

**BOOSTING
DECENT
EMPLOYMENT
FOR AFRICA'S
YOUTH**

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**PRIVATE SECTOR DEVELOPMENT
INTERVENTIONS AND BETTER-QUALITY
JOB CREATION FOR YOUTH IN AFRICA**

Linking business performance with productivity growth and sustainable job creation

Evert-jan Quak and Justin Flynn



EXECUTIVE SUMMARY

The private sector, through job creation, is seen as the key to addressing the current youth employment crisis in Africa. More higher quality jobs are urgently needed to address high youth unemployment rates in Northern and South Africa, with high underemployment in sub-Saharan Africa and a generally insufficient number of available formal jobs. One way to do it is through private sector development (PSD) interventions, which seek to improve firm performance and increase labour productivity in firms. Increasing labour productivity is important for firms to increase an economic surplus, giving rise to greater value created and thus to rising incomes, particularly in low-productivity sectors. Higher labour productivity is linked with better firm performances, which is also important for firms to be able to participate in competitive (global) value chains. This ultimately could generate more and better jobs for the youth entering the labour market each year, or for those who are currently working in unproductive and insecure jobs and are searching for better job opportunities.

Recent research reveals interesting insights into what kind of firms and sectors enable better-quality job generation within the African context. **Larger firms in Africa are considered better able to increase the amount of sustainable jobs than smaller firms.** This does not mean that smaller-sized firms do not create jobs (the opposite is true, as **8 or 9 out of 10 jobs on the continent are created by small or medium enterprises**) but over time the failure rate of small and medium-sized enterprises (SMEs) is high, which means many job losses. Because larger firms generally have higher productivity levels, they can provide higher wages and better, sustainable jobs.

There have been mixed results for different types of PSD interventions (on micro-, meso- and macro-levels) targeting different types of firms (especially in terms of size), in terms of better-quality job creation for youth in Africa. **A PSD strategy should balance the focus between formal sector job creation in larger firms** (mainly through encouraging investments and business enabling environment) **and tackling the constraints that SMEs** (often in the informal sector) face, so they can not only survive, but over time increase production, productivity and better-quality employment.

With donors and governments increasingly focusing on PSD interventions that aim at improving firms' productivity, business performance and employment outcomes, it is important to consider the interactions between these outcomes. In particular, labour is a major cost factor for firms. The firm and the development funder, therefore, have two very different languages as from a business perspective, job creation (for youth) can only be the result of growth. Hence, **a PSD intervention with the purpose of generating decent jobs for youth must find a balance between business perspectives and the perceived social outcomes.**

Research further shows that **employment (for youth) in Africa is mostly prevalent in the short term through PSD interventions, enhancing higher productivity in labour-intensive sectors** such as agriculture, manufacturing (especially food processing and light industry such as textiles), and construction. However, what may count more in the **long term are the investments in capital-abundant sectors**, which can generate 'transformational' effects, spurring labour market dynamics through induced job creation.

Overall, it can be concluded that micro and small firms often lack access to the more successful direct PSD interventions and rely mainly on training programmes and microfinance services. Some business and entrepreneurship trainings may positively impact small firms' performances or increase income for the entrepreneurs, but this is not enough for significant job creation given the underemployment issues in Africa. From the evidence, it is clear that **more comprehensive approaches combining direct and indirect PSD strategies and focusing on the development of a very specific sector, sub-sector or value chain can be most successful in creating better-quality jobs for youth.** First, the combination of access to finance with more tailor-made trainings and mentoring shows promising results. If such interventions are also embedded within a specific sector and combined with forward and backward linkages between larger firms (or end markets), employment results (quantity and quality) seem to improve. The same applies if industry-specific infrastructure can be financed within these programmes.

The literature also shows that in most cases on the **macro-level, investment climate and business environment interventions are linked to the demands and needs of larger businesses** (often through powerful political connections), **while smaller firms are assumed to benefit from spillovers**. However, the reality in Africa shows that **this is rarely the case**, as they are often not involved in decision-making processes or even consulted. This is important as small firms have different constraints to larger firms, and other needs that need to be addressed through policy, regulation and interventions. Hence, any **PSD intervention should consider the political economy**, as in many cases in Africa constraints are not purely economic but political, creating inequalities between the politically well-connected and the non-connected firms.

Many **PSD interventions seem to focus on export markets** through sector or value chain development interventions. Evidence of such programmes on decent job creation is very mixed; although they often create additional jobs (not always), they are often linked with low-paid, low working conditions and are highly insecure. In such circumstances, the literature shows that youth in Africa often enter export-led firms only if their work situation in the informal sector is worse off. **PSD interventions in these sectors should not only focus on establishing these sectors for additional job creation, but also on the need for a strong long term focus on improving job quality by increasing labour productivity and improving working conditions and wages**. Although in the short term this could result in less additional jobs created, it would trigger the path towards a sustainable economic transformation.

However, **context-specificity is key**, so PSD strategies should consider countries' income levels and phase in the economic transformation to develop more targeted approaches. For the best employment outcomes for the youth, **PSD interventions should further internalise youth employment issues and aggregate data collection** to secure youth employment outcomes and understand them better.

Key policy recommendations:

- Donors and governments that aim for more and better jobs for youth should prioritise **comprehensive PSD interventions** that integrate financial and non-financial support for firms with sector or value chain specific development interventions.
- PSD interventions need to be **integrated within a long term PSD strategy**, by finding a balance between a focus on much needed short term job creation (and tackling underemployment) in low-productivity firms and sectors in Africa, and better-quality jobs in high-potential growth firms and larger firms.
- PSD interventions need to be **combined with labour market policy reforms** (e.g. wage subsidies, labour protection) **and interventions on the supply-side of the labour market** (e.g. job seekers' intermediary services) to ensure the best employment outcomes for youth.
- Donors and governments should **give more attention to shorter value chain development and non-export markets**, as a way to increase domestic demand in local and regional markets to spur job creation.
- PSD interventions and investments should be **more targeted to the youth and context specific**, without ignoring informal sectors and still taking into account the political economy.
- **Better and standardised data that captures labour market dynamics is needed** to improve the evidence-base on firm performance, in terms of their employment outcomes for the youth.

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Knowledge Platform INCLUDE
Email: info@includeplatform.net
Twitter: @INCLUDEplatform
Facebook: Include Knowledge platform



International Development Research Centre
Centre de recherches pour le développement international

Canada

International Development Research Centre (IDRC)
Email: eg@idrc.ca
Twitter: @IDRC_CRDI
Facebook: IDRC / CRDI



International Labour Organization (ILO)
Email: youth@ilo.org
Twitter: @ILOYouth
Facebook: ILO.org



Global Initiative on Decent Jobs for Youth
Email: decentjobsforyouth@ilo.org
Twitter: @DecentJobsYouth

About INCLUDE

INCLUDE was conceived in 2012 by the Dutch Ministry of Foreign Affairs to promote evidence-based policymaking for inclusive development in Africa through research, knowledge sharing and policy dialogue. INCLUDE brings together researchers from African countries and the Netherlands who work with the private sector, non-governmental organizations and governments to exchange knowledge and ideas on how to achieve better research-policy linkages for inclusive development in Africa. Since its establishment, INCLUDE has supported more than 20 international research groups to conduct research on inclusive development and facilitated policy dialogues in Africa and the Netherlands.