THE SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS

INTELLIGENCE UPDATE 13/2000

'It's the Private Sector, Stupid'

Blame for stagnant economic development and declining human development in Africa is usually placed at the foot of the public sector. The public sector has accrued debt, mismanaged economies and become corrupt. In a continent where private savings and domestic investment give way to capital flight, the potential role of the domestic private sector in stimulating development has been downplayed. Foreign investors are unlikely to invest in an economy abandoned by its own citizens. But private sector-led development should not restrict itself to large corporate projects as has often been the case. It can reach the poor more effectively through small, medium and micro-enterprises which are better placed to offer employment and take advantage of new opportunities as they arise.

A decline in public sector investment directly affects each state's level of physical infrastructure, as well as its ability to provide health and educational services. As a result, citizens depend solely on state funds which seldom reach the very poor. The effect on society is disastrous: unemployment in some African cities has reached 40%; poverty ranges from 11% of the population in Tanzania to 68% in Sierra Leone and Zambia; and gross private investment averages 13.1%. At the same time, countries are becoming more aid dependent per capita. Furthermore, between 1994 and 1997, sub-Saharan Africa averaged 11 mainline telephones per 1,000 of the population (without South Africa, five), and one Internet user per 5,000 people (most of whom were in South Africa). In 1996, a total of 16.5% of primary roads in sub-Saharan Africa were paved compared with 78.1% in North Africa. Furthermore, in 1996 alone, 14 of the 53 countries on the continent were involved in conflicts and accounted for more than half of all war-related deaths worldwide. Seventy percent of those living with HIV/AIDS are in sub-Saharan Africa.

African states will have to 'relearn' their role in their countries' economies

The view from abroad

Bad infrastructure and an unhealthy population invariably deters foreign investors, while increasing the domestic private sector's cost of doing business. This is compounded by the necessity of the 'traditional' bribe. In a World Bank survey more than 50% of chief executives (CEs) in African countries said they had to bribe government officials, compared with about 30% in Asia, and 15% in the industrialised world. In fact in Africa there are two types of corruption, according to one CE: 'The first one is where you pay and you obtain what you want. In the second case you also pay, but you then spend sleepless nights wondering whether it will work out as planned or whether someone will tell on you.'

Role of the public sector

With the exception of South Africa, the private sectors of other sub-Saharan countries are generally weak, with little or no access to capital or a beneficial regulatory environment. Given the private sector's relative weakness, public institutions are needed 'to support the private sector, but in new roles as promoters and regulators, not in providing direct services or finance to business', says a UN Industrial Development Organisation report. Many African states will have to 'relearn' their role in their countries' economies and reinvent existing institutions: the *new* opportunities created by globalisation and liberalisation will not work in *old* systems where the state was a private fiefdom and served the interests of the privileged few. African states should therefore begin discussing 'sunset clauses' for foreign aid and medium-term frameworks to reduce their debt. Both elements as well as schedules to improve the human development profile of their populations require states to create conditions within which an efficient and competitive private sector can grow.

However, relying on the state to support the fledgling private sector is also problematic given the institutional weakness of many African states. This fuels corruption where the public sector protects entrenched business interests of its governing elite thus undermining a competitive business environment.

The facilitation of the private sector should focus on two elements:

- the attraction of foreign private investment; and
- the encouragement of domestic private initiatives; specifically small and medium enterprises.

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Facilitation requires a number of key elements which will encourage an efficient private sector:

- Macro-economic and sociopolitical stability, including sound fiscal and monetary management of the economy, and an operating educational and health system.
- A predictable legal and judicial framework. A 1997 World Bank survey found that 60% of business people in sub-Saharan Africa operated with the fear of change in the legal framework, compared with 30% in the industrialised world and southeast Asia. The unpredictability of change in the legal and regulatory environment is underscored by the fact that business does not participate in the decision-making process. Equally important in this regard is the predictability of the justice system. Among developing countries and especially in Africa more than 70% of CEs regard the *unpredictability* of the justice system as one of the key obstacles to the functioning of their enterprises.
- An efficient financial system.
- Private sector regulation which ensures competition without burdening the private sector, especially small business.
- physical infrastructure such as roads, telephones and communications.

Foreign investment not a panacea

The continent has lagged behind other countries in attracting foreign investment. In 1998 Africa attracted only three percent of all foreign direct investment into developing countries. And although private investment as a proportion of total investment in sub-Saharan Africa has gone up compared with the 1970s it is mainly because of a sharp drop in public sector investment. Foreign investment in many countries is focused on mineral extraction and is not a large generator of jobs, nor a poverty alleviation mechanism. In other instances, the bigger private enterprises simply purchase 'undervalued productive assets' when these are privatised by the state.

A role for SMMEs

Although much is said about the need to attract foreign direct investment, too often seen as a panacea to Africa's underdevelopment, there is one very significant domestic area that African states can focus on which in a more direct way may benefit their citizens more rapidly: the encouragement of growth in the small, medium and micro enterprises. Globally, SMMEs account for 50% to 60% of employment. They are labour-intensive and not always concentrated in the urban areas, thus bringing economic benefits to the peri-urban and rural areas where a large proportion of Africa's people live. Nevertheless, SMMEs in Africa have not become the channels of employment creation and wealth generation that they are in other parts of the world.

The South African government is well aware of the potential in this field. There are also several continent-

Country	Poverty: % of pop. living on under $1 a day 1984-97	Total consumption per capita, 1998, US$	Net ODA per capita from all donors US$, 1997	Gross domestic savings 1998	Gross private investment, 1998	Net foreign direct investment 1998, US$m
Botswana	33	2,366	81	35.1	9.9	50
Cote d'Ivoire	18	577	31	24.2	13.1	247
Ethiopia	-	100	11	6.3	10.6	-
Ghana	-	353	28	13.2	10.9	-11
Kenya	50	369	16	6.7	8.0	40
Malawi	-	159	34	0.7	-0.3	35
Mozambique	-	226	58	1.7	11.1	213
Nigeria	31	301	2	11.8	14.0	1,351
Senegal	54	455	49	15.1	13.8	5
South Africa	24	2,686	12	16.9	11.1	-1,171
Tanzania	11	232	31	6.0	12.1	165
Uganda	69	306	41	5.7	9.7	190
Zambia	85	328	65	5.3	5.6	219
Zimbabwe	41	406	29	19.8	19.1	88
All Africa	-	**595**	**23**	**16.2**	**13.1**	**6,342**

wide initiatives to develop 'external' economies of scale for SMMEs or to strengthen the capacity of public sector institutions to encourage the private sector more generally and SMMEs specifically. The UN Industrial Development Organisation is quite active in the above areas.

The potential of SMMEs to act as engines of growth and development should not be underestimated. For example, the Association of South East Asian Nations has established a specialised organ for SMMEs to enhance their competitiveness in global trade and alleviate risks faced by these enterprises. They are seen as ideal tools which enable marginalised groupings such as women entry into the economy.

SMMEs are labour-intensive and bring economic benefits to peri-urban and rural areas

Financing SMMEs

For SMMEs to reach their potential, African governments should encourage banks to provide venture capital to such enterprises by, for example, setting aside a certain portion of their book for favourable tax treatment, extended write-offs or depreciation. They should also take steps to create a set of standards for production so as to enable the export of goods to regional and global markets. Standardisation would also create opportunities to integrate production across boundaries, although initially this may not be easy for smaller enterprises competing against larger more established companies. Such developments could see individual economies move beyond 'producing locally and marketing regionally' to integrated regional production and global markets. Crucial in this regard, however, would be the harmonisation of laws, from tax regimes to investment and import regulations.

Global integration

Integrating African output into the global economy will depend by and large on the individual economic choices of each country. 'Before a country can hope to attract foreign investment in large volume, it has to demonstrate its capacity to retain the savings of its own citizens, and where those savings have gone abroad, it has to demonstrate the capacity to bring them back...To bring them back by creating an economic environment in which profits and high returns can be earned. In this world — which is increasingly one world — there is only one way to do that: to allow markets to function and allow businesses and entrepreneurs to seek opportunity.' That is how US Treasury Secretary Lawrence Summers summed up the challenges facing African countries in ending the continent's 'physical remoteness' to global markets. It cannot be stressed enough that a vibrant domestic private sector is the best marketing pitch for any country aiming to attract foreign investment.

Moreover, Africa will have to adopt the technological age. Already several million Africans have a standard of living comparable to that of the developed world. The benefits of interconnectedness and e-commerce should therefore be harnessed so that Africa can start moving into the New Economy. Progress into the New Economy will require an accelerated investment in human resource training. It will require education systems in Africa that produce inquiring and creative minds with the skills to take advantage of opportunities. This in turn will encourage foreign investors and entrepreneurs. The economic and political turmoil in Zimbabwe highlights the growing domestic opposition to African leaders who run countries as personal fiefdoms. Concepts of accountability, transparency, rule of law and tolerance need to replace the modus operandi of arbitrary government actions, which place whole populations at the mercy of the state. Instead the institutional capacity of states to deliver has to be strengthened, so as to successfully attract foreign and local capital.

A key aspect of the African Renaissance is the recognition that it is Africans who must start making things happen. The continent cannot continue to live off international aid or historical justifications for its past failures. African businesses and community leaders must take control of their own destinies. Government structures, and particulary those involved in promoting trade, should encourage citizens to lead rather than be subservient to the personalised state. The function of the state should not be to create jobs, (especially for its cronies) but to give individuals and companies the freedom to create them.