**Rethinking Growth in Africa: Firms and the Business Environment Quality**

**Excerpts of a Professorial Lecture**

**By**

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Considering post-independent Africa, many African economies have undergone periods of unstable growth. Over the last five decades, some African countries have experienced stagnation in economic growth while other extremes experienced declining growth. Taking a look at mid-1970s, countries like Cameroon, Democratic Republic of Congo, Liberia, Angola, Mozambique and Nigeria persistently registered declining GDP per-capita at a rate of 1 percent per annum.

After realising such dismal growth trends, many of such countries embarked on Structural Adjustment Programs (SAPs) advanced by World Bank and IMF (in early 1980s) and then, they embarked on Economic Recovery Programs (ERPs) in late 1980s to stabilize their economies, revamp growth and minimize deficits in balance of payments.

Whereas SAPs and ERPs resulted in prudent macroeconomic policies characterized by reduced inflation rates and liberalized exchange rates, privatization, retrenchment in public service and provision of investment incentives, the performance of the industrial sector has remained sluggish in many Africa’s economies*.*

Overall, industrial sector growth in Africa continues to lag behind GDP growth from approximately 17 percent in 1981 to 12 percent in 2020. In Uganda for example, the share of the manufacturing sector to GDP continuously experienced weaker growth with a marginal contribution of 4 percent in 1980 increasing to only 5 percent in 1990, and to 16 percent in 2020. This figure is still far below the 20% target specified in NDP III.

The implication for this is that the prudent macroeconomic policies though managed to increase GDP growth in Africa, they have not been sufficient enough to spur growth in the industrial sector which affects its potential for job creation.

What is required of African economies to revive and sustain their growth, particularly in the industry sector is to refocus on the microeconomic policy environment where business firms operate.

**The role of firms in fostering resilient growth is mainly through:**

1. Technological Progress where firms provide the most viable channels through which countries can bridge the technological divide.
2. Aggregate Productivity Growth where Productivity growth is crucial in stimulating a country’s domestic demand critical in achieving fast growth.
3. Export Performance where firms play a significant role in boosting export performance in a wide range of industries. So, countries that prioritize exportation tend to grow faster than their less export-oriented counterparts.
4. Employment Growth where firms are a fountain of job growth. Firm-level job creation typically occurs due to new entrants or expansion of the incumbent firms

Firms in Africa are characterized by Prevalence of a large share of informal firms acting as a primary source of employment. Firms in Africa are predominantly small (close to 58%) with few medium and large firms and only 23% of the firms engage in exporting

In Africa, Firm-level Gross Job Creation Rate (GJCR) stands at 13 percent while Gross Job Destruction Rate (GJDR) stands at 6 percent.

Small firms have a low chance of surviving and growing into large scale firms that are more productive. Therefore; low aggregate industrial productivity in Africa is to a greater extent attributed to a large fraction of small firms. Even with more domestic firms, domestic capital accumulation remains too low to boost adequate growth

**Constraints to the potential of firms to achieve fast growth:**

Firms in Africa rely on an enabling business environment to expand their production activities. However, African firms face a more challenging business environment than firms in any other regions. A poor business environment imposes higher costs, risks and uncertainty that create disincentives for firms to further invest.

Unreliable power supply. Demand for electricity often exceeds the supply or transmission capacity. This constrains production especially among manufacturing firms. In Uganda, an average of 16% of firm output is lost due to power outages.

Firms face huge costs associated with transportation. This inhibits firm access to markets and essential economic services. On average, Uganda loses over 5% of firm output as a result of transport challenges.

Poorly designed tax structures aggravate the tax burden of firms thus threatening their performance. In Uganda, about 5% of firms report tax administration as an obstacle.

Firms face challenges in registering businesses and obtaining operating permits. About 6% of firms in Uganda, report business licensing & permits as obstacles.

A weak rule of law stifles business activities and impedes entry of new firms. Over 6% of firms in Uganda report rule of law as an obstacle.

Corruption imposes transaction costs on firms. Firm owners often choose to operate outside the law in order to speed up processes or even circumvent bureaucratic tendencies. Firms in Uganda on average lose 5% of their total sales as a result of informal payments or bribes.

Firm owners take unnecessarily longer periods to obtain utility connections. Procedures of getting utility connections, operating permits and registration are generally more time consuming and costly in African countries than in other regions globally. Firms in Uganda on average take 41 and 17 days to get connected to electricity and water respectively.

COVID 19 has worsened existing vulnerabilities in Africa’s Business Environment. COVID-19 shock now comes on top of the pre-existing business environment challenges that firms already experience. The containment measures particularly the lockdown resulted in major disruptions such as reduced supply, falling demand, worsening credit conditions, and increasing uncertainty.

**Professor Edward Bbaale’s contribution to knowledge in the current field of discussion**

For the last decade, much of Prof. Bbaale’s work has been centered on firms in African economies.

The first part of the work examines the dynamics and the economic role of firms in bridging productivity, export, and employment gaps in Africa.

The second part puts into perspective the quality of business environment (that is; infrastructure quality, regulatory quality, and access to credit) necessary for firms in Africa to flourish.

**Recommendations:**

It is therefore of a paramount importance that for purposes of ensuring sustainable productivity growth, employment creation, and a vibrant industrial sector, African economies require a strong and thriving private sector which is well enshrined in a conducive business environment that supports all firm types. Specifically there is need for:

1. More investment in energy infrastructure for reliable power supply and affordable power tariffs;
2. Increase public investment in high quality transport networks to open up markets and fasten movement of goods and services;
3. Establish strong institutional environments with a major focus on improved regulatory quality e.g. easing tax rates, cutting red tape bureaucracies especially in attaining licenses, control corruption, loosening of customs and trade requirements;
4. Enhance financial sector development and
5. Address political instability.