

## **SERVICES UNDER THE SPOTLIGHT: THE NEW DRIVER OF AFRICA'S GROWTH AND SUSTAINABILITY?**

The growing importance of the services sector across Africa is a potential game changer for the continent's development. Yet many African countries lack the resources (financial, physical and human) to optimise their services sectors so that they become key drivers of economic growth, job creation, and equal and sustainable societies.

This was the central theme of a Southern African/regional workshop titled '**Leveraging Services Potential for Inclusive and Sustainable Economic Growth**', which was convened by the Geneva-based **ICTSD** (International Centre for Trade and Sustainable Development) in association with **SAIIA** (South African Institute of International Affairs) on **4 & 5 May 2016 in Johannesburg**. Attended by government representatives from the SADC region, development experts, academics, private consultants and other stakeholders, the regional workshop provided the platform for a thought-provoking exchange of research findings and personal views on Africa's development challenges – and how services could, given the right conditions, trigger the economic paradigm shift that is so urgently needed on the continent.

A major obstacle to the development of a vibrant services sector in many African countries is the absence of a sufficiently-conducive policy environment. This is exacerbated by the fact that various services tend to be 'invisible' due to a general lack of data. Service providers falling into the SME (small and medium-sized enterprise) category are particularly at risk of escaping the attention of policymakers – even though as a group they are making an increasingly important contribution to their countries' economies.

"The scope and impact of SME-driven services in the LDCs [least-developed countries] have received little attention at the formal research level, leaving a vacuum in the literature," said **Dr Sonja Grater** from the **TRADE research entity at North-West University**, who delivered a paper on how SMEs can be agents of growth and competitiveness in the LDCs. "SME-related studies have tended to focus on the manufacturing sector in developed countries and emerging economies," Sonja continued. "However, there is growing evidence that SME service providers can be trailblazers in their countries if they can be helped to take advantage of unfolding opportunities at a domestic and international level."

The constraints to services sector development in the African LDCs are many and varied. The lack of access to finance (for start-up purposes or local or international expansion) was singled out by many workshop delegates as a major impediment. **Nick Charalambides** from **Imani Development** explained that many enterprises in Africa are unable to access finance from traditional financial institutions because of the onerous qualifying criteria and/or high fees. Few people have bank accounts. However, advances in mobile phone technology have cleared the way for services like mobile banking, an innovative financial solution that is sweeping across East and Southern Africa. "Mobile banking is changing people's lives. It also allows trade finance to be sourced from other countries in the SADC region if domestic funding is limited," remarked Nick.

Picking up on the finance theme, **Mathew Stern** from **DNA Economics** said that the reality in Sub-Saharan Africa is that savings are lower than in more rapidly emerging markets, and this suppresses domestic investment. What is encouraging, however, is that FDI (foreign direct investment) into Africa has been showing an upward trend, with about 50% of new projects currently on the drawing

board earmarked for the services sector. Of course, to attract foreign investment, a country needs to have functioning infrastructure (roads, air links, telecommunications, energy, etc.) and reasonable economic stability. Workshop delegates made frequent reference to infrastructural weaknesses as an impediment to the advancement of African LDCs' services sectors, since infrastructure lays the foundation for many economic activities and therefore impacts (positively or negatively) on competitiveness.

Skills gaps and capacity shortcomings in both private business concerns and government entities were also identified as fundamental problems. To create innovative service offerings that have strong commercial appeal, enterprises need to have trained and enthusiastic individuals within their ranks. In this regard, the absence of an entrepreneurial culture in many African countries prevents large numbers of micro enterprises from making the transition from a survivalist state to a viable and growth-oriented one. Government, in turn, should eschew laborious, manual systems and rather embrace an 'e-culture' that makes official information more readily accessible and streamlines regulatory processes.

Of all the service sectors that are making a positive contribution to Africa's development, the ICT sector appears to be leading the way. This sector is attracting growing attention from policymakers as well as sizeable investment, and is helping to reduce growth-sapping costs and boost productivity in numerous economic sectors. In addition, as ICT services often have the power to cross borders without much restriction, they have the potential to stimulate growth and development across whole regions.

Services are, by nature, cross-cutting and their interlinkages with other services or economic sectors need to be clearly understood. For example, the fact that financial services and ICT services are so inextricably linked should be given special attention from a policy and regulatory perspective. The importance of interlinkages was reinforced by **Sue Snyman** from **Wilderness Safaris**, a Botswana-registered tourism operator. "We have the product, the wildlife, and certainly the culture in Africa. But we need to ensure that everything is managed efficiently, that it is easy to travel to and within Africa." Sue explained how bureaucratic visa application processes, poor transport linkages and a lack of Internet connectivity in a country are among the things that deter tourists. "The biggest problem with tourism," remarked Sue, "is that no-one talks to anyone else." This is not only evident between tourism and other service sectors, but between government tourism authorities at the national level and local level, respectively.

According to **Dr Sherry Stephenson, a Senior Fellow at the ICTSD**, an enabling policy environment and regulatory framework that is neither too restrictive nor too liberal, and which consider both public and private sector interests, are the cornerstones of an effective services sector development strategy. Interestingly, of all economic sectors, the services sector is the most regulated. If properly informed and well crafted, regulations aimed at services will address potential market failures (such as excessive competition), produce outcomes for the public good (such as high education and health standards) and deliver on far-reaching goals (such as preserving the environment). However, when regulations are opaque, mired in red tape or used for protectionist purposes, their effectiveness is compromised.

Over the next few months, the ICTSD will continue to engage with different interest groups, exploring ways in which the potential of the services sector in LDCs can best be harnessed in the interests of more efficient and sustainable local and international trade and development.

The TRADE research entity at North-West University prepared two background reports for the regional workshop: a country report on Botswana, which focused on the economic potential of selected service sectors; and a scoping paper on the contribution of SME service providers to the LDCs' economies and commitments under the UN Sustainable Development Goals.

**For more information** about the TRADE research entity and the work it is doing in the areas of international trade and economic development, contact: [wilma.viviers@nwu.ac.za](mailto:wilma.viviers@nwu.ac.za) or visit the TRADE website: [www.nwu.ac.za/trade](http://www.nwu.ac.za/trade).