

**FRIENDS OF AFRICA ECONOMIC DEVELOPMENT CONFERENCE,**  
**ONTARIO CANADA**

**THE PARTICIPATION OF THE PRIVATE SECTOR IN AFRICA'S**  
**ECONOMIC DEVELOPMENT- ABRIDGED**

**CHAIRMAN OF BOARD, OLUSOLA OYELADE, CHAIR OF THE BOARD OF  
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**H.E. THE PREMIER OF ONTARIO PROVINCE**

**HON. MICHAEL COTEAU, MINISTER OF YOUTH AND SPORTS  
DEVELOPMENT,**

**GUEST SPEAKERS**

**DELEGATES**

**LADIES AND GENTLEMEN**

I am indeed honoured to be one of the guest speakers at this year's Friends of Africa Economic Development Conference

For over five decades African policy makers after having experimented with different policy options, all come to agree that the panacea to improving Africa's economic prospects long-term lie in the private sector taking a commanding lead in the growing of their economies.

According to the 2011 report of the African Development Bank launched in Arusha, Tanzania, many African countries have come to realize the critical role that the private sector can play in their quest to achieve their total economic and social potential.

They view the private sector as the key engine of inclusive economic growth through employment generation and prosperity of nations.

The sector provides essential goods and services, and the revenue for the treasuries of our countries.

## **HISTORICAL DEVELOPMENT OF THE PRIVATE SECTOR IN AFRICA**

- Upper Middle of 20<sup>th</sup> century onwards, independence in many countries Sub-Saharan Africa, and rise of their own people as their political leaders
- They began to experiment with socialist systems where the state is in charge of production goods and services
- Prices of goods plummeted on the international market, leading prolonged economic challenges
- The Bretton Woods institutions-World Bank and IMF came to the rescue with their economic bailout packages, leading to changes in policy direction-private sector development; make the state the provider of an enabling environment, and the private sector the players in the economic system

## **THE COMPONENTS OF THE PRIVATE SECTOR IN AFRICA**

- Private sector in Africa, as in many developing countries is heavy on small and medium sized enterprises.
- Large companies are few
- Private sector led economic growth is found to accelerate the pace of economic transformation and poverty reduction.
- Support for Africa's private sector should be on building the private sector through direct or indirect support for

enterprises involved in creating employment, and reducing poverty

- Over 90% of enterprises in Africa are SMEs (Small, and Medium sized Enterprises).

## **INFRASTRUCTURE AND THE PRIVATE SECTOR**

- Africa's infrastructural deficits can be addressed by the private sector
- Water, energy, roads, sanitation, telecoms, and transport infrastructures have been improved in some countries on the continent through Public Private sector models, or the private sector solely
- For example, the World Bank says, poor infrastructure reduces growth by 2 percentage points each year, cutting productivity by as much as 40%!
- And just \$93 billion is needed annually to fund infrastructure needs annually for the next 10 years, which is 15% of region's G.D.P.

## **THE PATTERN OF PRIVATE SECTOR INVESTMENT IN AFRICA**

- The private sector in Africa, provides great opportunities for growth and development. The population, geographic size and wealth of natural resources make Africa an attractive investment destination and make more room for private sector investments.
- We ought to provide the best local and national policy and legal environments for private investments to thrive

## Issues to address include:

- **Create a Congenial investment climate.** This means reducing the risks and cost of doing business by securing private property rights, improving governance, simplifying regulations, and promoting competition.
- **Developing the Financial Sector.** To make the private sector thrive, we must improve access to finance, and financial literacy, payment systems, and enhancing creditor rights. We must also strengthen the regulatory and institutional frameworks to improve governance and competition.
- The private sector itself can lead a dialogue with government, as it obtains in Ghana, through the Association of Ghana Industries(AGI), and the Private Enterprise Foundation to discuss tax issues, the policy environment, and work at advocating a better business environment
- Development agencies like CIDA(Canadian International Development Agency) can show the way by sharing the experiences of Canada in leading the crusade for a supportive business environment, and help to strengthen the capacity of businesses and business associations to engage public-private dialogues with government

## PRIVATE INVESTMENT ON THE CONTINENT

- Most multinational companies in Africa are owned by large companies from Europe who came to Africa to tap the valuable natural resources on the continent or provide services for entities involved in the exploitation.
- Most MNC investments on the continent came in the form of Foreign Direct Investment from rich developed countries in Europe.

- Former colonial masters of Britain, France, and Portugal spearheaded many investments in their former colonies as a way of sustaining their historical ties.
- Recently, Foreign Direct investments have come from China, India, Brazil, and from sister African countries. These countries have established economic ties that have fostered trade in billions of dollars with Africa every year.

For example,

- Chinese foreign direct investment to Africa rose from US\$500million in 2003 to US\$15billion in 2012, while bilateral trade upped from US\$60billion to US\$210 billion in 2013.
- The largest foreign trading partner with Africa for many years, China's aid to Africa over the last decade amounted to US\$75billion, with more pledges in billions of dollars every year.

## Public -Private Partnership

Public-Private Partnerships are also key.

- The trend in many countries in Africa to moot large infrastructural projects like the building or refurbishment of roads, expansion of water resources, or even investment in strategic sectors through public private partnership.
- For example, Ghana has run youth skills development initiatives under the PPP model. The collaboration has assisted to train large numbers of young people with skills that have made them self-employed, while a few have been integrated into existing formal organizations.
- The Nigerian Government has expanded a long stretch of road in Lagos with a private company, and tolled it to pay the cost of the project.

- As the laws and policies on PPPs need to be developed to give this model the needed weight.

## The Role of Multilateral Development Partners

- The International Finance Corporation (IFC) of the World Bank Group has promoted many private sector investments in Ghana, in hotels and tourism, in agriculture, and in large scale infrastructural projects.
- The African Development Bank has made private sector development one of its Medium Term Strategy for 2008-12
- For example, the African Development Bank is supporting regional member countries to
  - improve business enabling environments
  - broaden participation and inclusion in the private sector
  - support local enterprise development, so as to foster robust employment creation and improve social well-being
  - encourage social and environment responsibility
  - sustainability, and
  - good corporate citizenship in private sector development
  - Africa's private sector accounted for more than 80 percent of total production, two-thirds of total investment, and three-fourths of total credit to the economy over the 1996-2008 period.
  - It was also responsible for 90 percent of formal and informal employment.

## GHANA'S EXPERIENCE IN PRIVATE SECTOR PARTICIPATION TO DATE

### **Economy - overview:**

Ghana's economy has been strengthened by over 2 decades of relatively sound management, a competitive business environment, and sustained reductions in poverty levels.

- Ghana is well-endowed with natural resources and agriculture accounts for roughly one-quarter of GDP and

employs more than half of the workforce, mainly small landholders.

- The services sector accounts for 50% of GDP. Gold and cocoa production and individual remittances are major sources of foreign exchange.
- Oil production at Ghana's offshore Jubilee field began in mid-December, 2010, and is expected to boost economic growth.
- Estimated oil reserves have jumped to almost 700 million barrels.
- The country signed a Millennium Challenge Corporation (MCC) Compact in 2006, which aims to assist in transforming the agricultural sector.
- Ghana opted for debt relief under the Heavily Indebted Poor Country (HIPC) program in 2002, and is also benefiting from the Multilateral Debt Relief Initiative that took effect in 2006.
- In 2009, Ghana signed a three-year Poverty Reduction and Growth Facility with the IMF to improve macroeconomic stability, private sector competitiveness, human resource development, and good governance and civic responsibility. Sound macro-economic management along with higher prices for oil, gold and, cocoa helped sustain high GDP growth in 2008-12, despite the general slowdown in the global economy during that same time period.

### The History:

- After independence, the first President Dr. Kwame Nkrumah took the country into socialism, ostensibly to share the wealth among every Ghanaian.
- Some strategic private sector companies were nationalized, and many import substitution concerns established to provide much needed goods and services for the people of the newly independent country.

- After his overthrow, the next democratically elected government (the Westminster experiment) led by Prof. K.A. Busia attempted to introduce reforms that encouraged more private sector participation in the economy.
- However, the short span of that government disrupted their good intentions at widening the influence of the private sector in Ghana's economy.
- After a few years of military adventurism, under the leadership of President Jerry John Rawlings, the country resumed many reforms to give the private sector its place in leading economic development.
- In the late 1980s to 90s the country, with the assistance of development institutions improved the investment code to make Ghana more investor friendly, undertook massive financial, and legal reforms, making Ghana one of the most attractive business destinations in Africa
- Our stable democracy, being the only sub-Saharan African country that has held five peaceful, and successful democratic elections, makes Ghana an inviting environment for the private sector to thrive.
- Ghana's GDP rose to 14.4% in 2011, making it one of the fastest growing countries in the world(according to the World Bank).
- The IMF Forecasts that Ghana's economy will average a growth of 10% annually by 2018.



## **CHALLENGES IN THE DEVELOPMENT OF THE PRIVATE SECTOR IN AFRICA**

- Although the private sector in African countries faces common challenges, the impact of these constraints varies according to the stage of economic development.
- Fundamentally, the constraints include insufficient transport networks and lack of access to power and finance.
- Small firms have limited financing, and high cost of finance, insufficient collateral, and the business owner's limited technical, management and accounting skills as serious drawbacks

For most microenterprises the most severe challenge is access to finance.

## **THE EXPECTED ROLE OF THE WEST IN THE NEW AFRICAN PRIVATE SECTOR**

**Quote:**

**“IT’S NOT SYMPATHY WE WANT, ITS PARTNERSHIP, THE ABILITY TO STAND ON OUR OWN FEET.**

**IT’S NOT HANDOUTS WE’RE IN SERACH OF, IT’S OPPORTUNITIES.**

**WE HAVE ALREADY SHOWN THAT WITH TIME AND THE RIGHT OPPORTUNITY, AFRICA CAN MAKE IT”**

**–BY H.E. JOHN DRAMANI MAHAMA, PRESIDENT OF THE REPUBLIC OF GHANA**

- The rapidly growing economies, burgeoning population and expanding middle class, and its wealth in petroleum, precious metals, raw materials, and an educated youthful

population make African countries the most congenial partners in global growth and prosperity.

- Six of the ten fastest economies in the world are in Sub-Saharan Africa, which boasts a middle class of 350 million people (which is more than the population of the United States of America), according to the IMF.
- In the new global economy the fortunes of the developed countries of the west are linked to the hugest potentials Africa offers in infrastructural development, mineral resources, precious metals, education, health care, and agriculture.
- The annual export of the US to Africa valued at US\$21billion supports 100,000 American jobs!
- By 2020, Africa's hundred of millions of middle class consumers of financial services, telecommunications, energy, retail goods, etc. will contribute more than 5 times as much revenue as the natural resources industry.
- The AGOA(African Growth and Opportunity Act) in 2011 generated a revenue of over US\$70billion for Sub-Saharan Africa, but supported over 300,000 American jobs

## BUSINESS OPPORTUNITIES TO EXPLORE

- Opportunities abound in infrastructure, power, energy, petroleum, mineral resources, hotels and tourism, technical and skills training in Ghana
- Mining, oil and gas, infrastructure, and aviation in Congo, etc. the opportunities are all over.

- Public Private Partnerships are working very well across Africa for huge infrastructural projects, and projects of strategic importance to governments
- African countries need the partnership to develop and retool Small and Medium sized enterprises to engage in processing and adding value to local raw materials to improve their prices on the international market. This is one very important way the west can support African economies.
- Development organizations from the west are especially encouraged to partner African governments and share experiences to improve the business climate, remove all the bottlenecks to business growth, increase funding and the management acumen to SMEs owners, and perhaps foster strategic alliances across borders for further growth.

## KEY RECOMMENDATIONS AND CONCLUSIONS

- Africa has recognized that the private sector should take the lead in growing the economy inclusively, providing jobs, and reducing poverty
- The West through their Development institutions should assist by sharing experiences with Africa in sustaining the gains of the private sector
- China has led the way in investing more and in Africa, when other investors saw Africa as problem spot. The Chinese have and still reap phenomenal successes in Africa

**THANK YOU**