

# Road to Industrialized Africa: Role of Efficient Factor Market in Firm Growth

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## Abstract

Despite rapid growth in Africa over the last decade, the industrialization has lost ground with shrinking manufacturing sector and high informality. With global commodity slump, what policies could drive firm productivity growth in Sub-Saharan Africa (SSA)? This paper evaluates how land market and labor regulations affect the factor allocative efficiency and firm performance in SSA compared with developing Asian countries. Using pooled firm balance sheet data for 40 SSA countries, the empirical results identified significant land and labor misallocations due to shallow land rental market and weakly enforced labor regulations. Using variations in ethnic diversity and the intensity of regulatory actions to peer firms at subnational level as instrumental variables, the local average treatment effects show large productivity gains from factor reallocations, especially for marginally productive firms. Panel data results for Nigerian firms confirms factor market inefficiency as a driver of declining productivity. The difference-in-difference result also finds that the 2011 minimum wage reform in Nigeria significantly increased TFP by about 80 percent, showing wage rigidity as the main cause of labor misallocation.

*Keywords:* Industrialization, misallocation, land market, labor regulations

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