JAPAN INTERNATIONAL COOPERATION AGENCY

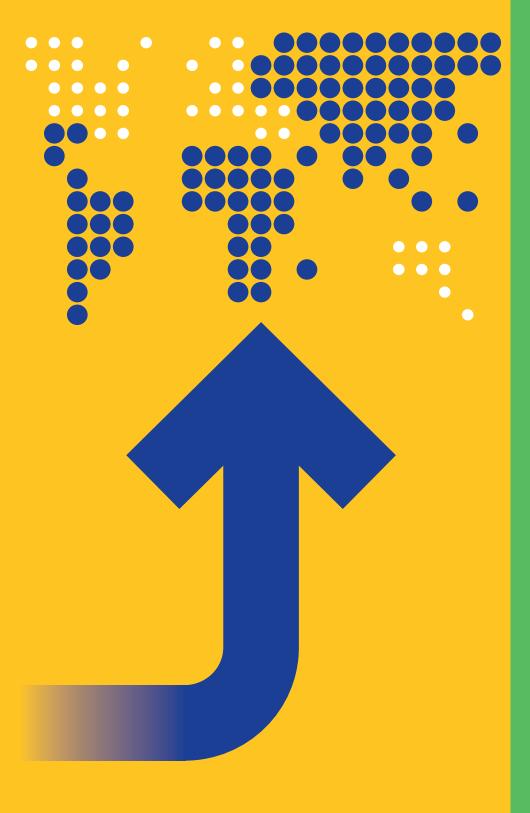
JICA TICAD VI Policy Papers

Africa's inclusive growth challenge: Reducing deprivation and creating jobs

Prepared by: Louise Fox Centennial Group International







Preface

The global economic environment at the time of TICAD VI (2016) is much less favorable than that prevailing at TICAD V (2013) when JICA presented a long-term vision—*Africa 2050: Realizing the Continent's Full Potential*—based on Africa's increasing convergence with the rest of the world. These changed circumstances have major implications for African policy makers.

This paper is one of six commissioned by JICA for TICAD VI to draw out these implications and suggest ways to move forward. The other five are:

- Africa 2050 update
- The impact of commodity terms of trade in Africa: Curse, blessing, or manageable reality
- Regional economic integration in Africa
- Infrastructure in Africa
- Economic diversification of African economies

We are confident that the papers will contribute to a fruitful dialogue among the Heads of State at TICAD VI. In addition, we hope that they will foster the concerted action by African policy makers needed to assure that Africa continues to converge with the rest of the world and, in doing so, meets the aspirations of its people.

Hiroshi Kato
Vice President
Japan International Cooperation Agency

Harinder Kohli President & CEO Centennial Group International

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This paper was prepared by Louise Fox (University of California, Berkeley) with research assistance from Laurent Arribe.

Executive summary

Despite a decade and a half of sustained economic growth, poverty and inequality on the African continent remain high. The share of people living in absolute poverty in Sub-Saharan Africa (SSA) has fallen by about 1 percent a year since 1990, but half of the population still lives in a state of extreme deprivation. Except for households in upper-income countries, most families escaped poverty by raising the productivity of their livelihoods—in other words, by earning more in cash and kind from their economic activities. In South Africa, non-labor income (transfers to poor households) played a major role in reducing poverty even as unemployment remained high.

Most people in most SSA countries have realized tangible improvements in economic well-being. The main exceptions were in the fragile states. Expansion in social infrastructure complemented other growth policies, raising human capital and non-monetary living standards. Most of the gains came from investments in quantity—more schools and health clinics, more teachers and health workers, more books, more vaccinations, more supplies. While access problems persist in low-income countries, in middle- and upper-income countries access to primary education, water and basic health-care services are assured. But social indicators also reveal persistent quality problems, and multidimensional poverty measurements suggest high levels of deprivation continue throughout Africa, especially in rural areas and urban slums.

For poverty reduction to continue there must be continued growth in sectors where the poor work. In all but the upper-middle income countries, this means improving productivity in agriculture (family farms as well as larger commercial farms) and in informal household enterprise activities, because less than 20 percent of employment earns a wage. However, to accelerate poverty reduction, all countries need to create more wage employment. The fastest way to do this

is by creating and growing labor-intensive non-agricultural medium and large enterprises.

Resource-rich and fragile states face special challenges to inclusive growth. The fall in mineral prices means that resource-rich countries need a policy reset. In addition to macroeconomic stabilization, the challenge for these countries is to spend public money more effectively, providing more public goods to the population. Fragile states need a political settlement in order to reignite growth. Experience suggests that once peace is restored, opportunities for inclusive bounce-back growth will be plentiful.

As the continent with the youngest demographic, Africa faces particular challenges in youth employment. High fertility is creating a major youth bulge, concentrated in the poorest countries. About 2.5 million young people are projected to enter the labor force every year between 2015 and 2025. In poorer countries, most young people live in rural areas and have to work in the same jobs their parents did—in agriculture or small nonfarm household enterprises—as they cannot afford to be unemployed. A successful youth employment policy cannot simply focus on the urban wage economy. It must ensure that young people can earn an acceptable living wherever they work.

African countries need to continue to expand and improve social and economic infrastructure services. In most countries, this means more domestic resource mobilization. It may mean new financing models. But it also means more efficiency and effectiveness in the public sector, especially in lower-middle-income countries where the number of children needing preventive and primary health care is still rising dramatically even as chronic diseases such as hypertension, heart disease and cancer are a growing cause of adult death and disability.

Africa's inclusive growth challenge: Reducing deprivation and creating jobs

Louise Fox

Introduction

Poverty and inequality remain high in Africa despite a decade and a half of sustained economic growth on the continent. The share of the poor in absolute poverty (\$1.90 per day in current prices) has fallen by about 1 percent a year since 1990 in Sub-Saharan Africa (SSA), but absolute numbers of poor are still growing (Beegle et al 2016). Multidimensional poverty measurements suggest high levels of deprivation, especially in rural areas (Alkire and Housseini 2014). In North Africa, political and security developments have stalled growth for the past several years, halting and in some cases reversing progress in reducing poverty.

The demographic transition is uneven in SSA. While the demographic transition is now well on its way in Northern Africa and in the richer countries of Southern Africa, the demographic profile of most low- and lower-middle-income countries is changing slowly. This is one reason for slower poverty reduction despite high economic growth. When the poverty level is high and population is increasing at 3 percent per annum, there is a need for even higher levels of GDP growth to achieve a significant poverty reduction.

High fertility is creating a big youth bulge, concentrated in the poorest countries. About 2.5 million youth will enter the labor force every year from 2015 to 2025. Although the generation now entering the labor force in Africa is the continent's most educated one to date, in the low- and low-er-middle-income countries overall education levels remain low compared to global competitors. Additionally, quality issues within schools mean that years of education do not guarantee that students achieve employable knowledge and skills.

This is an economic, social and political issue. In poorer countries, youth work in the same jobs as their parents did – in agriculture or nonfarm household enterprises, as they cannot afford to be unemployed. Low productivity in these activities results in low earnings and underemployment. In richer countries, youth unemployment is high. The North African region and the Republic of South Africa have the highest youth unemployment rates in the world, at more than 30 percent. In all countries well-educated urban youth are more likely to be unemployed, indicating that the school-to-work transition is problematic. Employment opportunities in urban areas are scarce and the cost of living is high, so even as urban poverty is declining and an urban middle class is growing the absolute number of urban poor remains stubbornly high.

Meanwhile, access to media revealing lifestyles enjoyed by the African elite as well as by middle and upper classes in other wealthy regions is creating high expectations among poorer young people, who are increasingly dissatisfied with their limited opportunities. In North Africa, young people had hoped that political change would improve these opportunities, but weak economies have dashed these hopes. In SSA, the majority of youth still live in rural areas, but want to leave because of lack of services and low opportunities to earn income. But opportunities for less educated youth are scarce in urban areas, so the majority remain in rural areas.

The sense of exclusion is not just economic. A perceived lack of space for political participation and disappointment with/distrust of the political process among young people add to dissatisfaction with economic opportunities and fuels some radicalization. Violence has flared up, especially in areas where the influence of a more conservative and militant brand of Islam has grown (Ismail, 2016) but also in countries such as Kenya (2008) and Burundi (2016).

The action agenda varies by country situation. In the lowand lower-middle-income countries of SSA, prospects for

^{1.} The Multidimensional Poverty Indicator (MDPI) is an aggregate indicator which measures household deprivation across several dimensions, including: (i) access to education; (ii) nutrition and health status; (iii) housing conditions and access to safe water; and (iv) ownership of basic consumer goods (as a measure of wealth). It is broader than monetary poverty and easier to measure. See Alkire and Housseini (2014).

As the youngest continent, almost all countries face a challenge now and in the future to develop an inclusive growth path that provides opportunities for all labor force participants to find a sustainable, remunerative livelihood, ensuring that the next generation has a higher level of welfare than the previous one.

continued improvements in livelihoods and living standards are good, especially if broad-based growth is enabled and social infrastructure policy is refocused on efficiency and outcomes. In resource-rich countries, a policy reset is needed to adjust to the collapse in public revenues from mineral exports. This reset needs to address the high levels of poverty and deprivation, especially in neglected rural areas. Conflict-affected countries need a political settlement to create the enabling conditions for more public and private investment. If this settlement occurs, bounce-back growth could reduce monetary poverty and allow governments to focus on reducing the very high levels of deprivation that currently exist. In upper-middle-income countries, the inclusive growth agenda is more complex, requiring both a more competitive environment for private sector investment and productivity growth as well as an intensive focus by governments on improving the institutions underpinning markets and social welfare.

Recent developments

Although Africa constitutes a single land mass, the continent is a mix of countries with diverse histories, cultures, ethnicities, ecosystems, political and economic systems, and levels of poverty and wealth. Yet as the youngest continent, almost all countries there face a challenge now and in the future to develop an inclusive growth path that provides opportunities for all labor force participants to find a sustainable, remunerative livelihood, ensuring that the next generation has a higher level of welfare than the previous one. While each country will necessarily need its own diagnosis and strategy, both progress to date and challenges ahead depend on starting point (endowments) as well as opportunities in the globalized economy.

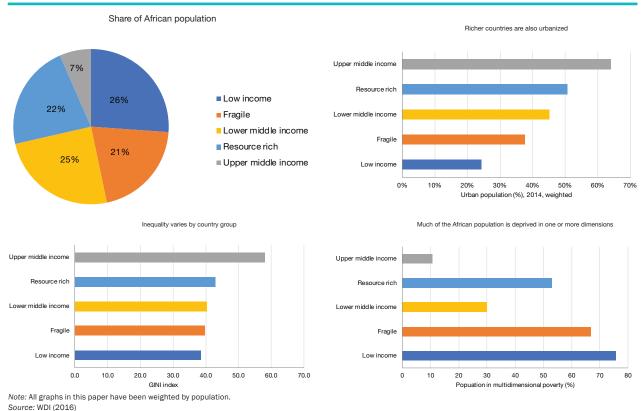
The recent experience and potential of the economy for inclusive growth is used to organize African countries into five country types: upper-middle income, lower-middle income, low income, and two special categories, fragile states and

resource rich countries (see Annex for list of country groups and criteria).

- 1. The upper- and upper-middle-income countries: While many in this group started their development process from a natural resource base (e.g. South Africa, Namibia, Gabon) they achieved upper-middle-income status through economic transformation and diversification. The service sector commands the largest share of employment and agriculture the lowest share. Urbanization rates are high. Although well along in the demographic transition, their key labor force challenge is an educated but unemployed youth population. Public financing for key social services and a stronger safety net keep serious poverty and deprivation low (measured by the Multi-Dimensional Poverty Index, or MDPI), but inequality is high, especially in Southern Africa. Only 6 percent of Africa's population is found in this group. In terms of population and size of economy, South Africa and Tunisia account for 90 percent of this group.
- 2. The resource rich countries: By per capita income the second richest category, these countries have achieved their economic growth primarily through mineral exports, not transformation. They have recently enjoyed high growth because of higher commodity prices, but as that cycle dips their inclusive growth challenges are being exposed. Their economies tend to be dualistic, with urban employment dominated by the public sector but still a high share employed on family farms, mostly subsistence production in rural areas. Private investment is low because there are few opportunities outside the mineral sector. Resource rents have financed some service delivery improvements in urban areas, but in rural areas poverty and deprivation remain high, the latter much higher than would be expected given

Open unemployment is emerging in urban areas, especially for educated youth, but remains unaffordable for most households owing to the lack of a safety net.

Figure 1: Basic indicators for country groups



income level. Inequality is also high. Fertility tends to be high as well. So this group has a young labor force, which is well-educated in urban areas but poorly educated in rural areas, increasing the challenges to inclusive growth. In terms of population and size of economy, Nigeria and Algeria account for 88 percent of this group.

3. The lower-middle-income countries: Poorer and less diverse than the upper-middle-income group, these countries have nonetheless posted solid GDP growth rates over the past decade and have been diversifying their economies beyond agriculture. This diversification has been accompanied by increased private investment and labor productivity growth, especially in the non-agricultural sectors. Yet half the population still resides in areas classified as rural, and agriculture still employs the majority of the labor force in these countries, with the service sector second. Open unemployment is emerging in urban areas, especially for educated youth (Fox, Senbet, and Simbanegavi, 2016), but remains unaffordable for most households owing to the lack of a safety net. Education levels of youth entering the labor force are rising rapidly (see Figure 3 below), and fertility is falling

The last decade has seen both healthy per capita growth and reduction in extreme poverty in all country groups.

(slowly) in many countries, reducing the dependency burden in the future but ensuring a large youth bulge for the next 20 years. Extreme poverty has declined, but deprivation remains high as governments struggle to improve access to housing, education, health and water supply, especially in rural areas. A large and diverse group, typical countries include Egypt, Côte d'Ivoire, Senegal, Ghana and Kenya.

- 4. The low-income countries: Among the poorest countries in the world, these countries have also been posting solid growth rates and modest poverty reduction. But they are still plagued by low human capital, high dependency ratios, high levels of deprivation in both urban and rural areas, and often-ineffective institutions. Poverty levels sharply limit unemployment, but underemployment is chronic. Both economic transformation and demographic transition are at a nascent stage. High population growth and high dependency ratios are a challenge now and in the future, affecting the potential for human capital development, labor productivity growth, and sustainable livelihoods. All are in Sub-Saharan Africa; as much as 70-80 percent of their population resides in rural areas. Typical countries include Ethiopia, Malawi, Mozambique, Burkina Faso, and Uganda.
- 5. Fragile states: These countries are weakened by conflict, which has prevented them from realizing their potential. Once the conflict settles opportunities will be abundant for bounce-back growth. But conflict or the threat of conflict has hindered infrastructure and human capital development. These countries tend to be aid dependent. Typical examples include Somalia, Mali, Burundi, Comoros and Liberia.

For exposition purposes, we have assigned each country to one group, but the categories are not mutually exclusive. For example, Libya is in the fragile-states group, but it is also resource rich; Gabon is still quite resource rich but shares many other characteristics with the upper-middle-income countries (such as high open unemployment). However, focusing on the dominant features associated with each country type helps distinguish and organize the employment and inclusive growth challenges, opportunities and action agendas within the continent.

Inclusive growth achievements

The last decade has seen both healthy per capita growth and reduction in extreme poverty in all country groups (Figure 2). Not surprisingly, per capita growth has been highest in the low-income countries—where opportunities abound for diversification and productivity increases simply through using existing technologies and adding capital to raise productivity. At the other end of the spectrum, growth has been lowest in the richer countries, where the scope for "quick wins" is lower. Growth in these environments is more dependent on continued innovation, which is often spurred by competition (domestically and internationally) and low transaction costs created by the efficient functioning of financial, land, labor and goods markets. Growth needs to be enabled by the effective provision of public goods such as basic research, regulation to ensure competition, information provision and dissemination, and contract enforcement mechanisms. These institutional preconditions are hard to achieve, which is why countries can get stuck in a "middle-income trap." In between is the growth performance of the lower-middle-income countries where gains in agricultural productivity as well as urbanization and the development of a private industrial and service sector have created opportunities for diversification. Conflict—the defining feature of the fragile states — has interrupted growth in this group, although on average progress has been registered. Growth in resource rich countries has been achieved primarily through high mineral prices.

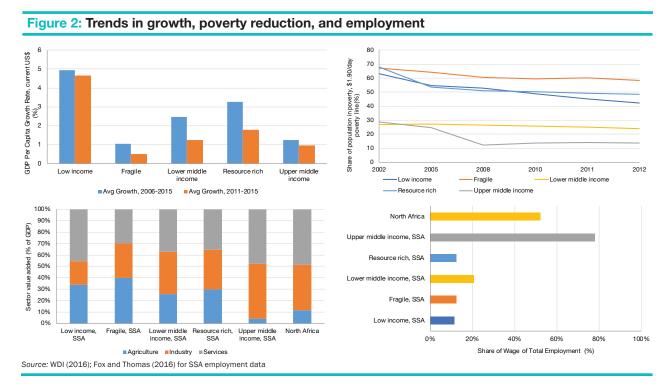
Economic transformation and diversification is important for sustained and inclusive growth.

All country groups have seen a reduction in extreme poverty rates, according to the World Bank's international poverty line. In the low-income countries, where statistics on monetary poverty are weak, the reduction in monetary poverty for Sub-Saharan Africa is estimated to be even higher than shown in the data above—by about 5 to 6 percent if Nigeria is excluded—according a recent study (Beegle et al. 2016).² Yet even with this progress about half of the population in Africa still lives on US\$2/a day or less.³ In all but the richest countries the vast majority of the population lives on less than US\$4 per day, and even fewer households reach

the international middle-class definition of US\$10 per day used in Africa 2050 (Ahlers et al., 2014). This means that while economic growth brought many households out of extreme poverty, they still have a precarious living standard. Of the 6 percent of the population estimated by the Pew Research Center to be in the international middle class in 2011, the majority lived in the Republic of South Africa and in North Africa countries (e.g. Tunisia, Morocco and Egypt) (Kochhar, 2015).

Economic transformation and diversification is important for sustained and inclusive growth. The movement of factors of production out of low-productivity sectors such as agriculture into high-productivity enterprises, especially labor-intensive ones in sectors such as manufacturing, can be an escalator towards employment transformation. In Figure 2, the extent of transformation in value added and

^{3.} Measured in US\$ PPP. See for example, Beegle et al, (2016) for a discussion.



^{2.} Developments in Nigeria, with the continent's largest population and economy, have a major effect on aggregate African statistics. However, the household survey data (multiple sources) present a contradictory and confusing trend owing to poor quality of some surveys. As a result, Beegle et al. (2016) exclude them from a number of regional analyses.

In SSA, in all except the richest countries, the majority of the labor force does not have any type of wage/salary job as their main economic activity.

employment is shown. In this case, the countries of North Africa are shown separately, as they have been more successful at developing a manufacturing sector than most of SSA. In all countries in Africa, higher value-added sectors have been expanding, but only in the upper-middle-income countries in SSA and in the North African countries is the share of the labor force engaged in agriculture below 10 percent.

The picture is similar for employment transformation. In SSA, in all except the richest countries, the majority of the labor force does not have any type of wage/salary job as their main economic activity (not even a causal wage job such as construction labor). In resource rich countries, the problem is most severe. Although 30 percent of the labor force has a wage/salary job in the resource rich countries, over twothirds of these were in the public sector, a difficult trend to sustain (Fox and Thomas 2016). In contrast, about two-thirds of the wage/salary jobs in the low- and lower-middle-income countries are in the private sector. The high private-sector wage job growth after 2000 in the low- and lower-middle-income countries is a major achievement; in countries such as Tanzania, Uganda and Ghana this segment grew three times faster than the labor force. But because it started from a very low base, this segment remains small, as a share of employment. The majority of employment in these countries is in household farms and firms.

North African countries have been able to achieve more employment transformation owing in part to a larger share of manufacturing in GDP (about 16 percent compared with 8 to 12 percent for middle-income SSA countries). Labor intensive manufacturing rapidly creates wage and salary jobs; this has been one of the major achievements of the East Asian export miracle. But North African countries also have a higher share of public sector employment in total employment than the middle-income SSA countries, helping to boost the share of wage jobs in total employment. Wage job creation has

stalled recently, not only because of slower growth but also because of the inability of the public sector to keep increasing employment, as well as security concerns (Keefer et al. 2015). Economic policy has played a key role in this process (Box 1).

In addition to the low starting point there are two other reasons why the strong economic growth since 2000 did not result in employment transformation in SSA. The first is the high share of services in the nonagricultural economy and the nature of this service sector. The majority of the private sector service employment is in household enterprises (HEs), including: wholesale and retail trade, repair of consumer items, manufacturing and sale of prepared foods (e.g. milled grain or cassava flour, brewed beer, homemade bakery items), hair dressing, informal transportation (motorcycles or bicycles), informal bars or restaurants and the like. (Fox and Thomas 2016). Although about 75 percent of total wage employment on the continent is in services (including public sector employment), the majority of service employment is still in household enterprises.

A second reason for the sluggish employment transformation is the fast labor force growth. In most low-income, lower-middle income, and resource rich countries in SSA, the demographic transition has barely started (or not started at all). In North Africa, improved reproductive health services and efforts to delay marriage and childbirth among teen-aged girls have resulted in a significant fertility decline. For example, in Morocco, fertility is approaching replacement rate while in Egypt it has been at about 3.3 children per female for more than 20 years. But in Ghana and Kenya, fertility is only now approaching 4 births per female, while in Côte per female at 5 or more (and child mortality declining rapidly), about 2.5 million young people will enter the labor force every

^{4.} These two countries account for 45 percent of the population in the low-er-middle-income group, which pulls down the average number of children. For SSA alone, the estimate is almost 5 children per female.

While a young labor force can be an advantage, in many African countries it is slowing down both poverty reduction and the employment transformation.

year between 2015 and 2025 – mostly in SSA. Sub-Saharan Africa is the youngest region, and will remain young for most of this century. While a young labor force can be an advantage, in many African countries it is slowing down both poverty reduction and the employment transformation.⁵

Human development

African countries have realized tremendous progress in human capital development, as measured by a number of indicators. The lowest-income countries, which started at very high levels of deprivation, have made substantial gains in life expectancy and child mortality. Progress on these two indicators is noteworthy as they are affected by a combination of social-economic conditions and access to health services. Meanwhile the poor progress of the resource rich countries stands out. South Africa's delay in effectively addressing the HIV/AIDS epidemic resulted a 10-year decline in life expectancy between 1990 and 2005, which drags down the average of the high income group. The HIV/AIDS epidemic also drove down life expectancy in the rest of Eastern and Southern Africa in the 1990s and 2000s.

Education levels have also improved, especially among the youth population, where the improvements of the past decade are evident. In low-income countries, the youngest age group is as educated as the next group, but in other countries, the peak education level is in the age group 20-24, reflecting an increasing tendency to attend secondary school, meaning that youth stay in school well beyond age 15. In lower-middle-income countries, average years of education

of the labor force in their 20s is nearly 8 years, indicating that Africa is starting to produce the skilled labor force required for 21st century economic activities. In all country groups, females are gaining access to secondary education at the same rate as males, another important achievement, although these averages hide significant within-group differences. Concern has been rising in the continent over the quality of education provided by the public sector, as international testing data have become available (Filmer and Fox 2014). This means that data on years of education may be deceptively optimistic about the state of human capital development in the region.

In sum, recent trends reveal an overall picture of major improvement in living standards, especially in the poorest countries that have not been affected by conflict. However, they also reveal a number of challenges:

- High fertility in SSA means that dependency ratios will remain high for the foreseeable future. It also means that the population will double in 25 years. This is a challenge for public services provision. It is difficult to increase quality when the number of children needing services is increasing exponentially. Expenditures on health and education services for the rapidly growing population crowd out other needed public investments. Large families and high dependency ratios reduce private savings. As a result, growth may be lower (Yazbeck, Raja, and Canning, 2015). Differential fertility rates in rural vs. urban areas and rich vs. poor families widen income inequality.
- Some of the world's most unequal countries are in Southern Africa. Other regions do not show such high inequality, although inequality and fragility appear to be linked (Beegle et al., 2016). Inequality is a result of both history and recent economic policy,

^{5.} Many authors have argued that Africa's young population will bring a "demographic dividend" in terms of higher growth and welfare. It is true that East Asia did benefit from a rapid drop in fertility through an increase in savings and economic policies that created massive employment opportunities for youth. Other regions have not been able to realize this result, however, including Latin America in the past and North Africa today. In SSA, fertility rates are falling very slowly, so a dividend is unlikely to occur. For further discussion of the demographic dividend and Africa's progress, see Yazbeck, Raja, and Canning, (2015).

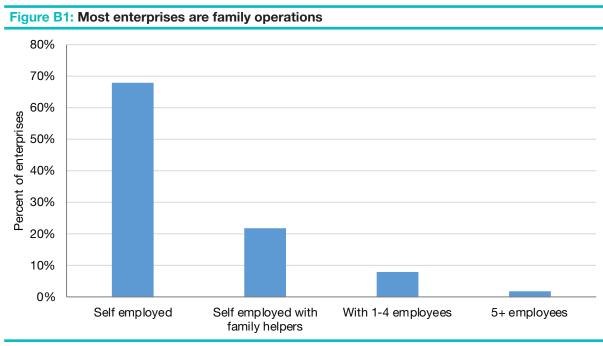
^{6.} A few key countries have missing data on secondary education enrollment in this series, including Ethiopia, the largest country in the low income group.

Most HEs in Africa today are pure self-employment, and only 10 percent have hired someone outside of the family.

Box 1: What is a household enterprise?

Household enterprises (HEs) are unincorporated, nonfarm businesses owned by households. From an employment perspective, they include self-employed people running unincorporated businesses (which may or may not employ family or other workers) and family members working in those businesses. When employment in the HE sector is tabulated, employees from outside the family are not included in this category; they constitute wage workers. The owners account for most of the employment in the sector. Family helpers make up only 11 percent of employment in the sector (not counting wage workers). The enterprise perspective shows the same pattern. Most HEs in Africa today are pure self-employment, and only 10 percent have hired someone outside of the family. Therefore, employment in the sector primarily grows through the creation of new enterprises.

HEs may also be referred to as "own-account workers" (another term for "self-employed"); and "contributing" or "unpaid" family workers, indicating that the family members work in the enterprise but receive no cash payment based on hours worked or output, although they may share in the profits. Some call these enterprises "microenterprises," but the term is not used uniformly. For example, some authors categorize both self-employment and larger, more substantial businesses as microenterprises (and may include in this group partnerships and firms that employ a number of workers regularly). From a policy perspective grouping these two activities together is not desirable as research has shown that HEs have different characteristics from larger business, behave differently and face different constraints.



Source: Filmer snd Fox (2014)

It is obvious why older and less productive firms would want governments to stifle competition, and why some governments would find it hard to resist this pressure. What is less visible is the cost to youth and the broader society of these job-killing policies.

Box 2: Tradeoffs between objectives: the political economy of job creation in North Africa

Most African government have signed a number of regional declarations promising to create more jobs for youth. Most have employment strategies with job targets and claim that youth employment is a high priority. But do they really want to undertake the measures needed to reach their targets? Or do they recognize that many of the measures needed to create new firms and increase investment in labor intensive industries could negatively affect the profits of the most politically-connected firms in the country? Evidence in a recent study by the World Bank on job creation in the Middle East and North Africa suggests the latter—that current industrial policies favor a few politically connected firms, insulating them from domestic and international competition and discouraging new firms from entering key sectors.

In most countries, the private sector creates the majority of new jobs. The quality of these jobs—earnings, stability and working conditions—tends to be highest in large, modern firms. As a result, an important element of an employment strategy is to encourage the development of firms that create more and more stable jobs: younger more productive firms. But these firms have to be able to enter the marketplace and compete on a level playing field. This means implementing policies that discourage a few large firms from "cornering the market" and keeping other firms out; put more positively, it means policies that encourage competition.

Competition policies support increasing productivity because the firm owners know that if they don't keep improving, others will take their place. They also support job creation because owners know that if they are successful they will be able to invest more, generate more output and ultimately more profits. But these same policies will threaten the market share and profits of existing firms that do not innovate, do not invest and therefore do not keep up with changing marketplace. As a result, existing

firms try to get governments to enact policies that protect them from new entrants. In North Africa, these policies were adopted, including requiring licenses for new firms to enter (which were then rarely granted), limiting foreign competition through limits on foreign direct investment (FDI) and imports, and using government discretion to harass firms that are not politically connected. Governments also subsidized energy-intensive sectors, which create fewer jobs.

The cost of these policies has been high. The World Bank report estimates that in Egypt, economy-wide employment growth slows by almost 1.5 percent annually when politically connected firms enter a sector where they had not previously been present. This employment growth slowdown amounts to about two-thirds of total labor force growth, meaning a large majority of new entrants do not get jobs because of these policies. In Morocco, firms that operate in sectors with high administrative burdens create fewer jobs. Issues such as long wait times for construction permits especially constrain new firm growth and firm expansion.

Countries often limit FDI in order to encourage job growth in domestic firms, another anti-competitive mistake. According to the report, while increased FDI in Jordan did indeed lead to a loss of market share in some older firms operating in the same sector, it created a lot of new jobs in domestic service provider firms and in young firms in the same sector, who learned from their new competitors. Meanwhile, aggregate productivity in the economy rose.

It is obvious why older and less productive firms would want governments to stifle competition, and why some governments would find it hard to resist this pressure. What is less visible is the cost to youth and the broader society of these job-killing policies.

Source: Keefer, Sahnoun, Sy, Hussain, & Schiffbauer, (2015)

 Rapidly urbanizing countries grow faster and tend to increase welfare faster, owing to the lower cost of providing social services in urban areas (Buckley, Clarke Annez, and Spence, 2008). However,

In most African countries, households will still have to work their way out of poverty through higher earnings from economic activity.

managing urban environments and ensuring the delivery of public goods necessary to reap the benefits of urbanization is a complex task. This is reflected in the high levels of multi-dimensional poverty, as this index includes housing conditions and access to safe water and sanitation. SSA has the highest share of the population in urban areas living in slums (Marx, Stoker, and Suri, 2013). Addressing the housing challenge will require addressing underlying land market issues in SSA (Duranton, 2015).

- Countries dependent on mineral exports face additional challenges in realizing inclusive growth. Human development indicators lag, as does nonfarm employment.
- For middle-income countries, narrow elites that control the economy may be holding back productivity growth and the creation of good jobs for youth (see Box 1). At the same time, education systems' narrow focus on traditional cognitive learning at the expense of problem-solving and socio-emotional skills contributes to high unemployment among the most educated youth (Filmer and Fox, 2014; Glick, Huang, and Mejia, 2015).
- Even in African countries with a relatively stable political situation (e.g. Tunisia), increasing insecurity caused by rising local and international terrorism threats is deterring private investment; countries with more political turbulence such as Egypt are paying a high price in growth, including declining tourism revenues. This situation is not easily resolved and will continue to challenge the region.

African countries will be confronting these challenges during a period of continuing slow growth in OECD countries and worrisome headwinds coming from China. Mineral-exporting countries will face major stabilization issues, which may affect growth in their neighbors as well. Can African

countries build on the gains of the past decade and continue to reduce poverty and deprivation? Two key areas are critical for public sector action: (i) policies to ensure economic growth continues in the sectors where most households earn income; and (ii) policies to increase the efficiency of public sector expenditures, especially investments in people.

Action agenda for inclusive growth

In most African countries, households will still have to work their way out of poverty through higher earnings from economic activity. Efficient social service delivery by the public sector plays a key role in reducing deprivation and improving living standards, especially in poorer countries where there are few affordable private sector alternatives. But better service delivery will not be enough. The action agenda for all countries on inclusion has to include policies to enable productivity improvements in all segments of the economy.

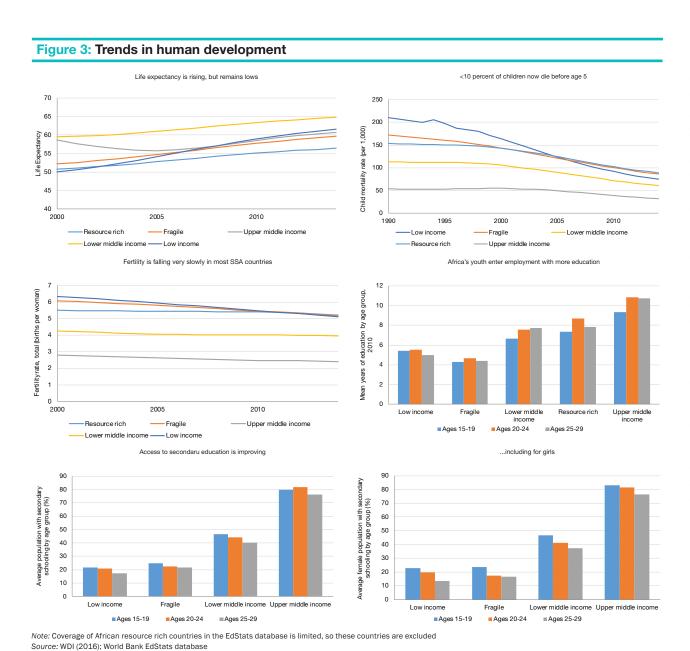
Action agendas for common challenges

Youth

The youth employment challenge has become a major concern for governments and stakeholders. This issue is a really subset of the overall employment challenge in Africa. While youth can be expected to be in the forefront of the employment transformation, given where SSA starts today and the sheer numbers of projected new entrants to the labor force, the employment transformation will be slow. All stakeholders, especially youth and their families, need to recognize this. Research has shown that policies that improve opportunities in the sectors where most people work will benefit youth (Filmer and Fox, 2014; World Bank, 2012).

Private investment is needed to create more wage employment in all countries. The obstacles to achieving this will differ by country. Increasing private investment in new and existing firms at levels needed to employ these youth

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requires an improvement in the business environment (Filmer and Fox, 2014; Keefer et al., 2015). While there is some evidence that industrial labor costs are higher in Africa than in Asia, overall, labor costs are a low share of total value added in industry, especially in low- and lower-middle- income countries (Gelb, Meyer, and Ramachandran, 2013). High energy costs (caused in part by the need to use back-up generators), transportation and logistics costs (which drive up both input and ex-factory costs), and interest rates are more important as a share of total cost. Improvements that could make a difference in non-labor costs would be: more reliable electricity; better functioning ports and logistics infrastructure; cheaper finance through a deeper, more competitive banking sector; and fewer restrictions and red tape associated with starting or expanding a business... Labor costs cannot be ignored however; in a globalized world, competitive labor costs have provided an important edge to Asian countries in developing a manufacturing industry.

New research is showing that management plays a large role in firm productivity and growth (Bloom et al., 2013). Previous research on firm constraints may have underestimated the importance of these skills in East Asia's success relative to Africa. Management skills are in short supply in Africa (Dinh et al., 2012), and this shortage is not easily remedied. A number of programs have been developed to teach entrepreneurship and management, but evidence on their success is lacking. Evaluations of comprehensive Business Development Services (BDS) programs suggest that while they are expensive, if carefully targeted at established, growth-oriented businesses, they can help business expand and increase employment (Grimm and Paffhausen, 2015).

The youth element in the employment challenge is the school-to-work transition. The most common intervention offered by governments, donors, NGOs and other actors to youth seeking to establish a livelihood is training, especially vocational training (Fox, Senbet, and Simbanegavi,

2016; Fox, 2016). Unfortunately, this intervention has a poor track record. A recent rigorous evaluation of vocational training in Kenya provided vouchers to a random selection of potential youth participants and let them choose the type of training and the provider (public or private). Results showed no subsequent earnings effect either for wage earners or self-employed participants compared to those who did not participate, nor was there an effect on overall participation or employment (Hicks et al., 2015). This result has been found in several other evaluations of training programs (Hirshleifer et al., 2015; Tripney et al., 2013; Filmer and Fox, 2014).

Some results are emerging on programs that work with youth before they leave school, stressing "employability" skills. Countries can try to rebalance the curriculum, especially in secondary school and in higher education, to include "employability" skills such as life and business skills. Promising approaches include bringing in staff from private firms to provide information about job requirements, role models, mentoring etc., exposing adolescents to the culture of a modern firm at an early age. Apprenticeships also have a good track record at helping youth transition into self-employment and, in richer countries, wage employment. It is not clear if this is because they teach skills in an applied setting, or if they primarily succeed by teaching employability skills, or both. More evaluations are needed to identify cost-effective approaches that scale up.

Policy is best informed by data. Yet data on what youth are actually doing and how they manage the transition are still not widely available. One problem is that national survey data provide a poor picture of what the labor force is actually doing. A large share of the labor force in low-income countries undertakes a number of activities over the year. Nonetheless, surveys tend to focus on activities over the past seven days (in order to measure unemployment) or to measure the main activity only, not any second job (regardless of recall period). An important characteristic of youth,

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especially low-income youth, is that they move between activities during their search (Filmer & Fox 2014; Fox & Pimhidzai 2013). More survey research is needed on how to collect such data efficiently in low-income settings.

Informality

Closely related to the youth employment agenda is the informality agenda. Today, in low- and lower- middle-income African countries, only 10 to 20 percent of employment is in wage and salary jobs, and only about half of that is formal (permanent, with a contract, covered by social protection scheme). These ratios are not likely to change much over the next 10 to 15 years (Filmer and Fox, 2014). The sluggish employment transition, especially in countries where the labor force is growing rapidly relative to wage employment opportunities, means that most new employment opportunities will continue to be found in household farms and firms (HEs). Together, this type of small scale economic activity is commonly called the informal sector. Additional employment will also be created in casual wage jobs (known as informal employment).

While governments and other development actors include the goal of raising earnings on family farms in policies and projects, they are often not supportive of HEs. Employment policy frameworks rarely mention them as an important source of employment for youth (or anyone). Instead policy proposals seem to have one of two objectives: (i) to turn them into medium-sized businesses through "formalization policies"; or (ii) to eliminate them. Neither approach actually solves the problems facing owners of the HE and their families. As has often been reported, HEs and growth-oriented business are different entities. In the words of Berner et al. (2012), HEs and growth-oriented small businesses operate under a "different logic." HEs tend to operate in business segments characterized by easy entry, low capital requirements, embedded in kin and family networks for survival.

They are part of a household portfolio of activities, selected to reduce overall household economic risk. According to sociological studies, business growth is rarely the focus of the owner. Available evidence confirms that employment doesn't grow beyond the household (Filmer and Fox, 2014). Indeed, as Berner et al. (2012) note, the specialization and risk-taking needed to develop larger scale enterprises are not what poorer households are looking for from an economic activity.

The sector does expand, however, as more businesses are created in more households. This is how youth will enter the sector. Even without hiring employees, HEs can survive, provide a good livelihood and increase household income. As with any other economic activity, they need a good business environment. This can be created by governments, and was done during the East Asia employment transition. Currently, most African governments are predatory or negligent with respect to this sector. Police tend to harass them; local authorities do not include them in local development plans. They are seen as a source of revenue for local or national governments, even though their income falls below national tax thresholds. This sector does not need "formalization policies" unless such policies add value to their livelihood. If registration of their business adds value, they will seek it out. Government should not add burdens to this livelihood.7

A positive agenda for this sector would include: (i) increasing secure space to work and sell goods and services, in areas with foot traffic where their clients will easily find them (with urban services such as water and waste disposal); (ii) increasing access to financial services, through mobile banking, microfinance and other approaches designed for this client base; and (iii) increasing channels of voice within communities and government to make sure policies and

^{7.} An alternative to a "registration" agenda is to permit HEs to do business in the name of the owner. This is common in Ghana, for example. HEs register when their revenues and profits are large enough and stable enough to justify the paperwork.

While there is much heterogeneity within gender categories, most countries have a set of norms and expectations that affect, and usually constrain, women's opportunities in employment, in other aspects of economic life, and in civic participation.

programs meet their needs.⁸ Recent evaluation research suggests that youth training programs are not particularly effective at helping youth enter this sector, although some business training or apprenticeship plus cash grant or loan programs have shown some success. The cost of these programs has been high, so scale up has not been possible (Filmer and Fox, 2014). Lower cost models are needed. Informal or semi-formal financial services targeted at youth can help them overcome financing obstacles; this is one area where microfinance has shown success (Banerjee, Duflo, and Hornbeck, 2014).

Informal employment (where a firm hires someone without a permanent contract and does not pay labor taxes earmarked for public social security schemes) requires a different policy approach. Firms should not be allowed to violate labor laws. But governments may wish to examine why firms hire informally. Small firms may not be able to provide regular employment owing to uncertainties or seasonality in demand for their product, or they may not be able to realize the productivity needed to pay adequate wages and pay the cost of an extensive social protection program. Where informal employment (in violation of the labor laws) is expanding rapidly, it may be necessary to review policy frameworks, seeking ways to provide additional flexibility in hiring and firing rules and/or lowering the cost of a minimum social protection package. Initiatives to address this problem should avoid destroying the opportunities that labor market participants are clearly seeking out.9 Temporary agencies

could address the flexibility problem in urban areas if they are permitted to operate efficiently.

Over time, two factors have been shown to reduce both informal HE activity and informal wage activity as a share of total employment: increasing incomes through higher productivity and slower growth of the labor force. These two features tend to occur together, as a result of a long period of socio-economic development. Indeed, value added rises because agglomeration and scale economies usually found in the formal sector start to take hold in broader swaths of the economy. Workers are gradually drawn into the formal sector. Africa is not at this point yet, but upper-income countries have reached a turning point and middle-income countries may reach such a turning point in a few decades, if economic progress continues.

Gender

It almost goes without saying that within an inclusive growth agenda, the gender dimension needs to be addressed explicitly. While there is much heterogeneity within gender categories, most countries have a set of norms and expectations that affect, and usually constrain, women's opportunities in employment, in other aspects of economic life, and in civic participation. These include norms and customs around acceptable behavior in public, laws, norms and traditions about what jobs women can do (or are "suitable" for women) that result in occupational segregation, norms around housework and other forms of unpaid work, norms around women's participation in household decisions, laws that prevent women from exercising economic power including owning assets in their own name, and policies and practices that may infringe on women's safety and security. Aspirations and socio-emotional skills to act upon them are formed early on in the life of females in Africa and enforce adherence to customs and norms (World Bank, 2012).

^{8.} See Filmer and Fox, (2014), and the references therein for further discussion of this policy agenda.

^{9.} See Maloney (2004), for a discussion of policy tradeoffs with application to Latin America. While pointing out that the vast majority of informality is in farms and HEs, he argues that flexibility in hiring and firing benefits both workers and firms, and that labor legislation should take these preferences into account. He also argues that expensive, "bundled" social protection programs exclude workers who would be satisfied with a more minimalist package, taking most of their compensation in wages.

African countries need to continue to expand and improve social and economic infrastructure services.

The economic case for expanding women's economic opportunities is powerful. There is ample and growing evidence that when women are able to develop their full economic potential there can be substantial overall economic gains. A key action agenda item is eliminating legal barriers and enforcing the right to equality. According to the World Bank, legal gender differences are widespread: 155 of the 173 economies covered have at least one law impeding women's economic opportunities; across 173 economies, 100 restrict women's work in certain jobs; and in 18 countries women cannot even get a job without their husband's permission (World Bank, 2015). Discrimination in family law is often a source of economic hardship for women, especially as concerns access to land in rural areas.

The other parts of the action agenda on gender equity are country specific. A general point is that increasing female empowerment at a young age—e.g. during adolescence—can support many of the other agenda items, including lower fertility, higher human capital, and increases in earnings and productivity. Effective programs are still being tested; few have scaled up in Africa. Rural females of all ages spend many hours per week performing household chores, limiting their labor force participation or progress in school. Infrastructure investments that reduce the burden of housework for women and girls (e.g. water supply, transportation) can provide an inclusive growth boost as well, especially in rural areas (Agénor, Canuto, and others 2012).

Service delivery reform

African countries need to continue to expand and improve social and economic infrastructure services. In most countries, this means more domestic resource mobilization. It may mean new financing models. But it also means more efficiency and effectiveness in the public sector, especially in lower-middle-income countries where the number of children is still growing dramatically even as adult diseases such as

hypertension, heart disease and cancer are growing as a cause of death and disability. African countries are experimenting with new approaches such as result-based financing in health and education, with putting in place multi-sectoral early childhood development programs (a proven intervention in OECD countries), with finding new ways to source and deliver inputs such as drugs and supplies, and with low-cost basic health insurance plans to help households deal with the financial challenges of health care for chronic and non-communicable diseases.

Countries recognize that they have to up their game on outcome measurement and on incorporating lessons into practice. For example, Uganda has had a "value for money" expenditure evaluation program in the Ministry of Finance for nearly a decade. Other countries are developing similar units. Kenya and many other African countries are using impact evaluation methodologies to discover what is working and what is not. While many impact evaluations in Africa have been performed by academics on pilot NGO-run programs (limiting their applicability to large-scale government efforts), governments are now running them on their own programs. They are sharing the results in South-South learning events and through informal contacts between national researchers. These are all positive trends in the face of huge challenges.

Action agendas for inclusive growth by type of country

Low-income countries need balanced growth to continue the progress of the past 15 years. They have 70 percent of primary employment in the agricultural sector and a large rural population; neither of these two characteristics is expected to change rapidly in the next 20 years, owing to high population growth. These countries cannot neglect the agricultural sector. One key area for action is land policy, which is crucial to encouraging commercialization (medium and large farms) while protecting small holders' land for subsistence. It is also an important youth employment policy.

In urban areas, the demand for wage employees is too low relative to the supply of youth looking for work, so most urban youth will have to create their own employment by starting a household enterprise.

Under traditional land tenure systems, youth have trouble getting access to land, even though they have more education and energy. Youth could lead the commercialization process, for example, by interacting with contract growers and other private sector actors aiding commercialization by bringing technology and reducing financing constraints. But they need land to do this. Rural policy also needs to support rural farm and nonfarm diversification opportunities (e.g. livestock, dairy, agroprocessing, services) to create higher income earning opportunities for rural households.

In urban areas, the demand for wage employees is too low relative to the supply of youth looking for work, so most urban youth will have to create their own employment by starting a household enterprise. As noted above, urban policy needs to plan for the growth of this sector and create the necessary infrastructure. In both rural and urban areas, access to education, health and safe water remain a challenge. This is not only an investment problem; service delivery needs to improve, through reform in current delivery models focusing on outcomes not only on infrastructure.

Lower-middle-income countries need improved agricultural productivity, which will continue to be important for inclusive growth. As in the low-income countries, this should be possible as land and labor productivity are still low and countries continue to import food. Commercialization is increasing in the sector through private investments in higher value crops and more productive technology for food crops. Demand for processed food is increasing as incomes rise; development of the agribusiness sector offers opportunities for stable employment in towns and peri-urban areas. Private investment will enter agricultural processing sector if the enabling environment improves (e.g. better veterinary services for livestock, public investment in storage facilities and transport networks as well as less government intervention in grain and food markets). A sizable share of youth will stay in rural areas and can be part of the increased

commercialization of agriculture; they have education but they need access to land, technology and markets. A minority of youth can be expected to leave rural areas and migrate to towns and secondary cities looking for better opportunities however. For urban populations, the action agenda includes the two topics discussed in the previous section: more wage jobs and higher productivity in HEs.

Most lower-middle-income countries are getting an income improvement from declining energy prices. But they still face stabilization challenges-domestic debt has been rising, as has interest rates on sovereign bonds. Yet much more public investment is needed in transportation and electrical infrastructure, in education and health services, and in urban service delivery (such as water, sanitation, solid waste management, traffic management and flood control). This implies a focus on cost-effectiveness and domestic resource mobilization in order for the public sector to play its part in enabling inclusive growth. While private education is providing a quality alternative to the public system in urban areas, the public sector remains the only option for low-income urban and almost all rural households. Some advisors have suggested just giving households cash and letting them buy the services they need, but a recent study in Tanzania shows that this is an unpopular option (Sandefur, Birdsall, and Moyo, 2016). Voters want the government to deliver public social services, and they want the quality to improve. Efficiency will have to increase in these systems for this to happen. Meanwhile, pilots have shown that cash transfers are an effective social protection program, in many cases even allowing households to undertake the investments needed to raise their incomes (Evans and Popova, 2014). These programs may work as a platform to support disadvantaged youth to effectively enter employment.

Upper-middle-income countries face more complex growth challenges in order to emerge from the middle-income trap. They need new firms as well as continuous In fragile states, reduction of conflict and improved security is obviously a prerequisite for inclusive growth.

productivity gains in older ones. The enabling environment needs to include appropriate competition policies to ensure that less dynamic firms go out of business while more dynamic ones expand. This means both job creation and job destruction. Labor mobility can be enabled through a mixture of safety nets to support those who lose their jobs, transportation networks to help workers reach new jobs, and information about rising sectors and occupations for those in transition. Most upper income countries now have social entrepreneurs who have created digital platforms to increase the flow of information, letting governments get out of the job-matching business.

Digital platforms are not enough to meet the youth employment challenge in upper-income countries. Without an increase in demand for labor, policies on the supply side will not be effective enough and youth unemployment will continue. With a more robust and dynamic private sector there may be scope for programs to help youth transition into employment. In some countries, youth are educated, but employers complain that they are not "job-ready." This may be a reflection of outdated curricula that lacks a focus on problem-solving and social skills. Curriculum reform takes time, but some short modules could be added to secondary and post-secondary programs, with appropriate evaluations. Governments may wish to encourage post-secondary institutions to expand programs in sectors where domestic and international demand is likely to increase, such as health services and business and management skills, while reducing programs designed to help youth enter the civil service (such as legal studies programs).

Most upper-income countries have public post-school programs to help youth develop skills for job. These programs have low success rates, although outstanding models exist in some localities. Successful programs need to be short, involve on-the-job training and be implemented jointly with the private sector so that they focus on developing the

type of skills employers need. NGOs tend to have more success developing and implementing such programs (Fox, 2016). In some North African countries, there may be scope for relaxing some parts of the labor code related to hiring and firing workers in order to increase employers willingness to hire less experienced youth (Glick, Huang, and Mejia 2015).

In fragile states, reduction of conflict and improved security is obviously a prerequisite for inclusive growth. While better governance, which would enable the provision of more public goods and social services to the majority of the population, is also desirable to restart inclusive growth, it is not always achievable (Levy 2014). One lesson from countries such as Mozambique, Rwanda and Uganda, which have successfully emerged from fragility through inclusive growth, is the key role of agriculture in a bounce-back growth path. Increased incomes in rural areas, combined with modest improvements in education and health services, were responsible for much of the poverty reduction in the immediate post-conflict period in these countries. Richer, mineral-exporting fragile countries such as Libya or Chad will have to find a political settlement that provides an acceptable distribution of resources to all sides. Cash transfer social-protection programs, which can be easily monitored, could be one tool to achieve this. These programs have been shown to improve agricultural incomes in low-income countries, so they may the most cost-effective approach to rural employment and poverty alleviation, at least in the initial years (Brune et al. 2015). Finally, in cases such as South Sudan, where many have entered the labor force without the chance to go to school, "second chance" education programs for teens and literacy programs for adults may be considered to enhance the basic skills of the labor force.

Resource rich countries need a policy reset. These countries face a big challenge on the macroeconomic and growth fronts. There is an opportunity to reverse the "resource curse" of poverty, inequality and weak private-sector wage

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job growth, by diversifying the economy and creating more income earning opportunities for the bottom 60 percent in agriculture and informal services, thus producing goods and services demanded by wage earners. Countries such as Indonesia were able to achieve this. African countries must seize the opportunity that the current crisis brings or they will stay behind the curve, trapped in a cycle of failed fiscal retrenchment for multiple years, as has happened in the past. The challenge for these countries is to spend public money more effectively, providing more public goods. Meanwhile, the public sector will not have the resources to satisfy the employment aspirations of urban youth for the foreseeable future. This means that policies designed to drastically increase private investment in industry outside the mineral sector in order to create the wage jobs are critically important.

Conclusion

From an inclusive growth viewpoint, Africa has had a good start to this century. Most people in most countries realized tangible improvements in economic well-being. The main exceptions were the fragile states. Except for the upper-income countries, households escaped poverty through raising the productivity of their livelihoods – in other words, by earning more in cash and kind from economic activities. In South Africa, non-labor income (transfers to poor households) played a big role in poverty reduction as unemployment remained high.

Expansion in social infrastructure complemented other growth policies, raising human capital and non-monetary living standards. Most of the gains came through investments in quantity – more schools and health clinics, more teachers and health workers, more books, more vaccinations, more supplies. While access problems persist in low-income countries, in middle-income countries access to primary education, water, and basic health care services are assured. But social indicators also reveal quality problems. Many more mothers

are getting prenatal care and giving birth with the assistance of trained staff, but maternal, infant and child mortality are still high. Housing remains a challenge in rapidly growing urban areas. Education indicators reveal that classroom time is not used effectively for learning. The good news is that countries are starting to face up to these challenges.

Growth has to continue for poverty reduction to continue, and it has to occur in the sectors where the poor work. In all but the upper-middle countries, this means improving productivity in agriculture (family farms as well as large commercial farms), and in household enterprises. All countries need to create more wage employment. The fastest way to do this is by creating and growing labor intensive non-agricultural medium and large enterprises. Employment policy in Africa, therefore, needs to address twin goals: (i) higher earnings and more secure livelihoods in the agriculture and HEs segments of the economy; and (ii) creating more wage jobs in modern enterprises. Youth will enter all three sectors when opportunities are available; the objective of youth employment policy should be to ensure that they can earn an acceptable living.

Annex

Resource-rich	Fragile	Upper middle income	Lower middle income	Low income
Algeria ¹	Burundi ³	Botswana	Cameroun	Benin
Angola ¹	Central African Republic ³	Gabon	Cape Verde	Burkina Faso
Congo ²	Chad ^{3,4}	Mauritius	Côte d'Ivoire	Ethiopia
Equatorial Guinea ¹	Comoros ³	Namibia	Djibouti	Gambia
Nigeria ²	DR Congo ^{3,4}	South Africa	Egypt	Guinea
	Eritrea ³	Tunisia	Ghana	Malawi
	Guinea-Bissau ³		Kenya	Mozambique
	Liberia ³		Lesotho	Niger
	Libya ^{1,4}		Mauritania	Rwanda
	Madagascar ³		Morocco	Tanzania
	Mali ³		São Tomé & Principe	Uganda
	Sierra Leone ³		Senegal	
	Somalia ³		Swaziland	
	South Sudan ³		Zambia	
	Sudan ²			
	Togo ³			
	Zimbabwe ³			
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Criteria

Resource rich: Oil, gas, and mineral exports greater than 90 percent of total exports in 2014

Fragile: Harmonized list between the World Bank and the African Development Bank fragile country designations.

Income categories: As defined by the WB FY2016 income classifications based on GNI (Atlas method, 2014), low-income is \$1,045 or below, lower-middle income in \$1,045 to \$4,125, and upper-middle income is \$4,125 to \$12,736.

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Centennial Group International
The Watergate Office Building, 2600 Virginia Avenue, NW, Suite 201
Washington, DC 20037, USA
Tel: (1) 202 393 6663 Fax: (1) 202 393 6556

Email: info@centennial-group.com