

PAGE

Policy Analysis for Growth and Employment

In order to ensure that the outputs (findings and recommendations) yielded by PAGE-supported projects would eventually serve to address the most salient issues and needs in terms of policymaking in developing countries, a group of international policy experts have identified a series of priority topics – under the broad theme of inclusive growth and employment – that the projects shall address.

The PEP team has later prepared a complete literature review for each theme, to assist applicants in designing their research proposal. The resulting list of literature references can be found here: http://dasp.ecn.ulaval.ca/PAGE_references/

1. Providing social protection to the informal sector

- Bridging the gap between the different entrepreneurial classes has been a daunting challenge. How do we ensure social protection in the informal sector?
- What is the role of unions in securing social protection in the informal labour market? ILO laws?
- How do we prioritize social protection for low income earners in the informal sector?
- What is the impact of social protection on the informal labour market?

The growth of the informal sector has been exponential in the recent past. It is estimated that 72 percent of the population in Sub-Saharan Africa are in the informal sector (ILO 2002c) and 93 percent of the jobs created in the 1990s were in the informal sector. In China 80 percent of employment is in the informal sector. With a current population of 40 million in Kenya and a projection of 80 million by 2040, it is only realistic that 80% of the current and future working population in Kenya will be in the informal sector.

The categories of the informal sector range from the high income entrepreneur to the lowest wage earner what is known as “jua kali labourer” in Kenya. Bridging the gap between the different entrepreneurial classes has been a daunting challenge. What would it take to ensuring social protection in the informal sector?

2. Youth employment and entrepreneurship

Developing regions of the world are at different stages of a demographic dividend. The best known case of successfully realizing the potential benefits of a demographic dividend is that of China and other East and South-East Asian economies. South Asian economies are at the midpoint of their demographic dividend, with another two to three decades more remaining of the dividend. Sub-Saharan Africa countries are at an

early stage of that dividend. The Latin American economies are at varying stages of the demographic transition, with some already over the best years.

As the share of the working age population (15-59 years) in the total population increases (which is how the demographic dividend is defined) more jobs need to be created for these youth. Policies must focus on human capital formation of these youth, but these may not suffice. What does the successful experience of China and some East and South East Asian economies teach the rest of the developing world about appropriate policies for realizing the demographic dividend? This is a fundamental question which must be examined by researchers and policies makers in each economy with reference to its own stage in the demographic transition and structure of the economy. Policy guidance could be provided on the following questions:

- What are the policy options that governments can implement so that the unemployed youth (including university graduates) can be gainfully employed? Policies such as wage subsidies, tax breaks/holidays for companies, etc... can be considered and ranked as a function of the fundamentals of the economies.
- What are the policy options to promote entrepreneurship among the youth? Some of the schemes that can be considered include: guarantees to commercial banks to lend to prospective entrepreneurs; effects of business friendly legislation, risk pooling ventures through microfinance.

3. Employment intensity of non-agricultural growth

With globalization there has been an increase in the import-intensity of non-agricultural output in developing countries. With growth, structural transformation will happen in the economy only if both output and employment in manufacturing, non-manufacturing industry and services increases. However, recent evidence from many developing countries suggests that with increasing import-intensity had come high capital intensity of non-agricultural output, and employment is not growing outside of agriculture. With levels of urbanization and non-agricultural employment still low in Sub-Saharan Africa as well as Asia there is urgent need to examine the underlying causes of the low employment intensity of non-agricultural output growth in developing countries.

4. China's growth: challenges and opportunities for developing countries

The consumer markets of OECD countries have been inundated with low cost Chinese products for the last 20 years. China's manufacturers have similarly been penetrating developing country markets, presenting a challenge to these economies in their attempts to make the structural shift towards an increase in the share of industry in output and employment. Despite recent increases in labor costs in China, the combination of high productivity and relatively lower labor costs have enabled China to capture large shares in developing country consumption of manufactured goods. At the same time, China's rapid growth constitutes a new and important market for certain categories of developing country exports, notably natural resources. Analysis is required to design appropriate policies to promote the quality and quantity of employment in developing countries in the face of these developments.

5. Entrepreneurial risk tolerance by gender

The global literature provides evidence that women may be more risk averse than men, and, given the relationship between entrepreneurial risk and reward, women's decision to take on less risk may contribute to the smaller returns exhibited by their businesses. However, conflicting findings about women's risk tolerance levels in the region have been the source of much recent debate. While some researchers support the notion that lower income women may be more cautious regarding the amount of financial and business risk they are willing to assume, other researchers have found that an "entrepreneur is an entrepreneur" and have found that the risk appetite does not vary across male and female entrepreneurs, and rather other factors, such as size, sector, and formality more strongly affect the risk appetite for both males and females.

This research will investigate risk tolerance levels for male and female entrepreneurs along the MSME spectrum to inform policy-making and development interventions aimed at best enabling female entrepreneurs to take advantage of opportunities that might allow them to expand their businesses.

6. Discrimination in credit access for women at the SME level

Access to start up and growth capital is essential to the success of any business, and is one of the greatest challenges faced by male and female entrepreneurs worldwide. Women-owned SMEs compose a critical, yet underserved, market in the region, and up to 77% of formal women-owned SMEs have unserved or underserved credit needs. There are several reasons why women business owners may find it more difficult than men to access external financing. Women may face more difficulties in accessing credit than men due to discriminatory attitudes of financial institutions or informal lending groups. This discrimination may be involuntarily built into the credit criteria of financial institutions or may be part of banks' preconceptions of women owned businesses. A lack of market information about women entrepreneurs at formal financial institutions is an additional constraint that disproportionately affects women entrepreneurs.

Under traditional lending models, women can be rejected for credit because of informality, lack of credit histories and collateral, not fitting banks' marketing strategies or client profiles, low education levels, lack of formal work experience and exclusion from entrepreneurial networks. This research should focus on the factors leading to financial institutions' unconscious biases in lending to women at the SME level and should highlight both innovative credit-scoring methodologies and policy recommendations that account for these latent biases to increase access to finance for women in the region.

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