Summary

The performance of Africa's economies has improved recently, but there is still a huge lag in terms of long-term growth, structural change, and industrial development. Why is business performance lagging in Africa? And is Africa different from the rest of the developing world?

This analysis brings together a number of issues emerging from Enterprise Surveys that have been conducted in several countries in sub-Saharan Africa and elsewhere. It does not cover all of the many causes that have been proposed to explain the slow rate of growth in Africa. It concentrates instead on what managers and entrepreneurs in the private sector in Africa are telling us about the day-to-day problems that they encounter. The analysis in this book is a reflection of their point of view. The businesses that they run are located in the formal manufacturing sector, which, even though it is not the dominant sector of economic activity, is vital in the chain of development.

Our central thesis is that the observed lags in the development of the private sector in Africa are based on the interaction of several factors:

Exogenous factors. These include the small size of markets and overall economic sparseness, which together discourage competition and innovation, reduce the entry of new firms, and increase demands on infrastructure.

Infrastructure. The lack of infrastructure, particularly a reliable source of power, emerges as a huge constraint on private sector activity. More than half of all private sector firms rank infrastructure as their worst constraint. Firms that are able to compensate for lack of electricity by using generators are able

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to survive better than firms that do not have a generator. Furthermore, the low density of economic activity raises demands on infrastructure.

Segmented business sectors. Many African countries have private sectors that are ethnically segmented or dominated by ethnic minorities or both; these segmented networks exist for reasons of history, adaptation to risk, and so forth. Segmented networks in already sparse economic environments limit competition, encourage an ambivalent attitude toward facilitating a good business environment, and constrain the growth of firms outside the dominant network. Large markets may compensate for ethnic segmentation by encouraging entry or sustaining multiple networks, but that is not the case in much of Africa. We have yet to see the emergence of a broad-based business class.

While the economic fundamentals are in place in many African economies, there is no central authority to make critically needed regional investments—no equivalent of a federal government or a pan-African highway administration or power authority with a mandate to fill the gaps in regional investments. Internal markets remain small and segmented, exporters face high costs of transportation, and key bottlenecks to growth are not alleviated.

What does all of this mean for the development of Africa's private sector? Several reforms are potentially important and can reinforce each other:

—Open borders, which encourage conglomeration, increase the scale of markets and the density of economic activity.

—Improvements in key infrastructure constraints, especially power and roads.

—Introduction of service guarantees to improve the responsiveness of governments to the service needs of businesses.

—Efforts to broaden the base of the private sector, through the strengthening of private-public dialogue and support of home-grown efforts such as the Investment Climate Facility for Africa.

Finally, what can rich countries do to help with the agenda above? There is scope for both bilateral and multilateral assistance in all four areas, particularly in the area of infrastructure investment. The Overseas Private Investment Corporation (OPIC) in the United States and other organizations should set up funds to support "clean infrastructure" projects that focus on renewable energy sources. Newly emerging economies such as China and India, as well as the United States and other rich countries, can help to shape the African Development Bank's portfolio, so that it can focus on the financing and implementation of infrastructure projects. Rich countries also can do more to facilitate the transfer of renewable energy technologies to Africa.

Entities that offer investment guarantees can expand their coverage to domestic investors by introducing partial risk guarantees. Both rich countries and multilateral banks can help African governments move toward creating more open borders and a less onerous regulatory environment by supporting the newly created Investment Climate Facility for Africa. And both can provide assistance for programs, particularly in the area of business education, that will help small entrepreneurs become more successful.