Middle East and North Africa

Social unrest has affected both regions and threatens its long-term perspective

For the last three years, the attention of the world has been caught by the social unrest that has spilled over from events happening in Tunisia to other countries in the MENA region. The region is struggling in both improving historical problems and offering clear path of political stability and economic growth for its current and future generations. In particular the crises in Syria and Libya have intensified the political tensions in the region and brought economic growth into stagnation. As a result, neighbouring countries (such as Tunisia, Lebanon, Egypt or Jordan) have witnessed an significant flow of (return) migrants, which in turn will have a drastic effect on the labour markets in the MENA region (see **Box 1**). And with high levels of youth unemployment and overall low employment levels, these political tensions and the social instability are expected to rise across the MENA region well into the 2020s (Schulz, 2012).

Growth has decelerated sharply in both regions, falling to 2 per cent in the Middle East and 2.9 per cent in North Africa in 2013, well below the global average. A slowdown in main commodity prices, a deceleration in world trade and a regional economy that is not very well integrated have weakened economic prospects. Moreover, the stretched political transition and instability are further weighing likely on the economies in the region and likely to result in a sluggish and protracted economic recovery, with unemployment at best stabilizing at currently high levels. Trying to achieve and maintain macroeconomic stability in this environment will be a key challenge for 2014 and the coming years.

Economies in the MENA region suffer from a specialization in sectors generating low employment growth or suffering an absolute disadvantage and a lack of structural transformation towards high-productive industries (see also ILO, 2013). Few, commodity-exporting sectors contribute almost exclusively to the output of the entire region but very little to employment opportunities. The high wages paid in these sectors raise labour costs across the board and prevent stronger job creation in other, more employment-intensive sectors in industry or services. Also, smaller, oil-exporting countries in the Middle East redistribute the wealth generated from their main export goods via generous public employment offers to nationals, which further pushes up wage premiums for natives and limits the capacity of these countries to develop a sustainable business sector outside few, highly productive sectors.

Besides a lack of structural transformation, many countries in the region also suffer from a challenging business climate characterised by poor and limited infrastructure such as costly, unreliable and inefficient supply of electricity and water. This further dampens and limits investment opportunities and growth. As a result, the demographic change characterised by a growing young population is considered to be a burden on the economy rather than an asset due the scarce job opportunities in the region and necessary conditions required to absorb and employ this growing young population are absent. Taken together, these challenges are likely to fuel social unrest and instability further as a growing middle class faces severe constraints for further improvements.

Stress in labour markets remains high in the region

Over the last decade, the MENA region had witnessed economic growth of 2% per annum. This growth rate has proven too low to generate sufficient employment opportunities for a fast growing population. Indeed, unemployment in the region remains the highest in the world, at least 2 percentage points above rates observed in the Developed Economies & EU region that has experienced a serious deterioration during the crisis. In contrast to many other regions, however, the MENA countries did experience a worsening of their labour market conditions mainly as a result of the political instability that arose after 2011 whereas the global economic crisis did not contribute significantly to labour market development in the region (see **Table 1**).

Table 1: Labour market outlook: MENA countries

		2009	2010	2011	2012p	2013*	2014p	2015p	2016p	2017p	2018p
Labour force participation rate (%)		48.0	48.2	48.5	48.8	49.0	49.2	49.4	49.6	49.7	49.7
Unemployment rate (%)	total	10.4	10.7	11.3	11.5	11.5	11.5	11.5	11.4	11.4	11.3
	male	8.2	8.3	8.8	8.9	8.9	9.0	8.9	8.9	8.8	8.8
	female	18.9	19.8	20.9	21.3	21.2	21.1	21.0	20.9	20.8	20.7
	youth	23.8	25.0	27.0	27.9	28.3	28.6	28.8	28.9	29.0	29.1
	Adult	7.0	7.3	7.6	7.8	7.9	8.0	8.0	8.1	8.1	8.1
Employment growth (% p.a.)	total	2.9	2.7	2.2	2.5	2.4	2.4	2.4	2.3	2.2	2.1
	male	3.0	2.8	2.4	2.5	2.3	2.3	2.3	2.2	2.1	2.1
	female	2.5	2.6	1.7	2.4	2.8	2.8	2.7	2.6	2.5	2.4
	youth	-0.3	-1.5	-2.8	-1.8	-1.6	-1.4	-1.1	-0.8	-0.6	-0.3
	adult	3.6	3.6	3.2	3.3	3.1	3.0	2.9	2.8	2.6	2.5
Memorandum item:											
GDP annual growth rate (%)		3.1	5.1	2.7	5.8	2.2	4.1	4.4	4.2	4.2	4.4

* 2013 are preliminary estimates; 2014-2018 are projections.
Source: ILO Trends Econometric Models, October 2013 (see Annex 4 and 5); IMF, World Economic Outlook, October 2013.

Box 1: Spill-overs from the Arab Spring: The case of Lebanon

According to World Bank estimates around 1 million Syrians fled to Lebanon, an equivalent of 22% of the existing Lebanese population. An additional 300.000 have been expected by December 2013 and yet another 300.000 before the end of 2014, bringing the total number of refugees to 1.6 million. This has raised serious concerns regarding the capacity of a small country like Lebanon already characterised by lack of resources and large fiscal deficit to absorb the increase in population.

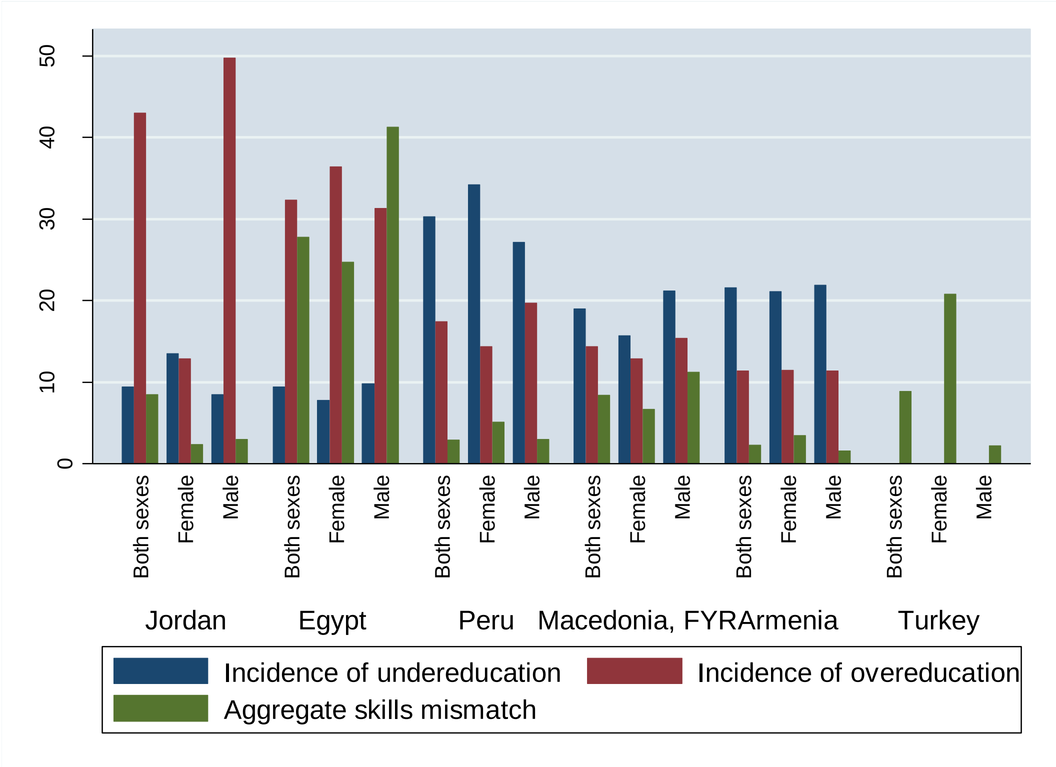
The strong inflow of Syrians to Lebanon is expected to have substantial short- and long-term consequences for Lebanese economic growth and labour market conditions. Lebanon has been encountering a decrease in its revenue collection (around US$1.5 billion over the period of 2012-2014) and a rise in its government expenditure (around US$1.1 billion). According to an economic and social impact assessment undertaken by the World Bank at the request of the Lebanese government, the country will be facing costs of US$2.6 billion in order to meet the increasing demand for public facilities such as water, electricity, health and education as a result of the severe situation occurring to its neighbouring country. This will further worsen Lebanon's public deficit which is already US$3.7 billion or 8.7 per cent of GDP in 2013.

Prior to the crisis in Syria, the Lebanese labour market suffered already from a high unemployment rate especially among youth (21 per cent in 2013), skills mismatches, wide-spread informality (more than 22 per cent of total employment) and low-productive and low-quality jobs. The substantial and quick rise in labour supply will further put pressure on existing jobseekers, pushing down working conditions and job finding rates. Current estimates project a labour supply increase of between 30 and 50 per cent, especially among unskilled workers, women and youth. This substantial rise is expected to push up both the unemployment rate and the share of informal employment in total employment by up to 10 percentage points each. In addition, 170,000 Lebanese will be pushed back into poverty by 2014, reversing earlier favourable trends of poverty reduction (World Bank, 2013). In order to address these serious challenges and to at least stabilize the current labour market situation, Lebanon is in need of effective macroeconomic policies and targeted active labour market programs that aim at improving both productivity and job quality through increasing the average skill level and providing job opportunities, especially for the low-skilled.

Youth unemployment in MENA countries remains the highest in the world, reaching 27.3 per cent in the Middle East and more than 29 per cent in North Africa in 2013. This is more than twice as high as the global average and significantly higher than youth unemployment rates in Developed Economies. For example, unemployment among young people has reached around 19 per cent in Morocco, over 22 per cent in Lebanon and Algeria, 25 per cent in Egypt, closer to 30 per cent in Jordan and Saudi Arabia, around 40 per cent in the Palestinian Authority and over 42 per cent in Tunisia. Even though the youth labour force is expected to decline over the coming years, this will create only a short-term relieve: As of 2020, long-term demographic projections indicate a strong increase in the youth population, making it essential for the region to develop a labour market that can utilize the new entrants and benefit from the demographic dividend.

In contrast to other regions, education in MENA countries does not guarantee employment. Statistics show that unemployment increases with higher educational attainment. For instance, over 29 per cent of those with tertiary education are unemployed in Tunisia; over 26 per cent in the Palestinian Authority; 22 per cent in United Arab Emirates; and over 18 per cent in Morocco, 15 per cent in Algeria; and around 14 per cent in Egypt. Youth unemployment in the MENA region might take longer to recover compared to other regions due to the fact that young people will be waiting for the suitable job. More specifically, educated youth will take a longer time to find a proper job that matches their skills and education (O'Sullivan et al.,2011). Some countries in the region like Tunisia are characterized with overqualified young people accepting relatively low wages and engaging into insecure jobs. On the other hand, education systems in other countries such as Egypt and Jordan struggle to deliver graduates with the necessary skills to find productive jobs. As a result, many more young people in the region are underqualified for their position in comparison to countries at similar levels of development (see **Figure 1**). According to the World Bank's Enterprise Surveys, labour skill levels are recognized to be one of the key constraints in Lebanon (38 per cent of surveyed firms), Syria (36 per cent), Jordan (33 per cent) and Egypt (31 per cent). Therefore, the growing number of youth unemployed people can be to a large extent explained by the existing large gap between the level of skills and qualifications of the young generation and the firms' requirements for existing or new positions, i.e. high levels of skill mismatches.

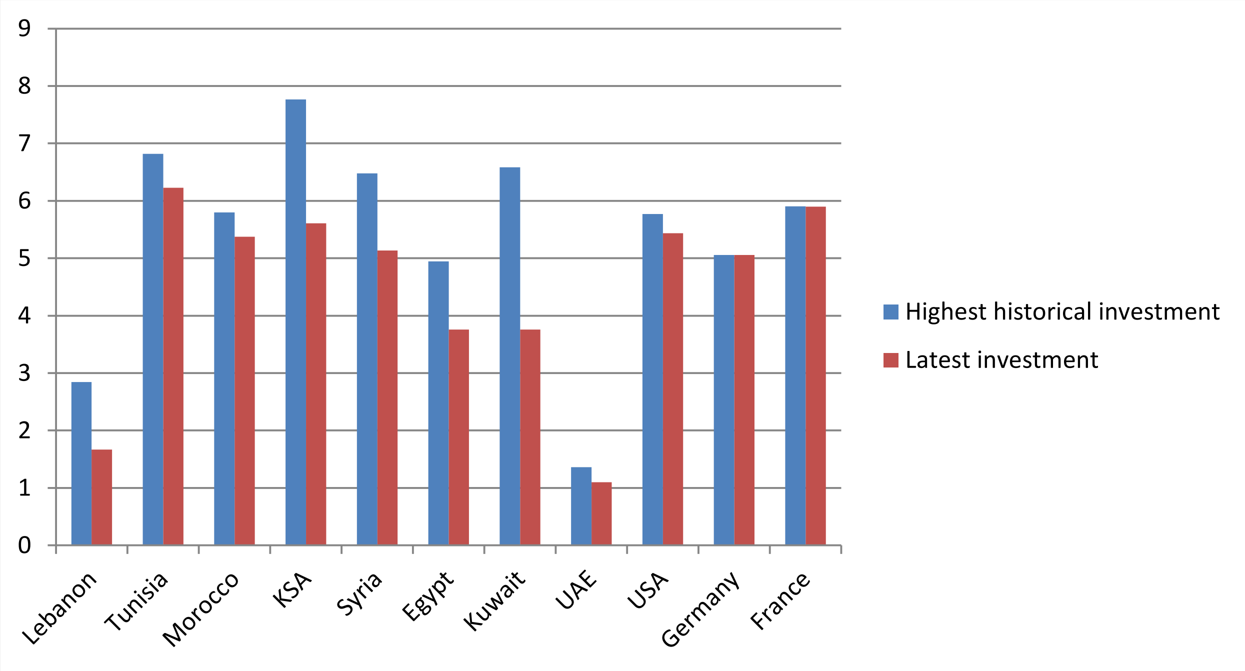
Figure 1: Skills mismatch, over- and under-education in selected economies



Source: ILO, KILM 8th edition.

Besides, the educational system in most MENA regions is characterized by significant inequalities that worsen the skills mismatch further. Students coming from a disadvantaged background have less chance to complete their primary education. They also have a lower probability to enrol in private schools and have access to better quality of education. Therefore, this will restrict them from accessing university because of the limited learning outcomes they faced due to their socioeconomic backgrounds. This inequality is aggravated by the rapid decline of public investment in education that is not always met with corresponding private increases (see **Figure 2**). The problem in the supply side in MENA region is considered to be part of the youth unemployment.

Figure 2: Public investment in education in MENA countries

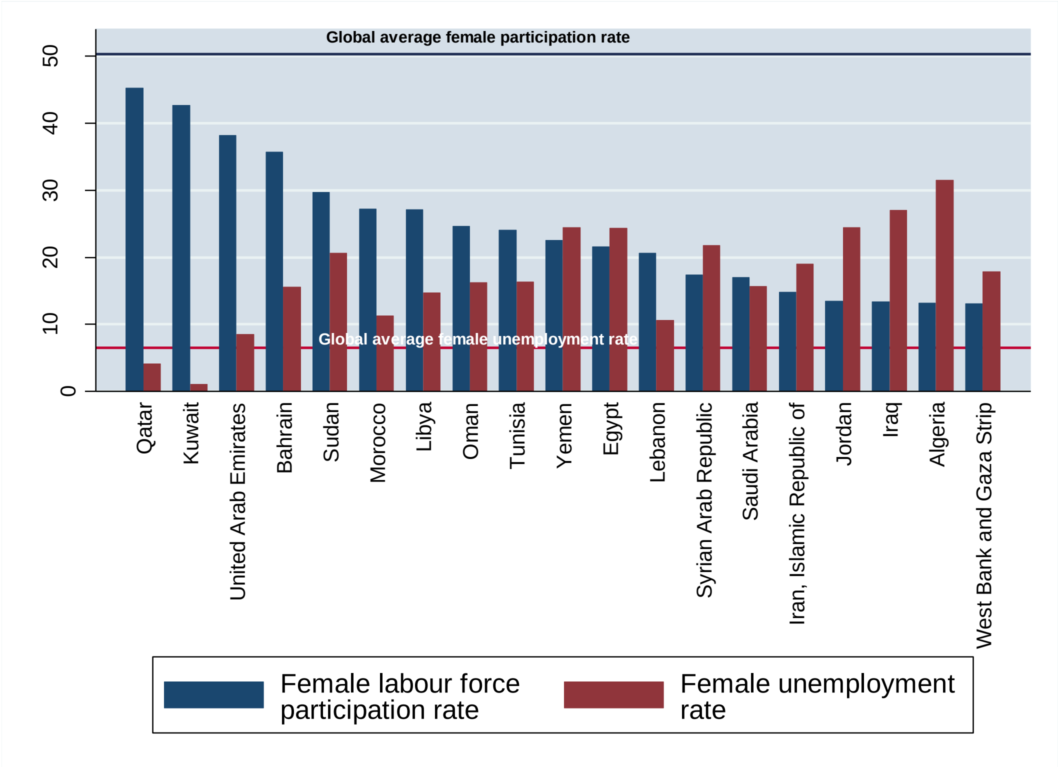


Notes: In per cent of GDP
Source: World Bank, World Development Indicators, 2013

The unequal distribution and – on average – inadequate level of skills reduces the returns to education for a large share of educated people and prevents the region from benefiting from the large overall investment they undertake in education. At the same time, the fact that only few possess the right skills required by local businesses creates substantial wage premiums that are earned, for instance, by international return migrant in Egypt who are often perceived as being more adequately educated (see Özden and Schiff, 2007). As a result, the private sector lacks access to affordable and adequately qualified people to expand and compete at a relatively high level of earnings, at least when compared with their main competitors from other emerging regions.

Women are the other major group that faces particular challenges on the labour market in the MENA region. Female unemployment rates are high, and the gender unemployment gap is large. Their labour market participation rates are the lowest of all regions, reaching barely 25 per cent in North Africa and not even 20 per cent in the Middle East. Nevertheless, an increasing share of the female population has now attained tertiary education skill levels but remains so far underutilized. Taken together high unemployment and low participation rates leave a large employment gap and a huge catch-up potential should more women decide to enter the labour market (**Figure 3**).

Figure 3: Female participation and unemployment rates in MENA countries



Source: ILO, Trends Econometric Models, October 2013

Expanding employment opportunities for both young people and women could contribute significantly to an increase in GDP per capita and help larger parts of the population to benefit from wealth generated in these countries. Maintaining youth unemployment rates at current levels – rather than seeing them increase further over the next few years – would only have a moderate impact on GDP per capita levels (around 0.3%) and still lead to a further reduction in the overall number of jobs. In contrast, reducing youth unemployment rates by half or – more significantly – bringing employment-to-population rates closer to the global average would have much stronger implications for overall employment creation and expand per-capita income levels substantially. In particular raising the employment rate of both young workers and women to the global average would increase employment by more than 58 million in the MENA region and could add more than 20 per cent on average to per-capita income levels.

Table 2: Jobs gap and contribution to GDP per capita in MENA countries (in '000)

	Jobs gap	ΔGDP per capita
Maintain youth unemployment at current levels	-580	+0.3%
Reduce youth unemployment rate by half	3'019	+1.1%
Increase EPR for women and youth to global average	58'202	+20.1%

Notes: The chart indicates the change in the absolute number of jobs and GDP per capita vis-à-vis current levels under different scenarios. The first scenario assumes a constant youth unemployment rate until 2018; the second scenario assumes that the youth unemployment rates falls by half in comparison to its 2013 rate; the last scenario assumes an increase of the employment-to-population rates for both youth and women to the global average.

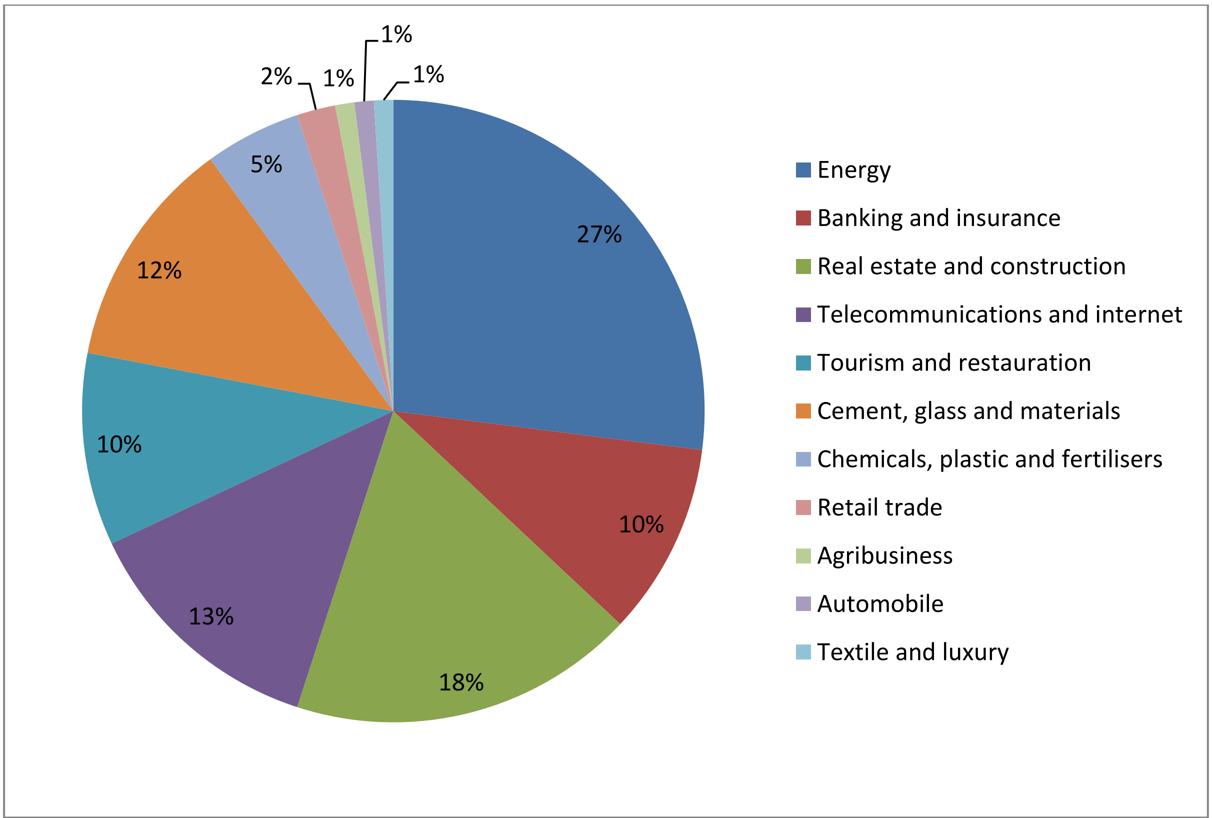
Source: ILO, Trends Econometrics Models, October 2013; own calculations

Making foreign direct investment beneficial for job creation

The MENA region benefits from a substantial and growing inflow of foreign direct investment. In principle, such investment should have provided ample support for stronger growth and employment creation, both directly and indirectly by spurring structural transformation and sectoral reallocation of jobs into high-value added industries. So far, however, there is little evidence of long-term beneficial evidence for foreign direct investment to have led to such changes in the region. This section discusses some of the recent trends and the reasons for the limited effects FDI had on employment creation in the region.

Foreign direct investment into the MENA region has increased substantially over the past two decades (from 0.6% of GDP in 1990 to 12% of GDP in 2000). However, these FDI inflows had been directed only to a few sectors, such as construction, telecommunication and mining while neglecting the manufacturing and agriculture sector (**Figure 4**). In addition, high technological services sectors have received very little FDI inflows, limiting positive spillovers on productivity growth in the region. Moreover, FDI inflows have been highly concentrated in resource-rich countries with Saudi Arabia receiving the lion share of the inflows (44%; IMF, data). More importantly, with the onset of the Arab Spring and the rise of social protest that affected the political stability in the region, FDI inflows to the MENA region have declined by 13%, in particular in Egypt and Tunisia.[1] So far, FDI in the MENA region had not a similar broad-based effect on economic development as in Eastern Europe and Asia over the same period.

Figure 4: FDI inflows in the MENA region by sector, 2003-2010



Note: The countries included in this graph are: Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Palestinian Authority, Syria and Tunisia.

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[1] The General Authority for Investment and Free Zones in Egypt stated that FDI declined by 40% at the beginning of 2011. As well as, Tunisia who witnessed a 30% decline in FDI at the beginning of 2011.

Source: UNCTAD 2011

Despite the FDI inflows that the MENA region received, it still suffers from a long-term persistent structural unemployment. In principle, FDI inflows can promote employment creation through two channels:

- When FDI comes as green-field investment, new employment opportunities are generated immediately, especially if these investments are directed into labour intensive sectors such as agriculture, manufacturing, tourism, and wholesale and retail trade. This type of investment aims at offering new products or services, which typically come with new job opportunities. Therefore, green field investment is expected to have a positive impact on employment and to generate positive spillovers to the whole economy. Over the last five years, around 90 per cent of FDI was realized as green field operations in the MENA region.

- Alternatively, FDI can flow in through mergers and acquisitions that typically do not aim at creating new job vacancies. Sometimes and in the short term, they might even lead to job destruction. On the longer run, this type of investment is expected to increase productivity, which would enhance employment creation through sectoral reallocation of jobs.

Neither type of foreign investment had, however, so far a significant positive impact on employment in the region. To a large part, this can be explained by the very limited number of sectors that benefited from FDI inflows, mostly directed mostly to hydrocarbons sector which is considered to be more of a capital intensive sector. For instance, in Algeria and Tunisia 50% and 61% respectively of FDI inflows were oriented towards energy sectors. In Egypt, 45% of total FDI inflows were directed to petroleum sector. Not only are these sectors highly capital-intensive, they also open job opportunities only for a very limited number of occupations such as petroleum engineers that many MENA countries lack in a sufficient number and need to be imported. But even in non-oil exporting countries, FDI inflows often went into other capital-intensive sectors such as telecommunications, creating only few new openings, such as for instance in Tunisia and Morocco that received 35 per cent and 33 per cent of their FDI in this section during 2000 and 2007.

In addition, where investment went into labour-intensive sectors such as construction, the native population often benefited very little from new job openings that were quickly filled with migrants from countries outside the region. Indeed, in particular in the gulf countries, wage premia for natives are considered to be too high for them to find employment in low-wage, low-skill sectors (see also the discussion in ILO, 2013). Moreover, cultural barriers prevent in particular women to work in some of these industries that are often male-dominated.

For FDI to benefit more the labour market in the region, countries need to undertake substantial efforts to diversify the sectoral allocation of the inflows. This requires develop the necessary business environment for foreign investors to also put their money outside the traditional industries and, for instance, create opportunities in high-skilled services or the manufacturing industry. Often, large market entry barriers, a low level of perceived governance quality and a lack in proper infrastructure create substantial hurdles for foreign investors to open new markets. Also, in some countries in the region there seems to be a first-mover bias whereas substantial protection from further competition is granted for the first investor in any particular sector, thereby limiting the possibility for a much broader positive employment effect of FDI.

Sub-Saharan Africa

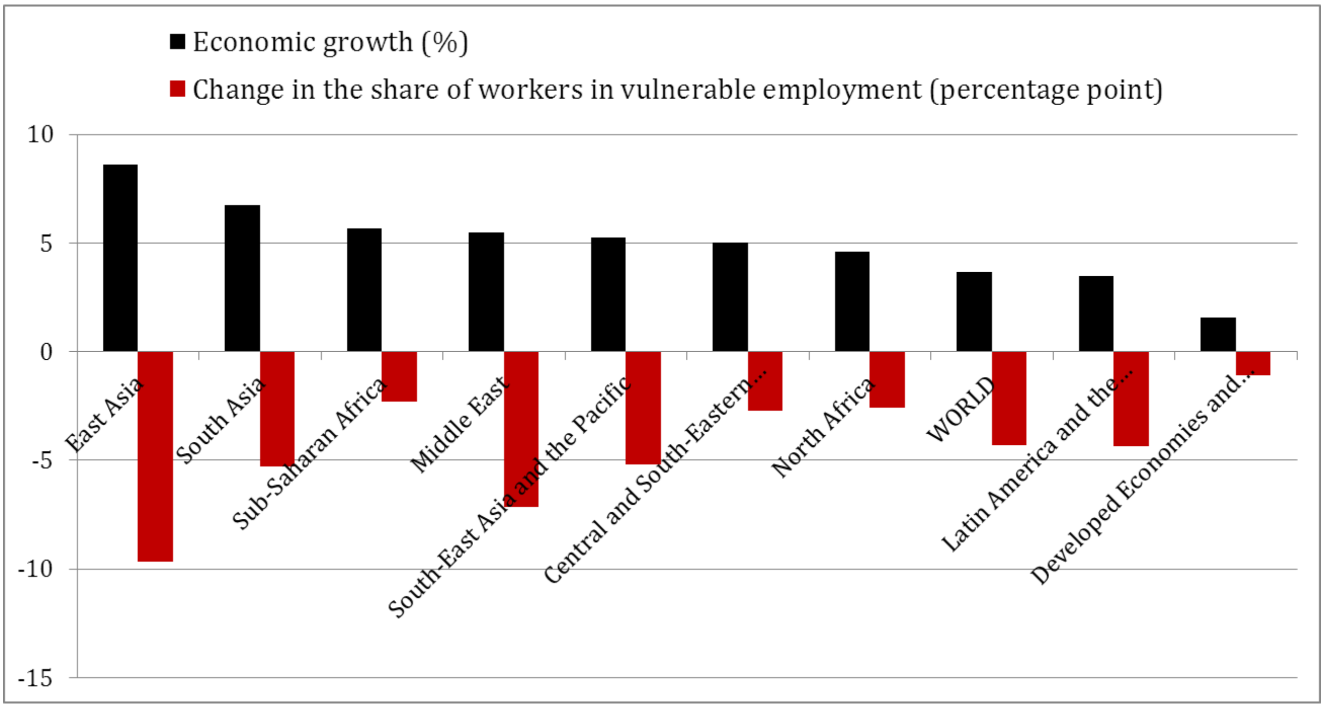
Economic growth has remained solid

Economic growth has continued to be solid in Sub-Saharan Africa. GDP year-on-year growth is estimated at 4.8 per cent in 2013, which is slightly below the growth rates seen in recent years, but still the third fastest regional growth rate after East Asia and South-East Asia and the Pacific (see Annex 1, Table A1). Growth in Sub-Saharan Africa is also high in comparison with the 1990s. From 1991 to 2000, regional economic growth averaged 2.3 per cent annually, compared to an average of 5.7 per cent during 2001-12. In 2013, more than half of the countries in Sub-Saharan Africa are estimated to have realized economic growth rates of at least 5 per cent, and only in two countries is growth likely to have been negative (Central African Republic and Equatorial Guinea). Furthermore, the current economic outlook suggests that regional growth rates of at least five per cent are sustainable, provided that global economic conditions do not weaken exports or reduce inflows of investment and aid (IMF, 2013). Both investment and aid are important, as different groups of countries tend to benefit from these financial flows. Official Development Assistance constitutes most of external inflows in low-income countries, while middle income countries rely more on remittances, portfolio inflows and foreign direct investment (AfDB, 2013).

High rates of economic growth are likely to have contributed to an improvement in some labour market indicators. Ghana, for example, realized an average annual economic growth rate of 6.8 per cent during 2001-12 (4.5 per cent during 1991-2000), and was classified as a lower middle income economy by the World Bank in 2010. Data from the population censuses in this country indicate that the unemployment rate more than halved from 2000 to 2010 (from 10.4 to 4.2 per cent), while data from the Ghana Living Standard Surveys show a declining share of workers in vulnerable employment (which covers own-account work and contributing family work). The vulnerable employment rate decreased from more than 80 per cent in the 1990s to 75 per cent in 2006 (Sparreboom and Baah-Boateng, 2011). In a similar vein, the average unemployment rate in Sub-Saharan Africa as a whole during the period 2001-12 is estimated to be half a percentage point below the rate during 1991-2000 (7.9 and 8.4 per cent, respectively). Comparing these two periods, the average regional youth unemployment rate decreased by almost a percentage point from 13.4 per cent to 12.3 per cent.

Nevertheless, according to data from the Ghana Population Census, more than three quarters of the employed remained in vulnerable employment in 2010 (ILO, 2013b), which points to the lack of economic and labour market transformation in Ghana. Again, there is similarity with the development of Sub-Saharan Africa as a whole, as the regional vulnerable employment rate decreased by only 2.3 percentage points from 2001 to 2012. The performance on this indicator is very weak, and in fact all developing regions show a larger decrease in the vulnerable employment rate, in most cases despite lower rates of economic growth than were experienced in Sub-Saharan Africa. In Latin America and the Caribbean, for example, economic growth averaged 3.5 per cent during 2001-12, while the vulnerable employment rate decreased by 4.4 percentage points in this period (**Figure 5**).

Figure 5: Economic growth and vulnerable employment, by region, 2001-12



Source: ILO, Trends Econometric Models, October 2013; IMF, World Economic Outlook, October 2013.

Table 3: Labour market situation and outlook in Sub-Saharan Africa

		2009	2010	2011	2012	2013*	2014p	2015p	2016p	2017p	2018p
Labour force participation rate (%)	Total	70.4	70.4	70.5	70.6	70.8	70.9	71.0	71.1	71.2	71.2
	Adult male	87.4	87.4	87.4	87.4	87.5	87.6	87.7	87.7	87.8	87.9
	Adult female	71.4	71.4	71.6	71.7	71.8	71.9	72.1	72.2	72.3	72.4
	Youth	54.2	54.1	54.1	54.2	54.3	54.3	54.4	54.4	54.4	54.3
Unemployment rate (%)	Total	7.7	7.6	7.6	7.6	7.6	7.6	7.5	7.5	7.5	7.5
	Male	7.1	7.0	6.9	6.9	6.9	6.9	6.8	6.8	6.8	6.7
	Female	8.4	8.3	8.4	8.3	8.4	8.4	8.4	8.3	8.3	8.3
	Youth	12.1	12.0	11.9	11.9	11.9	11.8	11.7	11.7	11.7	11.7
	Adult	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Employment growth (% p.a.)	Total	2.8	2.9	3.0	3.1	3.1	3.1	3.1	3.1	3.1	3.1
	Male	2.7	2.9	3.1	3.1	3.1	3.2	3.2	3.1	3.1	3.1
	Female	2.9	2.9	2.9	3.1	3.0	3.1	3.1	3.0	3.0	3.0
	Youth	2.1	2.4	2.7	2.7	2.7	2.8	2.8	2.7	2.7	2.7
	Adult	3.0	3.1	3.1	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Memorandum item:											
GDP annual growth rate (%)		2.6	5.6	5.5	5.2	4.8	5.7	5.7	5.6	5.5	5.7

*2013 are preliminary estimates; 2014p-2018p are projections.
Source: ILO Trends Econometric Models, October 2013 (see Annex 4 and 5); IMF, World Economic Outlook, October 2013.

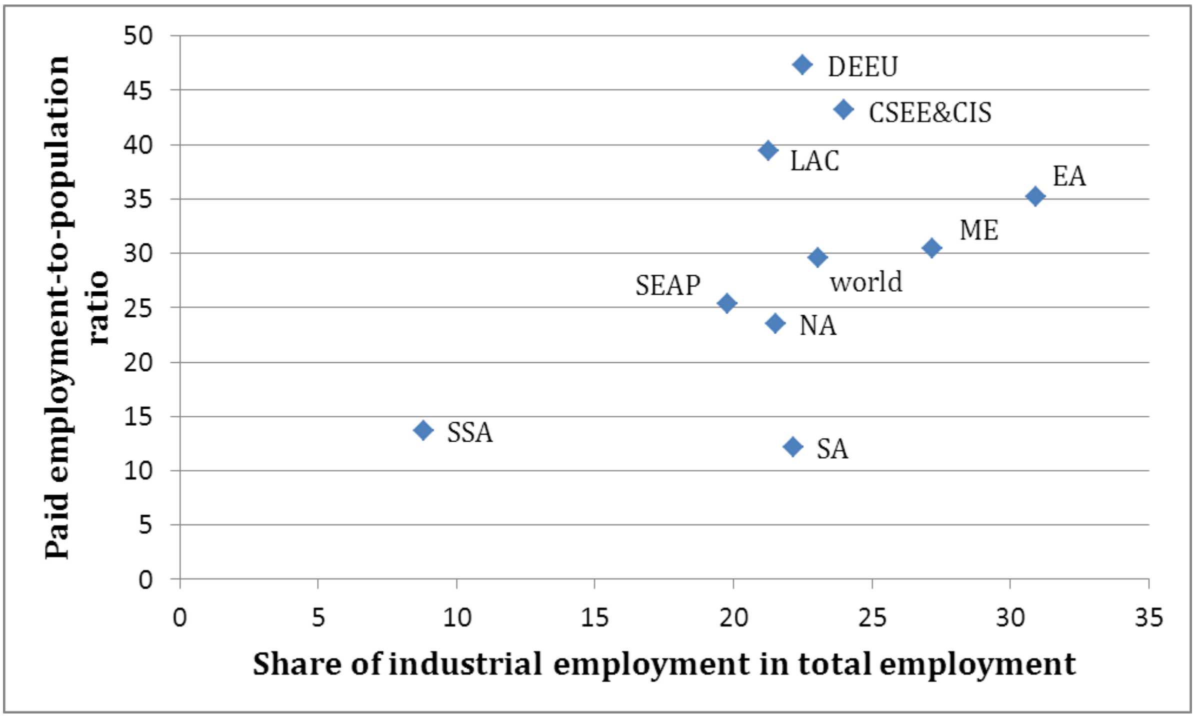
The vulnerable employment rate in Sub-Saharan Africa is estimated at 77.4 per cent in 2013, which is the highest rate of all regions. Given that paid employment opportunities (the complement of vulnerable employment) in the region are scarce, it is hardly surprising that a very high proportion of the population is in the labour force. The labour force participation rate across all labour market groups is estimated at 70.8 per cent in 2013, and sub-Saharan Africa is the only region in which the male adult labour force participation rate is projected to rise in 2014 and 2015 (**Table 3**).

In many developing economies, the manufacturing sector has served as an engine of paid employment creation, but by and large this has not happened in Sub-Saharan Africa. The industrial sector in Ghana, for example, mostly represents mining and construction, while manufacturing has been declining as a share of GDP in the last two decades (AfDB, 2013). At the regional level, the share of industry in GDP slightly decreased in Sub-Saharan Africa from 30.7 per cent in 1991 to 29.7 per cent in 2011, but the share of manufacturing decreased by around a third in this period, from 16.7 to 11.1 per cent (World Bank, 2013). In terms of employment, the share of workers in industry in Sub-Saharan Africa, which is estimated at less than 10 per cent, is extremely low. In all regions this share is at least 20 per cent, and in the case of East Asia it is exceeding 30 per cent (**Figure 6**).

Similarly, the proportion of the working-age population in paid employment is low in Sub-Saharan Africa (13.7 per cent), and figure 2 suggests that the paid employment-to-population ratio tends to increase if the share of employment in industry rises. In other words, industrialization can be a powerful force to generate paid employment. At first sight, the position of South Asia seems not to fit in the pattern, as the paid employment-to-population ratio is at a similarly low level as in Sub-Saharan Africa but in South Asia a much larger share of workers is in industrial employment. However, the share of workers in industrial employment in South Asia may appear relatively large due to the low female participation in labour markets as female employment is typically concentrated in services sectors. Hence, given that in all regions the share of male industrial employment in total male employment is higher than the commensurate female share, low female participation tends to inflate the share of industry in total employment. Another factor influencing the relationship depicted in **Figure 6** is the role of self-employment or informal employment in industry, which seems to be more important in South Asia than in Sub-Saharan Africa.[2]

[2] Ideally, **Figure 6** would show the share of paid industrial employment in total paid employment, but such data are not available at the regional level.

Figure 6: Paid employment and employment in industry across regions, 2012 (%)



Note: CSEE&CIS: Central and South-Eastern Europe (non-EU) and CIS; DEEU: Developed Economies and European Union; EA: East Asia; LAC: Latin America and the Caribbean; ME: Middle East; NA: North Africa; SA: South Asia; SEAP: South-East Asia and the Pacific; SSA: Sub-Saharan Africa

Source: ILO, Trends Econometric Models, October 2013.

The challenge of creating gainful employment opportunities and the related need for economic and labour market transformation has been recognized by African policymakers. Regional consultations on the post-2015 development agenda recently resulted in the formulation of four desirable development outcomes in Africa, the first of which is structural transformation and inclusive growth (UNECA, 2013).[3] The African Economic Outlook (AEO) 2013 argues that a four-layer approach could help transform African economies, in particular through the better utilization of their natural resources. According to this approach, the first layer consists of putting in place the right conditions for structural transformation. This includes basic requirements such as infrastructure and education to strengthen skills, but also sufficiently large and competitive markets. The second layer is constituted by meeting the specific requirements of the primary sectors to fuel transformation, which includes for example good land management and resource-specific skills and research. The third layer is concerned with optimising the revenue from natural resources and investing it wisely, while layer four is about promoting structural transformation with active policies. Such policies should focus on increasing agricultural productivity and building linkages to and from the extractive industries (AfDB, 2013).

For successful structural and labour market transformation, the African workforce needs to be properly prepared as identified by the first layer in the AEO. Impressive strides have been made in expanding access to primary education in Sub-Saharan Africa, and net enrolment rate increased from 60 per cent in 2000 to 77 per cent in 2011. Nevertheless, on current trends the region is unlikely to meet the target of universal primary education by 2015 (UN, 2013). Over

[3] The other three are innovation and technology transfer; human development; and financing and partnerships.

time, low enrolment rates in primary education translate into low levels of educational attainment of the labour force. In some middle-income countries in Sub-Saharan Africa, workers with a secondary education may account for around a quarter of the workforce. In Botswana, for example, 26 per cent of workers had a secondary education in 2006, while in Namibia 23 per cent of workers had achieved this level in 2012. However, these proportions are often much lower in in low-income countries. For example, in Madagascar, the share of the labour force with secondary education was 15 per cent in 2005 (ILO, 2013b), while in Malawi the share of employed youth with secondary education reached the same percentage in 2012 (ILO, 2013a).

Low levels of educational attainment result in widespread underqualification, which reduces the potential for economic and labour market transformation. Data from school-to-work transition surveys in Malawi and Togo show that 82 and 55 per cent of employed youth were underqualified in 2012, respectively (ILO, 2013a). As levels of educational attainment are typically much higher in paid employment than in self-employment and informal employment, low levels of educational attainment may also hamper formalization of jobs. In Ghana, for example, 36 per cent of workers in the private formal economy had obtained a secondary educational qualification in 2006, rising to 69 per cent in the public sector, while this was true for less than 7 per cent of workers in the informal economy (Sparreboom and Baah-Boateng, 2011). In Tanzania, more than 27 per cent of workers in paid employment had at least a secondary educational qualification in 2006, compared with less than 3 per cent of own-account workers and contributing family workers (Sparreboom and Nübler, 2013).

Low levels of educational attainment, widespread underqualification, a young and rapidly growing population and labour force, in combination with few opportunities for paid employment in Sub-Saharan Africa underline the need for increased social spending in the region. In most African countries, only 4–6 per cent of GDP is spent on social security benefits, and average expenditure in Sub-Saharan Africa is the lowest of all regions (ILO, 2010). At the same time, household poverty is the single most important factor keeping children out of school. Although some progress has been made in reducing the proportion of people living in poverty in Sub-Saharan Africa, the region has seen a steady rise in the absolute number of extremely poor people (UN, 2013). Social protection policies help to reduce poverty, and to strengthen the foundation for future inclusive growth. Social protection has also been demonstrated to improve educational outcomes, build labour market skills, and in this way can contribute to inclusive economic growth (World Bank, 2012).