



United Nations  
Economic Commission for Africa

# **21<sup>st</sup> Intergovernmental Committee of Experts**

## **Transformative Growth in Eastern Africa:**

### ***Catalysts and Constraints***

**Venue: Moroni, Union of Comoros**

**Dates: 7-9<sup>th</sup> November 2017.**

**Adhoc Experts Group Meeting:**

## **Catalysing Private Sector Development in Eastern Africa**

## I. Background

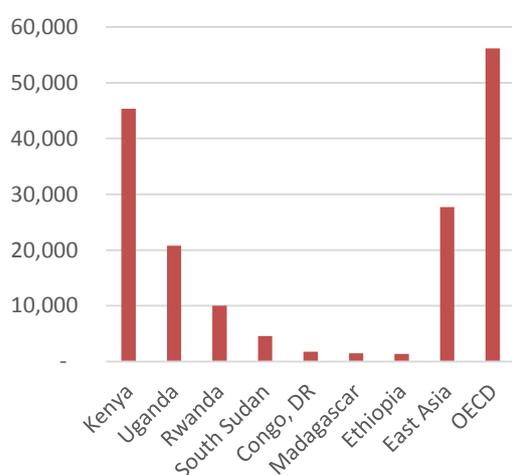
Structural transformation in Eastern Africa has remained a challenge. While the region’s economic performance over the last decade and a half has been impressive, the majority of the population remain employed in low productivity sectors. In addition, the region remains vulnerable to volatility in commodity prices. The recent fall in commodity prices has had an adverse effect on economic growth in the region, stressing once again the need for greater industrialisation.

New industrialisation strategies are required to tap high growth sectors. For these to succeed, it is important to promote a competitive private sector and harness the innovative potential of entrepreneurs. The new strategies will need to emphasise the role of innovative entrepreneurship.

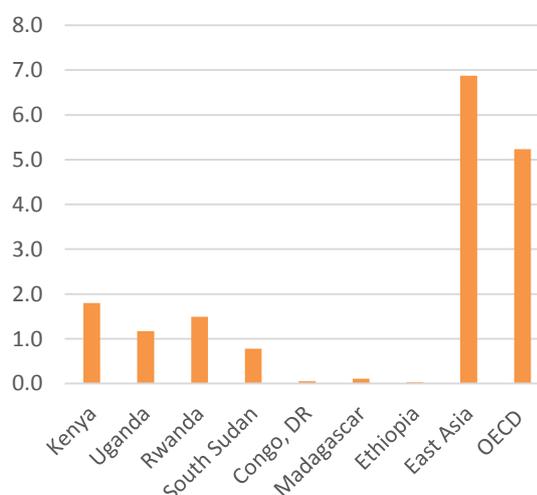
Why are entrepreneurs critical for industrialisation? Entrepreneurs’ are drivers of innovation, they introduce new products, markets, and organisational processes. Entrepreneurs encourage diversification into new economic sectors and drive industrialisation by shifting resources away from traditional sectors into more modern ones. They create jobs, increase demand for educated labour, bring goods and services to market and contribute to the government tax base.

In order to create entrepreneurship strategies that can complement industrialisation strategies, we must recognise the challenges to entrepreneurship across the region. Firstly, while Eastern Africa’s potential for entrepreneurship is considerable, the data shows countries in the region are far from achieving this potential. In terms of newly registered firms, for example, the World Bank entrepreneurship database shows some countries in the region such as Kenya and Uganda have relatively high rates of firm creation when compared to the averages of East Asia and the OECD high-income countries. There is an important caveat, however, that when these numbers are adjusted for the size of the working age population, the countries in our region perform poorly relative to the rest of the world (Figure 1& 2 ).

**Figure 1: New business registered per annum**



**Figure 2: New Business density\***

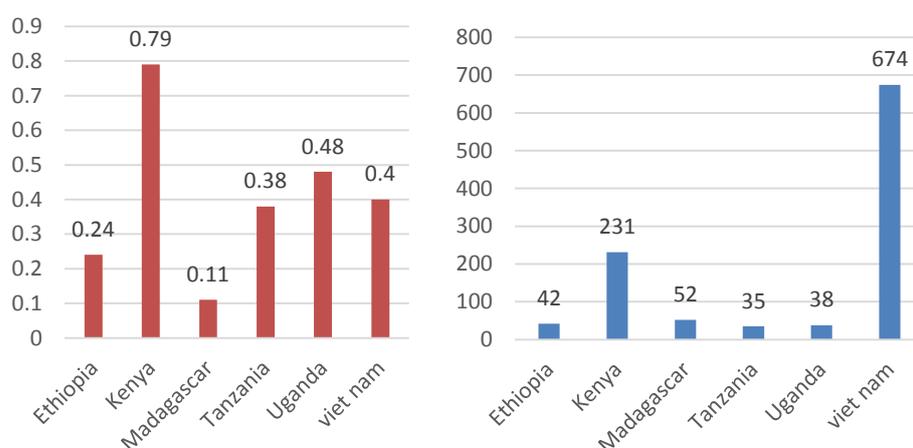


\* Number of newly registered corporations per 1,000 working-age population.

Source: World Bank 2016

Secondly, most new entrepreneurs in the region operate in the low productivity sectors with limited potential for structural transformation. According to data from Herrington and Kew, (2017), the majority (55%) of early-stage entrepreneurs in Africa operate in retail trade, hotels and restaurants, followed by agriculture, forestry and fishing (10%), and manufacturing (8%). The retail trade, hotels and restaurants sector typically requires a lower level of skills while manufacturing requires higher levels of skills. In contrast, nearly half of the entrepreneurs in high-income countries start their businesses in technology and service industries. This implies that an overwhelming majority of the self-employed in our region are not entrepreneurial (in the Schumpeterian innovative sense), as they never bring any innovations to the market and do not plan to grow their business. Many of the small businesses in the region remain permanently small and thus cannot be described as innovative entrepreneurial firms with the potential to drive innovative industrialisation in the region. The data shows that less than one-fifth of African early-stage entrepreneurs offer new products or services to the market (AFDB et al.,2017). This can be partially attributed to the low levels of investment in innovation. The data on investment in innovation shows that while expenditure on R&D for countries in the region is comparable to countries like Vietnam, and the number of researchers remains very low (Figure 3&4).

**Figure 3: R&D expenditure as share of GDP**    **Figure 4: Researchers per million people**



Source: UNESCO (2016)

Thirdly entrepreneurs in the region face binding constraints to growth when starting firms or upgrading their operations. Firms in the region typically identify access to finance, poor infrastructure, a difficult business environment, and the lack of skilled workers among the most critical constraints. Given the challenges to entrepreneurs, it is critical that we design targeted entrepreneurship strategies to complement industrialisation strategies. Moreover, policies should target entrepreneurs that operate in the higher productivity sectors as opposed to general policies that target every SME.

Given the importance of entrepreneurship for industrialization in the region, it is important to analyse how strengthening entrepreneurship can boost it in the region. Against this background, the United Nations Economic Commission for Africa (UNECA) is organising an Ad-Hoc Expert Group Meeting (AEGM) in Comoros, on the topic **“Catalysing Private Sector Development in Eastern Africa .”**

## II. Objectives of the Session

The objective of the session is to discuss policies that link entrepreneurship, innovation, and the industrialization in the region. The discussion will be informed by a detailed study on *“Private sector development in the region”*. Participants will be invited to provide inputs to the discussion and to review the following questions;

- a) Why is entrepreneurship relatively weak in our region, and why is it failing to produce enough job opportunities?
- b) What does firm-level data tell us about the roles of new or young firms on manufacturing employment and productivity?
- c) How can we better finance entrepreneurs? What are the financing instruments available for private investment?
- d) How do we encourage entrepreneurship in higher productivity sectors?
- e) What is the role of the formal education system in boosting entrepreneurship?

## III. Participation

The AEGM will gather experts from Eastern African countries, as well as representatives of the private sector, civil society organizations, and other relevant institutions. For further information and clarification, you may wish to contact Mr. Mukwaya Rodgers, Email: [mukwayar@un.org](mailto:mukwayar@un.org)

## IV. Provisional programme

Wednesday 8 November 2017

16:20-16:25	Welcoming Remarks,
16:25-16:30	Confirmation of proposed chair and rapporteur.
16:30-16:35	Adoption of the meeting program of work.
16:40-17:10	<b>Entrepreneurship in Africa</b> Dr. Herrington Mike Executive Director, Global Entrepreneurship Monitor

17:20-17:40 **Private Sector Development and Manufacturing Jobs in Eastern Africa.** Dr. Okumu Mike Makerere University

*Thursday 9 November 2017*

8:40-9:10 **Country experiences: success and challenges**  
Mr. Mounir Bakhressa, Managing director AZAM

9:10-9:30 **Country experiences: success and challenges**

9:45-10:45 **Recommendations for the plenary.**

## V. References

- African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme (2017), African Economic Outlook 2017  
<http://www.oecd.org/dev/african-economic-outlook-19991029.htm>
- Herrington M. and P. Kew (2017), The GEM Global Report 2016/17, The Global Entrepreneurship Research Association (GERA),  
<http://gemconsortium.org/report>.
- World Bank 2017,  
<http://www.doingbusiness.org/data/exploretopics/entrepreneurship>
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[https://www.uneca.org/sites/default/files/uploaded\\_documents/AEC/2011/mina\\_baliadoue-credit\\_constraints\\_and\\_entrepreneurship\\_r1\\_aec2011-zb\\_oct\\_9\\_0.pdf](https://www.uneca.org/sites/default/files/uploaded_documents/AEC/2011/mina_baliadoue-credit_constraints_and_entrepreneurship_r1_aec2011-zb_oct_9_0.pdf)

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