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Strategies to Attract Private Investment

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The Problem

- Africa has lowest levels of private investment among developing regions
  - SSA 15%; MENA 16%; LAC 17%; Europe 18%; Asia 22%
  - Significant slowdown since 2010 & esp. since 2014
- At micro level,
  - Africa has a very large share of relatively low productivity firms…
  - Reflecting obstacles to investment and expansion
- Emerging challenge: automation
  - Potential “reshoring” of production to advanced economies, making manufacturing-led growth infeasible

The Question

How to improve investment climate?

- For domestic investment
- For FDI
- In existing sectors
- In new sectors (diversification & industrial policy)

The Response

Countries in Africa & other regions that experienced sustained increases in private investment characterized by varying combinations of:

- Macroeconomic & political stability
- Structural reforms
- Strong institutions

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Public Infrastructure

- **Quality** of investment. Increase efficiency of public investment management:
  - ➢ Project appraisal, selection, monitoring, & evaluation
  - ➢ Multi-year budgeting
  - ➢ Central-local coordination
- Smart **urbanization**
- **Digital** infrastructure
- Minimize risk of running into **bottlenecks**
  - ➢ Financing constraints & private sector crowding-out
  - ➢ Supply bottlenecks

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Skills

- **Quality** of education
  - Continuous teacher training
  - Governance: empowered, accountable school management
  - Improve & publicize measures of education quality
- Invest in **flexible** systems
  - Develop education & *training* programs aligned with current & prospective labor-market demands
  - Focus on workers' adaptability & life-long learning

Financial Systems: Domestic Finance

- In Africa,
  - Highest share of firms reporting access to credit as constraint
  - Greatest gap in access between SME and large firms
  - Bank financing of investment relatively low
- Increase domestic financial depth & access (e.g., for SME)
  - Refrain from direct intervention (e.g., directed credit)
  - Improve financial "plumbing". E.g., credit reporting systems (incl. collateral registries); auditing standards; clearing, settlement, & custody mechanisms
  - Remove barriers to competition, allow market-determined interest rates
  - Regional integration of stock exchanges to increase liquidity & efficiency
  - Strengthen investor protection & judicial independence
  - Seize fintech opportunities, beyond mobile payments (e.g., mobile banking & crowd-lending)

Financial Systems: External Finance

- Liberalizing capital account; Belt & Road Initiative
  - ➢ But must limit risk of financial instability
  - ➢ Critical to ensure sustainable external debt
- Promoting PPP
  - ➢ But managing such agreements, and limiting contingent liabilities, requires significant administrative capacity
- Fostering FDI
  - ➢ Requires broad measures to improve business environment

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Trade Integration

- Intl trade: opportunity to expand production for export, reap scale economies, attract FDI
- Global environment in future unlikely to be as favorable as in 2000s
- Regional trade integration
  - Expanded sharply over past 20 years
  - Still low compared to more dynamic regions, e.g., South-East Asia

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Deeper Regional Trade Integration

- AfCFTA promising. But critical to move beyond **tariff reduction**, through series of complementary measures
- **Non-tariff barriers**: quotas, licenses, SPS, technical barriers, rules of origin in specific RECs
- **Trade facilitation**. Border processes, customs practices
- **Regional physical infrastructure**
- **Regional financial infrastructure**. Regional payment systems; facilitate emergence of pan-African banks
- **Liberalization of trade in services**, incl. financial services. Will help boost competition. Requires complementary domestic regulatory reforms.

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Regulatory Framework

- Regulatory quality
  - Ease of starting business
  - Ease of expanding business (e.g., acquiring land; construction permits; labor market rigidities & informality; securing reliable energy)
  - Ease of exit: insolvency resolution framework

Industrial Policy

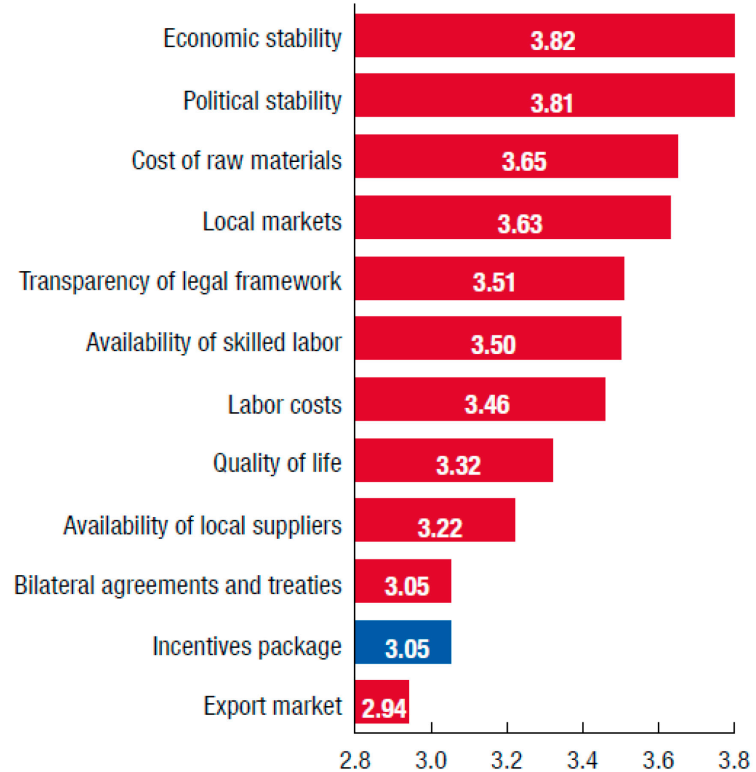
- Africa's experience with Special Economic Zones mixed
  - Primarily relied on tax incentives
- Important to focus on developing clusters
  - Build on existing comparative advantage (e.g., agri-business, apparel)
  - Consult all stakeholders to (i) identify specific bottlenecks in infrastructure & human capital; (ii) facilitate coordination
  - Support activities with potential spillovers, *not* specific firms

Do not forget the big picture

- Fundamentals (macro stability, transparency, labor costs, etc.) more important than incentive packages

Figure 2.10. Importance of Investment Factors for Africa, 2011
(Average rank)

Tax incentive packages rank low in importance of investment factors. Economic and political stability and the transparency of the legal framework rank high.



Source: United Nations Industrial Development Organization.
Note: The figure shows average rankings of 12 location factors according to a business survey among 7,000 companies in 19 sub-Saharan African countries.

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Thank you!