JOBS

A Matter of **SIZE**

Sub-Saharan African businesses must produce more jobs to fulfill the region's promise

Bruce Edwards

GIVEN the speed at which many economies in sub-Saharan Africa have been growing in recent years, one could easily conjure up images of "Help Wanted" signs at nearly every firm. But even at more than 5 percent a year, the region's growth has fallen short of providing enough paying jobs, especially outside agriculture.

The labor force in sub-Saharan Africa is around 450 million, with fewer than 40 million on formal payrolls. But it's not that the rest of the people don't work; in fact, unemployment in the region is relatively low. The problem is transforming the job market from one that has kept people working in small informal jobs and on farms—often for little or no pay—to one that offers more opportunities in the manufacturing and service sectors, where there is more income security. The International Labour Organization (ILO) says that 76.6 percent of workers in sub-Saharan Africa are in vulnerable forms of employment.

And with the highest fertility rate in the world, sub-Saharan Africa needs businesses to provide many more jobs if the region is to absorb the rapidly expanding workforce. The United Nations says the working-age population in sub-Saharan Africa will more than double by 2050.

Potential boon

Although the growing population puts pressure on the job market, it also could be a boon to the region. In sub-Saharan Africa, the 32 percent share of the population ages 10 to 24 is the world's highest—which the ILO says offers a "demographic dividend" because the productive capacity of the working-age population will surge with the additional labor supply.

An IMF study, "Africa's Got Work to Do: Employment Prospects in the New Century," says that if sub-Saharan African economies can attract more investment in labor-intensive production from east Asia, the region could indeed experience a large jump in manufacturing output for exports. But today fewer than 10 percent of the region's workers have industry jobs.

A recent study by the Center for Global Development (CGD) found that firms from 41 sub-Saharan African countries are 24 percent smaller than those elsewhere in the world. The study was based on data from 41,000 formal firms in 119 countries and compared their productivity over time.

The study, "Stunted Growth: Why Don't African Firms Create More Jobs?" suggests several possibilities why the region's businesses are smaller, including reluctance by family-owned businesses to hire non–family employees and limited market share potential in some sectors. But overall, the study says, the region's poor business environment is what keeps firms from growing.

And while such factors as limited access to finance and reliable electricity supply are obvious obstacles, regional governance issues also play a part in keeping the number of employees down. Vijaya Ramachandran, a senior CGD fellow and a coauthor of the report, said big companies tend to be easy targets for governments desperate for tax revenues or for corrupt officials looking for bribes. As a result, "In some countries, businesses want to stay small in order to stay below the radar of government regulators." According to the study, the burden of dealing with government bureaucrats increases significantly for firms with more than 100 employees.

Sometimes small is good

Sub-Saharan Africa's formal sector is an important source of tax revenue, and bigger firms would help finance social programs such as pension plans and health care. But with 90 percent of jobs in either small informal household enterprises or subsistence agriculture, workers have little chance of landing a formal job with benefits. IMF senior economist Alun Thomas said, "Although wage employment (paid work outside the agriculture sector) is often mentioned as the ultimate objective in employment policy, household enterprise employment is most likely to provide the bulk of new jobs going forward."

And although small household businesses generally don't pay taxes and are often difficult to sustain, the hope is that these businesses will expand—starting, say, by hiring a neighbor—and consider registering their business to gain access to finance. Governments can encourage entrepreneurs to join the formal economy by providing a more welcoming business environment.

In the end, formal and informal businesses in sub-Saharan Africa face the same problems. And given the scope of the employment issues in the region, policymakers should be working toward improving the regulatory environment and fixing crucial infrastructure shortfalls, such as electricity supply, that both sectors depend on to grow.

Bigger firms and more local entrepreneurs will be key to improving the lives of the millions who need steady work now, and in the future. ■

Bruce Edwards is on the staff of Finance & Development.