

## **A conversation with Mwangi S. Kimenyi on July 2, 2013 about opportunities to accelerate economic growth in Africa**

### **Participants**

- Mwangi S. Kimenyi — Senior Fellow and Director, Africa Growth Initiative at the Brookings Institution, Washington, D.C.
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**Note:** This set of notes was compiled by GiveWell and gives an overview of the major points made by Mwangi S. Kimenyi.

### **Summary**

GiveWell spoke with Mwangi S. Kimenyi of the Africa Growth Initiative at the Brookings Institution about opportunities to accelerate economic growth in Africa, particularly focusing on private sector development and the environment for business. Conversation topics included: the Africa Growth Initiative's research, the major issues constraining private sector development in Africa, the initiatives working on business environment issues, and the best opportunities for a funder in this area.

### **Background on the Africa Growth Initiative**

The Africa Growth Initiative (AGI) at the Brookings Institution was founded on the idea that the key for long-term improvement in African welfare is high and inclusive economic growth. Strong economic growth will reduce poverty, improve public health, and address many other problems. AGI conducts research to find the best policies to improve economic growth in Africa with a focus on structural transformation of African economies, including policies that would improve the environment for doing business. AGI also seeks to articulate informed African voices in policy debates in Washington and beyond.

### **Policies to improve the business environment**

#### *Improve access to international trade*

Evidence shows that African economies would benefit from greater international trade, including through intra-Africa trade. Small producers and agricultural producers in particular would benefit from access to international markets.

Legal constraints on trade between the U.S. and Africa were significantly reduced after President Bill Clinton signed the African Growth and Opportunity Act (AGOA), which allowed sub-Saharan Africans to bring in up to about 6,400 commodities to the U.S. market duty- and quota-free. However, many Africans have not been able to take full advantage of the trade agreement because they either have not prioritized exploiting the opportunity or do not know how to package products so that they can sell them to the U.S.

The Obama Administration has discussed potentially offering more support for trade facilitation and supporting the cost of production which makes African products uncompetitive.

Poor port infrastructure in Africa and lack of producer quality control are other issues that limit international trade.

#### *Reduce barriers to intra-Africa trade*

Cumbersome border controls and lack of uniform business laws impair trade across national boundaries within Africa.

#### *Improve the business environment for entrepreneurs*

Some African countries could improve the business environment for entrepreneurs by making it easier to build companies. A major hurdle for entrepreneurs in many parts of Africa is meeting the requirements of overstretched and often-corrupt licensing regimes. For example, 10 years ago in Kenya, a supermarket needed about 100 licenses to operate its business. AGI worked on this through trade licensing reform and the country introduced a single business permit for most business operations. Better policy would reduce the number of licenses required to do business in many African countries.

The World Bank's "Doing Business" report has highlighted the progress that some countries have made toward improving their business environments. Rwanda and Kenya in particular have made substantial progress.

#### *Other important macro-level policies*

Other policies that African governments could implement to improve the business environment are to:

- Rationalize taxes
- Invest in road and rail infrastructure to reduce costs of transport
- Improve border check points and harmonize laws
- Increase access to credit
- Improve communication technology
- Improve labor laws
- Better manage natural resources
- Invest in energy infrastructure
- Provide entrepreneurship and worker training
- Improve security

#### *Country-specific issues*

Aside from the macro-level business environment issues discussed above, many countries in Africa have unique private sector issues. For example, in many African countries, the

business environment is especially unfavorable for young people, who experience high unemployment and find it difficult to start a business.

Countries have also taken different approaches to creating favorable business environments. It is important to understand what has worked and to apply the lessons to other countries.

### **Groups working on private sector reform**

#### *Governments and public sector reform units*

National governments play a major role in determining the state of the business environment in their countries. To promote growth, some governments have established special economic zones or exporting zones that give tax breaks to businesses that invest in desired regions and industries.

Public sector reform units within governments have tried to reduce corruption and improve the way governments do business.

Devolved government structures are becoming more common in Africa. Among these devolved structures, new units of government are being created that have a fair degree of autonomy. Devolution in some countries has succeeded at improving the business climate and increasing competition.

#### *Political parties and individuals*

In most African countries, political parties are aligned along ethnic rather than ideological lines, so no single political party is a strong advocate for improving private sector policy. Nevertheless, individuals in government sometimes become champions for business environment causes. One such leader is Nigerian Finance Minister Ngozi Okonjo-Iweala.

#### *Development banks*

The African Development Bank and the World Bank play a role in African private sector development because they work on macro-level problems that could improve the business environment. For example, the African Development Bank is focused on improving African infrastructure and facilitating intra-Africa trade.

#### *Regional economic communities*

Regional economic communities work to establish free trade areas and coordinate business regulations across many countries.

Some of the economic communities that have made progress in regional integration include:

- The East African Community
- The Economic Community of West African States
- The Southern African Development Community
- Common Market of East and Southern Africa

*Business associations, local business councils, and chambers of commerce*

In the past, actors in the private sector tried to deal with complex and corrupt regulatory regimes by getting personal exemptions, which sustained the dysfunctional system of doing business. Business associations bring businesses together so that they can demand better private sector policy instead. Examples of business associations are the Kenya Private Sector Alliance and the East African Business Council.

Other small-scale groups working on improving business regulation are local chambers of commerce and local business councils. These business organizations are especially motivated to change the current system because they are the ones who would benefit most from more transparency and more efficient regulation.

*Think tanks*

Many African think tanks work to improve public policy around the business environment, usually making policy recommendations that are tailored to local contexts. In general, African think tanks have strong technical skills and do sound policy work on issues like determining optimal tax rates. However, they generally have had difficulty influencing government leaders on policy matters.

Some organizations are working to help African think tanks have a greater policy impact. These include:

- AGI — AGI works with local think tanks across Africa and supports their research by collaborating on projects and training staff members. AGI has hosted staff members from African think tanks at forums at the Brookings Institution and has traveled to Africa to follow up with the think tanks on their strategy implementation. For example, AGI’s communications team is working with African think tanks to help them craft messages that will have a greater influence on policymakers. One example of where this had been successful is in Uganda, which held a forum to discuss its policy on oil and gas management. Last year, AGI worked with think tanks in Nigeria on oil subsidy policy reforms.
- The Think Tank Initiative — This \$100 million project gives core grants to strengthen African, Asian, and Latin American think tanks. The grants help think tanks to develop long-term agendas and strategies that will influence policy, as opposed to short-term project work. This initiative is largely funded by the Hewlett Foundation and the Gates Foundation, with Canada’s International Development Research Centre (IDRC) working as an implementing partner.

*NGOs*

Some NGOs are involved in improving the business environment. For example, taxpayers associations are focused on ensuring that tax money is being spent appropriately, which has some overlaps with creating a favorable business environment.

## **Funding opportunities and strategies for improving the business environment in Africa**

### *Lobbying the World Bank*

This would probably not be effective because many powerful organizations try to influence the World Bank. Additionally, it would be difficult to determine the impact of lobbying efforts because of the number of possible influences for any given policy.

### *Macro-level interventions*

One effective path for a funder could be to pick one macro-level issue from the current set of business environment problems and become an expert and advocate on that issue.

### *Regional interventions*

A medium-scale approach would be to identify trade barriers and issues in a particular region or economic community and then work to improve them. Promising areas to work in range from Rwanda to South Sudan. Rwanda's leadership is focused on business environment issues, having reduced the number of basic steps required to start a company so that entrepreneurs can now start a business in two days. Bolstering the approach of an already receptive government could be effective. Another approach is to work in South Sudan, which is just beginning to write its business laws. The outcome in South Sudan would be uncertain, but there is great potential for change there.

### *Micro-level interventions*

Helping to improve the operations of micro and middle enterprises, think tanks, business associations, and NGOs is a tractable goal, and the impact of funding in this area could be reliably evaluated. Then, if interventions are successful, they could be scaled up. However, the impact from funding local business organizations may be limited by their small scope.

## **People and organizations GiveWell should talk to**

- Champions for growth who work in government, such as Nigerian Finance Minister Ngozi Okonjo-Iweala
- Mo Ibrahim
- James Mwangi, Equity Bank
- Donald Kaberuka, African Development Bank
- Some think tanks in African countries
- Local business people

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