Private Sector Development Interventions and Better-quality Job Creation for Youth in Africa

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5 February 2020

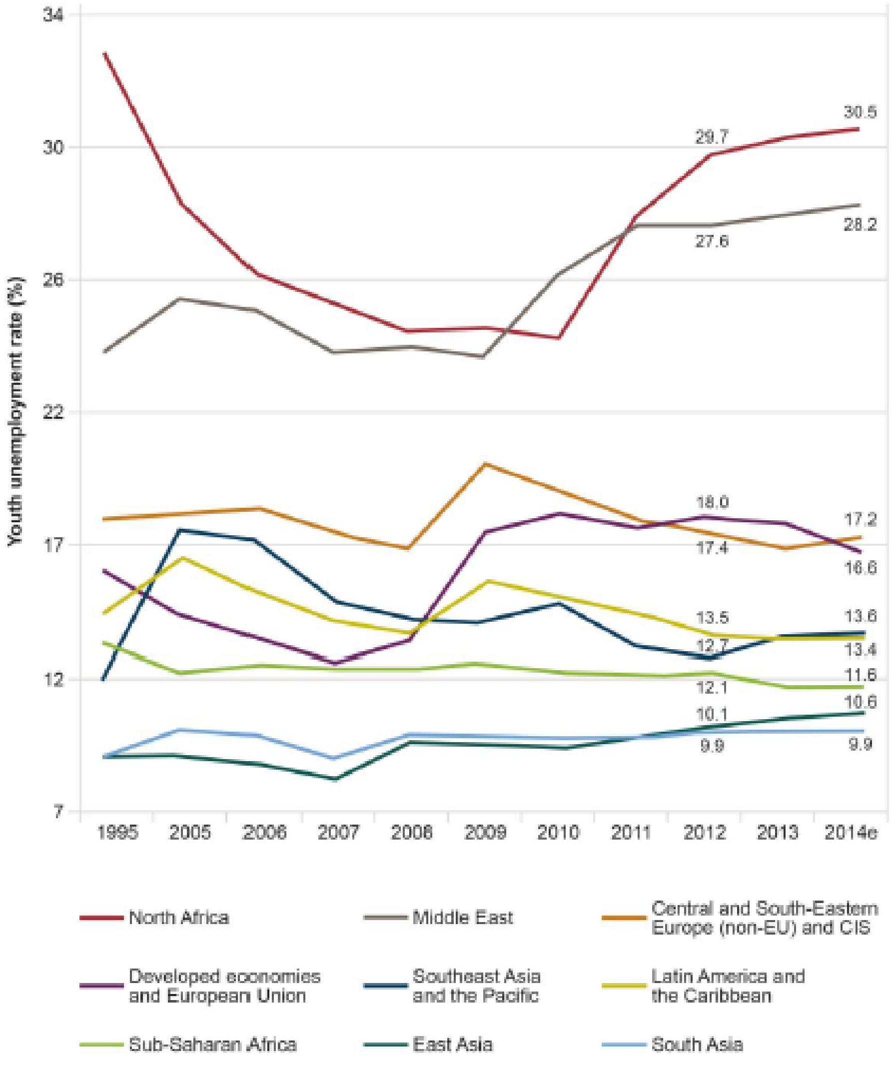
Structure of presentation

1. Some employment data explained
2. Research question and methodology for paper
3. Explaining the focus on private sector development interventions
4. What did we find
5. Conclusions and recommendations

Some data on youth unemployment

Youth unemployment rates around the world (15-24)

Source: Flynn et al. 2017: 10



Note: e = estimate.
Source: Adapted from ILO (2015a: 18).

On average, youth unemployment rates are <u>three times higher, globally</u>, than adult unemployment rates.

Source: ILO 2015

Some data on youth unemployment in Africa

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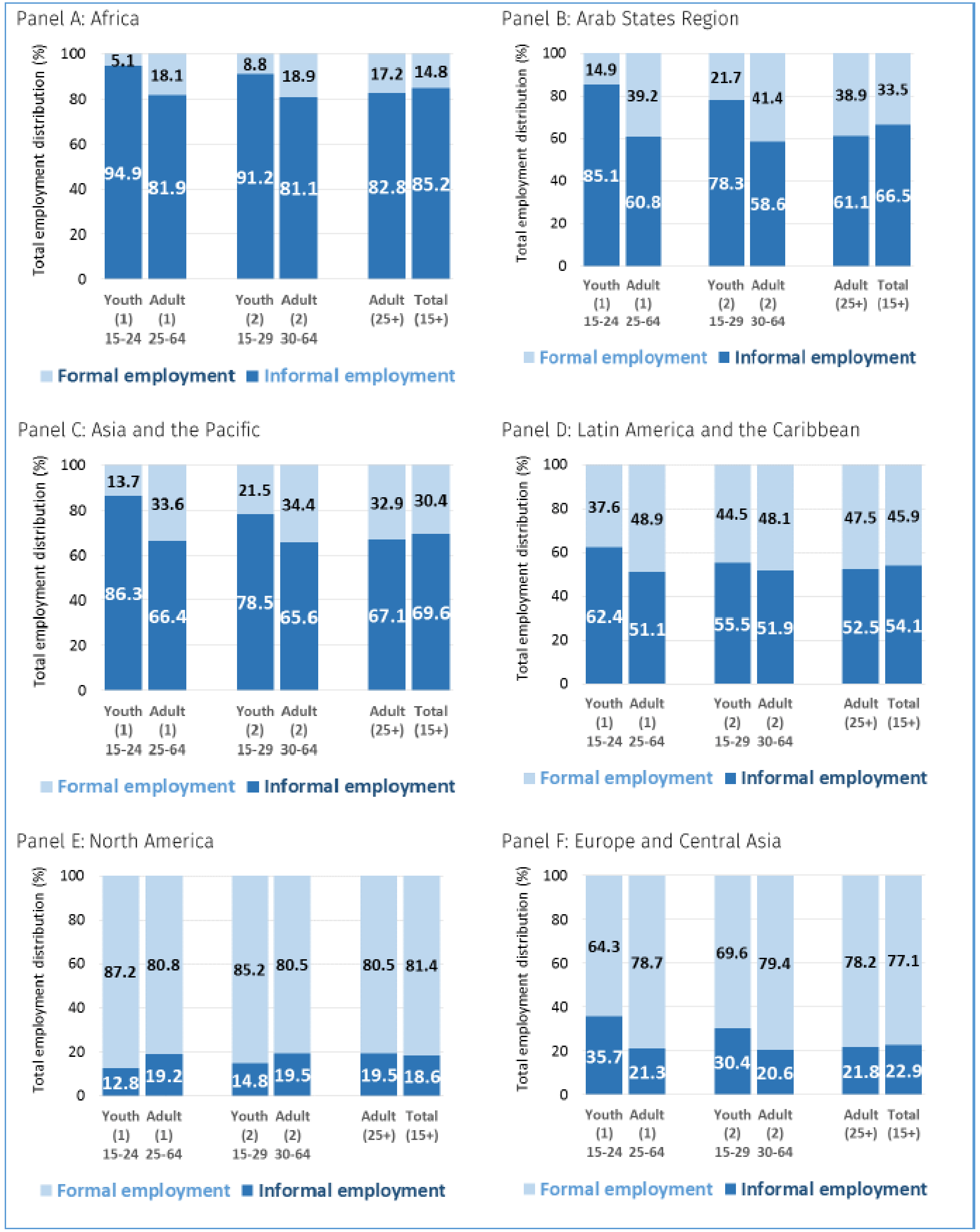
- In Africa, 10-12 million young people enter the labour market each year, but only 3.1 million new formal jobs are being created (AfDB, 2016).
- In sub-Saharan African countries (SSA) they rely on the informal sector for a job (85% of labour force – Fox & Thomas, 2016).
- This means that youth employment crisis in SSA is one of underemployment and less one of unemployment.
- This is in contrast with Northern Africa and Southern Africa’s middle-income countries, where youth unemployment rates are particular high.

Informal employment rates around the world

Source: Chacaltana et al. 2019: 19



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In all regions, except for North America and Europe/Central Asia, **more than half of people work in informal employment**.

In Africa, the Arab states and Asia and the Pacific, that number is **more than 80% for all 15-24 year olds**.

The question we set out to answer

How can donors and governments, through private sector development interventions, provide greater employment opportunities (in quality and quantity) for Africa's young people[1]?

[1]Young people: 15-35 years of age, following the AU definition.

Methodology

- Using existing and relevant IDS literature and IDS research results on youth employment and private sector development as a base.
- Search on academic databases for academic articles and Google Scholar and Google (for grey literature).
- Snowballing: sourcing references using the reference list from identified papers, articles, and reports.
- Inclusion criteria: Africa only, interventions targeted at enterprises and value chains, youth (15-35 years old), literature published after 2006.

Why PSD interventions?

- Private sector creates most jobs in the world (9 out of 10 jobs) (World Development Report 2013).
- This is also the case for Africa: private sector provides 90% of total employment opportunities – although majority in low productivity and in informal sector (Stampini et al. 2013).
- Labour market studies recognise that African youth employment problem suffers from demand-side constraints (lack of demand for labour) (Datta et al. 2018).
- The idea is that ‘demand side’ interventions could create more jobs, by addressing specific constraints or market failures to improve entry and growth of firms.

Why PSD interventions?

Productivity

- 85% of workers in SSA are involved in low productivity sectors of agriculture and household enterprises.
- Low productivity firms and sectors in Africa are one of the most important constraint for economic development (e.g. competitivity, attracting investment).
- Private sector development (PSD) interventions seek to increase firm performance and improve productivity.
- “Increasing productivity is at the centre stage for any strategy to increase the quality of employment (see Godfrey, 2005 and 2006)” (Bennell 2007: 6).

Type of PSD interventions

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- **Micro-level:** e.g. business advisory services, mentoring services, training, finance
- **Meso-level:** e.g. support specific sectors or value chains, for example, through clustering, business intermediary services
- **Macro-level:** e.g. Broader investment climate, i.e. the 'enabling environment', for example through trade deals and conditions, laws, infrastructure

What did we find?

Finance (micro-level)

- Tends to have positive effects on job creation, but typically more so for larger firms.
- Micro and small firms see better firm performances as a result of better access to finance, but no job creation.
- Exception seems to be high potential firms often selected through thorough selection mechanism.
- Higher sum of funding to small enterprises are more likely to create jobs than small amounts.
- Microfinance and inclusive finance programmes show no significant effects on employment, however, they mainly aim for income stabilisation (some improvement in self-employment).
- Collective loans are likely to have stronger effects on employment than individual ones.
- More need for finance on SMEs – the 'missing middle'.

What did we find?

Capacity building and training (micro-level)

- Again, tend to be more effective for larger firms; microenterprises often lack resources to hire additional employees – higher incomes rather than employment.
- There is evidence that training hastens the entry of firms that would enter anyway and have barely any impact on business survival (as effects do not last long).
- Intensive short training or substantially extended training programmes have best business outcomes with positive spill-overs on employment.
- Management and supervisory training programmes have positive effect on employee and manager work relations and worker productivity, which in long term can result in job creation.
- Effective in creating employment when paired with business services (e.g. mentoring, support to product design, financial support).

What did we find?

Value chain/sector interventions (meso-level)

- Most effective when targeting labour-intensive sectors (e.g. agriculture/agro-processing, light manufacturing), due to potential for increases in (labour) productivity. However, job quality remains low.
- Most effective when combined with enterprise development programmes and access to finance for smaller firms with potential to link forward or backward with lead firms in the value chain.
- Specific industrial/export production zones create new jobs, in particular low skill-intensive sectors (employ new entrants), where high skill-intensive sectors are more likely to reallocate existing workers.
- Most effective when local/producer organisations are involved (e.g. through collective actions regarding extra trainings, contracts, standards, certification).
- These interventions have potential for inclusion and exclusion. They attract in particular migrants from rural areas and women workers. However, evidence shows that any upgrading of such work increases entry of men, not women.

What did we find?

Enabling environment and investment climate (macro-level)

- Attracting FDI does not necessarily have positive spill-over effects on labour markets. Literature shows that in particular LICs do not have the absorption levels that are required to benefit from foreign investments, in particular if they receive tax holidays, compete with domestic firms and investment being crowded out.
- Large infrastructure projects are mostly designed in favour of large firms and evaluations focus on short term employment benefits in construction phase, but ignore the most crucial development/employment impact for specific sectors.
- When regulations and procedures are simplified and become more transparent, more wage jobs are created. Initiatives to support firms to comply with existing regulations have no employment effect as there is no change in overall business environment.
- Wage subsidies (for youth workers) are only effective once they are applied, but are not sustainable after removal. Though wage subsidies have more beneficial effects when paired with skills formation for youth.

What did we find?

Size of firms matters

- Investments in larger firms tend to have higher impacts in terms of numbers and quality of employment.
- Small firms may represent more potential, since they vastly outnumber large firms. However, they often fail to scale-up or have low survival rates – affecting sustainable employment creation.
- Current interventions targeting micro and small firms are often short-term, focussing mainly on trainings and microfinance services (often separated interventions) while left out from more expensive tailor-made interventions.

What did we find?

Sector dilemma! (Sectoral trade-off)

- Labour-intensive sectors tend to create the highest number of jobs (e.g. agriculture, manufacturing).
- Yet there is a trade-off where higher quality may be achieved in more capital-intensive sectors.
- Interventions on the meso and macro level tend to focus on export markets, while often ignoring shorter domestic and regional value chain development. Evidence from export markets indeed show that jobs can be created for youth, however, they are also very volatile due to international competition and changes in demand.

What did we find?

Formalisation…and job quality?

- Enforcement of laws and employee registration tends to be the type of intervention that ensures higher levels of formality.
- Formalisation only happens when positive trade-off exists between costs (e.g. taxes) and benefits (e.g. access to new markets).
- Impact on employment outcomes is initially small and depends on potential for upgrading and upscaling.
- New technology can push youth into formal sector (e.g. platform economy), but often low quality, insecure jobs.

Conclusions

How PSD interventions increase additional jobs for youth

- Focus interventions and investment on labour-intensive light manufacturing, food-processing and agriculture.
- Combine financial and non-financial enterprise development interventions with sector-specific innovations, regulations and infrastructural investments.
- Build connections between lead-firms and SMEs to secure growth via forward and backward linkages.
- Integrate PSD interventions within a broader and consistent long-term PSD strategy that explicitly aims to create jobs for youth.
- Do not exclude low-productive firms in the informal sector from PSD interventions, but do not push too hard towards formalisation as that could backfire on firm performance and job creation.
- In sectors that use less youth, special labour market policies such as wage subsidies can be considered, but only with a long-term focus and integrated with other interventions.

Conclusions

How PSD interventions increase better-quality jobs for youth

- Productivity must improve, therefore focus on firms that have the best potential to increase productivity and have the best outcome on creating quality jobs. However, ignoring lower potential firms will mean a sacrifice on much needed additional jobs in the short term.
- Certification schemes and private standards are a viable tool to increase the quality of jobs in specific sectors.
- Governments must use and implement labour market policy and regulations to improve fair wages, worker protection and working conditions.
- Without access to finance, firms will not invest in higher productivity. The most efficient way is to give SMEs access to larger amounts of capital for productive investments, to increase quality jobs over time.
- Training, capacity building and microfinance could support individual entrepreneurs to increase their labour and income, to overcome their underemployment.

Conclusions

Attention of development partners should focus

- Local investment opportunities, by focussing on shorter local and regional value chain developments.
- Understanding the political economy, as employment outcomes from interventions are not purely economic, but political. E.g. decisions on Export Production Zones, missing middle segment of private sector in Africa.
- Using a gender-lens. Significant disadvantages still faced by women that often force them to work in jobs that pay less and are more vulnerable or informal. Young women entrepreneurs face more constraints.
- In regions with high dependence on extractive industries, interventions should not ignore potential of extractive industries on local job creation. However, extractive industries must play their part in creating more and better jobs in Africa.
- Looking for country and context specific adjustments, as potential sectors are different in each country.

Key recommendations

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- PSD interventions should internalise youth employment issues and aggregate data collection to secure youth employment outcomes.
- PSD interventions should sensitise engagement with specific youth groups, targeting diagnostics on these groups to understand specific and localised constraints.
- Long term comprehensive PSD approaches focused on a specific value chain or sector that includes seeking linkages between larger formal and small (informal) firms have best youth employment outcomes.
- Partnership approach in PSD interventions with local stakeholders in private sector, public sector and knowledge is important for additional finance, to build linkages and spill-overs, and for continuity.

IDS and related work

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