IDENTIFYING GROWTH SECTORS FOR SUSTAINABLE YOUTH BUSINESSES IN AFRICA

Regional Sector Analysis for Youth Business Focus in Africa

JUNE 2016
Executive Summary

BUILD-in-a-Box Camps offer peer education in entrepreneurial leadership for youth in Africa. Over two days, youth are given the tools to identify problems within their communities and define businesses that can address those problems. It is essential that the business ideas that they define have the potential to be viable and sustainable. Therefore, the entrepreneurship conversations should be grounded in the economic realities of the respective markets. This document highlights the process that was undertaken by the Anzisha Prize team to select the sectors that the BUILD-in-a-Box camps should focus on in 2016. This sector selection was based on sector contribution to GDP, sector growth, and job creation attributable to the sector. The analysis was conducted for North, East, West Central, and Southern Africa. The sectors highlighted in this document are those that are considered the most viable for youth participation from a jobs creation and venture sustainability perspective.

Why Growth Sectors Matter For Youth

With high and growing unemployment rates across Africa, entrepreneurship is considered a critical space within which the jobs battle will be waged and won. Creating, strengthening, and growing small businesses are part of almost every African government’s current agenda. Large amounts of development funding, as well as provincial and national government budgets are increasingly being dedicated to funding and supporting small businesses, with the end goal being the creation of jobs.

However, with an increasingly connected global economy, the conversation around African entrepreneurship does not necessarily originate from within Africa and within African contexts. Though the tide is turning and the likes of Aliko Dangote, Mo Ibrahim, and Strive Masiyiwa are frequently spoken about and their successes well recognized, the majority of youth still hear more about Steve Jobs-esque entrepreneurship than they do about local entrepreneurship icons. Because of this disproportionate emphasis on international role models, many African entrepreneurs are not making decisions about sectors within which to start their businesses with their own full and immediate context in mind. While the opportunity to leapfrog does exist, it is still important that business models are defined with the constraints of the local environment, as well as the opportunities of the local environment, at the core.

The Anzisha Prize is an award for young entrepreneurs in Africa. The award aims to recognize Africa’s youngest entrepreneurs who are not only solving problems within their local environment, but who are also creating jobs for other youth to help close the jobs gap that exists and is growing among Africa’s youth.

Anzisha Prize also seeks to seed and nurture a spirit of entrepreneurship among young Africans across the continent. To this end, the Anzisha Prize team also runs youth entrepreneurship peer learning camps hand-in-hand with the African Leadership Academy’s Entrepreneurial Leadership team across Africa as part of the BUILD-in-a-Box program. This program is a two-day entrepreneurship learning and practice camp. Camp participants learn about identifying opportunities within their communities and define business models that can tackle the problems or capture the opportunities. While running these camps, the team has found a disconnect between sectors that are most promising from an

“"The conversation around entrepreneurship does not necessarily originate from within Africa and within African contexts"
economic growth, economic contribution, and job creation perspective and the sectors that youth are most excited to start ventures in. Participants of these camps, who are between the ages of 15 and 22, typically get excited about ventures that are on the cutting edge of technology, and organizations or initiatives that focus on exciting and mobilizing other youth. Going forward, our team has determined that it is necessary to take a data-driven approach to identifying sectors that have growth potential and can actually lead to these young change agents being able to provide themselves with a meaningful and sustainable livelihood.

We therefore embarked on a process to make some data-driven sector choices to assist youth in the BUILD-in-a-Box camps as they define business ideas to solve problems in their communities.

Methodology

Our hope was to identify sectors that have consistently demonstrated growth, sectors that have contributed increasingly to GDP, sectors that have contributed to job growth, as well as sectors that represent reduced barriers to entry for young entrepreneurs. We conducted analysis across these four dimensions for each of five regions in Africa: these are North Africa, East Africa, West Africa, Central Africa, and Southern Africa. The data was sourced from publicly accessible data sources via the World Bank Data Bank and the International Labour Organization. To select focus sectors, we used four primary indicators.

1. Sector contribution to GDP – The absolute size of the sector is an important indicator as large and established sectors are more likely to have established value chain support systems and are often focus areas for government and development support systems.

2. Sector growth – Growth indicates new opportunities that may be available to participants in the sector.

3. Jobs growth within the sector – We aim to encourage youth to participate in sectors whose growth has also been accompanied by the creation of new jobs as this will enable them in turn to create jobs for other youth.

4. Youth barriers to entry – With the BUILD-in-a-Box camps targeting a fairly young demographic, it is essential that we take into account some of the unique constraints that this age group might face when entering into business. We therefore created a youth barriers score by sector, consisting of three underlying factors. Firstly, start-up cost is considered a youth barrier as youth have disproportionately limited access to sources of capital. Secondly, the extent to which a sector is regulated is considered a barrier for youth as they may not have the know-how, networks, or eligibility to acquire various permits to operate within the sector. Thirdly, the technical complexity of the sector is taken into account as some of the youth in our target market are still in school or yet to complete their studies. They would therefore need further education in order to enter into some sectors. Based on these three factors, a score was created for each sector, placing it on a youth barrier to entry spectrum. Given the subjectivity of this measure, we did not apply it as a strict delimiter for sector selection, but rather as an advisory or caution that youth should take as they enter into the sector. Data was collected and considered for the above metrics over two decades from 1991 to 2012 or 2014 as data availability allowed.

Seven sectors were considered:

1. Agriculture – Includes the growing and processing of both food and cash crops, as well as livestock. This sector definition also includes hunting, forestry and fisheries.

2. Transport and freight – Includes all forms of transportation, storage, commuting, and movement of people and goods across all modes. This also includes courier and postal services.
3. **Retail** – Includes the purchase and resale of goods, both wholesale and not.

4. **Manufacturing** – Includes the processing and packaging of goods including chemical, beverages, textiles, paper, electronics, furniture, etc.

5. **Mining and utilities** – Includes mining and quarrying of an assortment of minerals, as well as the associated support services. This also includes petroleum extraction and refining as well as the production and supply of electricity, gas, steam and air conditioning.

6. **Construction** – Includes both the construction and maintenance of buildings and other infrastructure.

7. **Services** – Includes financial and insurance activities, legal activities, marketing and market research, education, and other administration services.

The following sections give our findings of sectors we have recommended for focus by region.
Sector Prioritization by Region

West Africa: Transport & Freight, Retail & Services

The graph below shows a combination of the data analysed for West Africa. On the horizontal axis, we show the compound annual growth rate in jobs created per sector between 1991 and 2012. On the vertical axis we show the sector compound annual growth rate between 1991 and 2014. The size of the bubble represents the sector’s contribution to GDP within the region. The colouring of the bubble represents our assessment of youth barriers to entry within the sector – darker shading represents easier access while lighter shading represents higher barriers.

When the data were assessed for West Africa, four sectors emerged as the front runners. However, we confined the top sector selection to the top three in order to enable focus within the camps. The top three selected sectors are circled in red. These are, transport and freight, retail, and agriculture. Services was comparable in size to agriculture but was left out of the top three on account of its marginally lower jobs and sector growth and higher estimated barriers to entry.

The transport and freight sector was the fastest growing sector in countries such as Nigeria, Senegal, and Sierra Leone, and was the fastest growing overall in both jobs contribution (8%) and absolute growth (10%). As infrastructure continues to develop within the region, there is significant growth in activity within the construction sector with around 8% of growth per annum and 7% growth in jobs created per annum over the two decades. However this sector is still considerably small in GDP contribution compared to the three selected.

The sector has grown at just over 5% per annum between 1991 and 2014, and has added jobs at just under 3% per annum over a similar period.

Agriculture was also one of the sectors prioritised. Agriculture is the largest contributor to GDP and the main economic activity in a number of West African countries including Ghana, Cote d’Iviore, and Niger.

The third sector prioritised is the retail sector, which has grown fastest in Cameroon, Chad, and Burkina Faso. Over this period, this sector grew at just under 7% and added jobs at just under 4%.

The mining sector has stagnated in the region over the period, and has contracted in jobs created.

West Africa data is shown in the graph below:

Southern Africa: Retail, Transport and Freight and a sprinkling of agriculture

The Southern African region has over the two decades transformed from being a primarily factor-driven economy to more of an efficiency driven economy. The growth sectors have been transport, construction, and services. These sectors have increased more in contribution to GDP when compared to other sectors. The mining and agriculture sectors in this region have stagnated, showing the lowest growth. With development within the region, manufacturing has surprisingly not experienced much growth with job creation growth of 1.5% per annum and a GDP contribution growth of 2.5% per annum.

Despite the rapid growth of the construction sector in both jobs created and GDP contribution, it has not been selected on account of its smaller size. Construction was however the fastest growing sector in countries such as
Mozambique, Angola, and Zambia and may be considered on an individual market basis.

The transport sector emerged as the fastest growing in both jobs and GDP contribution. This was driven by growth in countries such as South Africa and Zimbabwe. As the largest economy in the region, South Africa does disproportionately influence the sector trends. However even when South Africa is removed from the data, the sectors selected do not alter significantly.

Within the services sector the size and growth are influenced by growth in areas such as financial services with increasingly more adults in the region being financially included.

The retail space continues to be a vibrant space with increasing trade within and across countries in the region.

Southern Africa data is shown in the graph below:

8% per annum in jobs created and in absolute growth.

The third sector prioritised in this region is retail, which has grown at around 6% per annum in jobs and absolute growth.

These three sectors may have been the fastest growing sectors over the two decades, but they are not the largest or most well-publicised sectors in East Africa. Services and agriculture are the two largest sectors in East Africa. Services, in particular, is much discussed and glamourized in East Africa as it has become the self-styled innovation and technology hub of the continent. Though there are opportunities in this sector, we focus on encouraging entrepreneurs to seek opportunities where the growth is more prominent and sustained.

East Africa data is shown in the graph below:

East Africa: Construction holds potential but with higher barriers to entry

The economic growth in East Africa has been quite closely correlated with the jobs growth within the region. The fastest growing sector on both fronts has been construction, with 9% in both annual jobs growth and annual absolute growth over the two decades. It has essentially doubled in GDP contribution. This is driven by major infrastructure projects in countries such as Ethiopia, Rwanda, Tanzania, and Uganda. The next fastest growing sector in East Africa is transport and freight, which has experienced growth rates of around 8% per annum in jobs created and in absolute growth.

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North Africa: Manufacturing makes a strong show

The North African economy experienced significant structural change between 1991 and 2014. While mining and utilities represented 42% of the economy in 1991, it represented only 25% in 2014. This decline was primarily due to decreased oil production in war-torn Libya. Sectors that have experienced growth include construction, transport and manufacturing.

Growth in construction has been driven by growth in Algeria, Egypt and Morocco, adding jobs at 7% per annum over the period from 1991 to 2012. Governments
in the region are investing in infrastructure in attempt to diversify their economies and pave the way for sustained future growth. For example, Egypt has invested significantly in the expansion of the Suez Canal.

The transport sector has grown at 5% per annum in job creation and just under 7% in absolute growth. And it is the fastest growing sector in Egypt and Morocco over the period.

The manufacturing sector was the second fastest growing sector in Egypt after transport. Over the entire region it added jobs at over 5% per annum and grew at around 4% per annum.

Central Africa: Mining with higher barriers for youth

In Central Africa, the largest sector is mining, which has grown from being 43% of the regional economy in 1999 to over 50% in 2014. The region is fairly undiversified in economic activity. This is primarily due to the prevalence of precious metals in the Democratic Republic of Congo, Congo, and Gabon. That said, the sectors that experienced the largest growth over the period were construction, services, transport, and agriculture. The overall growth rates are, however, much lower than in other regions, ranging from 2.5% to 5%.

The three sectors that we have prioritised for this region are services, transport, and agriculture. Construction, though fastest growing, remains a fairly small contributor to GDP and has, as such, been deprioritised this year.

Central Africa data is shown in the graph below:

Conclusion

The Anzisha Prize team embarked on this process in order to identify sectors for focus during the BUILD-in-a-Box camps. It was intended that sectors should be selected to enable youth to focus on starting businesses with increased chances of viability and job creation. We have recommended the top three focus sectors for each of North, East, West, Central and Southern Africa. Selections were primarily made based on sectors that are growing the fastest, are the largest contributors to GDP, and have added the most jobs over the two decade period that was considered.

The choices were not always easy – in some instances, the sectors that were growing fastest and adding the most jobs were not necessarily the largest sectors or the most publicized and favoured sectors by youth.

The sectors selected for each region are shown in the table below:

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<tr>
<th>Sector</th>
<th>West Africa</th>
<th>Southern Africa</th>
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We encourage other practitioners within the youth development space to make thoughtful and data driven choices around which sectors to encourage and advise youth to start businesses in. The narrative should be grounded in real growth opportunities based on regional and national data.