



HOW AN ENABLING ENVIRONMENT COULD UNLOCK CORPORATE AFRICA'S TRUE POTENTIAL

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Introduction

Africa is home to over 700 companies, accounting for US\$1.4 trillion. Half of these are African owned. Around 400 of these companies have revenues exceeding \$1 billion per year, with a rate of growth and profitability outstripping their global peers (McKinsey & company, 2016).

This appears to be good news for corporate Africa and the drive to encourage Africans to invest in Africa. Business in Africa has long struggled to build sufficient scale that will rival other emerging regions and fuel the kind of economic growth needed to address development imperatives across the continent.

Herein lies the crucial question around the role of business and the prospect of growth and sustainable development in Africa. On deeper inspection, with a healthy dose of the reality on the ground and given Africa's market size based on current per-capita incomes and various projections, the likelihood of some of Africa's largest firms achieving a similar size and scale to their global peers is unlikely without drastic changes in the business environment.

Most of this starts with basic reforms by governments to encourage local competition that will entice investment, productivity and, ultimately, growth.

McKinsey recently released the report *Lions on the Move II*, a sequel to the popular 2010 *Lions on the Move* report, often referenced in the 'Africa Rising' narrative. *Lions on the Move II* looks at firm-level developments on the continent. Of the 700 companies featured in the McKinsey report:

- **around 40% are publicly listed**
- **10 to 20% are family owned**
- **27% are multinational corporations**
- **56% are large domestic firms**
- **17% are state-owned enterprises.**

African-owned companies, representing 56% of Africa's largest firms, are making significant progress in terms of their growth. But, they still trail behind their counterparts in other emerging regions when it comes to size. The average large African firm boasts a revenue of \$2.7 billion per annum, compared with \$4.5 billion in emerging markets such as Brazil, India, Russia and Mexico.

Africa also has far fewer large firms compared with other emerging regions. South African firms make up nearly half of all large companies in Africa, with North African firms comprising one fifth. This disproportionate concentration of firms does present a challenge to Africa-wide development – especially at the level of firms – and inclusive growth.

Strong and effective institutions are critical to improving the business environment in African countries. The Gordon

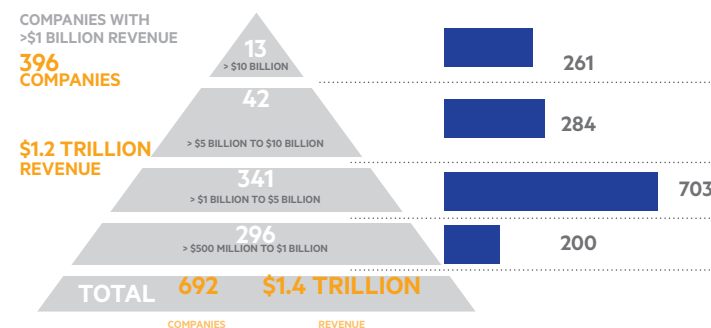


Figure 1: Breakdown of African companies by revenue size (Source: McKinsey & company, 2016).

“ The DMI assesses the role of institutions in the competitive performance of countries.

Institute of Business Science's (GIBS) Dynamic Markets Index (DMI) assesses the role of institutions in the competitive performance of countries.

The DMI is an empirical measure that compares one country to the next around the world, going beyond linear economic projections. Connectedness, red tape and the rule of law, socio-political stability and efficient bureaucracies are just some of the institutional components measured that are strongly linked to economic growth, performance and development.

In places like Africa, where institutional structures and their levels of growth are wildly different, indices like the GIBS DMI offer invaluable insights on where countries are in terms of their institutional development. This is especially important to policy-makers seeking ways to bolster their countries' competitiveness and vital for understanding contextual issues, especially for businesses looking to expand.

From the DMI 2016, which measured a total of 144 countries around the world, only two African countries were among the 31 categorised as 'Dynamic Markets': Mauritius and Botswana.

More than 40% of the countries in the 'Adynamic' category were African, representing institutional backsliding. In the 'Catch-up' category, which are typically countries emerging off a very low base of development but advancing nonetheless, around 50% of the countries were from Africa (White et al, 2016) ●

A Business Problem

The ability of African governments to create an enabling business environment is a key prerequisite to corporate Africa rivaling their counterparts from other emerging regions and competing in global markets.

The McKinsey report insists that governments need to play a far more active role in positioning African companies to benefit from the continent's many dormant opportunities. This includes demographic opportunities and a growing middle class with high rates of urbanisation, along with rapid advancements in technology and innovation.

(BRIC + Mexico) reveals some interesting findings (see Table 1).

For example, it is over 100 times easier for companies in other emerging markets such as BRIC + Mexico to access credit, enforce contracts, protect minority investors and get electricity than their African counterparts. In addition to this, it is 80 and 59 times easier respectively for these emerging market firms to

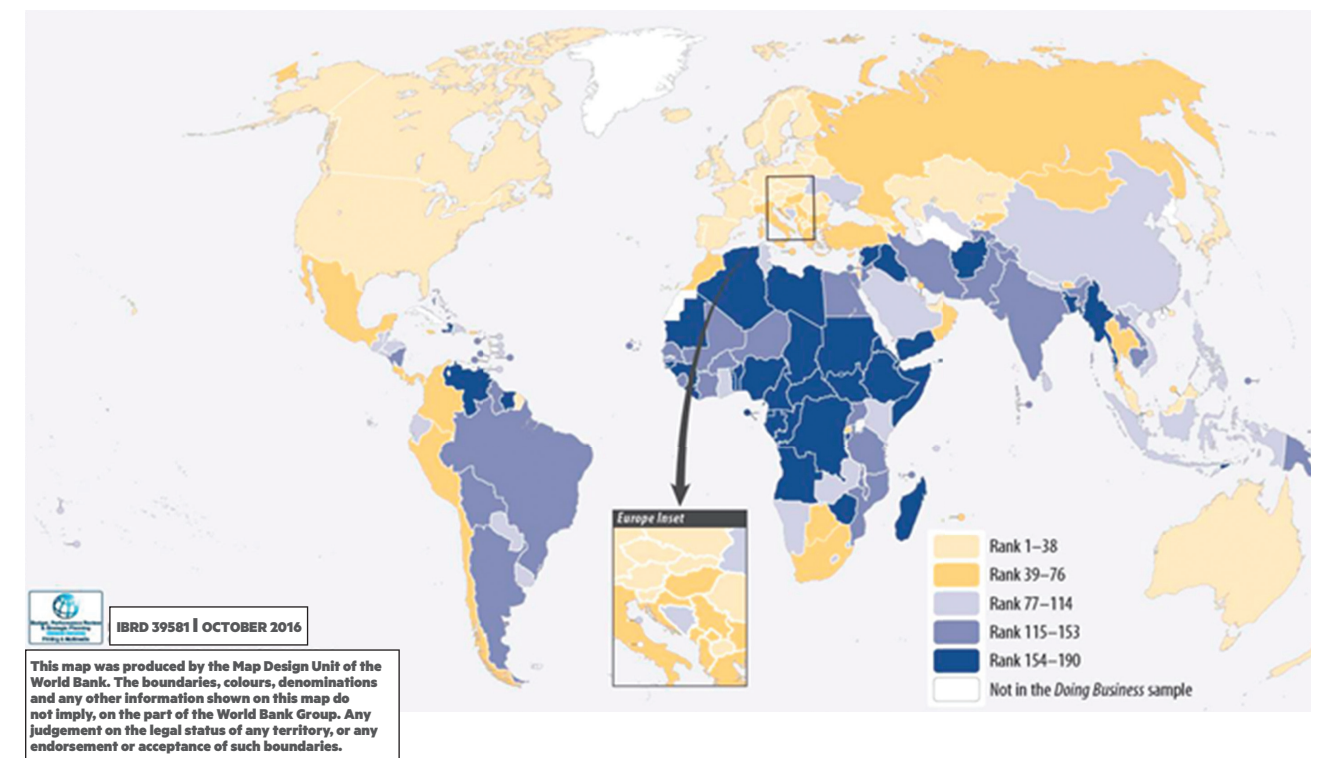


Figure 2: Where economies stand in the global rankings on the Ease of Doing Business Index 2017. (Source: World Bank Business 2017).

The World Bank's Ease of Doing Business Index provides a useful measure for further understanding the implications of policies and an unfriendly business environment on firm-level competitiveness.

The Doing Business Report 2017 (The World Bank, 2016) measures 190 countries on 10 metrics: Dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, starting a business and resolving insolvency.

Comparing the rankings of African countries with their emerging market peers such as Brazil, Russia, India, China and Mexico

resolve insolvency and register property.

Starting a business, trading across borders and paying taxes do not present any significant difference between the two groups. The only area where business is easier for African companies appears to be in dealing with construction permits.

DATA ANALYSIS

For this analysis, the individual results of the 53 African countries covered by the World Bank's Doing Business 2017 report were compiled, and an average score was calculated by the authors for each of the 10 indicators. The same method was applied to the results for BRIC + Mexico.

Table 1: Comparing the average ranking of Africa with Brazil, Russia, India, China and Mexico in the World Bank's Doing Business 2017 report.

| Ease of doing business indicator | Africa average rank | Bric + Mexico average rank | Percentage difference |
|-----------------------------------|---------------------|----------------------------|-----------------------|
| Getting electricity | 145 | 59 | 145% |
| Enforcing contracts | 129 | 53 | 143% |
| Protecting minority investors | 130 | 54 | 140% |
| Getting credit | 119 | 51 | 133% |
| Resolving insolvency | 121 | 67 | 80% |
| Registering property | 132 | 83 | 59% |
| Trading across borders | 136 | 117 | 16% |
| Starting a business | 124 | 115 | 7% |
| Paying taxes | 128 | 128 | 0% |
| Dealing with construction permits | 127 | 146 | -13% |

1. GETTING ELECTRICITY

The greatest overall business challenge when comparing the World Bank's 'Ease of Doing Business' indicators between African countries and their emerging market peers is access to electricity. Energy is a scarce commodity in Africa, lagging behind all other regions in the world in terms of installed generation capacity and per-capita electricity consumption.

While off-grid systems such as solar power are gaining popularity, particularly among rural African households, their output is still limited and inappropriate for appliances such as refrigerators, irons and fans (Rosen, 2016). According to a World Bank report (2016), total electricity generation capacity across the continent, which is home to almost 1 billion people, is less than 100 gigawatt's. This is less than the total generation capacity of Spain (which has a population of 46 million), and drops to around 40 gigawatts when South Africa is excluded (Kajima & Trimble, 2016).

According to the World Bank's Doing Business 2017 report, the average number of days and procedures it takes to get electricity in Africa (115.7 days and 5.2 procedures) is not substantially different when compared to the overall average for the BRIC + Mexico group (102.9 days and 4.9 procedures).

However, there is a stark difference between African companies and their emerging market peers when looking at the reliability of supply and transparency of tariffs for electricity.

The World Bank measures this on an index that ranges between 0 and 8, with the higher values indicating greater reliability of electricity supply and greater transparency. Africa measures a dismal 0.9 on the index, compared to an overall average of 6.4 for the BRIC + Mexico group.

The cost of electricity in Africa (as a percentage of income per-capita) is 18 times more than in the BRIC + Mexico grouping.

These are significant differences that translate into a substantial cost and risk to doing business in Africa. Access to a stable, reliable and cost-effective supply of electricity is critical for any business operation.

Poor access to electricity undermines performance and is a fundamental inhibitor of productivity, growth and competitiveness for companies on the continent, relative to their emerging market peers.

2. ENFORCING CONTRACTS

This indicator measures the ability of courts to protect economic rights and resolve commercial disputes. There is little difference between the average number of days it takes to enforce a contract through the courts in Africa (646.8 days) when compared to the BRIC + Mexico group average (656.3 days).

It is important to note that India's performance impacts on the average of the BRIC + Mexico group dramatically, as it takes 1 420 days to enforce a contract.

The cost for companies to enforce contracts is significantly higher in Africa (42% of the claim value) compared to the average of the BRIC + Mexico group (25.2% of the claim value).

The quality of the judicial process, measured on a scale of 1-18, with the higher values indicating more efficient judicial processes, sees Africa score poorly, achieving only 6.2 out of 18. The overall average of the BRIC + Mexico group was 11.6 out of 18.

Lengthy and costly disagreements, coupled with poor-quality judicial processes, have a significant impact on smaller businesses in particular, as they do not have the time and resources to fund protracted legal disputes. It is also an unnecessary drain of funds from large companies that could instead use this for targeted growth and business development.

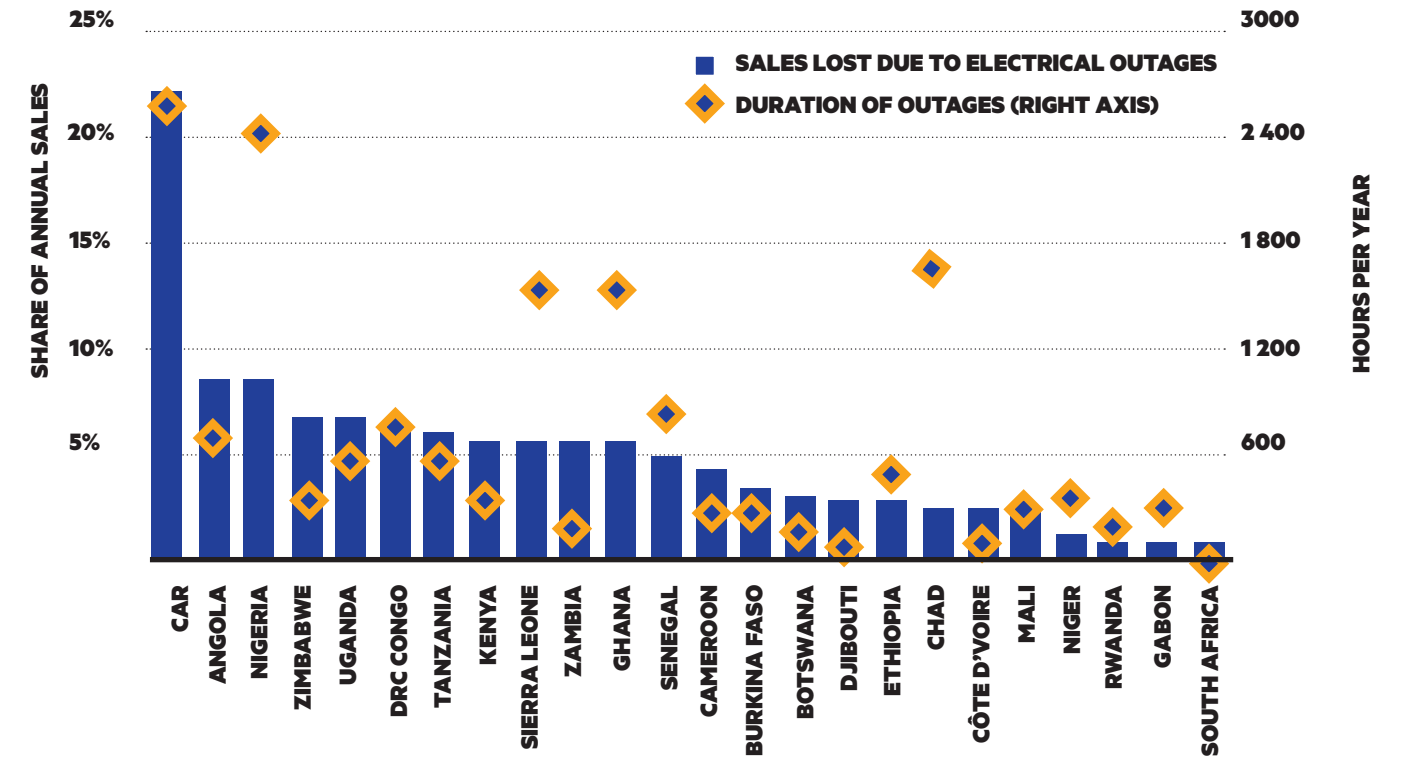


Figure 3: Duration of electrical outages and impact on business sales in selected countries (Source: Africa Energy Outlook, 2014).

Table 2: Comparison of results for Africa, Brazil, Russia, India, China and Mexico on the 'getting electricity' indicator.

| 'Getting electricity' measures | Africa average | BRIC + Mexico average | Brazil | Russia | India | China | Mexico |
|--|----------------|-----------------------|--------|--------|--------|--------|--------|
| Distance to frontier ¹ | 47.95 | 77.55 | 81.23 | 84.37 | 85.09 | 68.73 | 68.32 |
| Procedures (number) | 5.2 | 4.9 | 4 | 3 | 5 | 5.5 | 6.8 |
| Time (days) | 115.7 | 102.9 | 64.4 | 160.5 | 45.9 | 143.2 | 100.4 |
| Cost (% of income per capita) | 3445.6% | 192.5% | 58% | 44.1% | 133.2% | 390.4% | 336.7% |
| Reliability of supply and transparency of tariff index (0-8) | 0.9 | 6.4 | 5 | 8 | 7 | 6 | 6.2 |

Table 3: Comparison of results for Africa, Brazil, Russia, India, China and Mexico on the 'enforcing contracts' indicator.

| 'Enforcing contracts' measures | Africa average | BRIC + Mexico average | Brazil | Russia | India | China | Mexico |
|--|----------------|-----------------------|--------|--------|-------|-------|--------|
| Distance to frontier | 47.2 | 64.51 | 67.41 | 74.96 | 35.19 | 77.98 | 67.01 |
| Time (days) | 646.8 | 656.3 | 731 | 337 | 1420 | 452.8 | 340.7 |
| Cost (% of claim) | 42% | 25.2% | 20.7% | 16.5% | 39.6% | 16.2% | 33% |
| Quality of judicial processes index (0-18) | 6.23 | 11.6 | 13.6 | 11 | 9 | 14.3 | 10.1 |

¹According to the World Bank Doing Business 2017 Report, this measure illustrates the distance of an economy to the 'frontier', which represents the best performance observed on each Doing Business topic across all economies and years included since 2005. An economy's distance to frontier is indicated on a scale from 0 to 100, where 0 represents the lowest performance and 100 the frontier.



The high cost of enforcing contracts in Africa, in conjunction with poor-quality judicial processes, places African companies at a disadvantage compared to their emerging market peers, diverting time and financial resources away from more pertinent areas of focus such as productivity, growth and competitiveness.

3. PROTECTING MINORITY INVESTORS

Protecting minority investors and maintaining a high standard of corporate governance are important for companies requiring capital for growth, innovation, diversification and to compete. Without investor protection, banks become the only source of finance for companies, as equity markets do not develop (World Bank, 2016). This increases cost and risk, and narrows diversity and inputs. The World Bank's Doing Business 2017 report measures the protection of minority investors from conflicts of interest using an 'extent of the conflict of interest regulation index', and shareholders' rights in corporate governance using a 'shareholder governance index'.

The results of the conflict of interest regulation index sees Africa score a moderate 4.8 out of 10 compared to the overall average of 5.68 for the BRIC + Mexico group.

Africa's performance on the shareholder governance index is significantly poorer than the emerging market average with 3.8 out of 10 compared to the 6.46 out of 10 for the BRIC + Mexico group.

Ultimately, poor minority investor protection means African companies have limited sources of capital and financing, and are thus hindered in their potential to grow, diversify and compete, since investors are reluctant to invest the required capital needed by companies to advance to the next level.

4. GETTING CREDIT

The 'getting credit' indicator looks at how well credit information systems, collateral and bankruptcy laws facilitate getting credit (World Bank, 2016). Such systems allow lenders to access

Table 4: Comparison of results for Africa, Brazil, Russia, India, China and Mexico on the 'Protecting Minority Investors' indicator.

| Protecting minority investors' measures | Africa average | BRIC + Mexico | Brazil | Russia | India | China | Mexico |
|--|----------------|---------------|--------|--------|-------|-------|--------|
| Distance to frontier | 42.8 | 60.7 | 65 | 60 | 73.33 | 45 | 60 |
| Extent of conflict of interest regulation index (0-10) | 4.8 | 5.68 | 5.7 | 5 | 6.7 | 5 | 6 |
| Extent of shareholder governance index (0-10) | 3.8 | 6.46 | 7.3 | 7 | 8 | 4 | 6 |

a borrower's financial history and business information, to evaluate their assets as a way to generate capital.

When considering strength of legal rights when accessing credit Africa's performance is moderate compared to its emerging

Bank, 2016).

Well-functioning insolvency systems are also important determinants in whether companies can access finance. When creditors are secure in the fact that should a bankruptcy occur,

Table 5: Comparison of results for Africa, Brazil, Russia, India, China and Mexico on the 'Getting Credit' indicator.

| Getting Credit measures | Africa average | BRIC + Mexico | Brazil | Russia | India | China | Mexico |
|---|----------------|---------------|--------|--------|-------|-------|--------|
| Distance to frontier | 36.8 | 65 | 45 | 65 | 65 | 60 | 90 |
| Strength of legal rights index (0-12) | 4.7 | 5.6 | 2 | 6 | 6 | 4 | 10 |
| Depth of credit information index (0-8) | 4.5 | 7.4 | 7 | 7 | 7 | 8 | 8 |

market peers. Higher scores indicate that collateral and bankruptcy laws are better designed to facilitate getting credit and Africa's overall performance of 4.7 out of 12 is marginally lower than the overall average performance of the BRIC + Mexico group at 5.6.

It is important for countries to have strong creditor rights as this improves the availability of loans to companies, as well as favourable credit terms in the form of interest rates. Lenders then have better legal protection and are more confident. It is worth noting that the exceptionally poor performances on this measure from Brazil (2 out of 12) and China (4 out of 12) does pull the overall performance of the emerging market group down.

The depth of credit information index measures countries in terms of the availability of credit information to facilitate lending from credit registries and bureaus on a scale of 0-8. A high score indicates the availability of credit information. African countries achieved an overall average score of 4.5 out of 8 on the index. The overall average performance of the BRIC + Mexico group is significantly higher at 7.4.

Lack of information and data is a widespread challenge for African countries and this impacts directly on the business environment. Ultimately the growth of African companies is severely limited by their inability to access credit as easily as their emerging market peers.

5. RESOLVING INSOLVENCY

Quick and cost-effective insolvency procedures are critical in ensuring the longevity of economically viable companies, as well as the reallocation of resources of inviable companies (World

the system will respect their claims and their investment will be recovered, they will re-invest elsewhere in the country.

The ease of resolving insolvency challenges for companies operating in Africa is very poor with the overall average distance to frontier score of 30.6 compared to 53.5 for the Brazil + Mexico group.

This implies creditors feel less secure when investing their capital in African companies as they may not get their capital out should a company become insolvent or go bankrupt. As with the previous indicator, this impacts on African companies' ability to access funding to finance their ongoing and future growth.

6. REGISTERING PROPERTY

Property rights are a fundamental prerequisite for investment, productivity and growth. Not only are property owners with registered titles more likely to invest but they also have a greater chance of getting credit by using their property as collateral to fund company growth and expansion (World Bank, 2016).

This indicator considers the steps, time and cost involved in registering property, the quality of the land administration system, reliability of infrastructure, transparency of information, geographic coverage, land dispute resolution, and equal access to property rights (World Bank, 2016).

Overall Africa's performance in terms of the number of procedures involved in registering a property (six procedures) is marginally less than the overall average of the BRIC + Mexico grouping at 7.1 procedures.

It is important to note Brazil's poor performance on this measure (13.6 procedures) which increases the average of the emerging

“ AFRICAN COMPANIES ARE DISADVANTAGED BY GOVERNMENTS NOT IMPLEMENTING THE NECESSARY POLICIES TO ENSURE THE EFFECTIVE AND EFFICIENT MANAGEMENT OF PROPERTY RIGHTS AND PROCEDURES.

Table 6: Comparison of results for Africa, Brazil, Russia, India, China and Mexico on the 'resolving insolvency' indicator.

| 'Resolving insolvency' measures | Africa average | BRIC + Mexico | Brazil | Russia | India | China | Mexico |
|---------------------------------|----------------|---------------|--------|--------|-------|-------|--------|
| Distance to frontier | 30.6 | 53.5 | 49.2 | 56.7 | 32.8 | 55.8 | 73.1 |

Table 7: Comparison of results for Africa, Brazil, Russia, India, China and Mexico on the 'registering property' indicator.

| 'Registering property' measures | Africa average | BRIC + Mexico | Brazil | Russia | India | China | Mexico |
|---|----------------|---------------|--------|--------|-------|-------|--------|
| Distance to frontier | 49.7 | 53.5 | 52.6 | 90.6 | 50 | 76.2 | 61.1 |
| Procedures (number) | 6 | 7.1 | 13.6 | 3 | 7 | 4 | 7.7 |
| Time (days) | 53.9 | 31.0 | 31.4 | 15 | 46.8 | 19.5 | 42.1 |
| Cost (% of property value) | 7.6% | 4.3% | 3.1% | 0.2% | 7.7% | 3.4% | 5.2% |
| Quality of land administration index (0-30) | 8.2 | 16.3 | 13.8 | 26 | 7 | 18.3 | 16.3 |

market group. However, the time it takes to register a property is significantly longer for African companies (53.9 days) compared to the BRIC + Mexico group (31 days).

The cost (as a percentage of the property value) for African companies when registering a property is also higher than the emerging market group. The overall average for African companies is 7.6% compared to 4.3% for the BRIC + Mexico group.

India is a very poor performer on this measure with a higher cost than the African average at 7.7% of the property value.

The quality of land administration index, which ranges from 0 to 30 with higher values indicating better quality of the land administration system, finds companies in African countries at a significant disadvantage to their emerging market peers with an average score of 8.2 compared to the overall score of 16.3 out of 30 for the BRIC + Mexico group. Once again India performs poorly on this measure.

Table 8: Comparison of results for Africa, Brazil, Russia, India, China and Mexico on the 'trading across borders' indicator.

| 'Trading across borders' measures | Africa Average | BRIC + Mexico | Brazil | Russia | India | China | Mexico |
|--|----------------|---------------|--------|--------|-------|-------|--------|
| Time to export: border compliance (hours) | 98 | 59.4 | 49 | 96 | 106 | 26 | 20 |
| Cost to export: border compliance (USD) | 565 | 611.8 | 959 | 765 | 413 | 522 | 400 |
| Time to export: documentary compliance (hours) | 89 | 20.4 | 18 | 25 | 38 | 21 | 8 |
| Cost to export: documentary compliance (USD) | 217 | 111 | 226 | 92 | 92 | 85 | 60 |

Ultimately secure property rights are critical to investment and the growth of companies. African companies are disadvantaged by governments not implementing the necessary policies to ensure the effective and efficient management of property rights and procedures.

7. TRADING ACROSS BORDERS

Integration and real connectedness is an important driver of growth and development. Trade between economies is managed through the number of procedures, port operations and infrastructure.

These factors are all critical to companies managing the time and costs of trading and, importantly, accessing new markets to grow and compete regionally and internationally.

On average, African countries perform better than the BRIC+ Mexico group in terms of border compliance costs when exporting. African companies pay \$565 on average, compared to

\$611.80 paid by the BRIC + Mexico group.

This is due to the very high compliance costs in Brazil (\$959) and Russia (\$765), which increase the overall average of the emerging market grouping.

While border compliance costs in Africa are lower, on average, documentation costs are higher for African companies with the overall average cost of US\$217. The emerging market group is almost half this amount at US\$111. Documentary compliance in African countries takes four times longer at an overall average of 89 hours compared to 20.4 hours average for the BRIC + Mexico group.

Ultimately, inefficient processes and unnecessary bureaucracy add time and cost constraints to trading across borders, impacting on the bottom-line of companies. Improvement in this area, along with the promotion of regional integration, would provide significant opportunities for the growth of African companies.

Currently, Africa has the largest number of regional groupings of any continent, with eight official regional economic communities (RECs) – seen as the stepping-stone toward the African Economic Community (AEC). Despite these rhetorical advances towards broader and deeper integration, trade and real connectedness within Africa remains the lowest of all regions around the world. This is largely due to a lack of cohesion between trade policies, poor infrastructure and connectivity, wasted resources and rivalry between countries, given low levels of diversification creating competition rather than complementary trade relationships (Mumford & Ng, 2017).

8. STARTING A BUSINESS

The World Bank Ease of Doing Business Report 2017 measures what it takes to start a business by recording the time, costs and official procedures required, or usually undertaken, to start up and operate a business.

The overall average performance of Africa and the BRIC + Mexico grouping is very similar on this indicator in terms of number of procedures (7.7 in Africa and 8.9 procedures for the emerging market group) and time required (30.7 days in Africa and 30.52 for the BRIC + Mexico group).

However, the average overall cost (measured as a percentage of income per capita) to start a business is significantly higher in Africa at 46.9% compared to just 7.7% in the BRIC + Mexico group. Given the significantly lower per capita incomes in Africa such high costs would be an inhibitor to entrepreneurs wishing to open small businesses.

While the business environment in Africa is comparable with other emerging markets for entrepreneurs wanting to start companies, this is only the first hurdle to overcome. As the results from the other indicators show, the challenges accumulate once the business has been registered.

9. PAYING TAXES

This indicator measures the administrative burden of complying with tax requirements. This includes the number of payments per year and the time required to prepare, file and pay taxes; not to mention the total tax rate (World Bank, 2016).

Table 9: Comparison of results for Africa, Brazil, Russia, India, China and Mexico on the 'starting a business' indicator.

| 'Starting a business' measures | Africa Average | BRIC + Mexico | Brazil | Russia | India | China | Mexico |
|--------------------------------|----------------|---------------|--------|--------|-------|-------|--------|
| Distance to frontier | 75.2 | 79.9 | 65.04 | 93.57 | 74.31 | 81.02 | 85.74 |
| No. Procedures | 7.7 | 8.9 | 11 | 3.7 | 12.9 | 9 | 7.8 |
| Time (days) | 30.7 | 30.52 | 79.5 | 9.8 | 26 | 28.9 | 8.4 |
| Cost (% of income per-capita) | 46.9% | 7.7% | 5.2% | 1% | 13.8% | 0.7% | 17.8% |

Table 10: Comparison of results for Africa, Brazil, Russia, India, China and Mexico on the 'paying taxes' indicator.

| 'Paying taxes' measures | Africa Average | BRIC + Mexico | Brazil | Russia | India | China | Mexico |
|------------------------------|----------------|---------------|--------|--------|-------|-------|--------|
| Distance to frontier | 56.69 | 57.768 | 33.03 | 82.96 | 46.58 | 60.46 | 65.81 |
| Payments (no. per year) | 36.1 | 11.32 | 9.6 | 7 | 25 | 9 | 6 |
| Time (hours per year) | 305.6 | 598.4 | 2038 | 168 | 241 | 259 | 286 |
| Total tax rate (% of profit) | 46.4% | 59.2% | 68.4% | 47.4% | 60.6% | 68% | 52% |

Table 11: Comparison of results for Africa, Brazil, Russia, India, China and Mexico on the 'dealing with construction permits' indicator.

| 'Dealing with construction permits' measures | Africa Average | BRIC + Mexico | Brazil | Russia | India | China | Mexico |
|--|----------------|---------------|--------|--------|-------|-------|--------|
| Distance to frontier | 57.9 | 53.7 | 51.3 | 65.9 | 32.8 | 48.5 | 69.8 |
| Procedures (number) | 14.1 | 17.8 | 18.2 | 13.7 | 35.1 | 22 | 13 |
| Time (days) | 146.6 | 237.1 | 425.7 | 239.3 | 190 | 244.3 | 86.4 |
| Cost (% of warehouse value) | 6.9% | 8.9% | 0.4% | 1.4% | 25.9% | 7% | 9.8% |
| Building quality control index (0-15) | 7.3 | 10.24 | 9 | 10 | 11.5 | 9 | 11.7 |

African companies, on average, are expected to make significantly more tax related payments annually (36.1 payments per year) compared to their emerging market counterparts (11.32 per year).

However, the total tax rate as a percentage of profit is less for African companies (46.4%) than the emerging market grouping (59.2%). The amount of time spent on tax related administration annually is less, on average, for African companies at 305.6 hours compared to 598.4 hours for the BRIC + Mexico group.

Ultimately, the overall performance of both groups results in the same ranking of 128 out of 190 on this indicator. Neither grouping of countries has a significant advantage over the other in terms of tax compliance.

10. DEALING WITH CONSTRUCTION PERMITS

This indicator, as a benchmark, measures the ease for entrepreneurs to legally build a warehouse in terms of administrative requirements, building regulations and compliance, and cost. Overall, African countries perform better on this pillar than the average performance of the BRIC + Mexico group.

On average, African countries require fewer administrative procedures (14.1) and the time taken (146.6 days) is substantially shorter to build a warehouse than for the emerging market group (17.8 procedures and 237.1 days).

Mexico is the only country in the emerging market group where it takes less time than the African average at 86.4 days. The cost for African companies to build a warehouse (6.9% of the warehouse value) is less than the BRIC + Mexico grouping (8.9% of the warehouse value).

African countries do fall short when it comes to building quality however, scoring 7.3 out of 15 on the Building Quality Control Index compared to an average of 10.24 for the emerging market group.

On average, African companies can build a warehouse in a shorter amount of time, with less red tape and at a lower cost, compared to the BRIC + Mexico group.

However, while the building may go up quickly it is likely to be of a lower quality than what it would be in Brazil, Russia, India, China and Mexico which could lead to future costs for the company in the areas of maintenance, public health and safety liabilities ●

Concluding Remarks and Recommendations

Despite the recent global economic downturn, there is no doubt that Africa offers companies across various sectors and geographies significant business opportunities. The McKinsey report suggests that, beyond fast-growing companies, Africa needs to increase its share of large companies to drive much-needed investment, productivity and growth on a continental scale.

Corporate Africa is clearly hamstrung by a poor business environment. Without a drastic improvement, Africa's 700 largest companies are unlikely to overtake or even compete effectively with their emerging market counterparts any time soon.

Strong and effective institutions are critical to improving the business environment in African countries. They are behind the enabling environment that drives economic growth and leads to social and political prosperity. In their famous book 'Why Nations Fail', Daron Acemoglu and James Robinson emphasise the importance of strong political institutions as a precursor to strong economic institutions and, ultimately, real socioeconomic progress and development.

Unprecedented growth across most of Africa between 2003 and 2013 did allow for some structural reforms in the political and economic systems of countries across the continent. However, the end of the commodity boom in 2014 revealed which African countries implemented necessary structural reforms that were extensive enough to encourage industrialisation and greater diversity, to rely less on the export of basic commodities.

As the results and indicators of the GIBS DMI 2016 suggest, those African countries that have put in place the right measures and institutional changes are in a position to begin realising the enormous economic potential that has lain dormant across the continent for so long.

For African countries to provide an optimum business environment for local companies, as well as to provide a foundation for sustainable and meaningful economic growth, a few critical areas require attention, including:

- While starting a business in Africa is not expensive in nominal terms, when average income per capita is taken into account then establishing a company in Africa is expensive. African governments need to reduce the costs of starting a business, thereby encouraging entrepreneurship and the growth of the private sector.
- African governments must create a business-friendly environment by ensuring stability and certainty in the policy, legal and regulatory domains, as well as improving governance. This is important for lowering business risks, increasing predictability and ensuring that contractual obligations are protected.

- Good construction regulation, standards and building inspection systems are not only important for ensuring public safety, but also for strengthening property rights and contributing to the process of capital formation.
- Access to a stable electricity supply can be addressed by African companies by investing in renewable energy sources and independent power projects (IPPs), so they are no longer reliant on government-provided energy sources. This is a growing sector globally, and particularly in Africa.
- Economic and social integration are key drivers of growth and development. They help create economies of scale and access to new markets. African countries cannot compete on the global stage in isolation, they must work as a collective. Allowing people greater mobility is key to addressing skills gaps in labour markets, sharing knowledge and promoting entrepreneurship through borderless business, diversifying economies, adding value to services and, ultimately, boosting competitiveness. African governments need to improve their visa openness and invest in the required infrastructure to support the free movement of people and goods, for African companies to take advantage of opportunities in neighbouring markets.

There is an opportunity for African companies and governments to work together with the aim of achieving sustainable development and a lasting impact that is good for the people, the environment and future markets.

'Shared Value', a term coined by economist and Harvard Business School Professor Michael Porter, and Mark Kramer, is a concept defined as "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates".

'Shared Value' initiatives address social challenges as a business proposition, and are usually growth drivers. By adopting 'Shared Value' as a management strategy African companies would find business opportunities in social problems. The competitive value of solving social problems would lead to new customers and markets as well as cost savings, thereby creating a foundation for sustainable growth and development for the company itself, as well as society at large ●



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