Economic Report on Africa 2005
Meeting the Challenges of Unemployment and Poverty in Africa
Ordering information

To order copies of *Meeting the Challenges of Unemployment and Poverty in Africa* by the Economic Commision for Africa, please contact:

Publications
Economic Commision for Africa
P.O. Box 3001
Addis Ababa
Ethiopia
Tel: +251 1 44 31 68
Fax: +251 1 51 03 65
E-mail: ecainfo@uneca.org
Web: www.uneca.org
# Table of Contents

Foreword xiii
Acknowledgements xv
Overview 1

## 1 Recent Economic Trends in Africa and Prospects for 2005 25

- The growing global economy 26
- Recovery in foreign direct investment flows to Africa 29
- Rising commodity prices 31
- Strong recovery in official development assistance to Africa 33
- Better economic performance in Africa 34

References 55

## 2 Ensuring decent employment for Africa’s poor: key challenges 57

- Employment-generating growth for poverty reduction 60
- Labour markets in Africa: facts and figures 61
- Challenges differ in formal and informal sectors 66
- Determinants of the African employment challenge 70

Conclusion 84
References 86
### 3 The poverty challenge in Africa: placing decent employment at the heart of the battle

- The poverty challenge in Africa
- Decent employment as a major route out of poverty in Africa
- Strengthening the employment content of Poverty Reduction Strategy Papers
- Conclusion and policy recommendations
- References

### 4 Structural transformation to break away from rural poverty

- Structural transformation through sectoral links
- Demographic transition: a prerequisite to Africa’s structural transformation
- Agricultural transformation, rural employment and poverty reduction
- The rural nonfarm sector for employment and poverty reduction
- Recommendations for achieving structural transformation in Africa
- Conclusions
- References

### 5 Meeting youth unemployment head on

- Africa’s youth unemployment: a reason for concern
- Consequences of youth unemployment are severe
- Jobless young people: an unaffordable price
- Addressing youth unemployment
- References
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Harnessing globalization to create decent jobs and reduce poverty</td>
<td>203</td>
</tr>
<tr>
<td></td>
<td>Globalization in Africa: facts and figures</td>
<td>205</td>
</tr>
<tr>
<td></td>
<td>The links between globalization, employment and poverty</td>
<td>209</td>
</tr>
<tr>
<td></td>
<td>Harnessing the potential benefits of globalization</td>
<td>216</td>
</tr>
<tr>
<td></td>
<td>How to mitigate the negative impact of globalization?</td>
<td>226</td>
</tr>
<tr>
<td></td>
<td>Conclusions</td>
<td>233</td>
</tr>
<tr>
<td></td>
<td>References</td>
<td>237</td>
</tr>
<tr>
<td>7</td>
<td>Enabling the private sector to create jobs</td>
<td>245</td>
</tr>
<tr>
<td></td>
<td>Maintaining a conducive macroeconomic environment</td>
<td>246</td>
</tr>
<tr>
<td></td>
<td>Poor physical infrastructure hobbles private sector development</td>
<td>249</td>
</tr>
<tr>
<td></td>
<td>Improving the institutional environment</td>
<td>253</td>
</tr>
<tr>
<td></td>
<td>Corruption hampers small enterprises</td>
<td>258</td>
</tr>
<tr>
<td></td>
<td>Getting the financial sector ready for small-scale lending</td>
<td>265</td>
</tr>
<tr>
<td></td>
<td>Learning from microfinance strategies to widen SMEs access to credit:</td>
<td>265</td>
</tr>
<tr>
<td></td>
<td>Experiences of microfinance in Africa and the policy lessons</td>
<td>266</td>
</tr>
<tr>
<td></td>
<td>Preparing labour markets for the job boost</td>
<td>269</td>
</tr>
<tr>
<td></td>
<td>Labour protection or labour market flexibility?</td>
<td>270</td>
</tr>
<tr>
<td></td>
<td>Conclusion</td>
<td>273</td>
</tr>
<tr>
<td></td>
<td>References</td>
<td>275</td>
</tr>
</tbody>
</table>
Boxes

1  Comparability a problem? Yes 7
2  Female unemployment in Africa is underestimated 11
1.1 The oil factor in the international and local economy 28
1.2 Nature, costs and benefits of foreign direct investment in services 30
1.3 The economic cost of civil wars 38
1.4 Tariff preferences are a double-edged sword for Ghana’s tuna factories 43
1.5 Will the garment industry survive the Multi-Fibre Arrangement? 44
1.6 Does strong growth in Tanzania help to achieve poverty reduction goals? 52
2.1 Key terms 61
2.2 Comparability problem 63
2.3 Labour regulations are poorly enforced 75
2.4 What is the effect of unions on Africa’s labour markets? 77
2.5 Constraints to doing business in Africa 78
2.6 The effect of macroeconomic instability on firms in Kenya 79
2.7 The impact of war on employment 81
3.1 Definitions of poverty measures 93
3.2 Will Mozambique’s “mega projects” deliver jobs and reduce poverty? 103
3.3 The importance of labour-intensive public works for creating jobs in Rwanda 110
3.4 Tanzania’s institutional capacity building actions for creating employment opportunities 111
3.5 Ghana’s PRSP emphasizes the productivity dimension of decent employment 113
3.6 Work equity, security and dignity in Mali’s PRSP 114
3.7 Ghana’s PRSP measures to increase employment opportunities and improve decent employment in the informal sector 116
4.1 The Comprehensive African Agricultural Development Program 142
4.2 CAMPFIRE, Zimbabwe: community-based natural resource wildlife management 148
4.3 Using a green revolution for rural transformation, employment and poverty reduction: lessons from Uganda 149
4.4 Progress on implementing the African Water Vision 2025 152
4.5 Harnessing information and communication technology for market access in Kenya 155
4.6 Private-public partnerships to expand markets for strategic crops in the South African Development Corporation 157
4.7 Empowering women by improving provision of modern energy services: the multifunctional platform in Mali 158
5.1 Hope through youth employment 173
5.2 Apprenticeship in Nigeria 175
5.3 Urban unemployment among young people in Burkina Faso 178
5.4 Private sector response to HIV/AIDS 181
5.5 A countercyclical safety-net role 188
5.6 E-slates to the rescue 190
5.7 Madagascar finds a clearly effective approach 192
5.8 Prevention in Botswana 194
6.1 Trade reduced poverty in Uganda but only for parts of the population 210
6.2 Outsourcing in Ghana 218
6.3 Madagascar’s dynamic export processing zones 220
6.4 Unilever in Vietnam: Building partnerships with suppliers 223
6.5 Three examples of how women benefit from globalization 225
6.6 Mitigating risks associated with financial globalization 229
6.7 Remittances for infrastructure in a Senegalese village 232
7.1 Tax reforms and remaining problems 248
7.2 The telephone ladies of Bangladesh 253
7.3 Ethiopia’s business climate: initial reform success but more needs to be done 254
7.4 Improving the institutional set up for Mozambique’s SMEs 257
7.5 Microfinance can empower women and reduce poverty 266
7.6 Faith-based organizations acting as a job-placement agency and training centre: the example of South Africa 270

Figures

1 GDP growth, by African region, 2002–04 (%) 3
2 Unemployment rates, by region, 1995–2004 (%) 6
3 Working poverty rates, by country, in 1997 (%) 8
4 Monthly wages by sector for seven African countries, various years ($) 9
5 Unemployment rates in Sub-Saharan Africa, by gender and age group, 1995–2004 (%) 10
1.1 Annual real GDP growth of OECD, euro zone and G7 countries, 2002–04 (% change over the same quarter of the previous year) 26
1.2 Monthly prices of key African commodities, 2002–04 32
1.3 Net ODA flows to Africa, 1990–2003 ($ billions) 34
1.4 Top 10 and bottom 5 performers in Africa, 2004 (%) 36
1.5 Real GDP growth, by African subregion, 2002–04 (%) 37
1.6 Projected real GDP growth by African region, 2005 (%) 50
<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Unemployment rates by region, 1995–2004 (%)</td>
<td>64</td>
</tr>
<tr>
<td>2.2</td>
<td>Unemployment rates in Sub-Saharan Africa, by gender and age group, 1995–2004 (%)</td>
<td>66</td>
</tr>
<tr>
<td>2.3</td>
<td>Monthly wages by sector for seven African countries, various years ($)</td>
<td>68</td>
</tr>
<tr>
<td>2.4</td>
<td>Working poverty rates, by country, 1997 (%)</td>
<td>69</td>
</tr>
<tr>
<td>2.5</td>
<td>Economic growth and employment growth in Sub-Saharan Africa (%)</td>
<td>71</td>
</tr>
<tr>
<td>3.1</td>
<td>$1 a day poverty headcount, by region, 1980–2003 (% of population)</td>
<td>94</td>
</tr>
<tr>
<td>3.2</td>
<td>Stunting in Africa, 1999–2000 (% of children under age 5)</td>
<td>96</td>
</tr>
<tr>
<td>3.3</td>
<td>Rural-urban differentials, by country, various years (percentage points)</td>
<td>99</td>
</tr>
<tr>
<td>4.1</td>
<td>Effect of HIV/AIDS on the number of orphans in Africa, 2003 (% of orphaned children)</td>
<td>137</td>
</tr>
<tr>
<td>4.2</td>
<td>Agricultural production per capita, 1961–2003 (Index, 1961 =100)</td>
<td>139</td>
</tr>
<tr>
<td>5.1</td>
<td>Youth unemployment rates, by region, 2003 (%)</td>
<td>169</td>
</tr>
<tr>
<td>5.2</td>
<td>Projected regional labour force growth, by age group, 2003–15 (%)</td>
<td>170</td>
</tr>
<tr>
<td>5.3</td>
<td>Rural and urban youth unemployment rates in selected African countries, (%)</td>
<td>172</td>
</tr>
<tr>
<td>5.4</td>
<td>Primary school enrolment and attendance rates for selected African countries, 2001 (%)</td>
<td>174</td>
</tr>
<tr>
<td>5.5</td>
<td>Distribution of young people living with HIV, by region, end 2003</td>
<td>176</td>
</tr>
<tr>
<td>5.6</td>
<td>Main problem drugs in Africa, 1995–2002</td>
<td>179</td>
</tr>
<tr>
<td>6.1</td>
<td>Trade as a share of GDP in selected regions, 1970–2002 (%)</td>
<td>207</td>
</tr>
<tr>
<td>6.2</td>
<td>FDI as a share of GDP in selected regions, 1970–2003 (%)</td>
<td>208</td>
</tr>
</tbody>
</table>
7.1 Infrastructure in Sub-Saharan Africa is weaker than in other developing regions

7.2 Transport costs world regional and country groupings, 2000 (freight cost as a percentage of total import value)

7.3 Registering a business in Africa: number of procedures, duration and cost

7.4 Cost to register property (% of average value of property to be registered)

7.5 Difficulty of contract enforcement: number of procedures, days to enforce and cost

7.6 Rigidity of employment in Africa

Tables

1.1 Quarterly GDP growth rates of G7 countries, 2002Q4–2004Q4 (% change over previous quarter)

1.2 Growth performance distribution in Africa, 2000–04 (number of countries)

1.3 Distribution of overall fiscal deficit in Africa, 2003 and 2004 (number of countries)

1.4 Distribution of inflation in Africa, 2000–04 (number of countries)

1.5 Africa’s balance of payments, 2000–04 ($ billions)

1.6 Distribution of current account balance as a share of GDP, 2000–04 (number of countries)

1.7 Africa’s benefits from tourism, 2000–04

1.8 Commitments and disbursements of HIPC assistance, as of February 10, 2005

2.1 Variations in unemployment rates across regions, 2003 (%)

2.2 Variations in country unemployment rates

2.3 Youth and adult literacy rates, by region, 2000 (%)

2.4 Estimates of brain drain from Sub-Saharan Africa
3.1 Poverty gap index, by region, 1990–2001 (%)

3.2 Female literacy, income and government employment, by country, 2001 and 2002

3.3 Working poverty shares in total employment, by region, 1980–2003

3.4 Breakdown of the 21 full PRSPs in Africa by employment content
   (share of positive answers to employment-related questions)

3.5 Examples of employment dimensions and policies that are quantified in the PRSPs
   in terms of their expected or targeted impact on employment

4.1 Structural transformation indicators for selected African countries, various years

4.2 Total fertility rate, 1985–2015 (births per woman)

4.3 HIV/AIDS prevalence for adults ages 15–49, 2003 (%)

4.4 Addressing land-related challenges through policy and institutional reforms

4.5 Involvement in rural nonfarm employment (%)

5.1 Employment issues in Poverty Reduction Strategy Papers in 21 African countries

7.1 Starting a business

7.2 Registering a business in Chad and Morocco, 2004

7.3 Contract enforcement in regional comparison
Note

Official ECA sources constitute the regular information and data received from Country Statistical Offices, country reports and surveys, Central Banks, Finance Ministries and other line Ministries, United Nations Specialized Agencies, IMF, World Bank, ADB and other international financial institutions.

We gratefully acknowledge the use of survey data and country data from the World Bank Africa Database and the World Bank’s World Development Indicators, International Financial Statistics and World Economic Outlook as well as Country Reports from IMF, the Economist Intelligence Unit and the UNDP Human Development Report.
With the highest incidence of poverty in the world, Africa urgently needs to create more employment and thus tackle the scourge of hunger, malnutrition and the overall low living standards the continent continues to witness.

Indeed, unemployment is one of the greatest challenges to Africa’s development, with an estimated 10.9 per cent and 10.4 per cent of job seekers unemployed in 2003 in Sub-Saharan and North Africa, respectively. These are respectively the second and third highest unemployment rates in the world, with the Middle East region experiencing the highest rate.

But the picture is even bleaker than these averages suggest, for they do not include the large numbers of working poor and those who have given up trying to find decent employment and are therefore not counted. Furthermore, these rates do not reveal the uneven distribution of unemployment across countries and regions, and within countries, age and gender groups. Based on the current demographic trends, it is estimated that Africa would need to create about 8 million new jobs every year in order to absorb the rising numbers of job seekers.

In addition to its traditional role of reviewing Africa’s economic performance over the preceding year, and projecting medium-term prospects for the continent, this year’s Economic Report on Africa (ERA 2005), the sixth in an annual series, provides a detailed analysis of the challenges of unemployment and poverty reduction, key issues at the heart of the debate on Africa’s development.

The poverty rate has remained practically stable on the continent for the past two decades, even as it declined in other developing regions. In real numbers, at least 61 million more Africans go hungry today than they did in 1990.

The creation of more decent jobs, accessible to the poor, constitutes the most effective channel through which poverty can be addressed in Africa. This link has been acknowledged at the highest political level over the last three decades. Most recently in 2004, Africa’s heads of state and governments adopted the Ouagadougou Declaration on ?Employment and Poverty Alleviation in Africa,? renewing their pledge to fight poverty through employment.

ERA 2005 provides an in-depth analysis of the obstacles to employment creation and proposes measures necessary to translate Africa’s political words into action.
Targeted to African and non-African policymakers and scholars to inform and stimulate discussions on the theme of employment and poverty reduction, ERA 2005 conducts a detailed analysis of the challenges of unemployment and poverty reduction in Africa.

The report notes that only about a quarter of Africa’s countries can show growth rates of at least 5 percent over the last decade. In addition to sustained growth, a more equitable distribution of the fruits of growth is crucial for effective poverty reduction. Sustained and equitable growth requires that African countries strengthen their economic and political governance.

Several initiatives on the continent show governments’ commitment to improving conditions for people, giving me cause for optimism. In some countries, for example, information technology is being used to drive the labour-intensive and well-paid call-centre industry, the kind of strategy that could help reduce the continent’s over-dependence on agriculture.

Economic transformation that transfers a substantial part of the labour force from agriculture to other relatively productive sectors is imperative. For this to occur, governments must undertake reforms that provide an environment conducive to private enterprise operation.

I am confident that the analysis and recommendations in this 2005 edition of the *Economic Report on Africa* will be of benefit to African policymakers and their development partners in their collective fight against poverty in Africa.

**K. Y. Amoako**  
Executive Secretary  
September 2005  
Addis Ababa
Acknowledgements

This report was prepared under the general supervision of the Executive Secretary of the United Nations Economic Commission for Africa (UNECA), K. Y. Amoako. Augustin Fosu, Director of the Economic and Social Policy Division (ESPD), UNECA, guided the team that produced the report. Led by Shamika Sirimanne and Janvier Désiré Nkurunziza, this team included the following ESPD personnel: Maria Delfina Alcaide, Bartholomew Armah, Mamadou Bal, Derrese Degefa, Mamadou Diagne, Adam Elhiraika, Adrian Gauci, Workie Mitiku, Sumit Roy, Vanessa Steinmeyer, Reto Thoenen and Susanna Wolf. The report also owes special thanks to Josué Dioné, Director of the Sustainable Development Division (SDD), who co-authored Chapter 4 of the publication with Joan Kagwanja. The team appreciates the editorial assistance provided by Cristina Müller and secretarial support by Asnaketch Made.

The report benefited from comments provided by both internal and external reviewers. The internal reviewers comprised the ECA team from various divisions at Commission headquarters, as well as representatives from its Sub-regional Offices (SROs). Special thanks are given to the International Labour Organization’s (ILO) regional and sub-regional offices in Addis Ababa, as well as Geneva headquarters, for providing valuable input to the report.

The external peer review process, which was organized by the ECA in Addis Ababa, owes its success to the comments of the following external reviewers: Arne Bigsten, Kwabena Gyimah-Brempong, Robert Liebenthal, Una Osili Okonkwo, George Okutho, Abebe Shimeles and Samuel Wangwe. Finally, the diligent efforts of Roza Habtewold, who assisted with the organization of the external peer review, and Bruce Ross-Larson who edited the final report, are highly appreciated.