Putting Africa in Context

5

5.1 Introduction

Africa is a continent of contrasts. It is made up 54 countries that are remarkably different in their geography, history and makeup. This reality has created a fragmented continent with countries whose historical affiliations are to their former colonizers. These countries adopted the legal codes and administrative systems of their colonial overlords and continue to maintain close political and economic ties with these former colonialists.

Africa is culturally delineated into Anglophone, Francophone, Lusophone, Spanish and Arabian countries. To address the fragmentation of the continent, attempts have been made at regional and continental integration. Integration is critical as the continent seeks to lower barriers to business and competitiveness. The latest and boldest attempt is the creation of the African Continental Free Trade Area.

Integration is all the more important as private sector is taking an increasingly important role in the African marketplace. After several years of stagnation, private sector investment is growing, albeit slowly. The Africa's private sector, however, has a preponderance of informal, small and medium scale firms. There is a paucity of large firms and when they are manufacturers, they rarely manufacture for exports.

These private sector firms face challenges that stifle the growth of businesses in Africa. The most excruciation of these being business climate in several African countries. The continent's business climate is challenging, to say the least. Poor infrastructure and low ranking on indexes that measure business climate undermine the performance and competitiveness of most African companies. Access to finance is another major constraint. Capital inflow to Africa flatlined for several decades as FDI dried up and economies were stymied by policy missteps, political upheavals and crippling debt.

Yet, these constraints are felt differently by different business groups. Africa's history and politics has left her with a market place with diverse economic agents. Broken along ethnic and racial lines, these groups include former colonialists, market dominant minorities and indigenous African entrepreneurs. Many African

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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 (Ramachandran et al. 2009). These different groups of private investors have varying access to finance, technology, skill and even political clout, factors that individually or collectively influence the performance of firms run by each of these economic agents (Easterly and Levine 1997).

5.2 Fifty-Four Countries, Four Linguistic Blocks

Africa is a continent of 54 countries with different histories, ethnicities, religions and culture. The continent has a population of 1.3 billion people and an ethnic mix of people including indigenous Africans, Indians, Chinese, Caucasians and Arabs among many others.

The major distinguishing attributes of African countries are their colonial heritage and their religion. European colonialists partitioned Africa into territories that served the dual purpose of being sources of raw materials and markets for goods produced in the metropole. This partition was done during the Berlin Conference of 1885. Beneficiaries of African territories from that conference included Britain, France, Germany, Portugal, Spain, Belgium and America.

After assuming suzerainty and dominion over the people in their new territories these European powers imposed their legal codes, administrative systems, culture and way of life on their colonies. Thus, all the French colonies in Africa adopted the French legal system while the British colonies adopted British legal codes and administrative systems. In North Africa, the countries of the region had strong Arabic and Ottoman influences until occupation by colonial European powers. Colonial affiliations were thus to France, England and Italy following occupation. So, Algeria, Morocco, and Tunisia have French and Arabic heritage, while Egypt has Arabic and British heritage and Libya has Italian and Arabic heritage.

The French influence in Africa extends from the North to the West and Central parts of the continent. The British ruled over the vast populated and mineral rich regions in West, East and South Africa. Belgium ruled over the vast mineral rich Congo DR. Portugal were overlords in Angola and Mozambique while Italy had a presence in Libya, Somaliland and Eritrea. These countries maintained their influence in Africa well after independence as they bequeathed their administrative, legal, political systems.

For the former French colonies, their link to France was assured through defense treaties and economic ties that created monetary unions among French speaking states. The French and Belgian influence predominate in Central Africa while East Africa has a potpourri of influences including a long historical Arabian influence along the Indian Ocean coast of countries like Somalia, Eritrea, Kenya, Tanzania and Mozambique. But it is the colonial affiliations to England and Portugal that defined the political and legal framework of these countries.

The British influence over former colonies has been consolidated through the Commonwealth. South Africa and countries within the SADC region including Zimbabwe, Zambia, Botswana and Malawi, had the overwhelming influence of British colonial rule, but in South Africa, an elite Caucasian mix of Dutch and German colonizers had earlier defeated the powerful indigenous rulers of the region and established a thriving Boer ruling class whose Afrikaans language and identity rallies them even to this day.

Though a beneficiary of the partition of Africa, German influence in Africa was short-lived, lasting between 1885 and 1918, in Togo, Namibia, Cameroon and Tanganyika but which they lost following the treaty of Versailles after World War 1.

5.3 A Fragmented Continent

Africa is the least integrated region in the world. Africa is a huge continent—as large as the U.S., Mexico, China, India, Japan, Western and Eastern Europe combined—but Africa accounts for 1.8% of global imports of goods and 3.6% of global exports and these rates are lower in the services sector (Amadou 2014).

The African market place is fragmented and constrained by the laws, and the level of physical and institutional development of 54 different countries. The political geography of Africa was mostly determined by the colonial powers and in many cases, national borders have little relationship with ethnic and cultural homogeneity. The small size of many countries and fragmentation of domestic markets results in various diseconomies of scale, which pulls down the economic potential of the entire continent. Over 70% of Sub-Saharan African countries have a population of less than 20 million, and about half the countries have a gross domestic product (GDP) of less than USD10 billion in 2016 (nominal terms). About one-third of Sub-Saharan African countries are landlocked and crucially dependent on their neighbors for access to global markets. The fact that the resource base may often be in countries far removed from where the markets are makes it imperative to seek regional solutions to some of the common challenges. There are over 50 transboundary river basins and several regional subsurface aquifers in Africa, which again demonstrates the need for collective action in management of these natural resources (World Bank 2018).

The political, economic and geographic fragmentation of Africa creates a number of barriers to trade, investment and the operation of supply chains. As a result, Africa is the most expensive region with which to trade in the world. Intra-regional trade is the lowest in the world at about 10% compared to 30% for the Association of South East Asian Nations and 60% in the whole European Union (Sorgwe 2019).

Efforts have been made over the years to integrate African countries. The belief is that countries that integrate regionally benefit from growth spillovers, larger markets, and scale economies in production—benefiting producers, investors, and consumers. The most decisive effort has been the Abuja Treaty signed by 51 heads of state and government in 1991. The treaty, which entered in force in 1994, established a roadmap towards an African Economic Community to be completed by 2028.

Today, Africa has 16 regional groupings made up of regional trade areas and monetary unions that include the Arab Maghreb Union (AMU/UMA) in the north, the Economic Community of West African States (ECOWAS) in the west, the East African Community (EAC) and the Intergovernmental Authority on Development (IGAD) in the east, the Southern African Development Community (SADC) in the south, the Common Market for Eastern and Southern Africa (COMESA) in the southeast, the Economic Community of Central African States (ECCAS) in the center, and the Community of Sahel-Saharan States (CENSAD) (which includes countries to the north of the Democratic Republic of the Congo, Comoros, and São Tomé and Príncipe, but excludes Algeria and Ethiopia.

The quest for greater integration has led The African Union to push forward with the implementation of the Abuja Treaty. In 2018, as part of the Abuja Treaty, the leaders of 42 African states and the AU announced the formation of an African Common Market called the African Continental Free Trade Agreement (AfCFTA) in Kigali, Rwanda. The treaty has so been ratified by 52 African states.

5.4 The African Marketplace

Although Africa experienced slow growth between 1970 and 2000, with per capita gross domestic product (GDP) increasing at an average rate of 0.5% per year, its economic performance has improved recently. Between 2000 and the recent financial crisis, GDP growth averaged 5.9% per year. The 54 countries on the continent have an aggregate GDP of USD2.1trillion to USD3.4 trillion. Aggregate GDP at PPP is USD6.7 trillion. With a population of 1.3 billion people that is projected to rise to 1.7 billion by 2030 and a rapidly growing middle class many African economies are transitioning towards consumption driven markets. The countries with the largest GDP are Nigeria, South Africa, Egypt and Algeria.

Africa’s rise in GDP has been on the back of the vast reserves of minerals deposits found on the continent. Several African states are endowed with minerals resources and are fertile grounds for valuable agricultural produce that are the main exports earning foreign exchange for the counties. Growth in Africa is tied mainly to commodities prices, rising and falling according to the prevailing global demands for commodities (Jerven 2011) but increasingly, there has been changes in the structure of African economies as production shifts away from the primary sectors of mining and agriculture towards manufacturing and services (McMillan and Harttgen 2014).

In 2018, five of the ten fastest growing countries by GDP growth rates were in Africa. With a GDP growth rate of 9.5% Ethiopia is writing a template that shows the path many African countries are following. Ethiopia has made improvements to its infrastructure and encouraged greater private-sector involvement in an attempt to transform its agriculture-based economy into a manufacturing hub. Rwanda’s GDP growth rate of 7.5% is the result of extensive economic development and poverty reduction programs, and this shows what efficient and democratic political institutions can do to a country once ravaged by civil war and genocide (IMF 2019).

5.4.1 A Plethora of Informal Firms

One striking characteristic of African economies is the importance of informal firms. The informal sector is estimated to account for about 38% of GDP in Sub-Saharan Africa. This is a higher share than in any other region. By comparison, the informal sector accounts for only about 18% in East Asia and Pacific. Nonetheless, this underestimates the importance of the informal sector in Sub-Saharan Africa (Dinh and Clarke 2012).

The African market place is dominated by inform business. There is a glaring lack of large companies, although this is changing at a fast rate. In most African countries the private sector has a dual structure, with a large number of small indigenous enterprises and a small number of fairly large enterprises, often owned by foreigners or ethnic minorities or formerly owned by the government (Ramachandran et al. 2009).

Africa has about 60% the number of large companies one would expect if it were on a par with peer regions. These larger enterprises are, however, small and stagnant by the standards in other developing countries. The only exception to this situation is in South Africa, which has 9.6 companies per USD10 billion in revenue, compared with 1.9 in North Africa and 1.1 in Nigeria. South Africa accounts for nearly half of all Africa's large companies, and North Africa accounts for one fifth. There are too few large companies in the rest of the region (Bughin 2016).

Informal firms are far less productive than formal firms in most countries, meaning that they account for a greater share of employment than they do of output. For example, about 88% of the employed in Zambia work for enterprises with less than five employees. Because of this, in Africa, most people either own or work for informal or semiformal enterprises (Dinh and Clarke 2012).

5.4.2 A Lot of Small Firms

Given the size of the informal sector, it is therefore not surprising that firms in Africa tend to be small. It is not, however, only informal firms that are small in Africa. An important difference between manufacturing firms in Africa and similar firms in East Asia is that African firms—even formal firms—are much smaller than their counterparts in other developing regions like East Asia and South America.

Using data from World Bank Enterprise Survey it was found that Africa has the largest share of micro and small formal firms, while other regions have more medium and large firms. This can be seen by looking at the average size of manufacturing firms. In Sub-Saharan Africa, the average size is about 47 employees. In comparison, the average size of a firm in the Enterprise Survey was about 171 employees in Malaysia, 195 employees in Vietnam, 393 employees in Thailand, and 977 employees in China (Dinh et al. 2012a).

5.5 The Economic Agents in Africa

Africa's history has left her with societies and countries made up of people from various ethnicities who all have different positions in the African marketplace. Colonialism affected Africa in different ways. To understand the temporal and geographic disparities in Africa it is useful to consider the differences between settler, concession and peasant colonies. In the peasant colonies, land remained overwhelmingly under African ownership and control, allowing space for African entrepreneurship, albeit with European oligopolies or monopolies in some sectors. Countries like Nigeria, Ghana and Cote d'Ivoire fall within this category. In settler and concession economies, a large or even overwhelming proportion of land was alienated, respectively, for the use of European settlers or, mainly, for European companies (Angeles 2007). The presence of relatively large European populations in some countries affected the laws and policies enacted by colonists and colonialists and ultimately led to spread of economic means within these countries. Countries like South Africa, Zimbabwe, Senegal, Algeria, Angola, Congo and to a lesser extent Kenya, had relatively large European settler populations (Austin 2010).

Colonialism also led to the development of railways across several British dominions and this led also to importation of indentured slaves and paid laborers from India and China to work on these rail projects. Thus, the ethic mix of Africa has been affected by this historical happening and situated different ethnic groups in different locations in the African market place.

This historical reality has had a great role in shaping Africa's economic development and it accounts for the main actors found on the African marketplace. Today, these economic agents include the state, MNCs and an ethnic mix of private entrepreneurs.

Foreign owned MNCs are among the largest companies on the continent. MNCs relied on superior technology, and better access to capital to be the dominant suppliers of goods and services on the continent. There are some sectors where MNCs remain their dominant economic position. They also seem to have far more market power, and to be able to sustain their presence in Africa despite economic and political uncertainties.

There is a growing participation of private entrepreneurs that have founded large scale firms. Many of these large-scale firms in Africa are owned by ethnic minorities such as Asians, Syrians/Lebanese and Europeans. Indigenous Africans own one-third or less of large industrial firms. The amount varies among countries. In Kenya black Africans own only 3.6% of large firms, whereas in Zimbabwe the percentage is more than 30% (McDade and Spring 2005).

However, it is also often the case that bigger businesses, more productive firms, and export firms are still largely foreign owned or owned by ethnic minorities, whether Asian, Middle Eastern, or Caucasian. Indigenous entrepreneurs have, however, founded some of the largest multinationals in Africa today. Deregulation of the economy which opened up opportunities in telecoms and banking have spawned a new crop of indigenous entrepreneur. But the empirical reality is that expect for a few countries including South Africa, Nigeria, Morocco and Egypt, the largest African corporations are not owned and managed by indigenous Africans (Ramachandran et al. 2009).

5.5.1 The State

The nature of the context in which business activity takes place is dependent on the role the state plays in the economy. In Africa, the state plays several critical roles. Governments formulate policy, create the regulatory framework for industries and institutions to oversee and enforce these regulations, as well as sets up the legal and judicial systems that are responsible for protecting property rights and enforcing the rule of law. Governments also provides the infrastructure and shared externalities like roads, power, and water and security that enable the production and sales of products and services. By investing in education, governments facilitate the development of skilled workforce that is a critical component of production. Other actions of government determine the cost of capital through interest rates, they protect and open up the domestic market through tariff, and set tax rates that markets actors may find attractive or onerous. In Africa, however, the sum total of the actions and policies of several African government have led to the creation of some of the worst business environments in the world. This fact is captured in indexes such as the World Banks Easing of Doing Business Index and the World Economic Forum Competitiveness Index.

Government is also a big participant in the economy as a producer of goods and services through State Owned Enterprises. SOEs make up a large part of the business community in Africa often providing utilities, and operating some of the largest enterprise in the primary sectors like mining and oil and gas. Because of the these SOEs governments play a significant role in skewing the market to imperfection through monopolistic policies that seek to protect SOEs.

Companies like Nigeria's Nigerian National Petroleum Corporation, Sonangol of Angola, South Africa's Eskom and Algeria's Sonatracth are among the largest enterprises on the continent.

5.5.2 Multinational Corporations

Multinationals have long been the suppliers of goods and services in Africa. The first set of MNCs in Africa were the mercantile companies that traded between Africa and the metropole with Unilever, SCOA and CFAO being among the most prominent. Multinationals have always controlled the mining and petroleum extractive industries. For that reason, they have been vital to economy of several African states.

During the years leading up to independence MNCs started to manufacture locally to prevent an increasing crop of local manufacturers eating their market share. From a very low base, the 1950s saw a spurt in the growth of manufacturing by British and French MNCs in Africa. In part, this was a response to the growth of consumer markets, underpinned by expanded earnings from export agriculture, and in some cases also from mining wages, facilitated by the Korean War boom (Austin 2010).

The period between 1970 and 1990 was a trying period for MNCs in Africa. African governments enacted import substitution policies and nationalized the assets of MNCs. The continent was also embroiled in war and political upheavals on the continent. This posed a threat to the investments of MNCs to the extent that some exited Africa. Others became technical partners in SOEs set up by governments.

Several MNCs stayed away from Africa for several decades excepts for those that were heavily invested on the continent. As governments seek to diversify their economies and the consumer class expands, MNCs, have being lured back into the continent and are today expanding their roles in manufacturing and services.

Multinationals dominate sectors like food and beverage in several markets in Africa with Nestle, Danone, Diageo, Coca cola and Heineken being prominent. Larfarge-Holcem is the largest producer of cement in Africa. Proctor and Gamble has entered the health care sector to compete with long time operator in Africa Unilever, while Kellogg and Kraft have joined Nestle in establishing presence on the continent.

Emerging market multinationals have also become significant players in Africa's economy, especially in sectors that have linkages in the economy of local communities. There are a growing presence of Indians and Chinese MNCs in the textile and apparel manufacturing, consumer goods and telecommunications.

5.5.3 The Indigenous Africans

The African market place is populated by small indigenous owned informal business. Prior to the era of liberalization and deregulation, the traditional firms owned by indigenous Africans were small and fragmented. But over the cause of a couple of decades, indigenous Africans entrepreneurs are now playing significant roles in the economy of several African countries.

In many African countries, firm surveys indicate that indigenous black-owned firms lag behind minority-owned firms and foreign-owned firms on a number of dimensions, including size and the rate of growth. Indigenous firms tend to start smaller and grow more slowly than minority-owned businesses and different factors seem to influence their growth (Dinh et al. 2012a). The biggest factors limiting the growth of indigenous firms were found to be access to finance and credit and poor supply of electricity.

Indigenous Africans entrepreneurs are, however, playing greater roles in the economies of their countries. Often the beneficiaries of policies to spur local production, indigenous African enterprises are playing a greater role in the primary, secondary and tertiary segments of the economy. Many are transiting from informality to formality and some are growing into large firms. This growth has been prominent in countries like Nigeria, Kenya, and Tanzania and has its roots in the liberalization of African economies following the era of structural adjustment in mid-1980s.

The growth of the indigenous enterprise has accelerated in the post liberalization era. African entrepreneurs leveraged on political connectedness to acquire privatized state-owned assets, and also acquire licenses to operate in deregulated sectors of the African economy including mining, oil and gas, telecommunication, banking and wholesale trading. They are now influential in sectors that require government licenses and approvals. African governments have shown support for indigenous entrepreneurs with laws like local content laws and Black Economic Empowerment laws in the case of south Africa. These government policies help the growth of indigenous African firms in the agricultural, mining, manufacturing industries.

Indigenous African entrepreneurs have found space in telecommunications, banking and financial services, construction and building material, transport, and aviation, mining and oil and gas. This has been facilitated by laws and policies that limit foreign ownership in some sectors. Angola and Ethiopia are two countries that have shut out their banking industry to foreign ownership (Tvedten et al. 2014).

Africa's indigenous entrepreneurs are acquiring the skills to grow their companies into large corporations as some of the more successful have been those that have implemented get big strategies that involved domestic expansion and subsequently international expansion. Thus, several are becoming larger and achieving the scale and efficiency necessary for further growth and profitability.

5.5.4 Market Dominant Minorities of Africa

Market dominant minorities are ethnic group that play an outsized role in the economy of a country. The colonial and recent history of Africa saw the influx of immigrants who settled on the continent as colonist, or hired wage workers who were brought to Africa from India and China to ameliorate shortfalls in labor. Colonialism left a legacy where small ethnic enclaves wield absurdly lopsided economic clout, and it is unsurprising that the history of post-colonial Africa has been marred by the tensions between different ethnic groups of disparate economic means (Easterly and Levine 1997). This is because the poorer ethnic majorities who often have political power and richer minorities who own most of the means of production including land and capital (Angeles 2007).

These minorities are distinct from foreign investors by the fact that they have lived in Africa for several decades, and sometimes centuries. In most cases, they are citizens of the African countries where they were born and reside. They include Europeans, Lebanese, Indians, Chinese and Arabs. Overs several decades, these minorities have engaged in private entrepreneurship and accumulated wealth to the extent that they now have dominant positions in the economies of several African states.

The Europeans: Europeans are still dominant in the economic affairs of Africa due to their colonial ties with the continent. They are still found in large numbers in countries where they settled as colonists. As colonists, they benefited from laws and policies that gave them greater access to land, capital, finance and protected them against competition from other Europeans. Their allegiance was to the colonizing powers from competition which they arrived and they have historically maintained ties with their home countries from where they source capital and inputs for their businesses on the continent. The White minority is the market dominant group in Southern Africa. This group controls the financial, mining, manufacturing sectors and had until recently controlled the political power in Southern African states including Zimbabwe and South Africa. The white minority in southern Africa are originally of Dutch, German and British ancestry.

The white minority in South Africa accumulated wealth through a throng of discriminatory laws that saw them own 90% of the land of the country, and dominate the lucrative diamond and gold mining, agricultural and manufacturing sectors. At the time of independence in 1990, the white minority controlled over 90% of the economic output of South Africa.[1]

There were 17,000 white Belgians in the Belgian Congo, now Congo Democratic Republic in the 1930s, but they effectively treated the country as an economic fiefdom because of the brutal policies of King Leopold II. The discovery of copper in Katanga province increased the influx of Belgian settlers into the country. In Algeria, there were 1 million French settlers at the time of independence. There also were 400,000 Portuguese in Angola at the time of independence.

The Indians: In Africa, there are about 2.8 million people forming the Indian diaspora. The three-biggest Indian communities are in South Africa, Mauritius and Kenya, representing more than 90% of the whole Indian diaspora in Africa. With a population of 1.3 million Indians, South Africa has the largest ethnic Indian population outside India. Indians were first brought to South Africa, to work in agriculture before the discovery of diamond in Kimberly and Gold in White Witwatersrand led to large scale importation of more indentured Indians to work in the mines.

Ethnic Indians are now an integral part of the economic rubric of East and Southern Africa. They have since grown to become significant players in the economy of these two regions. There is also a growing population of Indians in West Africa who originally arrived the region to build railways and teach. Following the completion of these rail projects, several remained in Africa and several took up trading.

In Kenya, there are 100,000, largely Guajarati Indians who took up trading and retailing across the country. After its independence in 1963, Indians traders were given quit notices to make way for Africans; so, they started factories to provide jobs for Africans and earn profits. Today, some of the largest manufacturing companies are owned by these ethnic Indians. Indian owned companies have also invested in Kenyan horticulture, tea plantations and agriculture in addition to industries (Rajneesh Kumar Gupta 2014). In neighboring Tanzania, about 40,000 Indians work as traders in urban areas while some have ventured in industries.

[1] https://www.weforum.org/agenda/2015/06/15-facts-about-the-indian-diaspora-in-africa/

At a point after independence in Uganda, Indians comprised about one out of every 100 Ugandans, but owned nine out of 10 firms. Today, ethnically Indian Ugandans contribute between six and seven of every ten shillings to government coffers in tax revenues though they comprise less than 1% of the population. Now with about 30,000 Indians, Uganda has substantial investments from India. There is a large Indian population in Madagascar. These people are effectively stateless as they are denied citizenship in Madagascar and in India, despite their long-term residence on the island. Politicians often avoid the risks of demonizing market-dominant minorities simply because doing so is economically risky and unlikely to yield political rewards.

The Indian minority is another group that have expanded into Nigeria. Nigeria is home to about 50,000 Indians, mostly Sindhis, who have transited from being traders to become industrialists. They are involved in the retailing, food and beverage and manufacturing.

Madagascar, is home to 400,000 residents of the so-called Karana Indian minority, descended from traders who arrived at the island's north-west port of Mahajanga in the 1880s. Yet the Karana community has produced many major economic players on the island. For example, the Hiridjee family dominates Telma, one of the largest telecommunications companies in Madagascar.

The Indians also dominate the economy of Mauritius, with the extensive roles in finance and textile and apparel manufacture that has made the Indian ocean island a financial center and the largest exporter of textiles on the continent.

Lebanese: Another dominant minority are the Lebanese who are prominent in economic life of several francophone West African countries. The Lebanese immigration to West Africa was part of a much broader wave of immigration from Lebanon and Syria in the late nineteenth and early twentieth century. It was primarily a wave of economic migration. The Lebanese migrants in colonial West Africa lived in a large expanse which covers present-day Senegal, Côte d'Ivoire, Mali, Guinea, Benin and Mauritania. Roughly 250,000 Lebanese now live in West Africa, with the largest bloc—around 90,000 people—in Côte d'Ivoire.

Lebanese-descended Ivorians comprise less than 0.5% of the total population, while recent estimates suggest that they control between 35% and 50% of the commercial economy, and own an estimated 99% of major stores. They also contribute some 15% of total government tax revenues, which would indicate that they earn, on average, well above 30 times as much as the average Ivorian.

Arabs: Arabs have had a long involvement with Africa. They were involved in the conquest that led to the spread of Islam on the continent and have been engaged in trade on the continent for centuries. They are found in Arab influence span the whole of North Africa, West African Sahel states. East African countries along the pacific coast have a large Muslim population made up of Arab settlers from the Sultanate of Yemen. These are to be found on the cities along the Indian Ocean coast. They are dominant in business in Zanzibar, Tanganyika and most Indian ocean coast of East African states.

The Chinese: Chinese were first brought to Africa mainly as indentured slaves to work in sugar plantations in Mauritius. They were also imported into South Africa after the discovery of diamond and gold led to more requirements for labor in the mines. Today, the Chinese in Mauritius, who constitute 15% of the population are the dominant economic group on the island. Their investments span finance, manufacturing and services like telecommunication.

There is a second wave of ethnic Chinese coming into Africa that are part of the growing involvement of China in Africa. As China grows its influence in Africa Chinese emigration to the continent has also increased. Chinese citizens have come to set up businesses on the continent. There are large populations of Chinese in Zambia, Lesotho, Swaziland, Congo DR engaging in textile and apparel manufacture, copper mining, and other light manufacturing.

The Chinese population is growing significantly in East Africa, where Kenya is part of the belt and road initiative of the Chinese government and the region boast several Chinese funded projects. As wages increase in China, Ethiopia has become a new destination for Chinese industry seeking low wages. Ethiopia has attracted a large population of Chinese business in their foot manufacturing, textile and apparel and consumer electronic industry. Presently there are over 10,000 Chinese companies operating in Africa (Sun et al. 2017).

5.6 The Business Environment in Africa

The business environment may be defined as the nexus of policies, institutions, physical infrastructure, human resources, and geographic features that influence the efficiency with which different firms and industries operate. Business environment can also be defined to include crime, political stability, and government expropriation including corruption.

The link between the business environment and investments has become a prominent theme of international business as its association with attracting private sector investment has been empirically proven. The business environment in several sub-Saharan African states is deemed high risk and uncertain because of factors that increase transaction and entry cost (Ramachandran et al. 2009). Poor business environment leads to misallocation of resources and high transactions costs in Africa, affecting particularly manufacturing firms (Collier 2000). Poor business environment also limits the export growth of manufacturing firms (Bigsten and Soderbom 2005). More recent empirical research has found that firms in Africa lose a fifth of their sales as a result of distortions caused by regulation, crime, corruption, and poor infrastructure and this affects also impacts on their output and productivity (Bah and Fang 2015).

In 1999, Pedersen and McCormick found that the African enterprises operated in a business environment that was deficient due to its lack of supportive institutions (financial, state and social/labour); low trust and accountability by suppliers and employees, limited access to capital and sub-contracting; and rent-seeking and corrupt practices combined with low law enforcement. Added to these were the historical presence of strong foreign owned MNCs, concentrated production in large cities, the large informal markets, and limited access to limited capital and lending. Enterprises also had to contend with inefficient management practices (Pedersen and McCormick 1999).

The dire state of the business environment on the continent is captured by the dismal showing of several African countries on the World Bank Ease of Doing Business Index, the World Economic Forum Competitiveness Index, Corruption Perception Index, and the Logistics Performance Index among others. Weak institutions, lack of infrastructure, corruption, poor protection for property and legal rights in several African countries has deterred investment. Several factors contribute to the challenging business environment. Policy is one: Africa's policy environment ranks poorly when compared with other regions, and this is a significant brake on investment. Electric power is another challenge. Logistics, despite recent improvement in some countries, remains another constraint.

5.6.1 High Cost of Business

Africa's poor business environment is expensive for firms doing business on the continent. Africa's business environment continues is plagued by costly inefficiency and onerous bureaucratic requirements despite several reforms. Eifert, Gelb, and Ramachandran analyzed World Bank Enterprise Survey data and concluded that high indirect cost reduces the competitiveness of African firms relative to those in Asian and Latin American developing countries. Standard measures of productivity take the cost of intermediate inputs, raw materials, and the cost of energy and fuel into account. However, Eifert, Gelb, and Ramachandran point out, this ignores other costs that affect profitability, such as transport, communications, and security costs. Using data from 17 Enterprise Surveys between 2002 and 2005, they show that indirect costs are higher in Africa than in other regions (Eifert et al. 2008). After considering these, they show that African firms are less productive than firms in other regions. High indirect costs reduce profitability of African firms.

Costs and lead times for air and sea freight—for both exports and imports—can be double those in other developing countries. Taken together, such factors impose considerable extra costs on African businesses. One World Bank study found that input costs in light manufacturing sectors such as apparel, agribusiness, leather, and wood and metal products in Ethiopia, Tanzania, and Zambia were at least 25% higher than in China (Dinh et al. 2012b).

The correlation-ship between the business environment and the ability to attract investment has given some African governments the impetus to initiate reforms that has seen their countries move up the ranking on indexes that measure business climate. These countries are now deemed to be moderate risk due to their political stability and better-quality institutions and they are among the ones that attract the most FDI on the continent. Rwanda, Mauritius, Morocco and Botswana are considered to have some of the most competitive business environments on the continent.

Countries like Nigeria, Angola and Congo DR are considered as high-risk countries because of the fluidity of policies on economic development, constant state of political tension, high levels of corruption, poor infrastructure, poor security, poor institutional development and high levels of corruption.

5.6.2 Not Easy of Doing Business

Ease of Doing Business Index is a benchmark study of regulation among 190 countries released yearly by the World Bank. Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights. The index shows a correlation between the economic growth and the impact of improving these regulations.

The higher the rank, the less conducive the country is for business. Africa's average rank is 142, compared to Latin America's 98 and South Asia's 137. Elements of the business environment, such as the time it takes to set up a business and get electricity and access to credit, all remain critical areas that need reform. Weaknesses in the rule of law and regulation mean that African firms pay higher bribes (as a proportion of sales) and lose a greater fraction of their sales value to crime and theft than firms in other developing countries. Overall, African countries remain bottom in the World Bank Doing Business Index and studies consistently point to institutional barriers as key obstacles to enterprise development.

5.6.3 Corruption

Several African countries rank low in the Transparency International Corruption Perception Index and this is a of concern to investors. Corruption increases cost of doing business and leads to delays. Big firms spend a lot of time with officials. On average, more than 33% of establishments in Sub-Saharan Africa are expected to give gifts to government officials to get things done. Corruption and trade regulation corruption and bureaucratic customs processes add costs to doing business and thereby reduce profitability of investments. For the agribusiness sector, given the perishability of most agricultural products, efficiency in moving produce is of essence. Through investor surveys, private investors have confirmed making informal payments to either receive or expedite provision of services. In some cases, these payments have been as significant as 5% of annual sales. What makes it worse is that the courts and legal system are unreliable, increasing the risk and uncertainty of doing business.

Corruption has also been found to influence investments and GDP growth rates. For Africa, a unit increase in corruption reduces the level and growth rate of GDP per capita by respectively 0.4 and 0.66% points (Gyimah-Brempong 2002).

5.6.4 Competitiveness Index

Domestic policy and investment environment affect the competitiveness of firms and hence is an important determinant of investment. African countries continue to rank among the least competitive economies in the world. 17 out of the 20 least competitive countries on the Global Competitiveness Index are in Africa, and Africa as a whole trail behind South East Asia, and Latin America and the Caribbean in terms of competitiveness, with the greatest gap being in areas such as quality of institutions, infrastructure, macroeconomic stability, education and information and communications technologies (World Economic Forum 2018).

Poor competitiveness of most African countries is undoubtedly a serious impediment to the promotion of investment in Africa. Poor infrastructure, high transactions cost associated with starting and operating a business, and weak enforcement of contracts are some of the factors that have contributed to the low levels of competitiveness of African economies. It is estimated that weak infrastructure reduces the productivity of companies in Africa by 40% and growth of per capita income by 2% (UNCTAD 2014).

Africa's infrastructure deficits continue to cripple long-term competitiveness of African economies. Access to basic infrastructure remains a key challenge—with only 35% of people having access to energy and 30% of the population having access to improved sanitation services. The region's current electricity generation installed capacity is 90 GW, half of which is located in one country, South Africa. Electricity consumption in Spain (population 47 million) exceeds that of the whole of Sub-Saharan Africa (population 1 billion). And the needle has been moving slowly—for example, access to energy has only increased from 23% in 1990 to 35% in 2015. Over 600 million people currently lack energy access. However, the performance of the telecom and information and communication technology (ICT) sector, especially in terms of the rapid increase in mobile penetration, has been nothing short of impressive (World Bank 2018).

Another component of competitiveness is basic property rights protection, which likely affects many formal and informal institutions in Africa. Property rights protections affect whether investors are willing to commit to investment projects without fearing expropriation. Consistent with this view, cross-country evidence suggests that countries with a worse record on property rights have lower aggregate investment, worse access to finance, and slower economic growth. Unfortunately, most of the countries with poor record of property rights protection are also in Africa.

5.6.5 Poor Trade Logistics

One of the biggest challenges for businesses in Africa is the level of development of transport infrastructure. The poor state of transport infrastructure and trade logistics is reflected on Africa poor position on the World Bank Logistic Performance Index.[2] Longer distances and inadequate transport infrastructure add a 2% production cost penalty for apparel in Ethiopia and Zambia (Dinh et al. 2012b).

The World Bank's Doing Business report notes that it takes an average of 32 days to complete all procedures to import manufactured goods into Sub-Saharan Africa. This is at least as long as in any other region. It is also expensive to do so. It costs an average of USD2000 to export a standard container from Sub-Saharan Africa. This is far more than in any other region; for example, it costs less than USD900, on average, in East Asia. noted that the high trade logistics costs in Africa result from four broad factors; (1) higher inland transport costs; (2) port and terminal handling

[2] https://lpi.worldbank.org/

fees; (3) higher customs clearance, and technical control fees; and (4) higher costs of document preparation and letters of credit, among others.

5.7 Conclusion

The African context is one that has shaped enterprise development. Africa is a continent defined by her history. A history of a scramble that led to the delineation of the continent into separate blocks. The legal codes, official language and administrative systems of Africa's 54 countries have been influenced by those of the colonialists, who divided Africa into culturally disparate countries. But the fragmentation of Africa is a challenge to business growth. Integrating African countries into larger economic blocs is now an imperative and efforts have been stepped up to achieve this objective.

But Africa's checkered history has also had another consequence, the private sector, though dominant in its contribution to GPD, is populated by a plethora of informal, small and micro companies. Many are transiting into medium and large firms, but that process is tedious and odious, made more challenging by constraints that stifle the growth of private enterprise. The largest constrains firms face in Africa is the business climate. Africa's business environment plays a great role in undermining the growth of the continent, attracting investment and depressing productivity and output of manufacturing firms. Poor infrastructure and low-level development of institutions has meant African countries are on the lower rung of several measures including the Global Competitiveness Index, the Ease of Doing Business index, Logistic Performance Index.

Beyond these constrains, however, enterprise performance in Africa has been influenced by the economic and political means of a broad range of players in the marketplace. The largest firms are MNCs while the second largest are those owned by dominant market ethnic minorities. These include Caucasians, Indians, Lebanese, Chinese. The indigenous African entrepreneurs run the smaller firms. But that is changing, through their political connections, indigenous entrepreneurs are playing bigger roles in finance and telecommunications and other sectors that were deregulated by government.

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