Africa’s Other Urban Challenge: Employing Youth in the Household Enterprise Sector

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Introduction

Urban employment is one of Sub-Saharan Africa’s most pressing challenges.1 Today, half the population is under the age of 18; 7 years younger than the average in South Asia, the next youngest region. Between 2010 and 2020, up to 170 million people will enter the labour force. While the majority of people still live in rural areas, a combination of high fertility (even in urban areas) and rural-urban migration means that these new entrants, mostly youth, will increasingly look in urban and peri-urban areas for employment. Productively employing Sub-Saharan Africa’s “youth bulge” is an urgent urban development problem.

Much of the discussion among urban leaders on this topic has focused on how to create more wage employment opportunities. While this is clearly important, today most urban youth age 25 and below are not able to get any kind of wage and salary job – either with a contract, an indication of formality – or as casual labour. Even by age 33, only about one-third of the urban labour force has any kind of wage job (Figure 1) and only 20 per cent have a wage job with a contract. The segment occupying the largest category

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of the urban labour force is the household enterprise (HE) sector (Box 1). Although the exceptionally high economic growth in Sub-Saharan Africa over the last decade has brought even faster growth in private sector, nonfarm wage jobs in many countries, the rapidly growing labour force means that the wage sector does not generate enough new nonfarm wage employment to absorb workforce entrants. This problem is especially severe in resource-rich countries, where the private sector shares of wage employment are low.

Employment in HEs is growing rather rapidly for those without a secondary school certificate. These young people generally lack the qualifications for a wage job but can pursue the economic opportunities that HEs offer. Yet it can be challenging to enter and remain in the HE sector, especially for youth. Most young people lack the small savings needed to start a trading business, and banks and microfinance entities rarely lend for start-ups. A small processing or service venture could require technical skills that many school leavers lack. Youth may also need basic business skills.

Facilitating entrance into this sector and making the sector more productive are key policy challenges.

Research across Africa and other regions show that these challenges can be met; the key is to recognise the potential. Most urban strategies overlook this sector’s role in creating employment and supporting economic growth. By changing the fragmented approach to the HE sector into a coherent, coordinated approach – with a strong focus on sustainable employment for youth – government, donors, NGOs, and other stakeholders could lift constraints on productivity and open opportunities in this sector.

How the sector grows; HEs are not SMEs

Development policies and programmes often confuse HEs with small and medium enterprises (SMEs), but they differ fundamentally, with implications for policies to support HEs. From the start, SMEs have more assets and employees than HEs. HEs rarely grow and hire another worker, even when productivity improves. HEs will take apprentices but not full-time employees, who entail management costs. Almost all HEs rely on households, not other businesses, as their customers. Market channels for their products are limited.
HEs combine the finances of the household and the business. The HE is simply part of the household's livelihood portfolio. Many HEs have no fixed or formal place of business, but a sizeable number operate out of owners' homes. Most countries allow HEs to operate without a business registration or license, although local governments may require HEs to get a permit or license, or to register for a place in a public market.

HEs survive and grow by providing the low-cost goods and services demanded in growing but less developed economies lacking a modern service sector. Mobile retail traders and traders in market stalls substitute for convenience stores and shopping malls. HEs manufacture homemade bricks, furniture, and other goods that typically are not demanded as incomes rise and mass-produced or higher-quality goods enter the market. For this reason, services tend to dominate the sector and persist longer than manufacturing. Manufacturing is common among HEs in towns, however, because of opportunities to process agricultural products.
HEs generally operate in sectors where entry is easy and competition stiff. Many HE owners lack time to expand their operations and opportunities to hedge their business risk. They also face household risk, such as illness in the family. The implication of this difference is that employment increases in the HE sector when individuals and households seize on an opportunity and create a new enterprise. HEs rarely hire young jobseekers.

Who is minding the store?
Characteristics of urban HE owners

Half of Sub-Saharan Africa’s urban households report they own at least one HE. Owners of Sub-Saharan Africa’s HEs tend to be 25–40 years old. Contrary to popular belief, they are not primarily or even disproportionately migrants. Urban HE owners work hard, often more than 40 hours per week. Some have multiple businesses or lines of work. Retail trading is the most common activity, followed by service provision (catering, hairdressing). Women are as active in this sector as men but have less education, capital, and information about employment opportunities. Pervasive gender segregation keeps women in less productive, lower-income sectors, such as tailoring, even when women strike out on their own, while men dominate the more lucrative sectors of carpentry, metalworking, and repair.

A nice job – if youth can get it

HEs are a good business opportunity in Sub-Saharan Africa. Households with these enterprises are less likely to be poor, and for those without adequate skills HE can be more lucrative than wage earning opportunities. A study in Ghana showed that many urban owners of HEs earned more than they would in a wage job, and expressed higher job satisfaction.2

Young people are more educated than their parents and should bring more skills to HEs. So why do they struggle to enter the sector? By far, the greatest constraint is poor access to capital or savings. Despite the high returns to capital in HEs,3 microfinance has not reached this sector. Almost all HE owners rely on their own savings, and loans or grants from family or friends, to start their businesses. Informal loans from suppliers at high interest rates are common, especially among traders. Informal community savings groups may lend small amounts for a maximum of one year.

Of course, many young people already work in the family HE without a regular wage. Working in a family business can be a way of gaining trust, capital, and skills for one’s own enterprise. Studies in West African capital cities showed a strong correlation between having a self-employed parent and being self-employed.4 Apprenticeships are another common way for youth to enter the HE sector. Yet, unless youth save money during the apprenticeship, they often cannot apply their skills when it ends.

Another barrier is poor information about self-employment opportunities relative to wage and salary jobs. A small survey in urban Tanzania found that, on average, youth spent five years idle or doing odd jobs while seeking a wage job. Three-fourths of the respondents ended up self-employed. Could search time be reduced by providing better information about self-employment or through programmes to facilitate youth’s entrance into the HE sector?

Public policy to create and sustain productive HE employment

What can the urban sector do to ease the entry of youth into this sector and encourage the development of sustainable businesses? Often, the primary task for the public sector is to encourage action by the private sector. In other cases, public interventions are needed to address information gaps or market failures, primarily in finance. Successful growth of the HE sector requires five key interventions:5


5 This section draws from World Bank country studies in Ghana, Republic of Congo, Kenya, Rwanda, Tanzania, and Uganda. See Fox and Sohnesen, op cit.,
- **National strategies** to recognise the sector, foster its development, and enable participants to influence national and local strategies.

- **Urban policies** that provide space and support services for HEs to operate.

- **Financial sector policies and programmes** to improve households’ access to financial services.

- **Selectively support training for potential entrants**, especially youth, in the skills required for a successful HE.

- In some cases, **programmes to improve market access** by integrating HEs into value chains.

### National strategies for HEs

HES can be highly visible to any observer but remain a blind spot in a country’s strategic vision. Employment policy, including youth employment, is embedded in national growth strategies. Most national strategies in Sub-Saharan Africa explicitly recognise private enterprise as the catalyst for economic growth and job creation, but they overlook HES and the large share of employment they provide. This can hamper an effective urban response.

Frequently, HES are seen as entities to be transformed into SMEs and “formalised.” For example, Tanzania’s national economic policy (2008) seeks “to empower the informal sector to become formal,” but Tanzania outlaws businesses that operate without fixed premises, making more than 80 per cent of its HES illegal. It is unclear how a sector that is virtually legislated out of business might become “formal,” but there is no doubt that the lack of legitimacy for the sector has fuelled recent violent conflicts between HES and local governments.6 In contrast, Ghana recognises HES’ contribution to employment absorption, income growth, and local economic development (Box 2).

### Urban policies for HES

To the extent that urban policies focus on local economic development and employment, it is usually about industrial wage employment. Yet, in part owing to the importance of commodity exports in Sub-Saharan Africa’s growth, which has boosted domestic demand, the urban economy tends to be service-

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**BOX 2. Ghana’s local, coordinated approach to HE development**

Since the late 1990s, Ghana has worked to create a consistent framework for HES. It provides targeted funding and disseminates lessons learned6. In 1996 the Ghana Trade Union Congress adopted a policy to organise informal enterprises and support their participation in consultations between the government and the private sector. Aside from enabling strategic dialogue, the development of HE associations improves access to information, technologies, and markets.

Ghana’s approach is sustainable because it is decentralised. The National Board for Small Scale Industries has used technical assistance and donor funds to pilot, refine, and expand locally developed programmes to assist the self-employed. Local Business Advisory Centres (BACs) match programmes and funding to their clients’ needs and strengthen local organisation of household, micro, and small enterprises. Local officials recognise that a vibrant economy with thriving HES is good politics and generates revenues.

As Ghana moves to address youth self-employment more directly, it will need to coordinate the multitude of initiatives underway in ministries and nongovernmental programmes. The National Strategy and Action Plan for Informal Enterprises (awaiting approval) creates a national policy framework, provides for coordination by a National Committee on the Informal Economy, and identifies areas for concerted action.

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oriented. Indeed, the share of output and employment coming from the manufacturing sector in Sub-Saharan Africa has barely dropped over the last 20 years. National policy needs to address the binding constraints to development of a manufacturing sector but, even if successful, services are likely to dominate the urban economy for the foreseeable future, and outside of the public sector, service sector employment is mostly in HEs. This is not surprising: there are fewer economies of scale in many service activities compared with industry. Urban local governments miss opportunities to support productive employment and increase incomes if they do not explicitly consider HEs in their policies and programmes.

**Urban authorities have five responsibilities affecting the entry and productivity of HEs:**

- Controlling the use of public space – sidewalks, streets, etc;
- Developing and enforcing rules on the use of private space (zoning regulations);
- Providing urban services to support local economic development, including roads, street lighting, public transport, and security;
- Protecting consumers, for example by ensuring that restaurant kitchens are hygienic;
- Setting and collecting fees and revenue to support local activities.

Cities failing to anticipate the growth of HEs reduce opportunities for income growth and often end up in conflict with HE owners. The lack of space prevents HEs from entering the market and prevents established businesses from expanding. Local governments end up evicting traders from areas of high foot traffic, only to see them gradually return. Policies and programmes should not treat all HEs the same way; different businesses have different needs to accommodate. Traders and personal service providers need premises in central business districts and other places where people gather. Repair shops and manufacturers need to cluster (Box 3). Industrial estates for large firms should include HEs for the
The convenience of workers and firms alike.

Limited accountability to citizens means that local authorities tend to view their role as enforcing regulations to control HEs, rather than supporting their development, a view which also tends to exclude HEs from planning processes. In Ghana, cooperation between HEs and local authorities outside Accra is stronger because local governments are elected rather than appointed, and responsibility for economic development has been decentralised. But sometimes local governments’ hands are tied as they do not own the public land; road reserves may belong to the national government. Overlapping and insecure land rights and inefficient land markets greatly complicate the search for space, and these issues may require national attention.

The quality of urban services – electricity, transport, water, sanitation – clearly influences HEs’ productivity. Market construction and maintenance are critical services for HEs, yet as demand for urban land soars, developers pressure local authorities to close markets rather than to develop higher-density, multiple-use solutions that include HEs.

A common perception is that HEs do not actually pay their fees and taxes, so they do not deserve urban services. Nothing could be further from the truth. Analysis suggests that although HEs may be exempt from national corporation taxes or VAT registration, the majority of HEs pay local business taxes at a higher rate than large businesses. Taxes, fees, and local rules regarding land use are reported to be sources of petty corruption, especially by police. Failure to pay the requested bribe can result in disproportionately negative consequences such as confiscation of inventory. Often, owners of HEs do not actually know the current fee schedule and have no idea how much they should pay. Corrupt local officials can then take advantage of them, reducing income and hindering growth.

**Easing access to finance for HEs**

Most HEs cannot obtain formal financing and use their own savings and informal sources to meet their needs. A complicating factor for HEs is that business and household finances are often linked, so large household expenditures (school fees, home repairs) may compete with business liquidity demands and limit the HE’s sustainability. The struggles of the HE segment to get capital are rooted in the lack of financial inclusion for Sub-Saharan African households. Households find it difficult to get credit and lack a secure place for savings, but lenders require borrowers to use their savings to cover part of an investment. Access to a secure place for savings is particularly important for women’s ability to save for a business. While policies, which would address this issue, are generally not under the purview of urban authorities, through their community development programmes they can encourage NGOs and donors to support effective local solutions (see Box 4).

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Financial institutions, even microfinance institutions (MFIs), have not resolved the problem of getting affordable services to Sub-Saharan African households. The costs for a licensed bank or MFI to offer accounts for small savers result in low or negative interest rates. Even the best MFIs in Sub-Saharan Africa have to earn an annual average of 19 per cent on their loan portfolios just to cover the costs of lending small amounts. National regulations can make the problem worse, by, for example, requiring documentation that low-income consumers do not have and prohibiting MFIs from offering products tailored to their needs.

Breakthroughs in mobile banking are reducing costs and increasing households’ access to services. Branchless banking reduces the costs of secure savings and payment services by 50 per cent, and of money transfer services by 20 per cent compared to traditional banking operations for the poor. The rapid spread of M-Pesa increased household access to formal finance by 10 percentage points in three years. To reap these gains from technology, countries need a regulatory structure that encourages the spread of the technology while protecting consumers through interoperability and other regulations.

Informal credit sources fill the gap for HEs. Across Sub-Saharan Africa, informal savings and credit associations have sprung up to bridge the gap in savings and credit services. These various savings and credit services have a long history and have developed rules of participation that ensure success (Box 4). They meet a need that cannot be met through more formal financing arrangements, owing to the small amounts and numerous small transactions involved, as well as the lack of information on the participants’ creditworthiness. Informal services are valuable bridges to financial literacy, a widespread savings culture and, eventually, to formal financial inclusion and more productive enterprises, as Sub-Saharan countries continue to develop their formal financial sectors. In addition to providing informal financial services, savings groups support their members in the same way as lending circles in MFIs — they provide encouragement and a forum for members to share experiences. Numerous descriptions of savings groups attest to the importance of this feature.

**BOX 4. Informal savings groups support HEs and build social capital among slum dwellers in urban Uganda**

Since 2002, the National Slum Dwellers Federation of Uganda (NSDFU) has supported community savings groups as a means to a better livelihood for the urban low income population of Uganda, and a means of bringing slum dwellers in a community together to discuss issues of public services delivery and mobilise for change. Traditional savings associations work to the benefit of the members of the group, whereas savings groups in the federation use these groups as the building blocks of community institutions that enable them to address and invest resources in issues that affect the entire community/city and stretch beyond those of livelihoods alone.

Federation members train local group leaders and members in the established mechanisms, which ensure transparency, and solvency in the savings groups. Groups have a local governance structure; for example, three signatories are required to ensure oversight of withdrawals, and a local audit committee, which meets weekly, oversees the operation. A local loan committee is responsible for evaluating the loan requests made by the savings group and monitoring loan repayments. Group members determine the interest rate and repayment period. Through group meetings, members share experiences and mentor each other in how to ensure business survival.

Leaders groomed at the saving group level have risen to positions of leadership at higher levels where they provide city-wide support and national organisation. In this way, the federation stays firmly connected to the low-income members of the savings groups.

The NSDFU is supported in part by a Uganda Cities Alliance grant.

Source: “10 years of Owegatta” www.sdinet.org/media/upload/documents/10YearsOwegatta_opt.pdf

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10 Kenya’s mobile phone service for transferring money and providing microfinance
Would training encourage entry and sustainability?

Training to start, sustain, or improve the profitability of an enterprise is the most common intervention that governments and donors use to support HEs. Programmes can provide specific vocational skills (tailoring, metalworking), generic business skills, or “soft” (behavioural) skills, or all of these. Programmes specifically targeted at youth primarily focus on the skills needed to enter the sector and have included all skill types listed above. While the number of publicly-supported programmes is increasing, most youth actually acquire their training through informal private sources, such as learning in a small group from an existing business operator possibly combined with an apprenticeship to provide hands-on training. In return for the training, youth may work for little or no money during their training period.

Despite the large number of public and donor training projects and programmes, evidence of their effectiveness among HEs in Sub-Saharan Africa remains scant. Programmes designed to facilitate entry appear to have had some success, more than those targeted at growth or productivity. Youth often face multiple skill constraints in entering the HE sector. Programmes attempting to build one skill at a time have had limited impact, while evidence from pilot programmes that build a range of complementary skills together is more promising. These programmes include “bundled interventions” that deliver behavioural, business, and/or technical skills training as part of a comprehensive package of support. Consistent with the evidence that multiple constraints hinder entry into the HE sector, bundled interventions combining skills training with grants are also promising, but the costs so far are high.

Bearing these experiences in mind, governments, especially urban ones, must carefully assess their role. There is limited justification for governments to offer the type of training in basic technical skills that is routinely delivered by private providers active in countries today. Urban authorities can best support youth not by running the programmes, but instead by supporting local associations who can connect youth who want to enter the sector with donors and private providers who want to offer the training. Ensuring that the HE sector has space and infrastructure to expand will contribute to the effectiveness of any training programme.
Market access

Current and prospective HE owners often say that poor access to inputs and product markets is a constraint. Although traditional private sector development approaches assume that HEs’ exclusion from defined markets and large value chains cannot be remedied, new research challenges this assumption. HEs can participate in international value chains if producer associations can be created and markets structured to include them (Box 5). 11

Governments usually play no direct role in these efforts, which require private sector expertise, but they can provide the enabling environment and encourage partnerships and donor financing of technical assistance and initial risk capital. They can also encourage the development of local HE associations who can interact with private sector “aggregators”. While governments rarely create effective participatory organisations, the latter can easily undermine them, and this should be avoided.

Conclusions

Governments need to recognise the potential for job creation in the HE sector, in particular for the growing population of young school leavers in urban areas, and develop strategies to expand, not contract, the sector. Youth recognise the opportunities but cannot always seize them. Most countries have a fragmented youth employment strategy focused primarily on the wage sector, and they have a strategy for SMEs. This fragmented, specialised approach is not working, and change is needed at the national level. Decentralised local development initiatives for HEs underpinned by a supported national strategy have proved more effective. Urban authorities have a key role to play in helping their youth realise the HE opportunity.

BOX 5. Expanding the “bottom of the pyramid” for HEs to access markets

(1) Distribution and sales through informal shops: Enterprises leverage informal distribution and sales channels to market products through multiple fragmented or unorganised shops. This producer-led model has been used by companies such as Coca Cola, Bayer and mobile phone companies to benefit from the widespread marketing channels that petty trading provides.

(2) Contract production systems source a product directly from large numbers of small-scale producers in (often rural) supply chains. A dedicated entrepreneur organises the supply chain from the top and provides critical inputs, specifications, training, and credit to suppliers. Suppliers provide assured quantities of specialty produce at fair and guaranteed prices for distribution.

(3) Deep procurement bypasses traditional intermediaries to purchase products directly from large networks of low-income producers, often training them to comply with quality and other standards. This model relies on large contractors to reach out to HEs as subcontractors to supply their value chains.

Employing African Youth in the Household Enterprise Sector: At a Glance

- The young urban population is growing rapidly in Africa. But most urban youth age 25 and below are not able to get any kind of wage and salary job – either with a contract, or even as casual labour.

- Urban youth find jobs in the household enterprise (HE) sector. Household enterprises are unincorporated, non-farm businesses owned by households.

- Employment in HEs is growing mostly rapidly for those without a secondary school certificate.

- Development policies and programmes often confuse HEs with small and medium enterprises (SMEs), but they differ fundamentally.

- Most HEs in Sub-Saharan Africa today are pure self-employment, and only 10 per cent have hired someone outside of the family.

- With the right policies, the HE sector can offer a stable urban livelihood.

- Successful growth of the HE sector requires five key interventions:

1. National strategies to recognise the sector, foster its development, and enable participants to influence national and local strategies.

2. Urban policies that provide space and support services for HEs to operate.

3. Financial sector policies and programmes to improve households’ access to financial services.

4. Selectively support training for potential entrants, especially youth, in the skills required for a successful HE.

5. In some cases, programmes to improve market access by integrating HEs into value chains.

- Governments need to recognise the potential for job creation in the HE sector, in particular for the growing population of young school leavers in urban areas, and develop strategies to expand, not contract, the sector.