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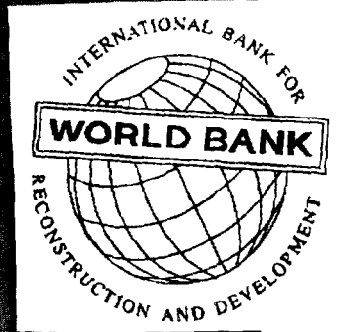
A World Free of Poverty



HOME

# Findings

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## Putting the Private Sector on Track

After the World Bank began to focus more closely on policy reform in the early eighties and began its structural adjustment lending program, a lesson gradually emerged: markets do not spring magically to life as the public sector downsizes. On the contrary, despite adjustment programs and an insistent emphasis on providing an enabling environment for private investment, it became clear, in Africa especially, that private sector development was sluggish, that new enterprises were not entering the market as quickly as was hoped, and that existing enterprises were growing slowly if at all. A cursory analysis of the African private sector would reveal some broad reasons for its lackluster performance: competition depends on accurate and easily obtainable information -- in Africa information is neither; competition depends on freedom of entry -- in Africa there remain significant institutional and non-institutional barriers to entry; competition is enhanced by a dependable and extensive infrastructure -- in Africa infrastructures are mostly dilapidated and centralized. These broad conclusions provide direction for further study, but they must be refined in order to have a visible impact in the field.

The Regional Program on Enterprise Development (RPED) is designed to provide this refinement. Its goal is to examine what specific factors hinder enterprise development in Africa and what can be done to mitigate them. Recognizing the importance of information in all spheres of the economy, both public and private, RPED is a research initiative which will collect and analyze a large, varied, and unique set of data. While most Bank studies and project work focus on macroeconomic and sectoral policies, RPED concentrates on the enterprises that are affected by these policies and that will ultimately drive growth, shedding light on the link between the micro and macroeconomy. This initiative and its staff (including those at the Bank) is entirely funded by eleven donor countries (Belgium, Canada, Denmark, Finland, France, Italy, The Netherlands, Norway, Sweden, Switzerland, and United Kingdom).

RPED focuses on four manufacturing sectors (textile and garment, food, woodworking, and metalworking) in nine countries [Cameroon, Cote d'Ivoire, Ghana, Kenya, Burundi and Rwanda (treated as one data set), Tanzania, Zambia, and Zimbabwe]. The countries were chosen primarily

because the World Bank and donor nations already have active lending programs and an ongoing policy dialogue with them. Moreover, they manifest contrasting cases of initial policy distortion and state involvement in the economy as well as contrasting cases of the extent of policy reform. These differences allow the program to determine the effects of a wide set of variables.

The principal objectives of RPED's research program are:

- To develop a more precise understanding of how various elements of the African business environment influence private enterprise behavior and performance;
- To translate the research results into recommendations for more effective policies and assistance programs for private enterprise development;
- To strengthen the analytical capacity of African institutions (government, research and private sector);and
- To create the capability for both donor agencies and African institutions in the private enterprise development field to monitor trends and developments in industrial activity, so as to regularly and accurately adjust their policies and programs.

The elements of the enabling environment which define RPED's focus are:

- The regulatory policies which constrain efficient allocations of labor and capital;
- The principal determinants of the costs of transactions amongst enterprises;
- The factors that contribute to or hinder the acquisition of technological capability;
- The operation of business support agents; and
- *Firms' responses to infrastructure deficiencies.*

### **Africa Can Compete!**

One of RPED's case studies was presented at World Bank headquarters on November 11, 1993. Entitled "Africa Can Compete! African Competitiveness in Supplying Garments and Home Products to U.S. Retailers—Opportunities and Challenges", it presented a strong case that the U.S. market presented a window of opportunity for African garment and crafts manufacturers to benefit from.

The discussion benefited from the presence of a panel of buyers from U.S. companies (Pier One Imports, Sears, African Eye) who source products in Africa, as well as representatives from manufacturing firms in Ghana and Kenya. The countries studied were Kenya, Ghana, Senegal, Cote d'Ivoire, and Zimbabwe.

There are two potential niches that African manufacturers can exploit, the study argued. The first is a growing market among African-Americans for African apparel and crafts. Since authenticity is almost as important as design for these consumers, and since the market, now worth about \$190-258 million dollars, is expected to grow to \$400 million over the next several years, African garment manufacturers are in a unique position to exploit this potential. The second niche is the market for low-cost apparel, where African manufactures have the dual advantage of being quota-free and having low labor costs.

However, if African manufacturers expect to sell increasingly to the American market, they must be prepared to supply U.S. wholesale buyers on the buyers' fairly rigid terms. Too often, the case study reported, misunderstandings, a lack of information of their own production costs (leading to poor price negotiations), financing problems, and other constraints have led to unproductive relationships.

On the other hand, there were cases of successful partnerships (particularly in Kenya, Ghana, and Zimbabwe). Key success factors listed were the existence of an interested buyer, the availability of a diverse product classification, government commitment, a managed scaling - up of export orders, and a reasonable infrastructure. Indeed, in countries where such conditions prevail, a production cost breakdown clearly indicated that at least some countries in Africa can be competitive in garment manufacture.

The industry representatives agreed that the Bank had a role to play in enabling African firms to gain U.S. export markets. Structural adjustment was determined to be necessary but not sufficient. In addition, the channeling of direct foreign investment into Africa should be facilitated, barriers to entry for indigenous manufacturers lowered, and linkages between foreign and local manufacturers fostered.

Essentially, RPED can be described by two components: panel studies and case studies. Panel studies form the core of the program. The case studies will provide a qualitative consideration to match the largely quantitative emphasis of the panel studies. Data for the panel studies were gathered in the nine countries, by randomly selecting about two hundred firms from a sample frame derived from manufacturing censuses, chamber of commerce repertoires, and, where necessary, on-the-ground enumeration. These firms are to be surveyed annually by a research team over a period of three years. The idea is to use these time series to understand what factors, endogenous and exogenous, affect the firms' performance. Reflecting the comprehensiveness of the program, the questionnaire seeks general information about the firm, and then addresses issues of technology, labor and financial markets, conflict resolution, infrastructure, regulation and business support services.

One of the most innovative aspects of RPED is the way the data analysis is organized. Each donor country was paired up with a study country and a research team chosen. The researchers are mostly professors from faculties of economics, and the team is generally evenly balanced between African and expatriate researchers. The virtue of this design is twofold: the local researchers can monitor country developments easily and can maintain contact with the panel firms, and, more important, when the project is over, the equipment and methodology will remain in place, allowing the collection of information to continue indefinitely. As a result, local capacity is built as the study progresses.

RPED's Bank staff provide guidelines for the research team, ensuring that enough uniformity is maintained between each team's methodology to allow for an eventual cross-country analysis. Beyond these guidelines, however, the research teams work fairly independently. Their responsibilities include, among other things, producing a country study, customizing the questionnaire to their country, conducting interviews with the firms, and producing a report following each survey wave summarizing their conclusions.

The methodology was tested by a pilot program in Ghana. The results from the pilot intimated the results to expect from the other RPED countries as well as possible pitfalls. The lessons from the pilot study were mined to create guidelines for the other research teams, flagging data which was deemed to be particularly important and streamlining the more cumbersome procedures. Though some such changes were made in the methodology, the experience in Ghana reinforced the program's *raison d'etre*, providing an impetus for the subsequent country studies.

Today, most of the study teams are finalizing their reports from the first wave of questionnaires. The Kenya and Ghana teams have advanced further. Ghana, given a head start as the pilot program, has undertaken the second wave of surveys; Kenya is scheduled to begin its second round in the spring of next year. After the first round of several country studies are complete, cross-country comparative analyses will be undertaken to analyze the various differences between countries of the variables under study. Under the current schedule, RPED will be completed in 1995.

The second component of RPED consists of case studies which elaborate on specific aspects of the research agenda. A selection of sample enterprises are chosen from the larger panel. These are analyzed in the light of either finance, technology acquisition, or business strategy. Case studies are not limited to RPED countries. Indeed, one of their purposes is to provide comparative analyses, bringing in the experiences of more successful economies. Five case studies have already been completed. From Ghana, the pilot country, there was a case study on finance and on technology. There has also been a financial study for Kenya and a business strategy study for Mauritius. The most recent study was not limited to one country but discussed the competitiveness of Africa in general in

Recent study was not limited to one country, but discussed the competitive issues of Africa in general in the garment industry (see box).

RPED's biggest impact will come from the dissemination of its conclusions. Essentially, it will provide policy-makers with specific policy proposals, backed up by a detailed and quantitative analysis of key manufacturing industries in their respective countries. The conclusions will in effect be a complement to adjustment programs—where the object of adjustment is to leave to the private sector what is best done by it, RPED will delineate the conditions under which the private sector can do what it does best.

Because of RPED's eventual importance to the formulation of policy, the program timetable includes conferences for decision - makers in each country after every wave of analysis. These fora will be very important in assisting governments to understand the far-reaching effects of a negative business environment and devise policies to mitigate and eventually reverse these effects. Other beneficiaries of the study, to whom dissemination efforts will also be directed, are business associations, local researchers, and other donor agencies.

By providing the necessary links between the macro and microeconomy and their role in powering private sector development, by filling an important information and policy void, and by enhancing indigenous research capabilities, RPED represents a vital initiative to unshackle African economies and assist them in realizing their full potential.

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