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October 2024 Regional Economic Outlook: Sub-Saharan Africa Analytical Note

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The Clock is Ticking: Meeting Sub-Saharan Africa's Urgent Job Creation Challenge

Sub-Saharan Africa urgently needs to create jobs for its growing population, especially in fragile and conflict-affected states, and low-income countries. The region's labor markets are characterized by high levels of informality and significant barriers to job creation, resulting in too few good jobs. To tackle this, broad-based and inclusive productivity growth, including in the informal sector, is crucial. Transforming informality into a viable pathway for employment requires targeted worker-level policies and the removal of obstacles to firm growth. These efforts should be complemented by policies that support structural transformation towards higher productivity activities to expand meaningful employment opportunities.

By 2030, half of the world's new workers will be from sub-Saharan Africa.

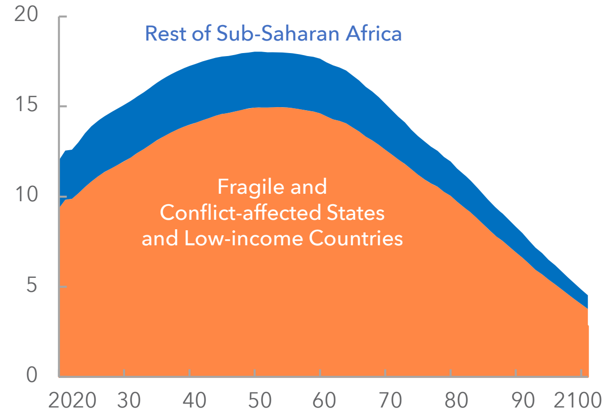
Is the world ready?

Fragile, Low-income countries face an urgent need to create jobs…

As the rest of the world grapples with population decline, Africa's population is booming. By 2030, half of the increase in the global labor force will come from sub-Saharan Africa, requiring the creation of up to 15 million new jobs annually.[1] This challenge is particularly acute in fragile, conflict-affected and low-income economies, which account for nearly 80 percent of the region's annual job creation needs (Figure 1). These countries face high fertility rates, with youth populations yet to peak. For example, Niger, with a current population of 26 million people and a youth population share not expected to peak until 2058, will need to create 650,000 new jobs annually for the next 30 years. In contrast, many middle-income countries like Botswana, Ghana, Namibia, and Mauritius have seen their youth shares of populations peak and will face less severe job creation pressures.

Figure 1. Sub-Saharan Africa: Estimated Number of Net Additional Jobs Required per Year, 2020–2100

(Millions)



Sources: World Population Projections; ILO Labor Force Participation estimate; IMF staff calculations.

Harnessing Africa's booming population growth potential requires generating vast numbers of productive, quality jobs that provide above-subsistence-level income, whether within structured enterprises or through self-employment. Without sufficient jobs, poverty and food insecurity will rise, increasing the likelihood of social tension, conflict, and instability. A lack of economic opportunities can also drive migration, primarily within sub-Saharan Africa but increasingly beyond the region (Kanga and others 2024).

…yet labor markets fail to produce enough jobs.

Sub-Saharan Africa's growth generates relatively fewer jobs compared to other emerging markets and developing economies (Figure 2). The region produces only one-third of the jobs observed elsewhere with similar GDP per capita increases. This issue is particularly acute for low-income, fragile and conflict affected states–precisely those under severe demographic pressures. Resource-intensive economies in the region fare even worse, creating only one-tenth of the typical number of jobs from economic growth due to reliance on low-employment extractive activities.

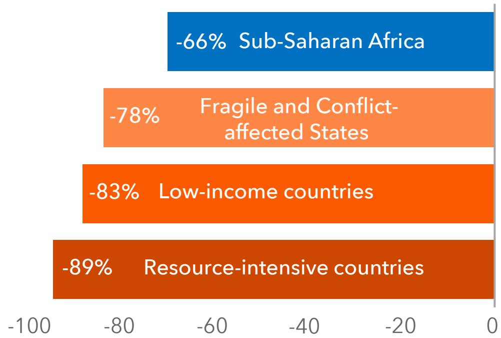
As a result, economic growth in sub-Saharan Africa has been less effective at reducing poverty, achieving only about half the impact observed in other regions (World Bank 2013; Wu and others 2024). The region's employment landscape is dominated by subsistence-level jobs, with fewer than one in four workers holding wage employment. Over a third are classified as working poor, earning less than $1.90 per day. Underemployment is also extremely high, particularly in rural areas reliant on seasonal agriculture.

To address the challenges hindering the creation of well-paying, quality jobs in sub-Saharan Africa, it is crucial to examine the underlying barriers affecting both labor demand and supply. The following sections explore three key impediments: the prevalence of informal jobs, constraints to firm growth, and limited labor demand amidst high concentrations of low-productivity sectors.

[1] The 15 million figure is the estimated annual increase in the total labor force (15- 64 year olds), derived from demographic projections (World Population Prospects) and age specific labor force participation rates at the country level (ILOSTAT). The figure is larger than the estimated 8 to 11 million new young workers each year (World Bank 2023) because it accounts for increasing labor force participation rates with age.

Figure 2. Sub-Saharan Africa: Job Creation Gap with Other EMDEs, 1992–2022

(Percent, difference in GDP growth driven job creation)

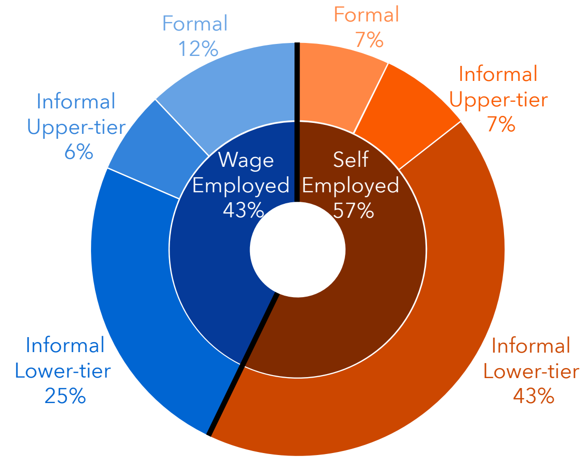


Sources: World Bank; ILO; IMF staff calculations and estimates.

Note: The chart highlights the gaps between SSA countries and EMDEs in the correlation between GDP growth per capita and employment rates. After calculating the correlation between real per capita GDP growth and the change in the employment to population ratio (ages 15+, total) over the period of 1992-2022 for each country, it uses median values of these correlations in each subsample, with the EMDE sample (excluding SSA) normalized to 100. SSA = sub-Saharan Africa; EMDEs = Emerging Market and Developing Economies.

Figure 3. Proportion of Employment by Work Status

(Percent of total non-farm employment)



Sources: Danquah and others; IZA *Journal of Development and Migration* (2021) 12:15; and IMF staff calculations.

Note: The chart shows distribution of workers in non-farm employment and is based on average statistics covering Ghana, Tanzania, and Uganda. South Africa was excluded from this REO analysis given that its labor market is less representative of the rest of sub-Saharan Africa. Lower-tier jobs are those with poor pay and conditions and upper-tier jobs are better pay and training.

Jobs are mostly informal, especially for youth and women

In sub-Saharan Africa, informality dominates the employment landscape, with around 8 in 10 jobs classified as informal (ILOSTAT). These jobs, lacking legal recognition, protection, secure contracts, benefits, and social security, are often insecure and less productive than formal sector jobs (2017 May REO). Informal production in the region accounts for 21 to 54 percent of GDP, with greater shares in low-income countries (Medina and Schneider 2018 and IMF staff calculations).

However, not all informal jobs are the same. Danquah, Schotte and Sen (2021) distinguish between lower-tier informal jobs, characterized by poor pay and conditions, and upper-tier informal jobs that offer better pay and training. Across Ghana, Tanzania, and Uganda, almost 70 percent of all non-farm workers are in lower-tier informal employment (Figure 3), with an over-representation of women. Unfortunately, workers in the lower-tier informal employment struggle to move up the job ladder to better quality jobs. For example, in Uganda, fewer than 5 percent of workers are able to use lower-tier informal employment as a stepping-stone to formal employment. In contrast, workers in upper-tier informal jobs are more likely to move into formal employment, gaining higher wages and legal protections.

Young people in sub-Saharan Africa, especially young women, face particularly steep obstacles to securing higher-quality jobs, including a shortage of available formal jobs. Many end up in lower-tier informal work or unemployed, leading them on a path of instability. Over one in four young Africans are not in education, employment or training, with two-thirds of those being young women (ILO 2024). Barriers include skills mismatch, restricted access to professional networks, and a lack of critical job market information. Young women are often limited by domestic responsibilities and face discrimination. The experience paradox, where a lack of work experience hinders entry into the formal sector, is worsened by the limited availability of jobs, putting young people at a disadvantage compared to older cohorts. Almost 40 percent of young men and 50 percent of young women have been looking for a job for over a year, with longer unemployment spells increasing the likelihood of transitioning into unstable, informal work.

Given its ubiquitousness, the informal sector is a critical source of employment for sub-Saharan Africa, especially where formal opportunities are scarce. A key transformation required for the region is helping the workforce climbing up the job ladder, moving out of subsistence and lower-tier informality to higher-tier informal employment and formal jobs.

Firms face many constraints to growth

Sub-Saharan Africa outpaces other low- and middle-income countries in new firm creation per working-age adult (World Bank Entrepreneurship Database). Despite this promising start, firm growth remains elusive, with most businesses remaining small, low in productivity, and unregistered, often run by sole proprietors. This results in a large number of micro firms but a shortage of medium and large firms, which are essential for job creation, as seen in other regions (Abreha and others 2022).

African firms cite access to finance, electricity, and informal sector practices as their biggest growth obstacles, far surpassing those faced by global comparators (World Bank Enterprise Surveys). For example, securing an electricity connection in Nairobi takes about 92 days, more than double the average for other countries with similar incomes, while across the region, frequent power outages significantly reduce firm sales, productivity, and employment (World Bank Enterprise Surveys, Cole and others 2018, Mensah 2024). Small firms particularly struggle to access the working capital required to scale their enterprises, often resorting to informal lenders (Nwajiuba and others 2020, Runde and others 2021). After overcoming initial hurdles, businesses face challenges in expanding due to limited domestic demand and restricted access to international markets (Teal 2023). Bureaucratic regulations, corruption, inadequate infrastructure, and comparatively high labor costs compound these challenges (Gelb and others 2014, 2020; World Economic Forum, 2017).

Despite these barriers, a significant portion of formal businesses originate from small informal enterprises, indicating that informality can serve as a stepping-stone (Adom 2024). For instance, over one-third of formal sector firms in Angola started unregistered, a trend seen in over 20 percent of firms in a quarter of the surveyed sub-Saharan African countries (World Bank Enterprise Surveys).

Currently, the public sector fills part of the employment gap, accounting for nearly a third of wage jobs in the region (Bhorat and Oosthuizen 2020), especially in many resource-intensive countries (October 2024 REO—Note "One Region, Two Paths: Divergence in Sub-Saharan Africa"). Public positions are lucrative; in Lesotho, Namibia, Rwanda, and Togo, public sector wages are over four times higher than private sector wages (World Bank Global Jobs Indicators 2020), making it challenging for private sector firms to attract workers (Thevenot and Walker 2024). However, the public sector cannot sustain job creation alone. Thus, fostering private sector firm growth is a second major transformation required for the region.

Limited labor demand but high concentration of low-productivity sectors

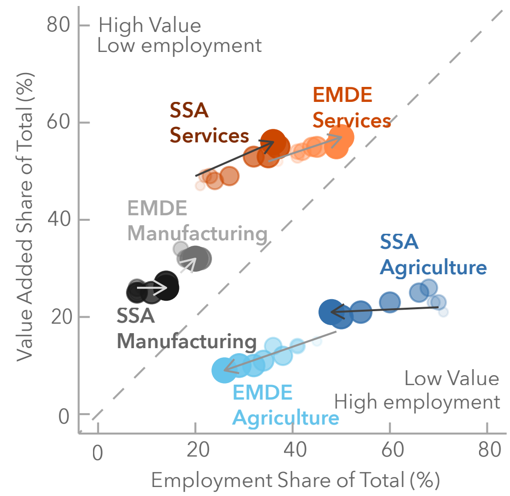
A fundamental challenge facing the region is limited labor demand in higher productivity sectors. Structural transformation—shifting resources such as capital and labor from low-productivity sectors like traditional agriculture to more productive ones like manufacturing and modern services—has been slower than in other regions. The shift is a necessary condition to move employment up the job ladder, from subsistence level activities to higher-tier informal and formal jobs. As populations grow and move away from basic farming, there will be a need to quickly improve productivity in other sectors to prevent wages from falling due to the increased influx of labor.

However, the region's manufacturing sector has unique features: while there are some large, capital-intensive firms with high productivity but limited job creation, there are many more small, labor-intensive firms that generate employment but contribute little to overall productivity growth (Heitzig and Newfarmer 2023). As a consequence, manufacturing's share of economic output in the region has stagnated even as the employment share in the sector has increased, in contrast to the trajectory of both increased value added and employment shares in other EMDEs (Figure 4).

The global trend towards more capital-intensive and skilled manufacturing means that sub-Saharan Africa may not be able to rely on industrial production to deliver employment-rich development (Rodrik 2016, 2022). This, alongside other technology trends such as Artificial Intelligence, has sparked a debate on the best approach for structural transformation in the region and beyond (Cazzaniga and others 2024).

Several industries share traditional manufacturing's key traits for structural transformation including labor-intensity and productivity growth (Page 2020; October 2018 *World Economic Outlook*—Chapter 3 "Challenges for Monetary Policy in Emerging Economies as Global Financial Conditions Normalize"). Some experts suggest bypassing manufacturing to focus on high-productivity services, drawing parallels to India's IT and telecommunications success, where rapid growth occurred without a significant industrial base. Indeed, the services sector in several African countries, particularly in IT, finance, and business services, has shown potential for both productivity and employment growth. Reflecting this, employment and value-added shares have been shifting towards services in the region (Figure 4). Investments in processing facilities, adopting modern technologies, and developing value-added products can significantly boost the agricultural value chain and generate nonfarm rural jobs.

Figure 4. Evolution of Sector Productivity and Employment, 1990-2018



Sources: Groningen Growth and Development Centre. 2022. Economic Transformation Database; IMF staff calculations.

Note: Arrows indicate evolution of agriculture, industry and service's sectors between 1990 (smallest dot) to 2018 (largest dot). Sectors above the 45-degree line are more productive (value added share exceeds employment share), sectors below the 45-degree line are less productive. EMDE = Emerging market and developing economies excluding Sub-Saharan Africa; SSA = sub-sharana Africa.

Other sectors such as tourism, agro-business, logistics, and renewable energy also offer significant job potential and can help diversify economies and create resilient employment opportunities. For instance, in Rwanda, sectors like agro-processing, horticulture, and export agriculture have grown at 9 percent per year, tripling employment from 5 to 16 percent between 2000 and 2017 (Newfarmer and Twum 2022). Enhancing agricultural productivity in these ways is also crucial due to the sector's large workforce potential and regional food insecurity. Further proposals include climbing the "quality ladder" by improving the sophistication and complexity of existing products and services (Bhorat and others 2019). This can be potentially very challenging for resource-intensive economies that rely heavily on a narrow range of commodities. Thus, while there are multiple potential pathways for structural transformation in sub-Saharan Africa, the region must explore diverse strategies to address both sector-specific issues and broader economic constraints.

Harnessing private sector-led growth to unleash quality jobs for all

Broad-based, inclusive private sector growth, including in the informal sector, is essential for creating quality jobs for all. Policy recommendations from past reports on structural transformation and labor market reforms remain important, such as investing in universal education as a precondition for quality jobs (April 2024 REO—Note "Building Tomorrow's Workforce: Education, Opportunity, and Africa's Demographic Dividend".

Given its dominance in sub-Saharan Africa, leveraging the informal sector to move up the job ladder will be key to scaling up well-paying, quality jobs. Transforming informality from survival to a stepping-stone requires targeted worker-level policies:

- Improving productivity and incomes in the informal sector: Investing in infrastructure supportive of the informal sector, such as accessible market areas, can stimulate higher-tier job creation. To help lower-tier informal workers, particularly the self-employed, gain access to credit to grow their businesses, policies should leverage innovative fintech solutions catering to the informal sector (UNCTAD 2023). In rural areas, land reforms can enable self-employed farmers to use land as collateral for loans. Expanding safety net programs can also help manage risks and uncertainties, including climate shocks. In addition to these improvements, encouraging formalization through reducing bureaucratic barriers, providing incentives and following up with legal enforcement will help scale the next rung of the job ladder (Ulyssea 2020).
- Facilitating youth entry into the labor market: Strategies include job matching services, re-engaging long-term unemployed, and promoting youth entrepreneurship through access to finance, training, and mentorship. These policies must be carefully designed and evaluated to match the country's context. Additionally, targeted support for young women (October 2024 REO—Note "Leveling the Playing Field: Gender Equality and Economic Development in Sub-Saharan Africa") includes abolishing discriminatory labor laws, enforcing non-discrimination policies, supporting education and training, and easing childcare provision.

Addressing the barriers to firm-level growth in the private sector is essential for increasing meaningful employment opportunities. Policies should address the specific constraints firms face:

- Accessing finance: Improving the investment climate can attract more foreign direct investment. Developing local capital markets can increase the available financing (April 2024 REO) by converting savings into investment capital. Fostering financial inclusion through the development of mobile banking, microfinance, and financial literacy would improve funding access to the predominantly small and medium enterprises.
- Prioritizing basic infrastructure: Roads, electricity and internet are essential to private sector operations. Developing cost-effective transport systems and digital infrastructure in urban areas are essential. High costs for cellular and internet services in sub-Saharan Africa impair mobile banking and online marketplaces, vital for many businesses (Fox and Ghandi 2021). Product market reforms to boost private provision of these network sectors can help ease bottlenecks at limited fiscal cost (Budina and others 2023).
- Addressing business climate barriers to growth: strengthening the African Continental Free Trade Agreement (AfCFTA) and other regional integration efforts help overcome limited domestic demand and spur job creation (IMF 2023). Prioritizing improvement of bureaucratic efficiency and fighting corruption will be crucial, with digitalization efforts proving highly effective (Newiak and others 2022).

Supporting structural transformation and productivity growth is also important for generating quality jobs, requiring country-specific approaches to transition to higher-value-added sectors:

- Implementing cost-effective measures with cross-sectoral benefits: This includes maintaining macroeconomic stability, fostering competition, and committing to broad-based economic reforms. In the context of tight fiscal space and restricted administrative capacity in many countries, priority must be placed on cost-effective, easily implementable, and high return measures.
- Approaching industrial policies with caution: This is particularly advised when targeting individual sectors due to the prospect of introducing distortions, high fiscal costs, and significant governance risks (IMF 2024a, 2024b). Where used, policies require strong governance and clear goals that target specific barriers to sectoral diversification (October 2024 REO—Note "One Region, Two Paths: Divergence in Sub-Saharan Africa").

The international community has a clear stake in sub-Saharan Africa's success in tackling its job creation challenge. Failure could exacerbate poverty, fuel instability, and drive migration, while success would unlock a rising source of consumer demand and investment potential, counterbalancing demographic declines elsewhere. Ultimately, the world's future prosperity is inextricably intertwined with sub-Saharan Africa's ability to create sufficient quality jobs to support its rapidly growing population.

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