INCLUDE

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We need SMEs in the middle for job creation in Africa

Key messages from INCLUDE's 'Productive Employment' roundtable

Hopes are high that the private sector will take the lead in tackling unemployment in Sub-Saharan Africa. Yet, such confidence should not negate state responsibility for employment creation. National governments have a key role to play in making job creation *inclusive*. This implies lifting the constraints that especially young and female entrepreneurs face, creating a stable business environment, and promoting links to the local economy so that (international) businesses and entrepreneurs can innovate, invest and grow and, hence, create jobs.

This was the main message from INCLUDE's roundtable discussion on 'Productive Employment', hosted by the Dutch Ministry of Foreign Affairs on 15 December 2016. During separate breakout sessions, participants discussed the employment potential of key economic sectors: agriculture, industry & manufacturing, infrastructure & construction, and services & ICT. This was followed by a plenary and interactive discussion on how entrepreneurs, particularly female entrepreneurs, can be supported to expand their businesses and create jobs.

The key messages that emerged from the meeting are as follows:

- Job creation should be the **top priority** in national development plans. Employment programmes need to be positioned in **key ministries** and properly **coordinated**.
- Although the private sector in the end creates job opportunities, **national governments are responsible for guaranteeing a business environment** that allows entrepreneurs to grow and hire employees. Partnerships between governments and the private sector are key to overcoming governance challenges and conflicts of interests.
- Rather than a sector-based approach, national employment strategies should **recognize the heterogeneity and interdependence of different sectors**. Investments in a certain sector (e.g. ICT) have the potential to spill over to other sectors, thereby having a multiplier effect on employment.
- The organization of small-scale farmers is key to successful value chain integration; however, **farmers are a heterogeneous group and should be provided with choices as to how they are organized, contracted and trained**.
- Public and private **investment projects** (e.g. in industry and infrastructure) should be **embedded in the local economy**.
- Development plans should be focused on **lifting the constraints that informal workers face** and on making sure that they **benefit from being regulated and/or formalized**.
- Women require specific attention in employment programmes; government policy should be particularly geared towards **supporting women's organizations**.

Creating jobs in agricultural value chains

In the discussion on the agricultural sector, there was a strong consensus among participants that, in order to enhance their livelihoods, small-scale farmers need to be integrated into international, regional or local value chains. Such integration can increase farmers' income and has a multiplier effect on employment creation in the agricultural services sector (processing, packaging, transport and logistics). Yet, to facilitate such integration and for this to be truly in the interests of small-scale farmers, they need to be organized, for example, into cooperatives or partnerships. When farmers are organized, their dependence on middlemen is decreased and their bargaining power enhanced. Cooperatives or partnerships can also provide market information, market access, and certification, as well as training facilities.

Yet, according to the participants, it matters how farmers are organized. INCLUDE platform member Nicholas Awortwi stressed that it is important to think about who is organizing the farmers and what their incentive is to get things right. When done by the *private sector*, the interests of farmers and private sector actors might be asymmetrical. This was endorsed by Remco Oostendorp, a researcher in the INCLUDE research project 'Productive Employment in Segmented Markets', who stressed that Kenyan avocado farmers in contractual arrangements may be offered lower prices in their fixed contracts than that they could get on the local market. When done by the *government*, there is usually a lack of involvement of the private sector. In addition, when farmers are organized bottom-up, they usually end up in a weak bargaining position.

In particular, participants stressed the need for farmers to have a choice in how they are contracted and organized. Farmers are heterogeneous in their needs and, hence, the key challenge is to find a suitable organizational form. In Ghana, the INCLUDE research group 'Agricultural Partnerships' is experimenting with fixed and learning approaches to partnerships and farmers' organisations. Research coordinator Annemarie van Paassen found that innovation platforms are a means of empowering farmers by providing skills-training as well as information about market prices, regulations and certification. According to INCLUDE platform member Josine Stremmelaar, HIVOS is experimenting with alternative organizational forms, so-called 'productive landscapes', which are shaped by the diverging nature of the value chain and farmers' needs.

Lack of land and financial access is a crucial impediment for farmers who wish to expand their businesses, especially young and female farmers. Participants warned that although farms may become more productive by lifting these constraints, this does not necessarily mean that additional agricultural jobs are created. Employment effects are particularly expected along the value chain, in agricultural services and logistics.

Local production to boost industrial sector development

The importance of cross-sector linkages in the economy, notably between the industrial sector and the agricultural sector, was highlighted in the discussion on industrial sector development. INCLUDE platform member Rolph van der Hoeven pointed to the global tendency towards protectionism and questioned whether Africa should follow with this trend. Support for protectionism is fuelled by the need for African governments to get their balance of payments back into the black by enhancing exports and reducing imports. In order to do so, African countries may focus on local/regional production first before buying products on international markets. An example is provided in a study on Tanzania by Mujinja et al. (2014), which found that the local production of medicine not only reduced imports, but also enhanced the distribution of medicines into rural areas.

Given its comparative advantages, Africa has a window of opportunity when it comes to the international market. China, for example, is outsourcing economic activities as Chinese wages are rising. An example is the Chinese shoe factory Huajian in Ethiopia, which exports shoes for brands such as Guess and Calvin Klein, providing over 3,500 jobs. Yet, if African countries want to export their industrial outputs, these need to meet the quality standards of the global economy, which requires a long-term strategy. Participants questioned whether there is sufficient political will to make this happen, as job creation is often secondary to revenue generation when investment decisions are made. Also, as INCLUDE platform member Ton Dietz stressed, in order for industrial sector development in Africa to be inclusive, there needs to be a level playing field between Africa and Europe.

Job creation through construction and infrastructural investments

Over the past two decades, large investment flows have been directed towards infrastructure development in Africa. Yet, the impact of such investments on long-term productive employment is lagging. When it comes to more high-skilled jobs in infrastructure and construction (for example, in architecture and engineering), project developers usually hire foreign employees. Conversely, direct local employment in construction is often low-skilled, temporary and below labour standards. Moreover, as demonstrated by the INCLUDE research group 'Feeder Road Development' in Ethiopia, although local skills for feeder road development were developed, it remains unclear how such skills can be transferred to other projects. Hence, for construction investments to have an impact on long-term *local* employment creation, local human capital needs to be enhanced.

This implies that rather than short-term investment projects by foreign investors, infrastructural and construction investments need to become part of the long-term development plans of national governments. Moreover, as the indirect benefits of construction and infrastructure have not yet been fully tapped, it is important to include the local population in the planning process to see how infrastructural and construction projects can best meet their long-term needs and to think about how such projects are used. For example, as stressed by Crelis Rammelt, researcher for INCLUDE's research group 'Feeder Road Development', although roads provide access to markets, building a road does not by itself reduce inequality. A road does not necessarily lift other constraints that people, especially women, have to overcome in order to benefit from increased market access. This means that development plans need additional interventions geared towards facilitating transportation and financial inclusion to be inclusive.

Africa's promising services sector

In many African countries, labour has been moving from agriculture to services over the last few decades. Although applauded as Africa's comparative advantage, the bulk of jobs in services remain low skilled and informal. Yet, participants stressed that the term 'informal' is confusing. Most informal entrepreneurs are somehow paying taxes and are registered, but they are oppressed in their operation. The organization of such informal entrepreneurs is essential in order for them to lift the constraints they face and demand accountability for the taxes they pay.

Participants warned against an overly-pessimistic image of the services sector, which might obscure its potential. The sector is highly heterogeneous and new opportunities are arising. For example, privatized government services are offering new formal job opportunities, such as in water provision, electricity and health care. In addition, the creative sector in Africa is booming. In Nigeria, for example, the entertainment industry is the second largest provider of both direct and indirect jobs.

Hopes were high for Africa's ICT-sector to generate direct employment opportunities. However, till now, it has not generated reliable incomes. A lot of employment in ICT is temporary and there is a huge divide between poor and rich ICT-entrepreneurs. As stressed by Harry Barkema, project leader of the INCLUDE research project 'The IT sector in Kenya', governments have an important role to play here. By pointing to the Kenyan example, he stressed that governments should digitize their services, facilitate big companies such as Google to stay in the country, and promote ICT through public procurement policies.

Nevertheless, the highest potential of ICT lies in the indirect provision of jobs, by enhancing efficiency in other sectors of the economy (e.g. agriculture and manufacturing). Setting up innovation centres, so-called incubators, is highly effective, especially when they provide different training programmes for different target groups. Such training programmes have the highest potential when they combine IT training with entrepreneurship training. Collaboration with corporate employers is essential when designing training programmes; when curricula also include skills that are relevant for the corporate world, the training will more broadly promote employment opportunities.

Despite this potential, participants also expressed concern that ICT-development, (i.e. automation) can lead to job losses. Moreover, when large parts of the population (such as illiterate rural women) are excluded from ICT-services, the digital divide may exacerbate existing inequalities.

From survivor entrepreneurs to job creators

For investments to have a multiplier employment effect it is crucial that national governments create a business environment in which SMEs can expand. This starts with the recognition that there are two types of entrepreneurs: those who have a business in order to survive but are unable to successfully expand their businesses and SMEs that have the potential to grow and create jobs. Both types of entrepreneurs have different needs and should be targeted accordingly.

Given the many survival entrepreneurs, participants discussed whether large-scale wage employment would be more beneficial. However, a study by Dercon and Blattman (2016) shows that low-skilled manufacturing jobs may not be the preferred option for the middle- and highly-educated unemployed, who generally use such jobs as a springboard to start their own business.

The challenge is to identify and support high-potential entrepreneurs, the so-called 'missing middle', who have the potential to grow and create decent jobs, both low- and high-skilled. Three interrelated elements were identified as necessary for dynamic entrepreneurs to become job creators.

First, a balanced set of skills is essential to innovate and become a successful entrepreneur. Doing business successfully requires knowledge about how to run a business, about national and international trade regulations, as well as soft skills such as confidence, resilience and perseverance. Yet, while not negating the importance of training and innovation, INCLUDE platform member Paschal Mihyo, warned against what he called 'traininggitus', and stressed that skills training should be effectively targeted and based on what people really need.

Second, access to finance, including informal finance, is important to expand businesses and, hence, for employment creation. Moreover, participants stressed that interventions that combine financial inclusion, skills training and mentoring are most effective. Lack of money is not always the problem. Often sufficient money is available, but investors find it hard to identify suitable businesses and entrepreneurs. In these cases, matchmaking between funders and profitable businesses is essential. As demonstrated by the INCLUDE research project on 'The IT Sector in Kenya', incubators, partnerships and community-based organizations (CBOs) play an important role in building trust and skills and serve as space where entrepreneurs can be linked to investors.

Finally, for entrepreneurs to innovate, invest and grow, a stable regulatory business environment is essential, also for entrepreneurs whose businesses are not fully formalized. INCLUDE platform member Paschal Mihyo cited the examples of Kenya and Mauritius, which are both experimenting with easing business regulations. Kenya has launched so-called 'one-stop-shops', where entrepreneurs can get information and be registered. The country is also experimenting with online applications for business licences. Mauritius has established a flat tax rate, which has reduced corruption and bureaucratization and makes doing business more transparent and inclusive.

Boosting female entrepreneurship

From a range of accounts and studies, it is clear that female and male entrepreneurs are different. As stressed by roundtable participant Arjan de Haan, female entrepreneurs often face a double burden: the constraints of the African entrepreneurial environment (which are applicable to all entrepreneurs), as well as constraints with respect to their position within their family and society. For example, if women do not have enough time for their business because they have to take care of their families, financial support and training will not help. Thus, because the constraints that women face are mixed (cultural, financial, skills-wise), only comprehensive solutions will have an impact (multi-dimensional approaches).

As emphasized by INCLUDE platform member Sarah Ssewanyana, in Uganda, it is essential to help women move from the informal to the formal sector so that they can access credit. However, for women to grow their businesses successfully, women also need support from their families, so that they can concentrate on their business, as well as from their peers, through peer-learning events.

As stressed by Betty Bwanika, research member of the INCLUDE research project 'Empowering Female Ugandan Entrepreneurs', successfully supporting female entrepreneurs implies identifying *who* they are, *why* they started, and *what* they need. Similar entrepreneurs can be clustered together, so that they can learn from one another and be supported and trained together. In doing so, it is important that training schemes should bear in mind the differences between male and female entrepreneurs: while men tend to innovate in terms of technology, women tend to innovate in terms of marketing. Grassroots women's organizations are key to this process and essential strategic actors for women's economic empowerment. The constraints and needs of women can be understood much more effectively and completely by communicating directly with these organizations.

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