



Tony Addison

Aid for Private-Sector Development



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Overview

- Why private-sector development? (goals: growth, revenue, employment)
 - Employment is the focus of this presentation
 - Why? Inclusive growth. High-Level Panel on Post-2015. Gender gap. Stability
 - **ReCom – Research & Communication in Foreign Aid**
 - www.recom.wider.unu.edu
 - See Aid, Growth & Employment (Position paper)
 - Donors have not evaluated their employment impact (AfDB exception)
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Structural Transformation

Africa: despite high growth, limited structural transformation

- Africa: manufacturing share remains around 10% GDP (=40 yrs ago)
- Employment: going in opposite direction to Asia – fall in share agriculture, rise informal share
- Fastest growing economies have some of the lowest rates of employment creation
- Working poor (ILO: vulnerable employment) + gender gap
- Productivity low

post-2015 development debate.

Employment intensity and growth in selected African countries



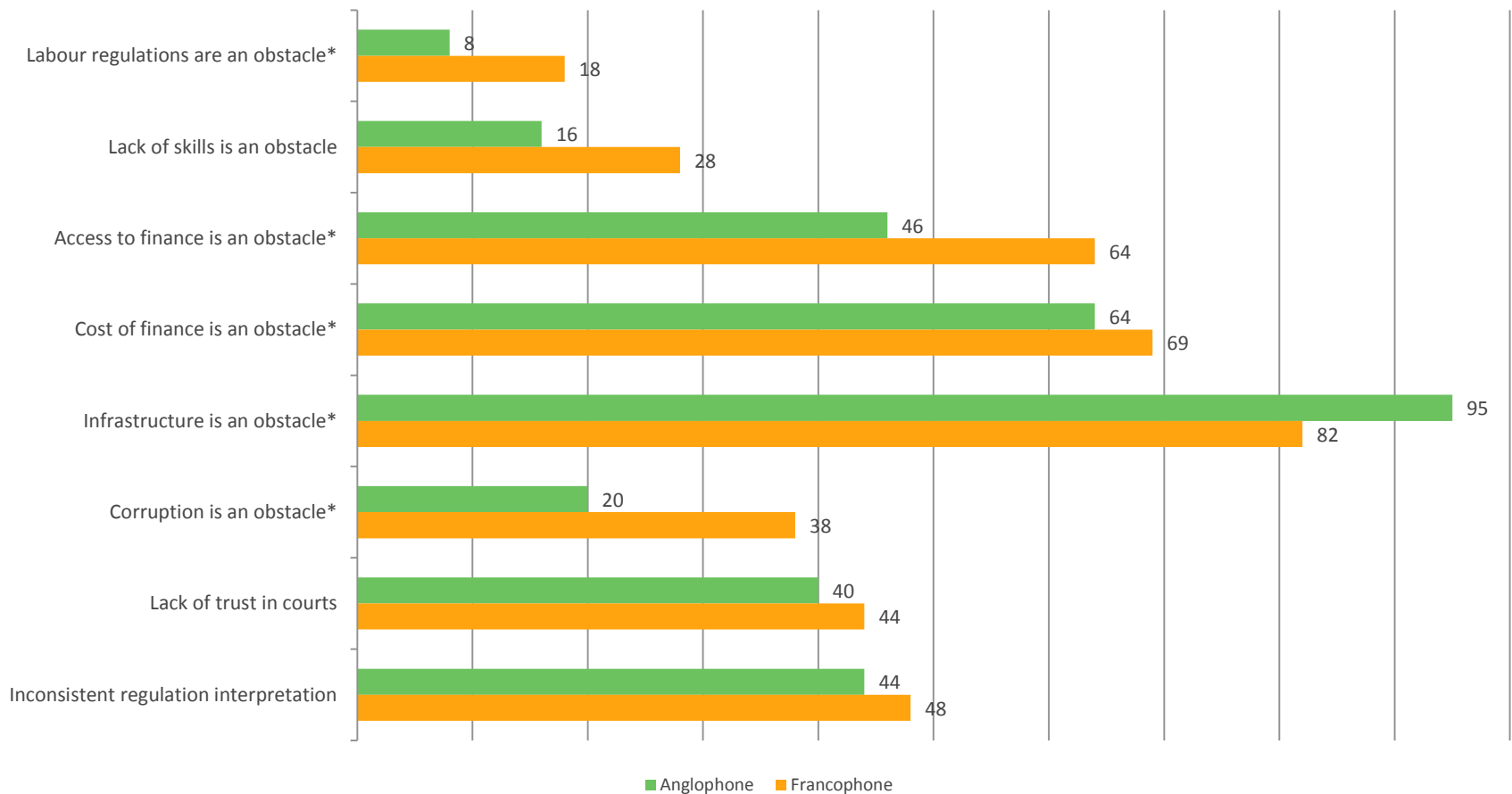
Source: AfDB (2012)

Demographic dividend v demographic nightmare

- SSA population will more than double from 900 mn to 2.1 bn by 2050
- Tanzania: from 50 mn today to 129 mn by 2050
- 10 mn people enter the SSA workforce every year
- Most will end up on family farm or in informal work
- Donor view led by World Bank used to see informality as result of over-regulation of labour market
- But binding constraint on job creation is *outside* the labour market – in finance, infrastructure etc

Lack of structural transformation – inc. enterprise dev – is root cause of dismal employment & earnings picture

Firms' perceptions of the investment climate, % of firms



Source: Based on Fox and Oviedo (2013)

Note: *Differences are statistically significant at the 5 per cent level

Infrastructure: a binding constraint on enterprises & communities

Direct employment effect:

- **Construction industry: private sector development**
- **But procurement works against local contractors**
- **AfDB financed contracts: % of African firms now above 50%**

Indirect employment effect:

- **Infrastructure stimulates private-sector investment & hiring**
- **Exporting firms create more & better jobs at higher wages (Africa: export volumes 16% lower than predicted values)**
- **Problems: Infrastructure (eg Dar port) & cumbersome border procedures (Trade Mark East Africa)**

Remittances help build this:



But we also need to build this:



Setting new objectives for aid

- Aid for trade : are rich countries delivering on promises
- Manufacturing Clusters – SEZs – DAC donors: learn from Chinese experience
- Strengthening firm capabilities
- Investment promotion agencies
- Aid to SMEs popular, yet *net* job creation?
- *Doing Business* – problematic - **yet influential (see J.Page)**



Gender & Private Sector Development

Gender Equality

- **No inclusive growth if it does not fully incorporate ability of citizens, regardless of gender**
- **DAC has monitored commitments to gender equality since 1991 – about 15% of all screened aid pursues the objective**
- **ReCom concludes that 15% is too low**
- **Highest in education: 30% of all screened aid.**
- **Aid for gender equality languishes in productive sectors: in agriculture aid for gender equality fallen to 15%**
- **Small livelihood projects; little at scale**

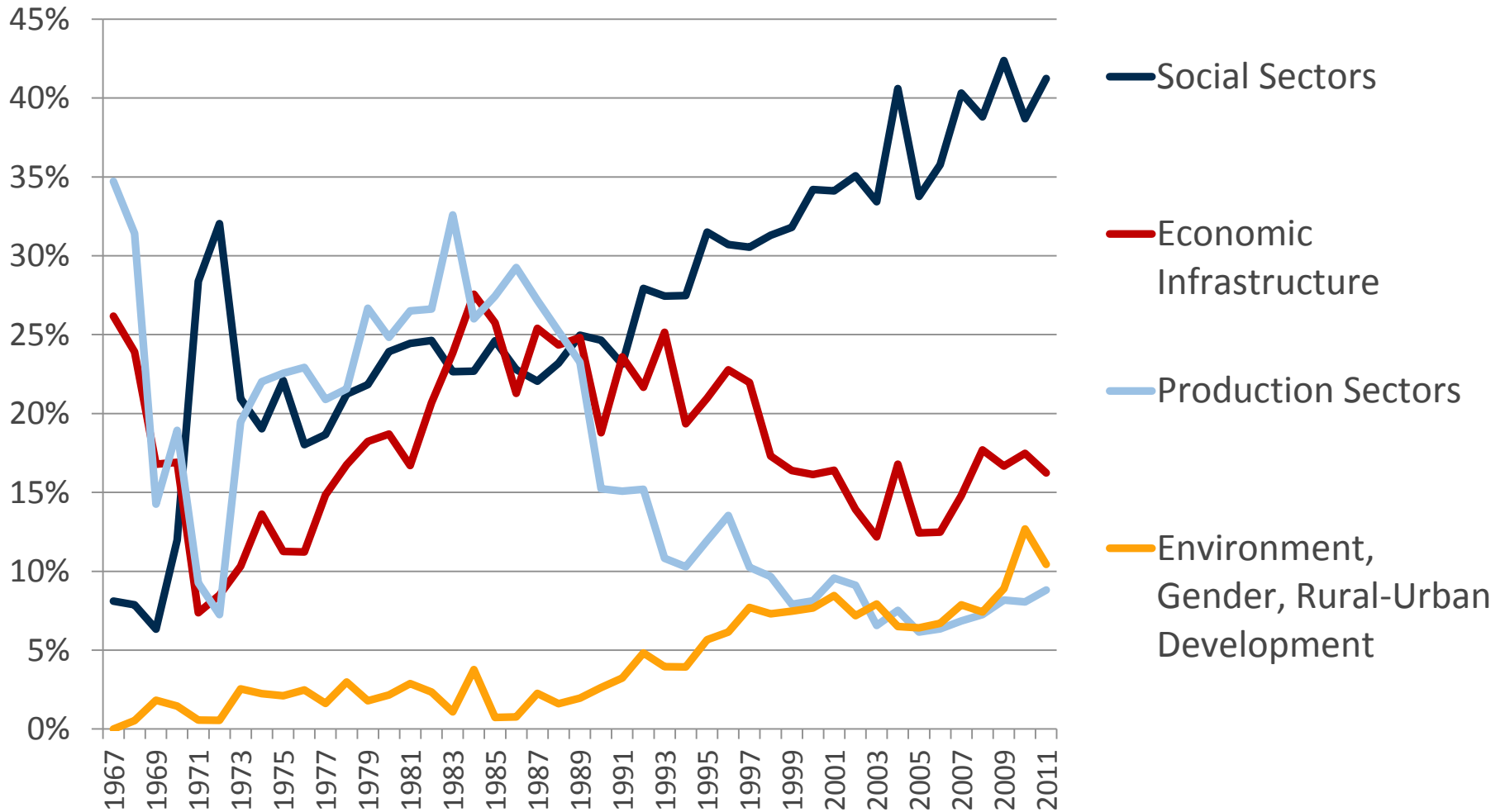


Post 2015

UN High-Level Panel report on the post-2015 development agenda

- Calls for:
- “..A quantum leap forward in economic opportunities and a profound economic transformation to end extreme poverty and improve livelihoods...”
- How can aid help?
- Aid to social sectors builds human capital BUT being educated & healthy is not enough (Ethiopia: youth more likely to be unemployed than their elders)

What will happen to aid allocation post-2015?



MDGs & Post-2015

- Aid helps economic growth (overall). BUT:
- Unlikely to achieve the HLP **'quantum leap'** without:
- **Structural transformation** – industrial policy & don't just focus on SMEs (“East Asia’s donors do it better?”)
- **Creation of 'good jobs'** – donors pay too little attention to employment – fragmented livelihood projects
- **Gender equity at scale** – rhetoric, but too-small-scale
- **Aid to agriculture** – slumped & still too low (esp. crop research). IFAD & AfDB 'going to scale'
- **Infrastructure** – use aid to leverage private capital (e.g. AfDB Africa50 fund). BUT **Climate change** challenge

Conclusions: Reaching for scale

- Need to create millions of jobs not just hundreds
- Some 100,000 ongoing aid projects – average small size (\$1.7 mn) – median size has been falling
- Aid bedevilled by high transactions costs
- Inherently political process: ‘private sector’, ‘state’, ‘communities’ – straddling, not isolated from each other
- Humility: rich world has a jobs crisis, is advice to the poorer world credible?

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