



AFRICA – OPPORTUNITIES AMIDST THE CHALLENGES

Photo: Curt Carnemark



In March 2007, Ghana celebrated the 50th anniversary of its independence from the United Kingdom after 80 years of colonialism. The festivities in Ghana kicked off what will be a chain of celebrations among the first wave of independent African states, many of which reach the 50-year mark in 2010.

There is much to celebrate, although Africa continues to face many challenges. Albeit slow, social and economic progress has been made. Thirteen sub-Saharan African (SSA) countries have attained middle-income status and another five countries are knocking or will soon knock on that door. More than one-third of Africans now live in the 15 countries where annual GDP growth over the past decade has equaled 5.3 percent. In 2005, nine countries grew at 7 percent or more.

In addition to increased social development, there has also been a shift in the business environment as African governments ease and streamline the regulatory requirements faced by the private sector. According to the World Bank's Doing Business in 2007 report, two-thirds of African countries had at least one substantial reform last year, and Tanzania and Ghana rank among the top 10 performers worldwide. Small as some initial reforms can be, they have helped to attract investors who seek the growth opportunities that follow.

A Shifting Environment

Investment. Africa's growth deficit has been the product of low efficiency and low investment levels. However, new evidence indicates improvements in these areas. Overall, investment increased between 2004 and 2006, from 20.2 percent of GDP to 21.6 percent of GDP. The World Bank estimates that net FDI flows to the region rose to \$18.5 billion in 2006, although much of these flows have gone to resource-rich countries. Sustained-growth countries have productivity levels that are on par with India's and Vietnam's, and they are approaching these countries in investment levels as well. Recent research shows that efficient enterprises in Africa can compete with Indian and Chinese firms in terms of factory floor costs. They become less competitive, though, due to high indirect costs, including the cost of infrastructure.

Trade. African exports have been growing over the past few years, most dramatically among oil exporters, but by non-oil-producers as well. Exports rose from \$179 billion in 2004 to \$220 billion in 2005 and 38 countries (of 47) increased their exports. There are growing pockets of non-traditional exports (e.g., clothing from Lesotho, Madagascar, and Mauritius). In Rwanda, by helping farmers connect to buyers of high-quality coffee, the country boosted its coffee exports to the United States by 166 percent in 2005—a factor that has helped drive the country's impressive growth rates. In Kenya, exports of cut flowers more than doubled between 2000 and 2005 and now rank second among the country's exports, after tea.

Infrastructure Investments in Africa

Investment in infrastructure not only benefits African nations by increasing the quality of life for their people but also creates better operating environments for their businesses. It is infrastructure development in Africa that is paving the way for private sector-led growth on the continent, and success (or failure) in infrastructure will to a great extent determine whether African countries will meet their own goals of poverty reduction and economic growth.

Telecommunications in Mali and Guinea

In Africa, MIGA (Multilateral Investment Guarantee Agency) is supporting mobile phone and Internet service growth by supporting private telecom investors with coverage for their unique and significant project risks with political risk insurance.

In Mali, for example, MIGA provided \$18 million in investment guarantees to Senegal's Sonatel for its investment in Ikatel SA, now Orange Mali.

The guarantees are offering protection against the risks of expropriation, war, and civil disturbance, giving the investor the confidence needed to go ahead with the investment and paving the way for one of the largest foreign investments ever made in the country.

Sonatel's investment in Mali significantly changed the telecommunications environment; monthly Internet access costs are now €45 compared with €1830 in 2002 and mobile phone users have increased to over one million from 50,000. The availability of low-cost, high-speed Internet and wireless capability are expected to encourage more local start-ups and more FDI, helping to increase overall economic growth.

The region has also benefited from an investment by Sonatel into neighboring Guinea. MIGA facilitated Sonatel's \$112.25 million telecom investment into Orange Guinea SA with \$67 million in guarantees, thus helping to bring increased GSM coverage at lower prices to the Guinean population and businesses. Additional project benefits include increased license and tax revenue, employment and skills transfer.

New Development Partners. China and other East and South Asian countries are scaling up assistance to Africa, often financing infrastructure investments. Recent estimates are that the Chinese government will lend \$3 billion in preferential credit and will double aid and interest-free loans over the next three years. Foundations and corporate responsibility programs are also increasing the resource envelope. Private donors are now providing an estimated \$10-25 billion annually for global development programs in areas such as health and education, and much of these funds are going to initiatives in Africa.

So why invest in Africa?

Simply put, investment in Africa can help Africa help itself while generating profits in the process. Despite the continent's structural problems and the focus on aid and debt relief, Ghana's stock market was the world's third-best performer in 2006, while Egypt topped the global table and is soaring this year too. In the long term, Africa's prosperity and stabil-

ity will not come from dependency on foreign aid, but from sustained private investment and enterprise. Africa is still receiving only about 10 percent of total foreign direct investment to developing countries and the bulk of this investment is going to the few countries rich in natural resources (oil, gas, minerals) or those with a strong service sector. Currently, less than 1 percent of global FDI is invested in SSA each year. As the continent becomes gradually more prosperous, however, the levels of private investment will increase significantly, especially since Africa currently offers some of the highest returns on FDI of any region in the world.

For investors on the lookout for new opportunities and high returns, SSA is familiar terrain. But along with the promise of profit comes risk—often in the form of political instability, conflict, and economic shocks. Recently, however, there has been a notable improvement in political risks, as democratic elections, economic stability, more peaceful relations, and regulatory reform have begun to gain traction. FDI has increased

noticeably, with the region enjoying an average annual FDI growth rate of 7 percent over the last five years. Non-traditional investors have contributed to this change, with large infrastructure projects supported by China and India creating headlines. South Africa has also been the leader in the area of FDI going north and there is much potential for additional intra-regional or South-South investment.

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