



**African
Economic
Platform**

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PLENARY PANEL 3

A brief on

**Competitiveness of the African Private
Sector: Building Pan African Enterprises**

Competitiveness of the African Private Sector: Building Pan African Enterprises

1. The private sector is an essential component of the continental effort towards achieving more inclusive and sustainable growth over the next decade and beyond. In fact, the private sector is currently the largest provider of jobs in the continent. However, this leading role is hindered by institutional, regulatory and legal constraints, infrastructural deficiencies, inadequate professional skills and limited access to financing, which have favored the development of a sprawling informal sector with insecure employment for Africa's youth.

2. African Union Member States have carried out ambitious reform programs, the most visible sign of which is the improvement of the international classification of countries such as Rwanda and Mauritius, and the stabilization of national macroeconomic frameworks. In most cases, access to funding for African enterprises remains very limited, which seriously hampers the expansion of the private sector.

3. In addition, Africa and its businesses must adapt to new emerging constraints. For example, climate change requires our companies to adapt by adopting new production methods that are more compatible with clean energy imperatives.

4. During the last decade, records of good macroeconomic performance by Africa have brought the diversification of the sources of growth, social inclusion and sustainable development to the forefront of the debate. As part of the continental effort to meet the challenges of limited economic and structural transformation, African leaders and other stakeholders now agree on the vital role that the private sector has to play in promoting more inclusive and sustainable growth consistent with the objectives of decent employment creation and poverty reduction.

5. Despite this, Africa has not been able to leverage the private sector as an engine for the structural change that is needed to make up for its delay in development, and expand economic opportunities for its youth. Furthermore, the perceptions of investors regarding Africa's private sector are not in favour of increasing investments required for creating wealth and generating the jobs that the youth need.

6. This paradoxical situation is a major challenge for the African Union Commission (AUC), which in its 2014-2017 Strategic Plan and its Agenda 2063 identifies the private sector as a catalyst for economic transformation toward inclusive and sustainable growth – the engine for the economic emergence of the continent.

7. Therefore, the expansion of a network of dynamic and competitive enterprises as an engine for creating decent and better paying jobs should be one of the goals to enhance Private Sector Development competitiveness. However, in order for the private sector to develop harmoniously in Africa, some conditions must be met to promote sustainable growth consistent with the goals of prosperity and social inclusion. These conditions include: (i) peace, stability and promoting the rule of law; (ii) infrastructure development; (iii) stability of macroeconomic environment; (iv) availability of educated, qualified and healthy human resources; and (v) ensuring access to financial services.

8. To meet these challenges, the following strategic measures must be taken into consideration namely, to improve the business environment and investment climate in view of the competitiveness of African businesses. As key starting points in the interaction between potential investors and national economy, the business environment and investment climate provide crucial signals for the formulation of investment decisions in key sectors and hence contribute to a nation's economic transformation. However, the African business environment has shortcomings that reduce the attractiveness of the continent and hamper the propensity of domestic and international investors to engage in the production of goods and services with high added value throughout the continent. As part of this initiative, the AUC needs to work closely with the private sector in assisting Member States and RECs to continue the ongoing reform programs to significantly improve the ease of doing business at continental level. These reforms of the legal, regulatory and institutional business framework will allow the removal of structural constraints that hinder the harmonious development of the private sector in Africa.

9. Support initiatives which contribute to the development of productive capacities of African businesses is also another priority. In this context, Member States should implement measures to develop businesses' productive resources (physical and financial capital). To this end, the Commission in collaboration with

Private Sector and Member States will value activities aiming to expand funding opportunities that are available to businesses in order to bridge the financing gap they are experiencing. The reforms under this pillar will help to diversify the sources of financing for the private sector in order to optimize existing sources for the expansion of long term financing to businesses. This will be done by encouraging the use of innovative sources of financing such as impact investment, contributing to investment security and supporting initiatives that promote the improvement of the financial system and social well-being through innovation.

Business environment and investment climate

10. The business environment and investment climate are key factors in the interaction between potential investors and national economy. They provide essential signals for investment decisions in promising sectors and thus contribute to the economic transformation of nations.

11. At the moment, none of the African countries rank among the 50 most competitive and most innovative countries in the world (WEF, IMD, INSEAD, 2013). If no additional effort is made to make African economies more innovative and competitive, the continent is not likely to achieve the kind of African renaissance that is to be based on economic diversification, and not only driven by current boom of raw materials.

12. To address this situation, Member States and Regional Economic Communities (RECs) need to adopt ambitious modernization programs related to legislative, regulatory and institutional frameworks to stimulate the development of a modern and competitive private sector in Africa. These reform programs will enable companies and Member States to adopt strategies that promote investment, innovation and job creation.

The legal framework of business

13. This area of intervention forms a general condition for private sector development. It focuses on improving national policies and laws for developing the private sector. These new laws must work in favor of improving competition and opening domestic markets. It promotes improvement of the framework for policy, legislation and enforcement regarding competition, taxation, trade, and labor, namely: modernization of tax systems and adoption of attractive, stable and predictable tax systems to avoid long term negative impacts of inconsistent fiscal policies; gradual adoption of Labor Codes in line with international

standards set by the International Labor Organization (ILO); adoption of new land tenure policies; and modernization of commercial law in Member States.

The regulatory and administrative framework

14. Improvements in the legislative framework will not take effect if they are not reflected in and supported by reforms of the regulatory and administrative framework in the country. In this respect, reforms will aim primarily at: Improving national regulations and administrative practices for the establishment, registration, activity and closing of private enterprises; Improving the tax administration; Improving labor legislation, regulations and administrative practices; Improving enforcement of contracts and retrieval of receivables through courts and alternative dispute resolution methods.

15. *The institutional framework* such Legislative, regulatory and administrative reforms need to be supported by institutions which help governments direct the development of existing frameworks toward the goals set out for the reforms. Under this framework, the reform plan should be able to Improve dialogue between government and private sector representative bodies (Public-Private Dialogue, PPD). Public-private dialogue is an essential ingredient for an effective and sustainable reform of the business environment. The quality and depth of such reforms depend on the scale and level of institutionalization of the dialogue between public and private sectors and improving corporate governance through capacity building.

16. ***Investment Codes***: The Commission should continue follow up on the harmonization of Investment Codes at continental level. This ongoing initiative will aim at increasing the attractiveness of the continent and increase investment flows in sectors with high added value through improved predictability and transparency regarding entry into the market.

17. ***Investment promotion agencies***: The Commission will encourage Member States to restructure investment promotion agencies around three services (i) one-stop shop; (ii) marketing and economic information; and (iii) studies and projects. Investment promotion agencies can play an important role in linking market actors and in disseminating information about reforms in the legal, regulatory and administrative framework in the country.

18. Many African countries are not competitive in sectors where they would normally possess comparative advantage. Key reasons for this are: (i) high production costs, (ii) product quality and inability to meet the needs and standards of international markets, and (iii) poor market connectivity that seriously impedes delivery to relevant markets. The problem often lies not within the businesses themselves, but within the economy as a whole. Therefore, improvement should be made on production factors. It is not enough to simply increase the productivity of some companies or specific industries; focus should be on increasing the productivity of the whole economy.

Conclusion

19. AU Member States must build capacity and adopt appropriate policies to make the overall economy competitive in terms of production and enable all businesses on the continent to position themselves in global markets with proven competitive advantages. In order to respond to business integrity challenges in the continent, Member States by working closely with the private sector should continue fostering a business-enabling regulatory environment; utilization of ICT tools in public-private interaction.