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How Large Is the Private Sector in Africa? Evidence from National Accounts and Labor Markets

by Marco Stampini, Ron Leung, Setou M. Diarra, Lauréline Pla

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Abstract:
In recent years, the private sector has been recognized as a key engine of Africa's economic development. Yet, the most simple and fundamental question remains unanswered: how large is the African private sector? We present novel estimates of the size of the private sector in 50 African countries derived from the analysis of national accounts and labor market data. Our results point to a relatively large size of the African private sector. National account data shows that this accounts for about 2/3 of total investments, 4/5 of total consumption and 3/4 of total credit. In relative terms, large private sector countries are concentrated in Western Africa (Cote d'Ivoire, Guinea, Niger, Senegal and Togo), Central Africa (Cameroun, Republic of Congo) and Eastern Africa (Kenya, Sudan, Uganda and Tanzania), with the addition of Mauritius. Countries with small private sectors include a sample of oil-exporters (Algeria, Angola, Equatorial Guinea, Libya and Nigeria), some of the poorest countries in the continent (Burundi, Burkina Faso, Guinea Bissau, Mali and Sao Tome e Principe), Zambia and Botswana. Over the last ten years, the size of the private sector has been contracting significantly in oil exporting countries, although the variation in its size does not appear to be significantly correlated with growth performance. Labor market data reinforces the idea of a large private sector, which provides about 90% of total employment opportunities. However, most of this labor is informal and characterized by low productivity: permanent wage jobs in the private sector account on average for only 10% of total employment (a share similar to that provided by public administration and state owned enterprises). South Africa is the notable exception, with formal wage employment in the private sector representing 46% of total employment. Finally, we find evidence of negative private sector earning premiums, suggesting that market distortions abound. These are likely to prevent the efficient allocation of human resources, and to reduce the overall productivity of the African economies.

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