13 Postscript: Sustaining the Growth of Private Sector in Africa

13.1 Introduction

There has been a renewed vigor in the development of Africa. In the decades following the stagnation of the 1980s, the continent has enjoyed sustained periods of growth, powered mainly by the upswing in the price of commodities. Yet, there has been another form of growth, that brought about by structural changes in the economies of several African countries.

Africa's rebirth has had a lot to do with government initiatives and policy reforms that gave a greater role to the private sector. So at a time when foreign multinationals gave Africa a wide berth, the task of taking up the responsibility of meeting the needs of Africa fell to African entrepreneurs. For the past three decades, African Founded Firms, have made the investments that have provided the goods and services for Africa's growing population.

The success of African firms has been revelatory, showing the potentials and possibilities on the continent despite the enormous inherent challenges. As governments continue with reforms and investments that address the weakness of the business environment, the private sector needs greater support, especially as projections on population growth portends that more needs to be done to feed and meet the needs of Africans.

Repeatedly, studies have shown that access to finance and the business environment are the biggest constraints militating against the growth of the private sector in Africa. Yet, Africa continues to miss out on the capital flows to spur privates sector growth. Africa attracts the least FDI globally and the continents share of global investable capital flows remains minuscule relative to other regions and despite the valiant efforts of Africa's private sector, the growth of the manufacturing sector in Africa has been marginal.

But even the marginal growth signposts enormous potential. It shows a turning point after several decades of decline and deindustrialization. Africa's great triumph has been the exponential growth of the services sector and its contribution to

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GDP. But policymakers fear that a leap from an agrarian to services led economy is an aberration that may not be sustainable. The historical progression has always been one where countries move from the primary, through to the secondary before developing the tertiary sectors of the economy. Among the spillover effects of a highly developed secondary sector is that it absorbs a large part of the workforce in the employment it creates and spurs economic growth in the capital it accumulates as well as accelerates technology transfer.

Africa's industrial growth is still waiting to happen and the hope for its takeoff lies with the private sector. The initiatives are heartwarming. Refineries, fertilizer plants, petrochemical plants, auto plants and consumer goods manufacturing plants are springing up across the continent. Leading these investments are African Lions, of which Dangote Industries, OCP, Orascom, Mansour, Qalaa Holding, Sasol and Bidco Africa are prominent players. The strategy then should be to give these firms greater support so that they add to the efforts to fulfil Africa's developmental potential.

13.2 The Private Sector Has Grown in Africa

There has been a fundamental shift in the economic structure in Africa. The African marketplace, once dominated by state owned enterprises, and multinationals now has a significant player, the indigenous African private sector (Elkan 1988).

The private sector in Africa employs 90% of the labor and contributes 60% to GDP (African Development Report 2011). The private sector was once the domain of informal, small and medium scale enterprises, but in post-liberalization period more firms have grown into large corporations and have affirmed their belief in Africa through continuous investments and innovations. Their profitability has shown that their efforts have been worthwhile while their rapid growth and expansion is a testament to the fertility of the African business space despite the inherent challenges.

The private sector is recognized as a critical driver's economic development, a provider of jobs, goods, and services that enhances people's lives and help them escape poverty. Taking into account the structure of the African economy the private sector is unquestionably the engine driving economic development on the continent. The private sector has helped stimulate GDP growth in Africa, improved agricultural yields, kickstarted the reindustrialization of the region and taken control of the responsibility of providing services and utilities on the continent.

13.2.1 African Multinationals

Africa's private sector ranges from a multitude of micro-enterprises that provide marginal employment for a single individual to a small number of large corporations employing hundreds of people. The configuration includes informal and formal sector businesses, traditional and modern, indigenous and foreign-owned

enterprises geographically dispersed in rural and urban areas (MCdade and Spring 2005). The informal sector is estimated to contribute as much as 40% of GDP in Africa. Yet, the formal indigenous private sector continuous to grow.

There has been transformation of the entrepreneurial landscape, however, as more indigenous private sector firms have expanded into large firms with some having multinationals operations. There are now 700 large companies with revenues of over USD 500 million in Africa today (MGI 2016). The continent has also 400 companies with revenues of more than USD1 billion per year, and these companies are growing faster, and are more profitable in general than their global peers.

Additionally, among these large firms, over 300 have cross-border operations within and outside Africa. The growth of African Multinationals Enterprises has been rapid and phenomenal.

13.2.2 New Pipeline of Large Private Companies

While a number of companies have transited into large firm, Africa still has a preponderance of medium scale companies. Nevertheless, a large number of these medium sized firms are also expanding into large companies. A report by PWC, however, identified 360 companies from 32 different countries across the continent that boast an incredibly impressive average compound annual growth rate of 46%. On average, each firm employs over 350 people, with an average compound annual employee growth rate of 25 (LSEG 2019). These companies operate in diverse sectors and this paints an encouraging picture of the future of the African economy. This shows that the transition of indigenous private firms in Africa into larger firms is still continuing.

13.2.3 The Privates Sector Is a Contributor to Development of Africa

Today, the African private sector represents two third of the total investments in the continent, three quarters of the generation of wealth, and 90% of the employment opportunities (African Development Report 2011). The private sector has played a large part in diversify the economies of African countries, through their investments in manufacturing and services. Their growth has been driven by innovation, and it has engendered competitive intensity in the market place, employment and increased tax revenue for governments.

Their expansion into large firms and multinationals is particularly significant because, in any economy, large firms are the primary drivers of growth, investment, corporate tax contributions, exports, and productivity. Large firms also foster sustainable small-business creation through the upstream and downstream ecosystems they help to create.

Private sector investment and production has increased intra-African trade with several African firms contributing to the integration of continent through

investments that has improved telecommunications connectivity, transport connectivity and financial systems integration (BCG 2018).

The private sector has had a tremendous impact on poverty reduction and inclusive growth through investments that have significant spillover effects in local economies as they seek means of sourcing locally.

13.2.4 The Privates Sector Development in Africa Lags Behind Other Developing Countries

Despite the impressive growth of the private's sector in Africa, its still lags behind its developing countries peers. Especially in revenue and productivity performance. Africa has only 60% of the number of large firms one would expect if it were on a par with peer regions—and their average revenue, at USD2 billion a year, is half that of large firms in Brazil, India, Mexico, and Russia, for instance (Dinh et al. 2012).

Large firms also lag behind other developing country peers in productivity due to the toll brought about by the business environment, which imposes a lot of added cost to the operations of African firms. 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 (UNCTAD 2014).

13.2.5 The Private Sector Faces Several Challenges

The private sector in Africa faces many constraints in such areas as access to finance, infrastructure, investment climate, and the investment climate. The top obstacles for firms in developing countries include problems with. Data from the World Bank Enterprise Survey of firms in Africa show that the top obstacles for firms in Africa includes problems with access to finance, infrastructure, investment climate, and worker skills. These obstacles tend to be worse in poorer countries and for smaller firms (Teunissen and Akkerman 2006). Obstacles such as finance and infrastructure tend to be more acute in lower income countries. For finance, smaller businesses report greater difficulty with access at all country income levels. SMEs in particular suffer from scale issues and weak information and bank systems. To address finance there is need to develop new models to increase access to finance for African firms.

13.3 The Need for Support for Africa's Private Sector

Africa has a challenging business environment and large indigenously owned firms are few in number and lag behind their non-indigenous counterparts. But it has been shown that a higher private sector investment is associated with faster-growing economies (UNCTAD 1999). Supporting indigenous firms must be a focus of policymakers in order to create a broad-based private sector.

Competitiveness, local processing, intra-African investment and, indeed, Africa's financial capacity are vital ingredients in the promotion and continued expansion of the African private sector. A key mechanism for economic growth is higher productivity and knowledge transfer, and the private sector can be a critical facilitator of this process. Private firms and entrepreneurs invest in new ideas and new production facilities so focusing on private sector development can help address these constraints and can be most effective by targeting high-impact sectors and projects, ensuring sound business practices, leveraging partnerships, and focusing on segments.

13.3.1 Financing the Private Sector Is the Key to Africa's Development

Lack of finance has frequently been identified as a major constraint to business activity in developing countries and a brake on company growth prospects (Ajakaiye 2005). African systems are noted for the restrictiveness of their financial markets, often under-capitalized and with limited liquidity. Furthermore, the cost of credit is high and there is a very weak mobilization of medium- and long-term resources.

While the research shows that access to finance is frequently a major obstacle for firms, that obstacle may reflect a number of different underlying causes. In many cases, limited access to finance is also related to the underlying risk factors of business in Africa, which is driven by factors such as the investment climate, government credibility, and the quality, skills, and governance of local businesses.

13.3.2 More Funding for Indigenous Entrepreneurs

The rapid expansion of AMNEs has shown the benefit of support for the private sector. The range of sources from which AMNEs could raise capital aided their expansion domestically and internationally, and it financed their investments in backward and vertical integration. But the private sector in Africa still needs more. Despite high profitability and growth, capital flows into Africa is the lowest globally.

So what has been holding back further investor interest in Africa? It seems it may be fear about the continent from lack of information and misinformation. The information which flows to investors is often inaccurate and out of date. Major investment promotion campaigns fail to overcome distortions and exaggerations in a sensationalist international press.

Most international investors cite negative press as powerfully discouraging investment. Even successful countries suffer from negative information about the

continent as a whole: "potential investors lump them together with other countries, as part of a continent that is considered not to be attractive" (UNCTAD 1995).

13.3.3 IFIs Need to Increase their Investments in the Private Sector

Multilateral development banks and bilateral development finance institutions together called International Finance Institutions, or IFIs, play a significant role in supporting the private sector in developing countries. They provide critical capital, knowledge, and partnerships; help manage risks; and catalyze the participation of others. They support the kind of entrepreneurial initiatives that help developing countries achieve sustainable economic growth (IFC 2011).

The private sector in Africa has benefited from the investments International Financial Institutions. Notable among them has been International Finance Corporation, IFC, the African Development Bank, AfDB, while the most engaged bilateral IFI have been CDC, the British development bank, FMO, the Dutch development bank, and French Investment and Promotions Company for Economic Cooperation (Proparco) (UNDP 2014). Private sector–oriented IFIs are at the interface of public and private sectors, with a unique mission and perspective that allow them to provide a special role in projects. Private sector–oriented IFIs address private sector challenges by providing finance and knowledge and catalyzing others:

The support of IFI was critical in catalyzing the growth of AMNEs like Dangote, support was also extended by this World Bank affiliate to Bidco in Kenya, Madhvani in Uganda and MTN.

The investments of IFI in Africa has been vital to the growth of the private sector and the transformation of small and medium sized companies to large firms with cross border operations. Their sectorial specialization has also been valuable in developing sectors like Financial services, agribusiness and is imperative that IFI continue to extend their investments in Africa, both as direct investors and mobilisers.

Despite their growth, private sector–oriented IFIs are still small relative to total economic activity in developing countries. For example, IFI annual finance is about 1% of private capital investment in developing countries and about 2–4% in Sub-Saharan Africa or the Middle East and North Africa (IFI 2011). Thus, overall, IFIs are big enough to be an important factor in private sector development but still small on the global scene. Thus, the challenge for IFIs is to leverage their increasing private sector presence for greater impact.

IFIs must increase their budgetary allocation to supporting private investment in Africa. To make the most difference, the IFIs must deploy their resources strategically: by focusing on investment areas and approaches with high development impact, by providing investment and advice not available commercially, and by leveraging partnerships with the private sector, other IFIs, and governments to maximize impact.

13.3.4 Increase Public Investment and Improve Business Environment

In the past three decades, the share of public investment as a share of GDP has been decreasing while that of the private sector has been increasing. But development economists have found that the public sector investment is complementary to private sector investment and both are needed to sustain economic growth (UNCTAD 2014).

To maximize development impact, public and private sector policies in each country need to be coherent and complementary. There needs to be a virtuous circle between public and private undertakings to maximize development impact and ensure inclusive growth. Basic services such as water, electricity, Internet and road transport are two to seven times more expensive for African businesses than for their Asian counterparts. African firms consider physical infrastructure (in particular the cost and reliability of power supplies), finance, governance, regulation, and services to be constraint on their growth and it is important that policymakers must continue effort to improve the business environment (Eifert et al. 2008).

African governments have invested improving their ranking of the indexes that measure business climate like Ease of Doing Business index. But governments still need do more to protect property rights. Governments must step-up public-sector investment in the provision of infrastructure especially as the continents needs a USD 90 billion per year investment over the course of 10 years to bridge the deficit in infrastructure (Foster et al. 2010).

African governments need to step-up public-sector reforms and increase public sector investments. These include privatization, tax reform, enactment and enforcement of effective anti-corruption and anti-money laundering laws, protection of property rights and creditors' rights, effective private sector regulation, and bureaucratic streamlining. African states must also improve the domestic environment more generally to make it easier for Africa's own entrepreneurs to succeed (Ramachandran et al. 2009).

While governments maintained their role of managing policy and regulatory frameworks, they have to allowed more private sector provision of services.

13.3.5 Integrate Africa into a Larger Market Place

Africa is a marketplace that is constricted by the borders of 54 sovereign countries and African leaders have understood the benefit of opening up the continent to trade and efforts and successes of several regional trade agreements, customs and monetary unions at the regional level has led to an ambitious attempt to create a single market. Sparse and fractured markets in Africa make trade less profitable and economies of scale more difficult to achieve.

As governments step up efforts to improve Africa's business environment and infrastructure, the need to create larger markets with fewer barriers have become an imperative for policy makers. Africa has pursued integration at the regional level.

There are 16 regional blocks on the continent. But the barriers in Africa is historical. Division of the continent into French, Anglophone and Lusophone countries constitute barriers to overcome.

Attempts at integration has been on for decades. The main aim is to create a single market through the formation of the African Continental Free Trade Area. Steps so far taken to create the area include the formation of African Continental Free Trade Agreement which has so far been ratified by 29 states. These initiatives are aimed at promoting intra Africa's trade and mobility of persons and goods within the trade area.

The agreement initially requires members to remove tariffs from 90% of goods, allowing free access to commodities, goods, and services across the continent. The United Nations Economic Commission for Africa estimates that the agreement will boost intra-African trade by 52% by 2022. The proposal came into force after ratification by 22 of the signatory states.

ACFTA gives hope that trade flows will increase from West to East and South to North of Africa. Already these movements are already happening at the regional level, the expansion of AMNEs have been facilitated by regional trade agreements like ECOWAS, ECA and SADC. The EAC particularly has led to the flow of trade between Uganda, Kenya and Tanzania and Rwanda. For South African firms looking for expansion after several years of sanction, SADC and NEPAD where the platforms on which the lunched their foray into Africa.

So far, 52 of the 54 Sovereign African states have signed the agreement of the free trade zone and it is hoped the AfCFTA will catalyze intra-African trade and help the growth of the private sectors. Efforts must continue to oversee the successful implementation of the agreement.

13.4 Strategies for More Investment Capital

There is a global battle for capital inflow. After a long period of being shunned by international investors, capital flows to Africa increased in the 2000s. Abundant global liquidity combined with improved economic policies and prospects in many SSA countries led to a surge in private capital flows, with sharp increases in all forms of private capital inflows—FDI, portfolio investment, and private debt flows—to SSA.

But despite the huge capital flows into Africa between 2000 and 2010, it only represented 2% of all capital flows in the world. There was 1.4 trillion dollars that went into investing in 2018, only 40 billion of that money came to Africa (UNCTAD WIR 2019). With South Africa and Ethiopia attracting the largest share. Africa only gets 1.5% of foreign direct investment. At the moment, only around 1% of the £8trn in assets managed by the City of London are invested in Africa (LSEG 2019).

The various continents and regions of the world are in a continuous struggle to attract FDI. South East Asian countries like Vietnam, Bangladesh, and Thailand have attracted greater investment as they develop strategies to make their countries part of the global supply chain.

Increased capital flows can contribute significantly to Africa's development through the increased public sector and private sector investments. The US has enacted the Build Act that pledges USD 60 billion support for US registered firms investing in Africa. The Chines government has also pledged USD 60 billion and the Japanese government announce it would spend USD 30 billion in Africa while the UK has pledged 4.5 in spending in Africa, but these sums are a far cry from the needs of the continent for investment in infrastructure and private sector development.

African governments, policy makers and private sector firms need to develop strategies to attract more capital to Africa.

13.4.1 Risk Mitigation

One of the strategies for attracting more capital flows to Africa would be to assure investors though mechanisms to mitigate risk, this could help for a more balanced and sustainable growth. One where Africa plays a greater role in the Global Supply Chain. While institutions like MIGA aim at de-risking investments in Africa, risk mitigation mechanisms should be a norm to give the investors' confidence.

Institutions and multilateral agency can support sovereign guaranties for projects and lending for critical investments.

13.4.2 Strengthen Africa's Stock Exchanges

Another obstacle to investing in Africa is the lack of liquidity in stock exchanges. The lack of liquidity can largely be ascribed to poor pricing of markets, lack of digitization, high trading fees, and a lack of choice in investments due to the relatively small number of companies listed (LSEG 2019).

Africa capital markets represent less than 1% of the world stock market capitalizations. There are 23 stock exchanges. And their total capitalization is USD 610 billion, which represents less than 1% of global capitalization, this is 25 times less than the New York Stock Exchange or 7 times less than the London Stock Exchange. The percentage of the stock exchange capitalization to Africa's GDP also lags behind global averages. While representing 30% of the continent's GDP, and rising strongly, this ratio remains weak compared to other countries: 115% in the USA, 70% in France, 45% in China (excluding Hong Kong at 420%).

The concentration of the portfolio investments into Africa in a few countries is also a problem for private sector development across the continent. Over 90% of portfolio investment flow into Africa goes to the Johannesburg Stock Exchange (Sy and Rakotondrazaka 2015). The JSE is the largest and most liquid exchange in Africa. Its market capitalization represents 74% of all the stock exchanges in sub-Saharan Africa and trades an average of USD1.6 billion per day. Additionally, the bourse benefits from large sums of captive capital in South Africa, with funds under management in excess of USD500 billion. Recent South African Reserve Bank

regulation amendments provide foreign companies listed on the JSE with the ability to raise capital in South Africa and redeploy it elsewhere without restrictions. There are currently 54 foreign companies listed on the JSE and 37% of the JSE's market capitalization is held by foreign investors[1].

This situation has created a distortion in access to finance in Africa. It is imperative then that African governments must find a collective strategy to make regional or country stock exchanges more attractive to investors.

13.4.3 Private Equity Investment

Due to illiquidity in the capital markets, private equity investment is currently the most interesting form of investments for foreign investors. Research by the Emerging Markets Private Equity Association (EMPEA) showed that for the first time those polled considered sub-Saharan Africa as the most attractive investment region. However, the lack of availability of exit options is also a concern for potential private equity (PE) investors in Africa (PWC 2015). PE is growing in Africa; according to AVCA, there are over 200 PE funds investing in Africa. Most of these are investing in growth capital and their fundraising processes are generally long due to the strategic efforts required. Investment periods correspond to this longer time horizon with an average of about 5 years.

Currently, the majority of deals are small; 80% below USD 50 million in 2013. It seems likely that deal size will grow to be more in line with other emerging markets as these economies and regulatory frameworks develop. Likewise, legislative changes to encourage PE investment via state investment vehicles would give domestic firms both money and expertise in order to grow the private sector.

13.4.4 Domestic Mobilized Funds

As African governments are putting in place policies to grow the domestic mobilized capital, it should be noted that a lot of it should be allocated also to the growth of the private sector. The traditional model has been through the stock exchange but frequent shock in the stock exchange make policy makers to be wary of allocating large stocks to the stock exchange. Regulations and policy reforms should be put in place to allow pension funds, sovereign wealth funds and insurance companies to invest more on portfolio and private equity funds to create more access to capital for private sector.

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[1] By Zukile Siko, and Oluwakemi Owonubi, Rand Merchant Bank THE JOURNEY TO A LISTING IN SUB-SAHARAN AFRICA https://african-exchanges.org/sites/default/files/publications/acm_insight_volume_4_issue_3_2013.pdf.

13.4.5 Continuous Relations with China

China's influence in Africa has grown in the past few decades. Their focus on developing infrastructure has been critical to the continent. But China's value to Africa is way beyond development finance, China's economic growth has benefited Africa in more ways than one. China's engagement in Africa has been disruptive to the multilateral decision framework of European and America over Africa. China's role in Africa has been to give the African governments and private firms alternative markets for finance, machinery and equipment.

The value of this alternative market cannot be overemphasized. Over several decades, African governments and entrepreneurs have had to engage politically and economically with European governments and private businesses that are wont to work as cartels. Europeans cartelize their policies through multilateral organizations like the EU or private financiers like the Paris Club of lenders. They take common positions and set a common price for their aid, inventions, capital and technology. These cartels take common decisions that usually leave African governments feeling trapped with no alternatives. The cartelization has hampered Africa's ability to negotiate good rates for commodities, bonds, machinery and other services bought from European and American vendors. Access to technology is guided and protected (Jones 2005). China's technology, knowhow and finance has disrupted these cartels and given Africa an alternative route to financial markets and access to cheaper machinery and plants. China's knowhow and machinery gave small scale entrepreneurs the appropriately sized plants and machinery that ultimately could be scaled up as businesses thrived. Chinese lending to Africa has created an alternative source of finance outside the European financial markets and the multilateral financial institutions like the World Bank. Chinese lending to Africa has increased significantly since 2010. Overall, between 2000 and 2017, China disbursed USD143 billion in loans to African countries. Furthermore, China has pledged an additional USD60 billion in aid, credit and loans to African countries over the next 3 years.

China's engagement in Africa has been useful to governments and the private sector. It is imperative her relationship with the continent is deepened even though concerns about increasing debts should be address through creative economic models.

13.5 A Word on Africa's Industrialization

Africa's industrialization has been given impetus by the investments of Africa's indigenous private sector. But to a large extent, industrialization has been focused to meeting domestic needs, exclusively inward-looking industrialization strategies, however, have severe consequences. The experience of import-substitution industrialization in Africa suggests that an industrialization program that focuses exclusively on the domestic market and does not have an export promotion component is likely to run out of steam. While there is a large need to satisfy domestic demand, African industrialization needs start to look to integrating with the Global Supply Chains.

Additionally, the small size of domestic markets in most African countries implies that they are unlikely to sustain an industrialization program without access to external (regional and global) markets. External markets would provide an opportunity for African countries to expand production as well as exports, and reap the benefits of scale economies. It would also provide access to the foreign exchange needed to import intermediate inputs and capital goods for domestic industries. This means that both the domestic and external (regional and global) markets are important in the industrialization process (UNCTAD 2013).

Again, Africa's indigenous private sector is again critical in meeting this aspiration. Especially as they have contributed significantly to the marginal increases in manufacturing on the continent so far. There is need to extend support to expand their capacity and productivity to be able to serve world. The AfCTA is an opportunity that would broaden markets for African private sector to trade within the continent. But Africa still need to put the structure to encourage African manufacturing to be part of the Global Supply Chain.

13.6 Conclusion

The privates sector led investments in Africa has contributed immensely to economic development. But when benchmarked against their developing countries peers, the privates sector lags behind in performance, revenue generation and even contribution to GDP. Repeatedly, studies have shown that the biggest constraints to business in Africa is access to finance and the business environment. There is a need therefore to develop strategies to attract more capital to Africa for investment in the private sector.

The role of the IFIs is supporting growth of the private sector has been commendable, but their contributions still remain puny relative to total flows into the continent. A critical part of that strategy should be how to increase the liquity of Africa's stock exchanges and spread the portfolio investment coming into Africa outside its concentration in South Africa and a few other burses. There has been growth in domestically mobilized fund through reforms that has strengthened pension funds, sovereign wealth funds and insurance, legislation needs to be approved to allow increased investments in the private sector with these mobilized funds.

In two decades of growth in privates sector investments, there was a reverse in public sector investment. Investments in infrastructure development has regressed or has not met up with population growth and urbanization rates. It is imperative to increase public sector investments as studies have shown the complementary relationships between public and private sector investments in pushing growth.

There have been improvements in the business climate on the continent but not enough to ease the unseen cost of doing business in Africa. African countries still straddle the lower rungs of almost every index that measure business environment and competitiveness. The pace of reforms must not only be sustained but accelerated (Eifert et al. 2008).

The private sector in Africa needs to be supported, sustainably, in its growth and expansion. An expansion that is accelerating the development of Africa.

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