers and spill-over effects.

Figure 3. FDI overtook ODA in 2005, but is below its 2008 peak

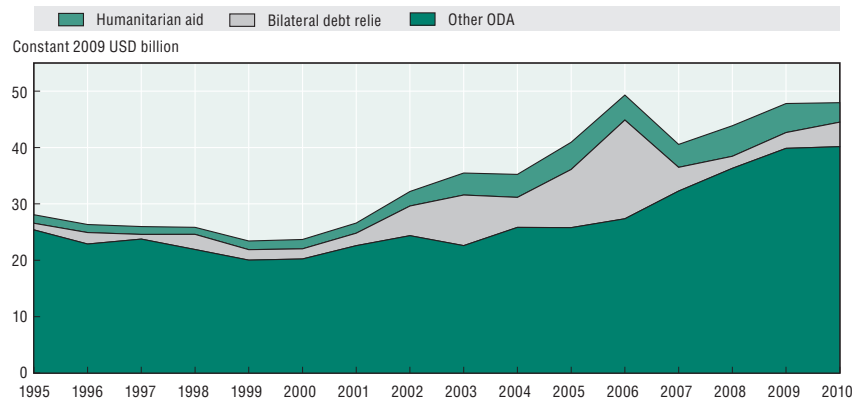


Source: UNCTAD, OECD/DAC and World Bank. GDP forecast for 2012 from IMF. (This graph excludes loans from commercial banks, official loans and trade credits).
StatLink <http://dx.doi.org/10.1787/888932600070>

Official Development Aid

Official development assistance increased in 2011, but at a slower pace than previous years. The sovereign debt crisis and austerity measures in OECD countries dampened prospects for a significant increase in future assistance. This particularly threatens the functioning of the state for nearly half of African countries where ODA is still the largest external finance.

Figure 4. ODA flows to Africa remained stable throughout the international economic and financial crisis



Source: OECD/DAC 2012.
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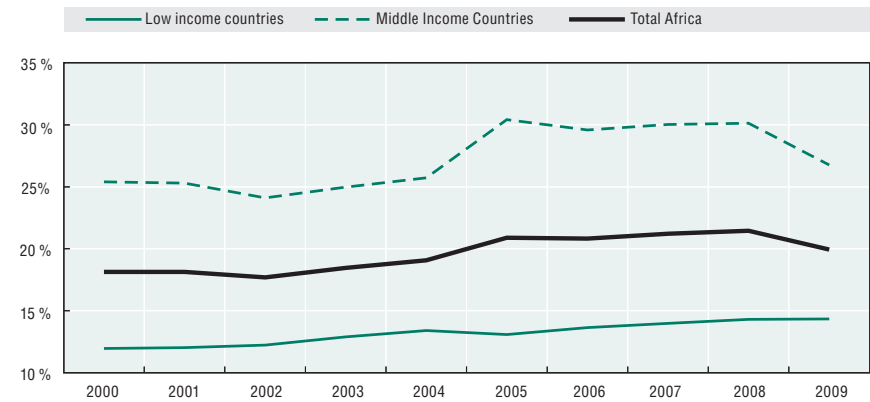
Remittances

Remittances to Africa peaked in 2011 and are projected to continue to increase strongly in 2012. The importance of remittances varies across countries and regions. They play a significant role in smoothing consumption and hence contribute to poverty reduction and improving social conditions. Additionally, they can provide capital to small and microenterprises, aiding job creation.

Tax Receipts

Collected taxes in Africa increased from an unweighted average of 17.9% of gross domestic product (GDP) in 2000 to 20.3% in 2010. However, this increase was mainly driven by resource-related taxes in oil-exporting countries as oil prices surged after 2007. African countries need to improve the quality of their tax systems by deepening their tax bases. Tax revenues complement external financial flows by helping states to provide quality public services and pursue economic policies that are conducive to raising growth and attracting finances from abroad.

Figure 5. Tax revenues in Africa represent an increasing share of GDP during the last decade



Source: Authors' calculations.
StatLink <http://dx.doi.org/10.1787/888932600203>

The design and implementation of effective tax policies should enable States to maximise the impact of different types of external flows by providing higher quality public services and pursuing adequate economic policies.

Trade Policies and Regional Integration in Africa

Because Africa's export portfolio remains predominantly based on raw material, its export earnings are contingent on commodity price fluctuations. This exacerbates the continent's susceptibility to external shocks and bolsters the need for export diversification. Trade in services, mainly travel and tourism, continued to rise, underscoring the continent's strong potential in this sphere.

African countries need to diversify their trading partners within and outside the continent. Pursuing deeper regional integration will improve the low levels of both intra-African and internal trade. Regional integration should help tackle infrastructure and energy gaps. Africa needs to articulate, long-term, national and regional strategies to frame its increasing engagement with southern partners into a mutually reinforcing affiliation. Stronger South-South cooperation should lead to market and investment diversification, especially considering the current economic situation in the United States and European. This increasing role of emerging economies, such as China, India and Brazil, in Africa's trade and investment continued and intensified in 2011.

Progress in the Economic Partnership Agreements (EPAs) remained limited throughout 2011. However, in September 2011, the European Commission announced plans to remove trade preferences arising from the Market Access Regulation by January 2014 in the event of countries not ratifying and implementing their respective EPAs, thus potentially losing some preferential access to EU markets. Least Developed Countries (LDCs) will continue to benefit from duty-free and quota-free (DFQF) access under the auspices of the Everything but Arms (EBA) scheme, low-income countries (LICs) and lower middle-income countries (LMICs) will remain as beneficiaries of the Generalised System of Preferences (GSP), but Botswana and Namibia, being upper middle-income countries, will be excluded from each initiative in the absence of ratification. Outstanding issues continue to be causes of contention, with Africa insisting on the developmental aims of the EPAs, with ample policy space to further its industrialisation and structural transformation imperatives.

Human Development

Sub-Saharan Africa had the lowest aggregate level of human development in 2011, albeit posting the second fastest annual increase over the period 2000-11. Improved policies will not suffice to sustain high rates of growth of human development. It will have to be complemented by a combination of ODA, remittances, FDI and tax revenue to provide the required financial resources to bridge the gap in human capital. Reducing poverty and improving lives to levels in line with Africa's human development objectives will require massive resources. The non-financial resources include a strong political commitment to human development which needs to be translated into a vision with clear objectives for its implementation, as Rwanda has illustrated. The availability of qualified staff to implement policies is also important.

Accelerating investments in social and economic infrastructure also requires to reverse capital flight: the strain it puts on human development in Africa is estimated at about USD 700 billion between 1970 and 2008. International cooperation will be crucial to reverse the flow of African capital back to the continent. Africa should continue to improve domestic governance and eliminate the practices that foster capital flight. The international community should help the continent to identify and repatriate stolen wealth using, among others, international instruments such as the "Stolen Asset Recovery Initiative." Without an international coalition for the reversal of capital flight, Africa alone will not succeed due to the reticence of some countries benefiting from these practices.

Capital flight also deepens inequality. The people benefiting from capital flight are the elites who engage in trade mispricing of imports and exports or those who have the power to unlawfully appropriate and transfer resources abroad. Almost all the people engaging in capital flight in Africa are among the 10% richest segment of the population.

Investment is one of the most important conduits through which capital flight affects human development. The missing capital could have a more direct impact on livelihoods by being invested in infrastructure which is high on Africa's priority list: job creation, better access to schooling, health care, clean water; information and socio-political inclusion could all come out of the better use of the capital in infrastructure. If all capital flight from Africa in 2008 had been invested in MDG-related projects, it could have covered 55% to 68% of the additional resources needed that year to close the financing gap to achieve the targets of halving poverty; reaching gender equality as well the education and health-related Goals.

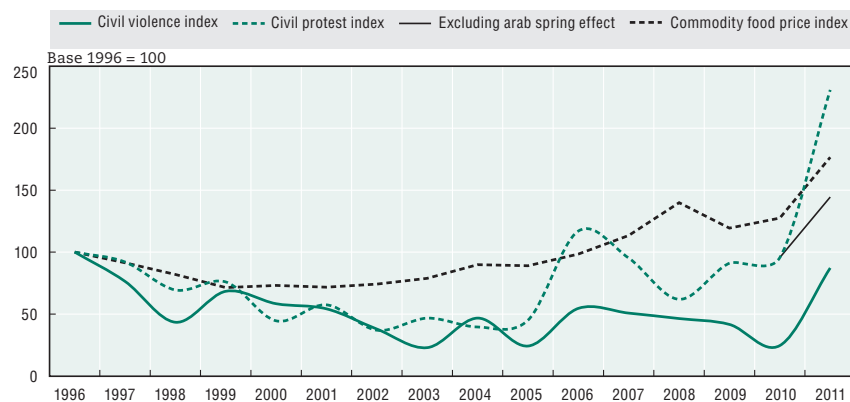
Economic and Political Governance

The “Arab Spring” in 2011 caused Islamic-inspired political parties in Morocco, Tunisia and Egypt to be elected into parliament. Following decades of repressive regimes these countries will have to broker a new social contract that satisfies all strata of society in order to enable their economies to get back on their feet swiftly and appease the high expectations generated by the revolutions.


Similarly, in other African countries citizens increasingly demanded more civil rights and better social policies. This reflects the trend of African citizens increasingly adopting peaceful ways to voice their legitimate concerns. This change in nature of the protests indicate a maturing political process in most African countries with governments increasingly allowing their citizens to express themselves in a more peaceful way.

The increase in our civil protest indicator reflects a positive trend of African governments gradually opening up and allowing more freedom of expression, Africans increasingly adopt more peaceful ways to voice political, social or economic concerns. When demonstrations increase in magnitude and frequency, the probability of violence between governments and protesters becomes higher, as monitored by our civil violence indicator. Yet, in 2011, there was only a moderate increase of civil violence relative to the much larger increase in civil protests.

Figure 6. Public protests, civil violence and food price indices

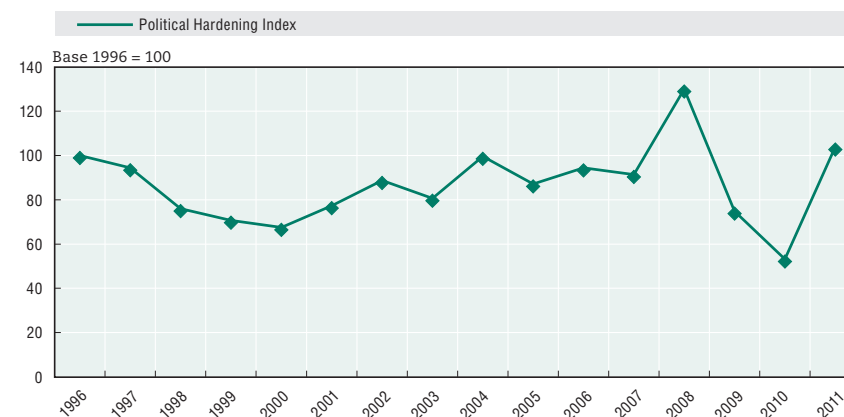


Source: Public Protests and Violence Indices: Authors' calculations based on AFP information); Commodity Food Price Index: IMF.

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These findings are coherent with our political hardening indicator, which shows that about half of African countries managed to accommodate intensifying social demands in less violent ways. Other African countries, however, still resort to repression to handle social unrest and political opposition, especially at election time. Governments clinging to power tend to stir up rival factions and violence between their opponents and supporters.

Figure 7. Political Hardening Index 1996-2011 (base year 1996 = 100)



Source: Authors' calculations based on AFP information.

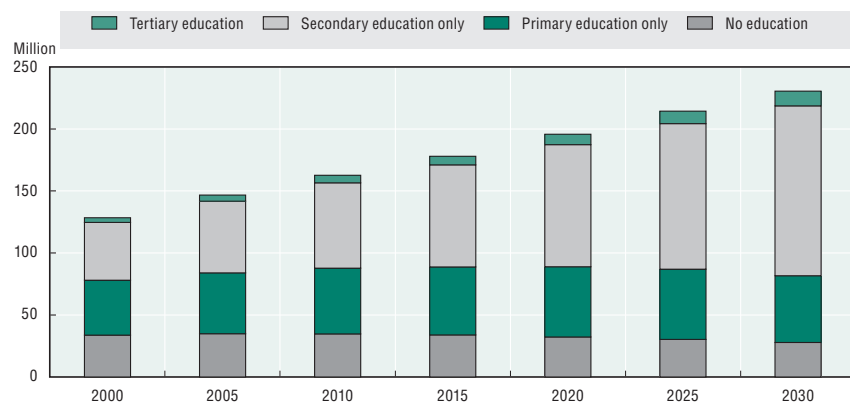
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However, pre-electoral tensions are becoming the exception rather than the rule, as shown by the many successful elections held in 2010 and 2011. There will be another eight presidential elections and 17 legislative and parliamentary elections in 2012.

Promoting Youth Employment

Africa has the world's youngest population and it is growing rapidly. Hundreds of millions of young Africans will be leaving school over the next decades, at every level, and looking for jobs. Africa's youth population is not only growing rapidly, it is also getting better educated. Based on current trends, 59% of 20-24 year olds will have had secondary education in 2030, compared to 42% today. To turn this rapid growth in human resources into an opportunity, Africa needs to tackle youth employment. Past growth has not been sufficiently employment-intensive. A stronger focus on job creation is necessary.

Figure 8. Africa is experiencing a rapid growth of educated young people (20-24 year-old cohorts by education, 2000-2030)

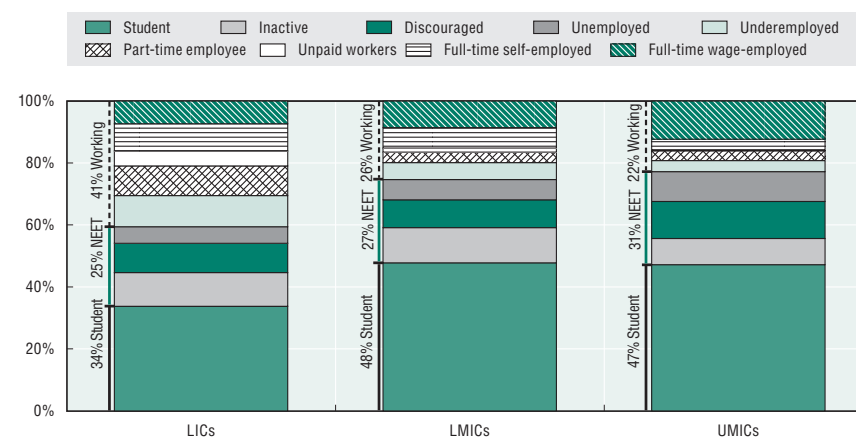


Source: World Bank EdStats, authors' calculations.
 StatLink <http://dx.doi.org/10.1787/888932600279>

Youth employment is largely a problem of quality in low income countries (LICs) and one of quantity in middle income countries (MICs). Youth in vulnerable employment and working poverty are the large majority in poor countries. In upper middle income countries more youth are unemployed, discouraged or inactive than working. Compared to employed youth, the unemployed in LICs are relatively better off, and in MICs they are relatively worse. In LICs youth have to be able to afford unemployment and choose it over a job, most likely in the informal sector, that pays very little. In MICs the informal sector is more constrained (due to a lower demand and government intervention) and does not act as an absorber for all youth.

In all country groups more youths are discouraged than unemployed, suggesting that the youth employment challenge has been underestimated. Discouraged youth are more disadvantaged than unemployed youth and must be included in any meaningful labour market analysis. Unfortunately, often they are not.

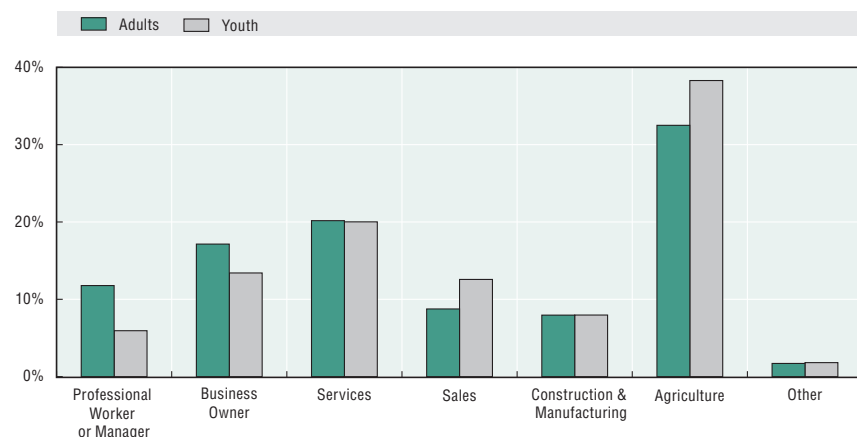
Figure 9. Youth time use by country income group (2010)



Source: Authors' calculations based on Gallup World Poll (2010).
 StatLink <http://dx.doi.org/10.1787/888932600317>

Many African youth are poor despite being employed. They deserve as much attention and support as youth that are not working. In many African countries wage employment, the best job category, accounts for less than 15% of youth in the labour market. The global economic crisis had a strong negative impact on the employment profile of African youth. Between 2008 and 2010 good jobs declined, while jobs in family agriculture and informal activities (grouped by occupations in the next figure), picked up.

Figure 10. Youth and adults by occupation



Source: Gallup World Poll (2010), authors' calculations.
 StatLink <http://dx.doi.org/10.1787/888932600450>

Education is a strong determinant of good employment over a lifetime, but also higher unemployment among youth. Youth unemployment increases with education. This is largely because their transition takes longer. Importantly, their 30+ cohorts with higher education have lower unemployment rates. Transition takes so long because of a lack of job offers and skills mismatches between what education provides and what employers need. Mismatches are also important at the secondary school level where education does not provide enough practical skills.

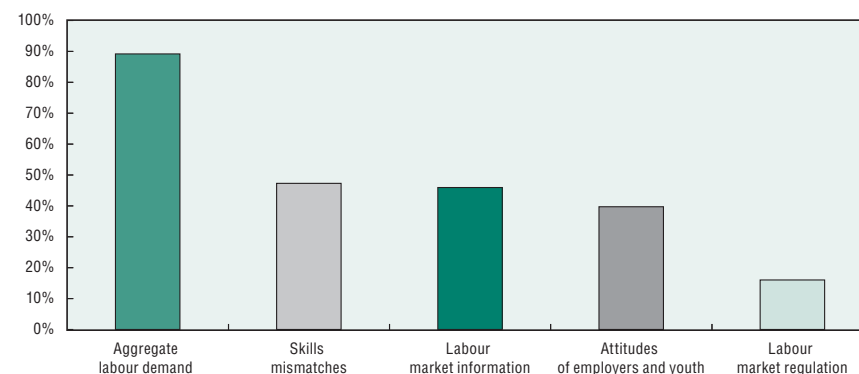
The employment outlook for young people in Africa is challenging. Although many jobs have been created over the last decade, Africa's growth was not sufficiently inclusive to meet the need for jobs of a fast growing population. The private sector has been growing, but from too small a base to have a big impact. The public sector cannot grow as fast as the population and is a much less important employer among youth than adults. To maintain current public sector employment levels Africa would need to create 1.9 million public sector jobs annually until 2025.

The informal and rural sectors will thus continue to play an important role as the absorber of young people in need of an income, and should be seen for its opportunities. Informal entrepreneurs and the rural non-farm sector show potential. Already today, across all of Africa 53% of youth in rural areas are not in agriculture, but engaged in other activities. Youth in rural non-farm employment are much better off than youth in farming. Linkages between urbanisation, the rural non-farm sector and agriculture are important and work to strengthen rural economies in Africa.

Lack of demand for labour is the biggest obstacle to youth employment in African labour markets, supply factors are important too but less so. Labour market

institutions are the smallest problem. Both country experts and youth see the lack of demand for labour as the main barrier to young people in African labour markets. Education and skills mismatches, attitudes by young people and employers and labour regulations are important challenges too, but country experts and business consider them less pressing. Skills and regulation become more important as countries grow richer. Especially Northern African countries and South Africa are struggling with skills and overly rigid labour markets. At the same time those with low skill levels are falling out of the labour market in these countries.

Figure 11. Labour market challenges faced by youth



Source: AEO Country Experts Survey 2012; 37 countries.
 StatLink <http://dx.doi.org/10.1787/888932603680>

Given the size of the employment problem, any youth employment policy in Africa must place job creation at its centre. Governments must focus on removing obstacles to the many small firms in the informal sector, helping them to grow and create decent jobs. At the same time existing large firms, the primary source of decent jobs today, must be supported to grow further and become more competitive. Especially middle income countries are facing a great challenge because their employment base is very small and will need strong growth.

The biggest barriers to firms of all sizes are infrastructure (especially electricity) and access to finance. In better off countries, labour regulations and the skill level of the workforce become more important, but are still trumped by finance and infrastructure. The adverse business environment has disproportionate effects on small firms and prevents their growth. Large firms can cope more easily, but are struggling to be competitive at the international level. Informal entrepreneurs must cope with very high levels of risk in addition to access to finance issues. Savings schemes could help.

To overcome skills mismatches, education systems must become more comprehensive and linked to labour market needs. The high share of NEET rates among young people that have been to secondary school suggests that education at this level is too generalised and instils few of the practical skills that small firms or self employment require. Vocational and technical training systems are an important tool especially when done in cooperation with firms, but play a minimal role for the time being. A much larger share of youth goes through informal apprenticeships. Governments must find ways to recognise these and combine them with formal education. At the university level, Africa has the highest share of social science and humanities graduates of any world region. Its share of engineers is the lowest. Only 2% of students are in agriculture, the same as in the OECD, although this sector is clearly Africa's comparative advantage. Education in technical fields is expensive and requires scarce expertise. Governments should seek cooperation with the private sector to provide high quality technical education at both secondary and tertiary levels.

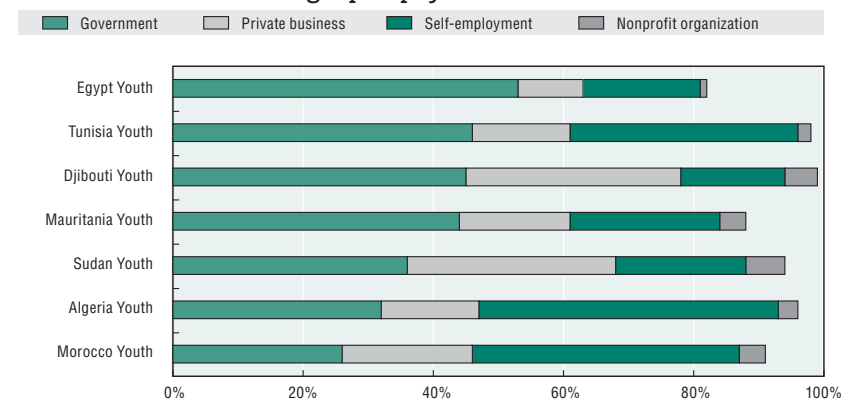
Table 3. What do students study? University graduation rates in Africa and the world (2008-2010)

	Education, humanities and arts	Social sciences, business and law	Science	Engineering, manufacturing and construction	Agriculture	Health and welfare	Services	Other
Sub-Saharan Africa	26%	44%	12% (3% ICT)	4%	2%	5%	0%	7%
North Africa	22%	51%	8% (1% ICT)	10%	1%	6%	1%	1%
Asia	23%	30%	6%	20%	4%	9%	4%	4%
Latin America	23%	38%	7%	9%	2%	13%	3%	5%
OECD	25%	37%	10% (3% ICT)	11%	2%	11%	4%	1%

Source: AEO data, UNESCO.

Mismatches are also found between youth expectations and employment offers. In North Africa, most youth want to work for government, even though only few jobs are available there. In most of Africa youth are aiming for wage employment in a large formal sector firm, but most will end up in the informal sector. Governments and educators must make active efforts to guide young people with information on labour markets at all stages of the education system.

Figure 12. Where do you want to work, assuming equal pay and benefits?



Source: Silatech (2009), based on Gallup World Poll data.
 StatLink <http://dx.doi.org/10.1787/888932600925>

On the labour regulation front, the high costs of firing, mostly in the form of severance pay stipulations are the biggest hurdle. Decoupling social protection from employment status can help with labour market flexibility and protection of vulnerable youth at the same time.

Governments must improve their response. They are showing a lot of activity to confront the youth employment challenge but many government programmes are dysfunctional and unlikely to have significant impact on youth employment given the size of the employment problem and the barriers the private sector faces in Africa. AEO country experts consider programmes to promote youth employment to be dysfunctional in 21 countries and well developed only in Morocco. Initiatives providing training and promoting entrepreneurship are the most frequent government interventions. Several governments engage in temporary job creation through public works programmes. But there is little evidence of their impact on longer term jobs. Among the big shortcomings of youth employment interventions is a general lack of knowledge on what works well and what does not, which is closely linked to the extreme paucity of employment data available for Africa. A second obstacle is a frequent lack of coordination between government agencies leading to scattered, sometimes even competing efforts that are not integrated into an effective strategy.

Despite the challenging short-term outlook, the long term perspective is good, if African governments effectively tackle the hurdles young people face. Today's youth is better educated than any previous cohort and the growth rate of the population is beginning to decline, opening a window of opportunity to reap the demographic dividend. New technologies are providing an opportunity to leapfrog into a service-based economy. Rapid urbanisation, largely driven by youth, leads to higher work force densities that offer opportunities for the development of clusters. Urbanisation also benefits the rural economy through higher demand for agricultural products. Finally, the informal sector, long seen as problem is turning out to contain entrepreneurial talent that can foster job creation if adequately enabled by government policies.

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