

# Policy & Institutional Constraints to PSD in Africa – What needs to be done?

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# Private sector development in Africa – key points

- A competitive private sector is the partner of government to achieve development outcomes – in support of gov't's quest for sustainable development, inclusive growth, economic transformation, job creation, poverty eradication
- Governance imperatives matter: PSD requires certainty, predictability, transparency, accountability (access to courts/dispute resolution)
- Policy and institutional issues are fundamentally about the **quality of government** (capacity to make and effectively implement policy – role of **management capacity**) – weak capacity of gov't increases transaction costs of doing business and erodes competitiveness
- **Access to information** (including policy information ) is essential - yet limited

# Situating the discussion in Africa: Agenda 2063

Articulates 7 aspirations for the Africa We Want

- Aspiration 1: A prosperous Africa based on inclusive growth and sustainable development
  - Economies are **structurally transformed** to create **shared growth, decent jobs** and **economic opportunities for all**
  - Modern agriculture for increased production, productivity and value addition contributes to farmer and national prosperity and Africa's collective food security

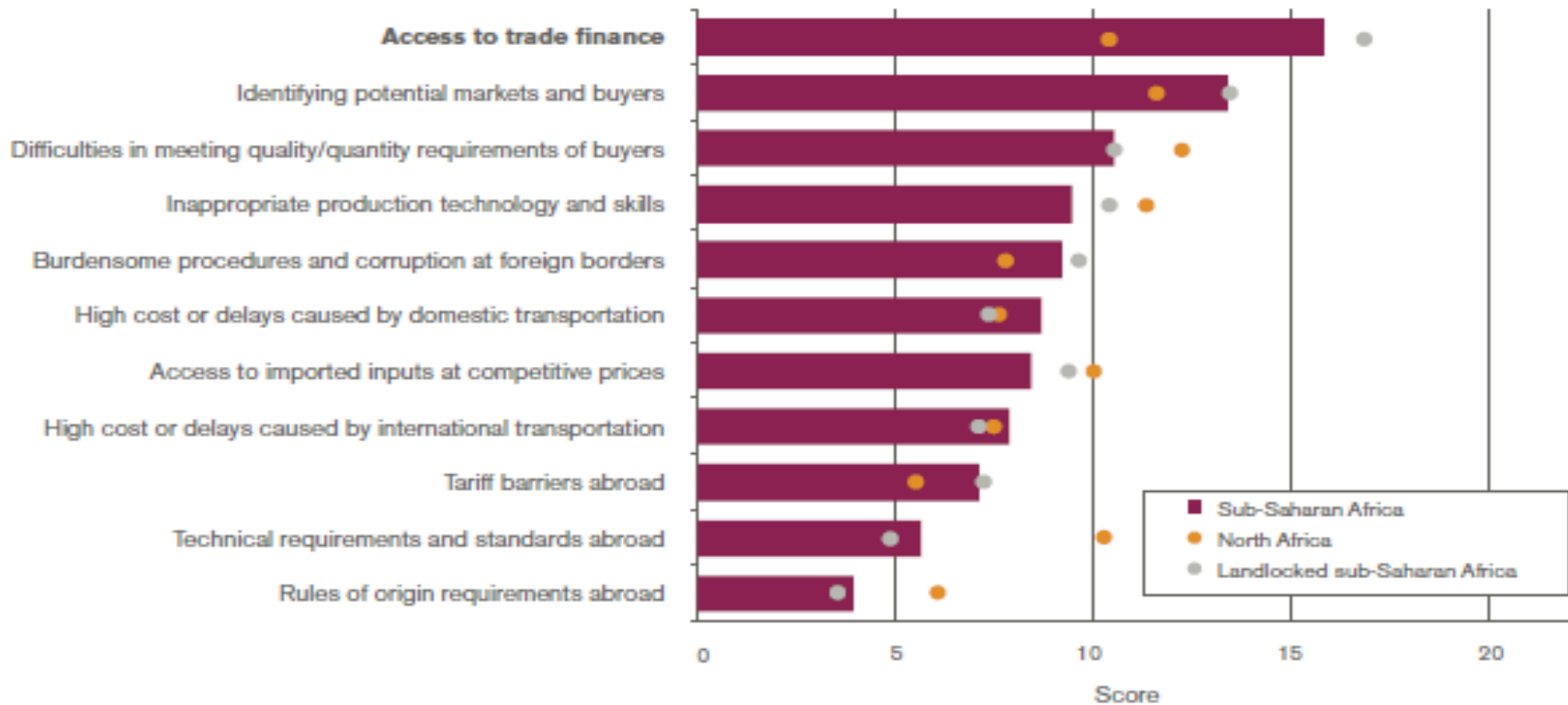
# Describing Africa's economies: select issues

- Lack of diversification (lingering commodity dependence) and deindustrialisation – transformation imperative
- Need to expand productive capacity (investment - growth – development) - role of FDI
- Weak labour absorptive capacity of African economies (unemployment and skills shortages, skills for 21st century? Youth dividend?....)
- Weak linkages across industries and sectors (value streams)
- Small markets – fragmented economic/political space
- Role of partnerships (constrain/support Africa's scope for industrial development?)

# Select Private Sector Development (PSD) Challenges

- How inclusive are policy processes?
- Poor infrastructure (poor regulation of infrastructure impacts availability of quality, competitively priced infrastructure services – transport, communication, energy, financial services...)
- Role of government in key infrastructure services sectors – conflict: productive role vs regulatory role
- Lack of strategy for services sector development (investment - leveraging private investment, regulation for sector development, links to eg industrial policy)
- Fiscal policy and management – narrow tax bases, fiscal – trade policy trade-offs (dependence on eg trade taxes)
- Non-tariff barriers (regulation, standards – quality infrastructure, management capacity eg at borders)

# Focusing on challenges to exporting



Note: From the list of factors above, respondents were asked to select the five most problematic ones for trading in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

Source: WEF (2013), p 54.

# What needs to be done?

- Governance matters (political/policy stability, rule of law – challenges when corruption becomes systemic)
  - Major **policy rethink** required (policy integration – build on policy connectors)
    - **Industrial Policy** revisited: its' not just about **incentives**, but about i) supporting economy-wide linkages and relationships, ii) foundational infrastructure and associated services to facilitate economic transformation
    - **Trade policy**: smart **export** and **import** strategy (away from mercantilism), leveraging market development opportunities (eg Africa's integration agenda – regional and global dimension of PSD)
    - Fiscal policy: expanding tax base, responsible govt expenditure and service delivery
    - Education policy (eg role of digital literacy – implications?)
- .....PTO

# Policy - sector development strategies

Energy, transport, communication, financial services are inputs into **all** economic activities (also direct markers of development outcomes)

Example: Financial services sector development

- Clear sector development strategy required: eg financial inclusion, product/service development (taking into account innovations – mobile money, cryptocurrencies) - trade finance for SMEs, effective governance...; domestic regulatory reform, links to **trade in services strategy** (emphasis on regulatory reform/harmonisation/mutual recognition)
- Where are the links between the AfDB's sector development strategy and the Continental Free Trade Area negotiations agenda?



# Recalibrating Africa's trade and integration policy

- Ample evidence to show that the real barriers to intra-Africa trade are **non-tariff barriers** (eg time in transit)
- Strengthen links between market integration and industrial development policy
- Emphasis should be on i) trade facilitation (including trade finance (bank-intermediated finance - Letters of credit, Pre-shipment export finance) ii) standards/quality assurance iii) trade in services (regulatory emphasis) iv) intellectual property matters, investment, competition policy v) regional dispute resolution vi) rules of origin (to prevent transshipment not to protect domestic industry)

# Conclusions

- PSD is a *sine qua non* for Africa's sustainable development – primary job, income/wealth creator  
.....
- Private sector is not an adversary not but an ally of government to achieve development outcomes
- New approaches to economic policy for Africa in the 21<sup>st</sup> century (particularly relevant in context of Africa's integration agenda – current negotiations to establish