Public Sector Capacity, Corporate Responsibility, and Corporate Profitability in Africa

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…**Nelson Mandela**

INTRODUCTION

Business activities that boost public sector capacity are profitable and socially responsible. They are profitable because a competent, well-managed public sector creates and sustains rapid economic growth. They are socially responsible because improved public sector capacity enhances governance that is essential if private businesses are to expand and prosper.

Public sector support for private enterprise and industry has a long history. Contract enforcement, the maintenance of law and order, tax incentives to stimulate particular activities, grants for employee training, support for study tours, and financing of infrastructure are just a few examples. Yet, across most of Sub-Saharan Africa (hereafter limping along sustained by the occasional commodity boom, special access to captive markets, and rent-seeking.

have moved it beyond foreign aid. Even so-called “good performers” (Uganda, Mali, Mozambique, Tanzania) remain acutely dependent on foreign aid. Their current policies will keep them that way.

Over the last two years, the rate of growth has risen. International Monetary Fund (IMF) data show that GDP across Africa increased by 3 percent (2002), 3.1 percent (2003), and 4.2 percent (2004). Though this change is welcome, real per capita income has shown only modest advance. More important, the improvements have been too small to convince private investors that Africa’s growth prospects have altered in fundamental ways. Consequently, many businesses and wealthy individuals continue seeking more profitable and secure investment opportunities abroad. Among those keeping their resources in Africa, expansion plans are muted. Both responses undercut efforts by African governments and the donor community to jump-start economic growth.

What needs to be done to boost economic growth in Africa? Who needs to do it, with whom, and over what time period? To answer these questions, it is useful to examine some of the factors that block economic growth? To begin with, it is worth noting that there is nothing fundamental preventing African and other developing countries from growing rapidly. The experience of countries as diverse as Mauritius and China dispel that idea. It is also not true that the world system of trade and exchange has been (and remains) stacked against Africa. Its contribution to world trade and exchange is so small (marginally above 1 percent for both) that none of the large trading blocs has had (or has) any compelling interest to specifically rig world trade and exchange against Africa. In reality, African governments have done that to themselves. Their countries’ contributions to the world economy have been undermined by massively overvalued real exchange rates and rules and regulations that inhibit entrepreneurship, dampen enterprise, impede innovation, and hinder regional integration. No doubt special interests have been relevant in some of these areas but, by far, the most persistent factor has been that African governments lack the capacities to develop the policies and programs that will stimulate and sustain economic growth.

This is ironic. For decades, African governments and their international supporters have emphasized economic growth. For example, economic growth was central to African Unity’s Lagos Plan of Action (1980) and the World Bank’s program to accelerate African development (1981). A similar focus guided the support of a host of other agencies. The emphasis has continued and is now the centerpiece of the New Partnership for African Development (NEPAD), launched in 2001. Stripped of its frills, NEPAD seeks to sharply accelerate growth across Africa. Meeting the goals set for 2015 (halving poverty, reducing the prevalence of HIV/AIDS, promoting universal primary education, and other dimensions of the Millennium Development Goals) requires average growth of 7 percent per annum. This will occur, according to the Partnership, if the investment rate rises from its 2001 level of 20 percent of GDP to 35 percent of GDP and the incremental capital-output ratio (i.e., a measure of the efficiency of capital) falls to five.

To be effective, private business engagement with the public sector needs to be at the macro and sector levels. At the macro level, African businesses will have to help governments scale back the development agenda and ensure that macroeconomic policies are growth-oriented. At the sector level, the critical tasks are to ease (or remove) regulations, restrictions, and organizational inefficiencies that raise transaction/operating costs, dampen enterprise, discourage entrepreneurship, and block innovation.

Macro Level Engagement

All African governments, especially in high HIV prevalence countries, need to sharply curtail their activities. Specifically, they need to match their agendas to their available human, financial, organizational, and institutional resources. Private businesses fully understand this point and regularly reassess whether or not their activities are consistent with their "core competences."

The persistent budget and balance of payments deficits and the lack of effective plans to remove them are evidence that few African governments act as though they understand this principle, or feel bound by it. This situation provides an entry point for private businesses. They would make a major contribution by helping their respective governments selectively and efficiently scale back the development agenda in ways that enhances macroeconomic management.

Accomplishing these tasks will require high-level private business/government interaction. Numerous approaches are available. In Mauritius, the Chamber of Commerce and Industry meets regularly with senior government officials. These exchanges enable both government and business to deal with threats to economic growth and to grasp opportunities that enhance economic performance.

In the absence of such a mechanism, business leaders could propose to the head of state and senior government officials the formation of a public sector/business economic growth forum. (A useful start could be made with the firms that are supporting HIV/AIDS mitigation programs.) The forum would sponsor a national conference to devise measures to accelerate economic growth. Drawing on the broadest range of views possible, the conference would produce a set of guidelines for government/business task forces to rationalize the development agenda and improve macroeconomic management. There are several examples. During the mid-1980s, the Babangida government in Nigeria sponsored a national debate on the types of reforms the country should adopt. The poverty reduction strategies supported by the IMF follow a similar procedure.

To improve macroeconomic management, a business/government task force would be appointed to devise measures to cut government expenditure, improve revenue collection (including new taxes if needed), normalize the stock of internal and external debt, and move the exchange rate to levels that sustain the economy's long term competitive advantage. For most African countries, this program will involve significant reductions in government expenditure starting with the overall wage bill; marked improvements in revenue collection through the suppression of fraud and removal of special tax breaks; elimination of the budget deficit; strict control over new borrowing and the creation of contingent liabilities; and a substantial devaluation of the nominal exchange rate.

These measures are well worn being common to the economic reform (or structural adjustment programs) supported by the IMF, World Bank, and others donors. The main difference with the current proposal is that, from the outset, private businesses have a major stake in the success of the reforms.

To move the process forward, data will be needed to determine how the policies should be modified and to monitor progress. An early task for business will be to help bring the relevant social and economic data up-to-date. These data should be regularly and openly reported so that all participants (private business, government, state agencies, and the general public) can track progress of the joint effort to accelerate economic growth. Making such data widely available is important to prevent recidivism, especially with respect to the budget deficit and external debt, or the inappropriate re-expansion of the development agenda.

Some governments may view these requirements as too demanding or intrusive. They may attempt to fudge them. Private business activism is crucial in this regard. Government officials (including the head of state) need to be openly and regularly reminded that fudging and backsliding can only produce stagnation and decline.

Enhancing Sector Capacities

Efforts to rationalize the development agenda and improve macroeconomic management will reveal technical, administrative, and organizational weaknesses at the sectoral level. These undermine productivity and dampen the incentive to invest. Private businesses are cannot deal with all these problems. They should offer support in areas only where they have the relevant capacities. Opportunities abound. Government departments in Africa need help with personnel management, recruitment, inventory control, restructuring work routines, upgrading computer skills, accounting, budgeting, auditing, and training (especially the training of trainers).

There is no “cookie cutter” approach. Nonetheless, some examples indicate what is involved. In the mid-1990s, Zambia used a business/government/public agency task force to successfully revise its mining sector legislation. The contribution of private sector companies (which included two of the largest mining houses in the world) was critical in bringing Zambia’s regulations into line with international practices. Such task forces/working groups would help foster trade and exchange, streamline customs procedures, normalize labor relations and employment policies, restructure health and retirement benefits, revamp transport infrastructure, reform the agricultural marketing system, expand rural communication, and increase efficiency in government material use and tendering procedures.

engaged in the growth process. So, however, there have been few incentives to induce private business to become engaged.

A shift in strategy is needed. Private businesses across Africa should help (and, if need be, pressure) their governments to improve the quality of governance. This will require changes at the macro and sector levels. At the macro level, private businesses and governments have to scale back the country's development agenda. This will more efficiently match what governments are attempting to their capacities and raise the standard of macroeconomic management. At the sector level, African businesses will need to work with governments to minimize the inefficiencies created by regulations, taxes, and fees; remove distortions and other impediment; improve organizational and operational procedures so as to reduce transaction costs; and remove/modify barriers that impede enterprise, stifle entrepreneurship, and obstruct innovation. These changes will

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