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SUPPORTING PRIVATE INDUSTRY

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Capacity Building
for
Private Sector Development
in Africa

PRIVATE SECTOR DEVELOPMENT BRANCH

Investment Promotion and
Institutional Capacity Building Division

PSD TECHNICAL WORKING PAPERS SERIES

Working Paper No. 3
Capacity Building
for
Private Sector Development
in Africa

**CAPACITY BUILDING FOR
PRIVATE SECTOR DEVELOPMENT
IN AFRICA**

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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Private Sector Development Branch
Investment Promotion and Institutional Capacity Building Division

PSD Technical Working Papers Series

The PSD Technical Working Papers Series is a series of occasional papers arising from the work of the Private Sector Development Branch of the Investment Promotion and Institutional Capacity Building Division (IPC/PSD) of UNIDO. It is intended as an informal means of communicating important insights and findings from the technical cooperation and research activities of the Branch to a wider public of interested development practitioners, policy-makers and academics. The Branch would welcome comments and suggestions on the issues raised in these papers, which may be addressed to:

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EXECUTIVE SUMMARY

This paper discusses the development of entrepreneurship and the private sector in Africa against the background of the dramatic changes in the global economic environment that began in the early to mid-1980s and are continuing at an accelerating rate. In addition to outlining the challenges arising from these developments, this paper also presents illustrative examples of possible responses to these challenges based on the experience gathered by UNIDO through its extensive technical cooperation programmes with African countries.

The paper begins with a short summary of recent trends in the global economy and their impact on Africa. While recognizing that the extent and nature of this impact has varied across Africa due to the continent's immense diversity, the paper seeks to draw some general inferences from the available quantitative and qualitative information. These permit a number of conclusions to be drawn about the changing roles of the private and public sectors in promoting industrial development. The paper then goes on to discuss the constraints faced by the private and public sectors at both the policy and institutional levels in fulfilling these new roles effectively and efficiently, and indicates the wide range of support services they require in order to be able to carry out their new tasks.

CHAPTER I:

Private Sector Development in Africa

The private sector has become the central focus for the economic development of African countries in recent years. Two factors account for much of this new emphasis: the failure of public sector-led economic development and the rise of globalization.

Until the 1970s, economic development was strongly oriented towards government control of the development process, often including the actual provision of goods and services. Many governments not only decided which industries and businesses would be created and financed, but also owned and operated the factories themselves, exercising not only corporate governance responsibility but operational and managerial responsibility as well. This public ownership and operation of business was combined with an inward-oriented development strategy that stressed import substitution behind highly protective tariff and non-tariff barriers.

Although some African countries did experience strong growth in the 1960s and early 1970s, the combination of government ownership and lack of competitive markets ultimately led to widespread inefficiencies. These manifested themselves in high-priced and poor-quality products, and a growing need for public subsidization of the state-owned enterprises, which resulted in a diversion of public funds from the provision of critical public goods such as social services, educational facilities and basic infrastructure. Despite various attempts to correct these problems through such measures as performance contracts, the overwhelming problems associated with this approach to development were eventually recognized and it came to be acknowledged that only a comprehensive change in the role of the state offered realistic possibilities of improved economic development.

The second factor, globalization, is a result of two separate, though related, developments: trade liberalization and rapid technological change. Trade liberalization made globalization legally possible, and provided new markets to expand economies of scale; technological change made globalization technically possible, and provided the transportation, communication, and production technology needed to distribute goods and services efficiently over vast areas, to control far-flung operations, and to produce goods in new and cheaper ways. As a result, the last decade has seen a significant increase in open markets and efficient enterprises, which has led to increased competition in markets around the world.

The combined effect of the changing role of the state and globalization has been to place the private sector in the forefront of economic development in almost all developing countries. As indicated by the data in Table 1, the share of private investment in total investment has risen significantly in all developing regions of the world between the 1970s and the mid-1990s.

Table 1
Share of private investment in total investment, 1970-96
 (%; weighted averages)

Region	1970-79	1980-89	1990-96
All developing countries	62	63	71
East Asia	73	70	75
Latin America and the Caribbean	64	69	76
Sub-Saharan Africa	51	58	69

Source: Glen, Jack D., and Sumlinski, Mariusz A., *Trends in Private Investment in Developing Countries - Statistics for 1970-96*, IFC Discussion Paper Number 34

These data need to be treated with some caution, however, especially with regard to Sub-Saharan Africa. As shown in Table 2, the increase in the share of private investment in total investment is not necessarily a reflection of a corresponding increase in the contribution of private investment to aggregate demand. The available data show that this is particularly so in the case of Sub-Saharan Africa, where the increased relative importance of the private sector is attributable mainly to a sharp drop in public sector investment rather than to any substantial growth in private investment itself. In fact, this table shows that the contribution of private investment to GDP has actually declined marginally during the past 25 years, from an average of 14% in the 1970s to 13% in the 1980s and 12% in the first half of the 1990s.

Table 2
Investment as a share of GDP, 1970-96
 (%; weighted averages)

Region	1970-79	1980-89	1990-96
All developing countries:			
Total investment	21	22	23
Private investment	13	14	17
Public investment	8	8	7
East Asia:			
Total investment	25	28	35
Private investment	18	20	26
Public investment	7	8	9
Latin America and the Caribbean:			
Total investment	20	21	19
Private investment	13	14	15
Public investment	7	7	5
Sub-Saharan Africa:			
Total investment	27	23	17
Private investment	14	13	12
Public investment	13	10	5

Source: Glen, Jack D., and Sumlinski, Mariusz A., *Trends in Private Investment in Developing Countries - Statistics for 1970-96*, IFC Discussion Paper Number 34

The disappointing performance of private investment in Africa is highlighted further by trends in the geographical distribution of inflows of foreign direct investment (FDI) presented in Table 3. These show that the share of FDI inflows into Africa (excluding South Africa, which is classified among "other developed countries" according to United Nations statistics) declined from an already modest 2.3% of total global flows in 1994 to a mere 1.2% in 1997. The inclusion of South Africa, which recorded rising FDI inflows during the period under consideration, also does not reverse the overall declining trend for Africa as a whole. Even as a proportion of FDI flows into developing countries alone, Africa's share accounted for only 4.3% in 1997 if South Africa is included, and 3.2% if it is excluded.

Table 3
Regional distribution of global FDI inflows, 1994-97
(%)

Region	1994	1995	1996	1997
World	100.0	100.0	100.0	100.0
All developing countries	39.3	31.9	38.5	37.2
Asia	25.0	20.3	23.7	21.7
Latin America and the Caribbean	11.8	9.6	13.0	14.0
Africa (excluding South Africa)	2.3	1.6	1.4	1.2
Africa (including South Africa)	2.5	1.8	1.7	1.6

Source: UNCTAD, World Investment Report 1998 - Trends and Determinants, Table I.8 and Annex Table B.1.

Apart from their very low overall volume, the flows of FDI into Africa are also characterized by considerable imbalances, as shown in Table 4. Some two thirds of the total inward investment of \$4.7 billion into Africa (excluding South Africa) flowed into just five countries - Nigeria, Egypt, Morocco, Tunisia and Angola - in 1997. This concentration rate is even higher if South Africa is included in these calculations, since South African Reserve Bank data indicate FDI inflows of \$1.7 billion into the country in 1997. Of the total inflows of \$6.4 billion into Africa (including South Africa) in 1997, South Africa alone thus accounted for 26.6%, the other five major recipients for 47.5%, and all other African countries, including all of the continent's least developed countries, for 25.9%.

These aggregate data clearly conceal significant country-wide differences in such variables as the ratio of FDI inflows to gross fixed capital formation and the ratio of FDI stocks to GDP. In particular, a closer inspection of these subsidiary variables reveals that some of the smaller countries, such as Botswana, Lesotho, and Malawi, have performed relatively well when considered in relation to their size, and have recorded FDI-to-GDP ratios comparable to, or higher than, those of the larger countries. In most cases, however, this favourable performance is accounted for by special factors, such as locational advantages for FDI undertaken to service neighbouring markets, and there is no statistical evidence of a systematic bias in favour of small countries.

These few exceptions notwithstanding, the available data for private investment in Africa appear to confirm the frequently expressed concerns over the "marginalization" of Africa in recent years. Among the many explanations that have been suggested for this marginalization, two appear particularly relevant in the present context. First, there are strong indications that African

countries have been slow to liberalize their economies and their integration into world markets has lagged those of other countries. Second, the sharp fall in public sector investment since the 1970s shown in Table 2 has contributed to the poor performance of private sector investment, with the deterioration in physical, institutional and social infrastructure deterring private investors. As argued in a UNIDO paper prepared for the 14th Conference of African Ministers of Industry, “there is considerable evidence to show that appropriate public sector investment - in physical infrastructure, in training and skills development, in governance - ‘crowds in’ private sector investment”.¹

Table 4
Country distribution of FDI inflows into Africa, 1994-97
(%)

Region	1994	1995	1996	1997
Total Africa	100.0	100.0	100.0	100.0
Africa excluding South Africa	94.4	84.0	86.4	73.4
South Africa	5.6	16.0	13.6	26.6
Nigeria	32.5	36.0	24.9	15.6
Egypt	20.8	9.8	11.4	13.0
Morocco	9.1	4.7	5.6	7.8
Tunisia	7.2	4.3	4.5	5.6
Angola	2.8	4.1	5.2	5.5
Others	22.0	25.1	34.8	25.9

Source: UNCTAD, World Investment Report 1998 - Trends and Determinants, Annex Table B.1.

These explanations for the disappointing performance of private investment in many African countries yield two principal policy implications: The first is that African economies need to open themselves more to the international markets in order to be able to enjoy their full share of the benefits of globalization, and to develop strong private sector enterprises that can compete effectively in world markets and enter into partnerships with international firms to obtain access to finance and technology. In this connection, it needs to be stressed that the presence of a strong domestic private sector - much more than the availability of short-term financial incentives - acts as an important determinant for attracting foreign direct investment. The second is that the development of such an internationally competitive private sector requires a concerted effort to improve the enabling environment for enterprises, and build the institutional capacity required for the development and efficient operation of the private sector. The remainder of this paper will be devoted to a discussion of these crucial issues.

¹ UNIDO, *African Industry 2000: The Challenge of Going Global*, Paper prepared for the 14th Conference of African Ministers of Industry, Dakar, Senegal, 18-23 October 1999.

CHAPTER II:

Private sector development: Key dimensions

A. The roles of the private and public sectors

At its core, the private sector consists of households and firms producing a variety of goods and services. A strong private sector also includes, however, a wide range of ancillary institutions that promote business and provide various types of support services, such as trade associations, chambers of commerce and industry, metrology laboratories, standardization bureaus, and similar organizations. In addition, it includes providers of legal services, of financial and accounting services, and other.

Although there is a growing recognition that the private sector should bear the principal responsibility for the production of goods and services, this does not imply that the public sector no longer has a role to play in economic development. Rather, the public sector continues to play a crucial, albeit changed, role as a facilitator and regulator of the development process, including in the development of the private sector itself. In particular, it is now called upon to establish the overall conditions within which the development of an efficient and competitive private sector can take place. This involves the provision of a conducive policy environment, the provision of the necessary physical infrastructure, and the promotion of an appropriate institutional framework, including business support services (sometimes referred to as “soft” infrastructure).

The importance of these public sector services in supporting private sector development cannot be overemphasized even in the present era, when the financial constraints of private entrepreneurs in developing countries are increasingly being met from within the private sector itself through cross-border inflows of direct and portfolio investment and other forms of international private sector partnerships. As indicated in the previous section, these inflows have a tendency to be more concentrated in countries and regions where such services are better developed as their availability enhances the effectiveness of the financial resources invested. Similarly, there is increasing evidence to show that the impact of the variety of innovative funding schemes for SMEs initiated during the past decades has often been eroded by the absence of an adequate structure of non-financial support services.

B. Basic requirements for an efficient private sector

Efficient and competitive private sector firms do not develop solely because of their own internal capabilities. While innovative entrepreneurs, skilled managers, a dedicated and well-trained work force, and efficient administrative and operational procedures are important, the number, size, and efficiency of enterprises in a country are affected by a host of external factors. Generally, a private sector needs an overall “enabling environment” which allows private firms to operate efficiently, and specific institutions and policies that promote private sector development. The most important of these external factors include:

- *Macroeconomic stability.* A key to economic growth is prudent economic management that avoids volatility and uncertainty. Policies that lead to high inflation, excessive taxation, distorted factor prices, or a lack of foreign exchange discourage business formation and investment.
- *Financial System.* An efficient financial system is an important prerequisite for economic development, in mobilizing savings and channeling them into investments. For private sector firms it serves the additional purpose of enforcing discipline on firms that borrow, besides providing them with credit.
- *Competitive Markets.* Even more important to economic development than private ownership is the presence of competitive markets. Competition promotes efficiency and policies that promote intense, but fair, competition will result in competitive enterprises and a strong private sector.
- *Regulation.* Regulation of the private sector is necessary to ensure competition and fair trade, but unnecessary regulation burdens the private sector and leads to fewer and less efficient enterprises, and reduced competition.
- *Physical Infrastructure.* The size, characteristics, and efficiency of the private sector depend very much on the available infrastructure. As indicated above, public investment in infrastructure “crowds in” private investment.
- *Political and social stability.* To operate efficiently, the private sector requires a generally conducive political and social environment. Institutions such as public administration systems, judicial systems, schools, and hospitals are necessary for the social stability that provides an environment for sound economic development.
- *Legal Framework.* Business, like society in general, needs to operate under the rule of law. No strong private sector can exist in the absence of an adequate legal framework to resolve disputes, facilitate efficient transactions, and protect property rights.
- *Policy framework.* Various policies, even those not directly related to the private sector, can affect its growth and size. Policies that provide adequate support to the private sector are essential.

- *Access to resources and support services.* Entrepreneurs and enterprise managers need access to finance, information, and various types of support services to create and operate businesses in the most efficient and competitive manner.

C. The role of SMEs

Within the private sector, a particularly important role is played by small and medium enterprises (SMEs), which include micro-enterprises. It is widely recognized that SMEs form the backbone of the private sector at all levels of development, and make a significant contribution to economic development in general and to industrial development in particular. SMEs make up over 90 per cent of enterprises in the world and account for 50 to 60 per cent of employment, while SMEs engaged in manufacturing account for between 40 and 80 per cent of manufacturing employment. Their contribution is even more important in the least developed countries of Africa, where they often offer the only realistic prospects for increases in employment and value added.

The development contribution of SMEs is particularly significant for the following reasons:

- *SMEs are more labour-intensive and tend to lead to a more equitable distribution of income than larger enterprises.* They play an important role in generating employment and thus alleviating poverty, often providing employment opportunities at reasonable rates of remuneration to workers from poor households and to women who have few alternative sources of income.
- *SMEs contribute to a more efficient allocation of resources in developing countries.* They tend to adopt labour-intensive production methods and, thus, reflect more accurately the resource endowments in developing countries where labour is plentiful and capital is scarce. To the extent that these enterprises operate in “informal” markets, the factor and product prices they face also provide a better reflection of social opportunity costs than the prices faced by large enterprises.
- *SMEs support the building of systemic productive capacities.* They help absorb productive resources at all levels of the economy and contribute to the establishment of dynamic and resilient economic systems in which small and large firms are interlinked. They also tend to be more widely dispersed geographically than larger enterprises, support the development and diffusion of entrepreneurial spirit and skills, and help reduce economic disparities between urban and rural areas.

Because SMEs comprise a predominant share of the private sector, and because they have specific characteristics and potentials that distinguish them from larger enterprises, special attention needs to be given to their role in the development of the private sector.

CHAPTER III:

Capacity Building for Private Sector Development and Entrepreneurship Promotion

A. Introduction

Many African countries face the challenge of how to meet the requirements indicated above to strengthen their private sectors. The process will, of course, vary from country to country but some important lessons have been learnt in recent years that can help to guide the process. This section will discuss some of the more important of these findings, and provide examples of how UNIDO has helped governments to address private sector development issues.

It should be kept in mind that the development of the private sector must always be seen in the context of the overall business environment, which is also determined by broader socio-economic and political issues that lie beyond the scope of decision makers responsible for private sector development. Thus, conducive social and political institutions and practices, a favourable macroeconomic environment, and the presence of physical infrastructure should be seen as a prerequisite for, and not a part of, private sector development. Private sector development will have to progress in a manner consistent with the conditions existing in each country, and the form and timing of private sector development will be determined, to a great extent, by these conditions.

B. Policies

Most essential for private sector development is the formulation and implementation of a comprehensive policy framework governing the operations of the private sector. Such a policy framework needs to be consistent with the overall macroeconomic conditions prevailing in a country, and as such should include a range of policies, procedures, and laws that provide both regulation and promotion of the private sector. In particular, it should include, or be harmonized with, specific policies for industry, investment, the environment, energy, SMEs and entrepreneurship development. Such coordination is a crucial requirement, since many different agencies and institutions are typically involved in, or responsible for, different facets of private sector development.

A coherent industrial policy is especially crucial to private sector development. Industrial policy formulation provides a logical approach to analyse industrial prospects and develop policies that

promote competitive industry while, at the same time, taking into consideration a country's overall objectives, including poverty alleviation and employment generation. The integration of industrial policy into the overall development of a country's economy and its private sector is crucial. The experience of Chad, presented in Box 1, provides a good illustration of this approach.

Box 1**Chad: Industrial policy advice**

In the mid-1990s Chad faced daunting challenges to its development. It had just emerged from nearly three decades of domestic strife and external conflicts, which had wrecked its institutions and infrastructure, squandered its human resources, and severely restrained its economic progress. The difficult economic outlook caused by these problems was further compounded by the high transport and transaction costs inherent in its land-locked situation.

The Government's recovery programme first concentrated on restoring the overall business environment in the country, beginning with the re-establishment of the legal foundations of Chadian society, from the Supreme Court down to the Business Law and its enforcement tribunals. In parallel, the country initiated its first structural adjustment programme in 1995, followed by reforms of the civil service and the gradual establishment of a policy and institutional framework conducive to a greater participation of the private sector in economic affairs.

The industrial policy efforts of the Chadian authorities were actively supported by UNIDO, which provided technical assistance to identify policies, legislation and institutions required for the efficient operation of industry and the private sector. This assistance included development of the legal framework, the tax regime, a system of financial intermediation for the enterprise sector, a trade code and an investment charter. To enhance the competitiveness of Chadian enterprises, institutions to promote standards and quality management were established. In addition, the administrative procedures governing private business were reviewed and simplified to reduce the expense and time required for business registration, reporting, and compliance with government policies.

Some of these reforms had to comply with regional agreements that Chad had signed, such as the "Organisation pour le Droit des Affaires en Afrique" (OHADA), and the "Charte Régionale des Investissements dans la Communauté des Etats de l'Afrique Centrale" (CEMAC). Chad was one of the first countries to take advantage of the new Regional Court of Justice established in Abidjan in 1999 to arbitrate business disputes within the OHADA framework.

Environmental policy is a closely related dimension of the overall policy framework, which is needed to ensure that industrial development takes place in a sustainable manner. While it is true that most African countries do have environmental legislation and regulations, these are generally inadequate to control industrial pollution. Environmental policies are needed that provide a proper mix of incentives for waste minimization and the use of non-polluting inputs and technology. In addition, capacities need to be developed to monitor compliance with existing policies and to assess the impact of industrial pollution on the environment which, in turn, become inputs into future policy decisions. The approach adopted by Madagascar, and presented in Box 2, serves as a good example of how well-formulated environmental policies can provide proper incentives for the private sector to engage in sustainable industrial production.

A third integral component of a policy framework for private sector development is SME policy. The majority of firms in the private sector are SMEs, so that policies designed to benefit SMEs

are generally beneficial to the entire private sector. However, SMEs have a number of special characteristics and requirements that make a specific policy framework for SMEs desirable.

The ultimate objective of a SME policy is to ensure a favourable operating environment for SMEs. This does not mean, however, that SMEs should receive subsidies or special benefits. While subsidized loan programmes, free consulting services, and “set-aside” procurement policies have been fixtures of SME policy frameworks in the past, there is a growing recognition that private sector development is best served by having a neutral policy environment rather than one which favours SMEs or discriminates against them. Therefore, policies for SMEs now focus on removing constraints to SME development rather than on providing special privileges to them. Because of their size and isolation, SMEs are especially disadvantaged by burdensome regulations and administrative requirements, and policy frameworks for SMEs should pay particular attention to removing any unnecessary regulations or procedures that require action or payments by SMEs.

Box 2

Environmental policy in Madagascar

Like many countries, Madagascar had a growing environmental problem caused by pollution from industrial production. Although the problem was not as bad as in many countries, there was a recognition that something needed to be done before it became too severe. An assessment of the situation revealed that much of the problem stemmed from a lack of a suitable policy framework to provide direction to private industry in sustainable industrial production. The assessment revealed that new laws, regulations, and standards needed to be developed to provide incentives, positive and negative, for industry to avoid pollution, and that there was a need for information collection and monitoring capacity to obtain information needed for policy formulation.

Madagascar addressed the problem by, first, creating new environmental standards, laws, and regulations that made it clear to the private sector that the principle of “polluter pays” would lead the compliance effort. Then, mechanisms for collecting information that could be used for compliance and future policy development were instituted. A special governmental unit was established and charged with responsibility for monitoring and advising on environmental issues, and two laboratories were set up to measure and analyse industrial pollution. To ensure that the policies were properly implemented and enforced, an extensive training programme was instituted: some officials toured Europe to review environmental standards, and more than 150 officials received training on industrial pollution prevention and reduction, monitoring and control.

An important feature of the policy framework was the emphasis on support to the private sector. While penalties are in force for pollution, the policies provide positive support to the private sector for compliance. Waste minimization is emphasized, as a way of increasing profits for businesses as well as reducing pollution, and environmental audits were provided to firms. Businesses in Madagascar also received support in identifying information sources on environmental technologies and transfer of technology.

As a result, and with UNIDO providing support to the entire process, Madagascar now has in place a policy framework, including legislation and the monitoring and compliance infrastructure, that provides the proper guidance and incentives to enable the private sector to develop in a sustainable manner.

Policies dealing with women entrepreneurs constitute another important element of a SME policy framework. Women face a variety of constraints to establishing and operating businesses. These include cultural biases, a lack of legal rights (e.g., inability to borrow without a husband’s agreement, inability to inherit or own property in their own name), low educational and skill levels, and limited access to financial resources. With increased globalization, the

requirements imposed by environmentally sustainable production processes, eco-labeling, and quality standards also make it increasingly difficult for women to operate competitive businesses, since their access to technology and information is often insufficient. Policies for increasing women's participation in industry and entrepreneurship focus on analysing the "gender gap" and addressing these constraints through legislation and policy measures. Such laws and policies will provide better legal and property rights for women, and improve their access to information, finance, training, and technology.

A crucial requirement for an effective private sector policy framework is to ensure that it is actually developed in close consultation with the private sector. Partnerships between the private and public sectors are becoming commonplace as means for ensuring that government policies reflect the views of the private sector, and for joining forces where joint activities are appropriate. It is especially useful to have regular fora at which the private sector and public sector agencies can exchange views on important policy issues. In many countries, specific structures are being established to institutionalize this public/private partnership. In Senegal, for instance, an Industrial Partnership Council provides the central consultative mechanism between the government and the private sector for formulating industrial development policies and strategies. Senegal expects that this forum will result in a continuous and dynamic dialogue between all the parties affected by the policies.

Finally, the formulation of an effective policy framework for private sector development depends critically on the ability of policy makers to draw on appropriate quantitative and qualitative data and information, such as industrial statistics and broader information on the conditions prevailing in the private sector and the requirements of private entrepreneurs. Access to such data and information is often limited in African countries, however, as it is cumbersome and expensive to assemble, process and disseminate. This can lead to the drafting of inappropriate or mutually contradictory policies, whose effects may be counter-productive.

Recognizing the serious constraints on policy formulation imposed by the inadequate availability of the required data and information, African countries are taking steps to enhance their own statistical capabilities and ensure compatibility with international standards. Efforts are being made to establish or develop industrial statistics databases, and training programmes and support services are being developed for producers and consumers of such statistics in both public and private sector institutions and organizations. Programmes such as the one in Eritrea, discussed in Box 3, are urgently needed in many other countries to provide the information required for the formulation of effective policies.

Another way of ensuring good information, while at the same time promoting the public/private partnership, is linking various public and private agencies in an information network. In eight African countries UNIDO has initiated programmes to connect public sector bodies such as the Ministries of Industry, Investment Promotion Agencies, and Export Promotion Agencies with private sector institutions, such as Chambers of Commerce, Federations of Industry, and trade associations. This "industrial governance support network" is intended to serve as a platform for the dissemination and exchange of governance-related information such as industrial priorities and plans, industrial statistics, industrial standards, laws and regulations governing private enterprise, and investment opportunities. Such information networks help to increase

Box 3**Information for policy formulation in Eritrea**

The Ministry of Trade and Industry was responsible for promoting industrial development in Eritrea, which lacked the necessary institutional capacities as a result of the war of independence. Of particular concern was a lack of industrial statistics and the trained personnel and equipment needed to employ these statistics effectively to improve the government's policies and programmes.

In response, the Ministry introduced a programme to establish a comprehensive, computerized industrial information system with assistance from UNIDO. To initiate the data collection process, an industrial census covering all manufacturing establishments with more than 10 employees was taken for 1997, and this was combined with another survey covering the years 1992-1996. Computers were installed, and these surveys became the initial data for the newly designed information system. To build up the capabilities of the staff who would use the new computerized system, training programmes were instituted in questionnaire design, survey procedures, data analysis, statistical forecasting, and the use of industrial statistics.

As a result of this new capacity, the Ministry was able to prepare its first comprehensive report on the formal manufacturing sector in Eritrea, in accordance with internationally used concepts, classifications, and definitions. This report on 205 establishments provides analytical information on size distribution, ownership, and sector participation, in addition to all internationally used economic indicators. This information is a vital prerequisite for industrial development policy formulation in Eritrea. More importantly, the system developed and the training and experience gained by the staff provide the Ministry with the capability to increase its efforts in information collection and analysis in the future. With this capability, the Ministry will be able to extend its activities to conduct surveys on smaller establishments in order to widen the scope not only of the formal industrial statistical database, but also to provide various types of information required by policy makers for private sector development.

the effectiveness and consistency of the policy framework governing the private sector by ensuring increased transparency and a better coordination of policies.

C. Strengthening the capacity of public sector institutions

A crucial requirement to bridge the gap between good policy formulation and good policy implementation is the existence of strong, efficient institutions. Public institutions are needed to support the private sector, but in new roles as promoters and regulators, not usually in providing direct services or finance to business. As this role is new for institutions in many African countries, they often need to be upgraded, and to redefine their functions in light of the changed role of the state and the effects of globalization. This needs to be accompanied by a re-training of staff, the adoption of modern tools, and the introduction of new working practices.

In this connection, the increased participation of private sector institutions in policy formulation referred to earlier needs to be supplemented by similar cooperation in policy implementation. Another new element is the need to restructure the inter-governmental arrangements for private sector development. This is particularly crucial for government bodies responsible for SME promotion, since they often carry only limited weight within a government. A SME promotion agency, for example, usually has little influence in the Ministry of Finance, despite the fact that much of the government legislation and some of the policies affecting SMEs are developed within the Ministry of Finance. Organizational arrangements must be made within a government to ensure that SME promotion issues and recommendations are known not just in the SME

promotion agency, but in the Ministry of Finance, the Ministry of Labour, and other government bodies that affect the private sector.

One approach to strengthening public agencies to support private sector development is illustrated by the plans of the Government of Sudan presented in Box 4.

Box 4
Strengthening the Ministry of Industry in Sudan

The Ministry of Industry in Sudan is confronted with many of the same problems faced by similar ministries in other African countries. It has a core of well-educated staff members who, nevertheless, lack specialized expertise in certain SME and economic issues.

Working with the Ministry's staff, UNIDO has developed a technical assistance component that is part of an integrated technical assistance programme, to develop the private sector by strengthening the entire SME promotion process in the country. The staff of the Ministry will be trained, and outside experts will be brought in to undertake studies on specific issues in which the staff lack expertise. The governmental arrangements for dealing with private sector issues are being improved by the formation of an inter-ministerial group to address issues and disseminate information related to private sector development. The private sector will be included in the entire process, especially in providing more inputs into policy and legislative issues, through various workshops, conferences, and other public/private partnership activities. These activities will lead to the preparation of the first SME strategy document, outlining the country's workplan for SME development and regulation.

In addition, greater awareness, transparency, and information dissemination will be provided through the preparation of an Annual Report on SMEs, and the organization of an annual conference, bringing together all major actors, public and private, in the process of private sector development.

The expected result is a strengthened Ministry to perform its functions, which will result in immediate improvements in policies and SME promotion activities and, more importantly, a long-term strengthening of the entire institutional process of private sector development.

In the era of globalization there is a particularly acute need for an upgrading of public institutions that provide technical and technological support to the private sector, especially in the areas of quality management, standardization, and metrology. Compliance with international standards of measurement, and assuring trading partners of the quality and safety of exported products is becoming a major factor in the export competitiveness of countries. However, critical capacities are lacking in many African countries. There is an urgent need for the creation of appropriate institutions and the upgrading of existing bodies through the provision of modern equipment and staff training, and for the design and implementation of programmes to establish or improve certification bodies. The absence of such services can have serious consequences for businesses, especially those oriented towards export markets, as illustrated by the experience of Uganda presented in Box 5.

Box 5**Uganda: Standards and testing for private sector development**

Although Uganda is taking important steps to restore economic growth and stimulate the private sector to become the engine of growth, Ugandan firms face many problems in competing, especially in export markets. A critical constraint to the private sector is the poor quality of the products that are produced by Ugandan firms, and the improvement of the product quality is, in turn, severely constrained by inadequate standardization, quality assurance, metrology, and testing capabilities in Uganda. This is exemplified by the Uganda National Bureau of Standards (UNBS) which until recently was only able to formulate standards and undertake compliance testing at very low levels, had only very basic metrology facilities, and had no quality assurance and certification programme. Without such basic services to the private sector, improvements in the quality of products and the ability to meet the international export requirements were severely hampered. This was underlined by the recent ban on Ugandan fish exports by the EU as a result of a cholera scare, which showed the serious effects that the lack of quality assurance programmes and of a micro-biology and chemical testing laboratory can have on competitiveness.

As a result of the recognition that the lack of such basic facilities was constraining the development of the private sector, the Ugandan Government initiated a programme to lay the foundations for this basic infrastructure, using technical assistance from UNIDO. UNBS is being strengthened, with new facilities and equipment and specialized staff training, to deliver a full complement of services in these areas. Particularly important will be the development of additional standards, through an increase in the number of technical committees, to include such areas as metrology, electro-technology, textiles, leather, plastics, pharmaceuticals, mechanical engineering and metallurgy, pollution control, and the environment. The current number of 34 Ugandan standards will be increased to 340. Laboratory facilities are being established in legal metrology, industrial metrology, microbiology testing, chemical testing, pharmaceutical testing, mechanical testing, electrical testing, and textile/leather/plastic testing.

The ultimate outcome of this upgrading of UNBS will be an institution capable of providing the services Ugandan enterprises need to increase the quality of Ugandan products and comply with international standards required for export. In addition, Ugandan consumers will benefit from improved products that are also safer and healthier.

National Cleaner Production Centres (NCPCs) are a relatively recent type of institution supporting SMEs in particular. Faced with the twin challenges of undertaking environmentally sustainable industrial development and competing against international firms, African businesses need ways of reconciling the two. NCPCs provides services that can help enterprises become more competitive while, at the same time, reducing industrial pollution. NCPCs, such as the ones operating now in Tanzania and Tunisia, provide support to governments for policy formulation, as well as in-plant assessments, information, and training for individual businesses. The benefits that cleaner production can provide to both the environment and the competitiveness of an enterprise are shown in Box 6 .

Box 6 Cleaner production in Africa

Cleaner production techniques are used to reduce industrial wastes during production rather than clean them up after they have formed. As such, the emphasis is not on pollution abatement or waste control, but on better management of the production process to use less energy and material inputs, and more environmentally-friendly inputs to produce less waste. Often, cleaner production methods can be introduced that provide a significant reduction in industrial pollution while also increasing productivity and profitability of the firm. In some cases, the economics of production may require and justify major changes in the production process, or expensive new equipment. In other cases, however, major improvements are possible with inexpensive changes in the management and operation of the firm.

In Egypt, an in-plant assessment was made of a cement factory in Quattamia. A review of records of the cement kiln over a one-year period was undertaken and a material balance was derived showing that 136 tonnes of raw material per day could not be accounted for. Preventive maintenance was increased, and minor changes were made in the steel work to ensure a tighter, more continuous operation with less spillage throughout the process. This eliminated the loss of 12 tonnes of fugitive dust a day, saving both raw materials and energy. With only an in-plant assessment, and changes to the preventive maintenance and housekeeping operations, and without the purchase of any new equipment, 3,600 tonnes less dust were emitted into the air in the first year of operation, reducing pollution of the nearby environment. Equally important, the benefit of a 12-tonne per day reduction constitutes annual savings to the company of approximately US\$132,000.

In Tanzania, an in-plant assessment was undertaken of a laundry soap manufacturer that relied on steam, produced by diesel oil boilers, as the principal source of process energy. The assessment revealed leakages of steam from some of the valves and inefficient use of steam. In addition, unloading of fat, from which soap is made, resulted in spillage that was absorbed in the ground. To conserve steam, leaking steam valves and traps were replaced, and more efficient production methods were introduced. In addition, the spilled fat was recovered from the soil by treatment with steam, followed by separation. As a result, consumption of diesel oil was reduced by about 55%, saving 415,800 litres of oil per year, which resulted in a decrease in CO₂, SO₂, and NO_x emissions. The removal of the spilled fat also improved the environment near the factory. Furthermore, the steam-saving measures saved the company US\$185,700 per year in oil expenses at a cost of only US\$830 for steam valves, and the re-use of spilled oil, costing virtually nothing, saves US\$2,400 per year.

D. Strengthening the capacity of private sector institutions

Just as public sector institutions need strengthening to reflect changes in their mandates, the role of private sector institutions is evolving. To a great extent, this reflects the lessons learnt in recent years that governments have not been good providers of services to the private sector. While the role of the government in supporting the private sector is an important one, its role in providing services should be indirect. The public sector can stimulate the provision of services through private sector providers - private consulting firms, for instance, or private sector associations - but the era of government-operated business support services is ending. New approaches to providing the technical services that businesses require are being developed and offer the possibility of providing African enterprises with the access to resources they need to compete in the global market. These "market-based solutions" usually involve finding ways to stimulate the provision of business services by profit-making firms, by having the services provided by a private sector institution, or by providing enterprises with mechanisms to address their own needs. A future challenge for these institutions will be to develop the new products and services required by private industry to increase its productivity and competitiveness, especially in areas such as access to new technology, meeting eco-labeling and quality-control

standards, and obtaining access to rapidly-changing information on production processes, equipment, and markets.

One of the most promising approaches to private sector development is the promotion of partnerships between large and small enterprises through brokering arrangements. The basic concept is that cooperative arrangements often produce benefits for both parties, but that they are prevented from identifying each other and negotiating mutually beneficial agreements by a lack of information. In this approach, enterprises provide their own assistance, and third parties simply put them in touch with each other, as shown in Box 7.

Box 7
Subcontracting and partnership exchanges in Africa

As a result of their size and isolation, small enterprises lack the capacity to identify opportunities for subcontracting work from larger firms, and to identify joint venture partners from whom they could obtain financing, technology, and marketing benefits. What is lacking is a mechanism to broker such relationships efficiently that would work to the advantage of both parties. One solution to this problem is the Subcontracting and Partnership Exchange (SPX), which maintains information on manufacturing capabilities and capacities of SMEs and on potential partners, and actively markets partnership opportunities. Two examples of successful SPXs are in operation in Morocco and in Côte d'Ivoire, and several others are operating or planned in Africa.

In Morocco, a SPX was set up in Casablanca in 1987. It provides matchmaking opportunities and support in negotiating agreements for a core group of 600 registered members. In addition to offering one-to-one brokering services, and local procurement events, it has, since 1994, organized international subcontracting, procurement and partnership fairs (Salon Internationale de Sous-traitance, d'Approvisionnement et de Partenariat, SISTEP) every two years. At the national level, these fairs have achieved considerable success in promoting and supporting outsourcing policies among the large public and private sector business groups and corporations in Morocco. At the international level, they have been particularly active in promoting partnerships with France, Spain and Portugal, partly in conjunction with other UNIDO projects.

During the fiscal year 1997/98, the Moroccan SPX brokered 131 subcontracting agreements and 176 partnerships that reached the negotiation stage. This is a significant percentage of the 600 members it serves, and explains why the SPX is essentially self-sustaining from membership fees and support from private sector associations.

In Côte d'Ivoire, a SPX was established in March 1997 and became fully operational in May 1998. Providing similar services as the SPX in Morocco, it has, in its short existence, already achieved remarkable results. By March 1999, it had audited some 100 companies for potential participation in the scheme as subcontractors or suppliers, registered 75 companies in the international UNIDO Subcontracting System (UNIDOSS) database, attracted 30 affiliated companies paying annual fees, and made 50 match-making interventions. As in Morocco, this SPX is fully supported by the private sector, with no public funds being used.

Apart from its success in the national context, the SPX in Côte d'Ivoire is playing an important pilot role for the establishment of similar institutions elsewhere in the West African region. One new exchange that has been established in Senegal in July 1998, is expected to become operational in the near future. Other exchanges have been proposed for Guinea and Ghana. At a workshop held in Abidjan in March 1999, which was attended by representatives of Benin, Burkina Faso, Cameroon, Congo, Gabon, Guinea, Liberia, Mali, Senegal and the Secretariat of the West African Economic and Monetary Union (UEMOA), it was also agreed to establish a subregional network of SPXs in West Africa.

Another more recent development in market-based approaches is the promotion of networking services where private firms voluntarily associate as a group to undertake their own projects.

This approach represents an attempt to deal with the small size and isolation of SMEs and to develop "external" economies of scale for each enterprise, based on collective action. For example, networks of enterprises may form to obtain better prices by coordinating their purchases, share the use of expensive, new equipment, undertake joint training programmes that could not be afforded by individual firms, or undertake subcontracting or joint marketing programmes. Because the projects are developed in close cooperation with the enterprises themselves, they are likely to be more beneficial than services provided by governments or others. Since the firms have to pay all or a part of the costs of the projects themselves, moreover, there is added assurance that the projects are valued by the recipients. An illustration of the types of activities that networking services initiate is shown in Box 8.

Box 8

Madagascar: Industrial clusters and networks

The industrial sector of Madagascar suffered from many of the same problems faced by industry in Africa as a whole. It consisted primarily of small firms which were scattered throughout the country, isolated from information about modern production methods, and unable to afford or access the information, financing, and other resources that would enable them to improve their competitiveness. An initial assessment found that there were only 1,244 manufacturing enterprises with 10 or more workers, and determined that relatively low-cost improvements could be made by encouraging the networking of enterprises operating in the same sector or subsectors.

At the end of 1994, a project was launched to bring together some 250 SMEs scattered around the country into several different sector-based networks, with subgroups of each cluster being organized in each of the country's main cities. With support from UNIDO, networks were formed for essential oil producers, fruit and vegetable growers, furniture makers, garment makers, brick and tile makers, and small engineering firms. Technical assistance was provided to encourage the formation of the networks and to help them determine the joint activities that would be mutually beneficial. The members of each network not only determined their own activities, but decided how to best obtain and pay for the services they decided on, with partial costs paid by the firms themselves, and the rest from governments and donors. As a result, each of the networks has experienced a definite improvement in the efficiency of their firms and the volume of exports to Europe, and permanent networks are now in place to allow for continued joint activities that will work to the benefit of all the firms in the sector.

The experience of the essential oils network provides a good example of networking in Madagascar. The network comprises 74 firms producing extracts for perfumes from flowers, spices and herbs, which together account for 90 % of Madagascar's exports of essential oils. The major problems these firms identified were the low quality of their products, a lack of international recognition, and inadequate equipment. To address these problems, the network undertook joint marketing initiatives including the development of a common label for exports, joint presentations at fairs, and the publication of a "Bourse de produits" on the supply and demand for their products. In addition, joint research and development activities for distillation equipment and staff training are now underway to improve their production process and the quality of the products.

E. Addressing issues of equity

While the role of governments in providing direct services for the private sector is decreasing, it certainly remains the governments' role to ensure that economic development takes equity and social objectives into consideration. This is not to say that governments necessarily need to operate such programmes themselves, but they will need to see that such programmes are developed and funded, often internally. Programmes addressing women's entrepreneurship or

rural development issues, such as those shown in boxes 9 and 10, are of particular concern in many African countries, and approaches are needed to make these programmes more effective and efficient.

Box 9**Women entrepreneurs in food processing in Tanzania**

The Integrated Training Programme for Women Entrepreneurs in the Food Processing Industry in Tanzania was designed by the Small Industries Development Organization of Tanzania (SIDO) and UNIDO, and has been implemented by the two organizations under the sponsorship of the Austrian Government since 1993. Its main objective has been to promote women's entrepreneurship development in the food processing subsector through the improvement of existing micro-enterprises managed by women, and the encouragement of new ventures with a potential to grow into SMEs. The programme addresses the major constraints that affect enterprise operation and growth through skill development and integrated technical, business and managerial assistance as well as assistance in food processing.

The principal activities of the programme include:

- Skill development, involving the preparation of teaching materials, the training and capacity building of the programme's technical team, and the training of trainers and women entrepreneurs;
- Monitoring and feedback to trainees and enterprises, involving post-training visits to women entrepreneurs to provide advice and technical and managerial support at the plant level;
- Promoting enterprise networking to enable the entrepreneurs to benefit from economies of agglomeration;
- Market development, including the conduct of periodic market surveys to identify product and market opportunities as well as problems and constraints affecting production and marketing;
- The provision of a variety of support services, including assistance with the sourcing of equipment and inputs and the granting of SIDO micro-enterprise credit

Measured by such criteria as jobs created, new products brought to market, individual entrepreneurial improvements, trends in production and sales, contribution to basic family needs, and sustainability, the programme has yielded impressive results. By December 1998, 37 trainers, 240 women entrepreneurs in full-length (3-month) technical and/or entrepreneurial courses, and 609 women entrepreneurs in short courses, dealing with specific products or topics, had been trained through the training programme. From a mere 48 in 1994, the number of enterprises in operation had risen to 168, and the average investment per enterprise had risen from US\$400 to US\$2,000. In a particularly important development, the graduates of the training programmes established the Tanzanian Food Processors Association (TAFOPA) in 1997, which has introduced a common brand called SHIBE ("full satisfaction" in Swahili) for its products.

Box 10**Lesotho: SME development and informal sector promotion**

Lesotho is predominantly rural, with 60 per cent of its population living in the poor highlands. The main source of employment is subsistence agriculture and exporting labour to the mining sector of the Republic of South Africa. There is an urgent need to create job opportunities in rural areas for miners returning from South Africa and to counteract the decline in agricultural employment. In the past, Lesotho's dependence on South Africa resulted in the neglect of indigenous entrepreneurship development, while policy was more supportive of the trade sector and foreign-owned, medium-sized export-oriented enterprises.

The project, which began in June 1995, is aimed at increasing employment in indigenous small-scale enterprises throughout Lesotho, particularly in the highland districts, and focuses on the following areas:

- Improving the policy environment for SMEs by assisting the Ministry of Industry, Trade and Marketing (MITM) in preparing an SME White Paper, improving the policy implementation capabilities of MITM staff through training, and establishing an enterprise statistics system based on UNIDO's National Industrial Statistics Programme (NISP),
- Providing improved access to credit through the establishment of a NGO Credit Centre in cooperation with the Lesotho Chamber of Commerce, the Lesotho Association of NGOs and Lesotho Women in Business. MITM provided land and premises, while the United Nations Capital Development Fund and the Africa Development Foundation contributed capital, and Irish Aid provided start-up funds for the centre's operation. More than 100 loans, averaging US\$ 500 each, were disbursed in the first six months of its operations, with a repayment rate of more than 80%.
- Upgrading technical skills of MSE entrepreneurs and workers by strengthening the capability of seven training institutions, with Irish Aid sharing the costs.

A sample survey of the beneficiaries who received training, advisory services, and loans showed that 21% had hired new employees, 92% had reported increased business income and 60% had increased the salaries of their

F. The need for an integrated approach to technical cooperation

Finally, one of the lessons of experience that is particularly difficult to implement is the need to initiate private sector programmes that address technical cooperation needs on a comprehensive, integrated basis. Although the need for this approach has long been recognized, it has proven difficult to put into practice because of the large numbers of organizations involved in private sector development, which include different government units, private sector development institutions, non-governmental organizations, and multilateral organizations. New programmes or projects, then, need to be not only complementary to what is being done by others, but make a serious attempt at identifying the full range of needs. UNIDO is addressing this requirement by concentrating the bulk of its resources and efforts on developing integrated programmes for the countries that it serves, with priority being given to African countries in the development of these new programmes. A description of one of these programmes that is currently being implemented in Guinea is given in Box 11.

Box 11**Integrated support to the national private sector development programme in Guinea**

Guinea is one of the African countries for which an integrated UNIDO programme was formulated in November 1998. The UNIDO assistance covers support to a national private sector development programme (Programme Cadre de Soutien et de Développement du Secteur Privé). This national programme, elaborated with the financial support of UNDP and validated by the national stakeholders in September 1998, reflects a comprehensive and ambitious plan of actions at the sectoral and cross-sectoral levels. Its implementation involves a vast range of national and local organizations and actors in both the public and the private sector. The objective of the national programme is to gradually reduce the barriers hampering private sector development, and to combat poverty by promoting the creation of income and employment opportunities.

A unit established under the lead Ministry, the Ministry of Trade, Industry and Small and Medium Enterprises, is responsible for the day-to-day coordination of the programme, including its ongoing funds mobilization efforts. A Board consisting of representatives of the major stakeholders will guide and monitor the overall programme, thus reflecting a private-public partnership and shared ownership in both the formulation and implementation stage of the national programme.

The technical assistance is managed by a multi-disciplinary and cross-organizational team that covers an array of fields such as: industrial policy, investment and technology promotion; SME policy framework, business support services, quality, metrology and standardization; information; agro-industry; cleaner production and waste management.

UNIDO's support to the national programme consists of a package of complementary services at three levels:

- Policy and strategy implementation (including start-up support to the coordination of the national programme);
- Capacity building at the level of a number of service providers;
- Enterprise-level support through existing institutions.

The focus of UNIDO's support is on subsectors where potential impact is highest: agro-industry including fisheries, building materials industries and mechanical industries. The types of enterprises targeted depend on the activities covered, varying from micro- and small enterprises (such as artisans in the traditional textile sector) to formal, medium-sized enterprises (such as the ones seeking partnerships with foreign investors).

The programme involves a range of local partners that are expected to work together in a network to create synergies not only among UNIDO services but also among local institutions. The local partner institutions vary, depending on the nature of the activities and include, inter alia, the Ministry of Trade, Industry and Small and Medium Enterprises; the Chamber of Commerce, Industry and Handicrafts; the Investment Promotion Bureau; the Standards Institute; the National Environment Division; the principal agency to support SME development (l'Agence Autonome d'Assistance aux Entreprises); and NGOs.

CHAPTER IV:

Summary and Conclusions

With the change in the role of the state and the increased competition caused by globalization, African countries are increasingly relying on the private sector for economic growth. The need for a strong private sector is further evidenced by the poor record of African countries in attracting foreign direct investment. Despite dramatic increases in FDI flows in recent years, Africa is receiving a diminishing share of these flows because of, at least in part, the absence of competitive enterprises and investment opportunities that can use such FDI. The weakness of the private sector in Africa is due to a variety of factors including inconsistent macroeconomic policies, lack of physical infrastructure, underdeveloped financial systems, and a lack of supporting legislation and policies, among others.

The issue now is how to overcome these problems and make the transformation to economies with competitive private sectors. The experience of various African countries, and lessons that can be drawn from experiences elsewhere, suggest some general guidelines that may be useful in undertaking this transformation. Perhaps most important is the need to develop more effectively the comprehensive policy framework required for private sector development.

In recent years, many African countries have undertaken economic reform programmes that improved overall economic policies. Even where this has been done, however, there is still a need to expand the policy framework to provide for a comprehensive approach that addresses subsidiary policies in areas such as industry, labour, energy, environment, and SMEs. In addition, information systems for policy formulation need further development. Policy is only as good as the information on which it is based, and often that information is missing or incomplete. A related requirement to ensure that policies are based on full information is to include the private sector in the policy discussions; public-private partnerships are one of the more recent developments that offer the possibility of a better, more effective policy framework.

Another weakness that needs to be overcome is the capacity of public sector institutions. The role of the state has changed, and while public institutions are less and less directly involved in the provision of goods and services, they still have an important promotional and regulatory role to play in developing the private sector. Unfortunately, public institutions in many African countries have not been adequately strengthened to undertake their new functions, due to a lack of funds and other problems. Still, efforts are underway in Africa to build the capacity of these institutions, including Ministries of Industry, and agencies promoting SMEs or investment. Technical institutions, such as metrology and standards institutes are particularly crucial, since

the quality of a country's products and their suitability for export are dependent on the availability of these types of technical services. Recent experience with new types of institutions, such as Cleaner Production Centres, suggests new ways of addressing problems such as industrial pollution while simultaneously strengthening the productivity of the enterprises.

Private sector institutions in most countries are also weak, in part due to the dominance of the state in the past. Enterprises need a wide array of support services, from representation before government, to consulting and technical services, to financing². Because SMEs make up the bulk of the private sector, and because of their size and isolation, there is a need to provide them access to the resources they need to prosper. Access to resources does not mean that SMEs should receive special benefits or subsidies; it does mean that SMEs should not be unduly burdened by governmental regulation and other requirements, and it does mean that programmes that can address their weaknesses can be useful for private sector development. Although support services for businesses, provided by governments or donors, have not been very effective in the past, new approaches relying on the market or on the efforts of enterprises themselves to identify and obtain services hold promise for the future development of the private sector. Private sector firms and institutions are usually much better able to provide these types of support services than governments, and programmes to strengthen the private sector to provide such services, and to develop new and more effective services, are needed.

With improved policies, upgraded governmental institutions that promote and efficiently regulate the private sector, and with private sector institutions providing services to enterprises on a demand-driven basis, African enterprises can operate in an environment, and with the necessary services, that allow them to be competitive. Increased emphasis on these activities will be needed to enable Africa to participate in the benefits of globalization and to reverse the increasing marginalization that most African economies confront.

² Financing requirements of SMEs in Africa and their necessary links with business development services will be discussed in Working Paper No. 4 "Financing of Private Enterprise Development in Africa" (forthcoming).