"Leveraging the G20 Compact with Africa for Increased Investment: The Private Sector Perspective"

Workshop at the Africa Investment Forum 2019
Monday, 11 November, 2019 | 11:30 a.m. – 1:00 p.m.
Session Room 2
Sandton, South Africa

Meeting Summary

Introduction

Ed Brown, Senior Director, ACET, opened the session with a welcome message and a brief history of the Compact with Africa (CwA) along with ACET's support role delivering peer learning, investment promotion, advocacy and peer review.

Case 1 – Ghana Infrastructure Fund

Solomon Asamoah's, CEO of Ghana Infrastructure Fund, observed that from his over 20 years of deal experience across Africa, capital was seldom the binding constraint. In his interjection on business in Ghana, he suggested three things as the most critical to investment. 1. Consistency of policy. Major policies and priorities must survive changes in ministers and other leaders to create certainty which is the bedrock of private investment and thus the most critical constraint in his view. 2. Lack of capacity at lower level of government. He indicated that meeting ministers and senior technical staff often inspired confidence in the investor but that confidence melted away when interacting with the lower levels of government. 3. Weak domestic financial institutions. For myriad reasons, the ability to raise money in the target market is a strong positive signal to investors. In cases, such as in Ghana, where domestic financial institutions are not strong enough to participate in significant deals, the sector has to be strengthened. He then gave the examples of Nigerian or South African banks being strong and stable enough to participate in deals and the positive externalities this then created for the economy.

He shared his main advice to governments trying to attract investors is to listen to what the investors want and then give them what they need. The gap between needs and wants is to be negotiated.

Case 2: GE Healthcare Africa

Helen Mtshali, CFO of GE Healthcare Africa, presented a PPP case where 98 radiology departments were successfully renovated across Kenya in 17 months through a Managed Equipment Services partnership. Ms. Mtshali remarked that investors were historically hesitant about investments in healthcare projects particularly something as ambitious as a national revitalization. In her assessment, the key was to share risk such that all stakeholders had appropriate exposure. The project achieved this risk regime through a risk guarantee scheme by the ATI (African Trade Insurance Agency). With the right risk mix, the project attracted strong partners such as GE Healthcare Africa as the technical partner for radiology to spearhead the effort. With the participation of the Kenyan government in the scheme as a key signal, the stakeholders were able to raise 7 year financing from banks as the government's stake indicated a high level of commitment to the project's success. GE Healthcare Africa hopes to replicate the model and the success in other countries.

Constraints to private sector investment:

The approximately 50 participants broke into 4 working groups to discuss the prompt "Identify the top 3 constraints from a private sector perspective." Thirteen broad areas were identified.

Macroeconomic	Business	Financing
Foreign exchange rules	*Inconsistency in policy*	*Sovereign Creditworthiness*
Infrastructure	*Non-standard contracts*	
Common markets	*Rule of law*	
Diversification of portfolio	*Bureaucracy*	
	Access to information	
	Localization requirements	
	Workforce skill	
	Standards	

Fig 1. Constraints identified by participants superimposed on the CwA framework

1. Foreign exchange: Wildly fluctuating exchange rates and controls on movement of FX increase the threshold for considering whether to invest.
2. Infrastructure: lack of basic infrastructure makes business models unsustainable and thus increases the threshold needed to invest.
3. Common markets: African markets are typically too small to support substantial investments. Regional integration and the attending rules and harmonization of markets could help investors use bigger markets in their business cases and may result in more investment.
4. Diversification of portfolio: The more diversified an industrial base a country has or promotes, the more resistant the market is seen to be to both internal and external shocks. The positive perception of stability encourages investment.
5. Inconsistency in policy: attendees cited frequent changes in policy and regulation or the application of which were typically tied to the political winds of the day and any changes

in government from regime change to ministerial reshuffles typically led to changed priorities and changed policies which created uncertainty and thus made the private sector less likely to invest. It was cited as well that sometimes there is no policy at all which can create immense uncertainty.

6. Nonstandard contracts: Participants said that contracts were typically treated as one off actions with little standardization sometimes in the same country and certainly none across the continent. This raises the cost of doing business considerably since resources have to be dedicated repeatedly to support contracting.
7. Rule of law: Without a reasonable expectation that agreements and contracts can be enforced and that general order will prevail, the private sector is unwilling to invest or requires very high returns to make an investment.
8. Bureaucracy: Regulatory requirements and paperwork simply take too long generally and require too much in resources to comply. This bureaucracy is particularly burdensome for early stage development and can deter investment.
9. Access to information: With no right to information laws or limited laws, critical information to making informed investment decisions can be withheld.
10. Localization requirements: If the needed expertise does not exist locally, requirements for local partner or other local content can deter investment.
11. Workforce skill: The government has to make an effort to create a skilled workforce through appropriate vocational/technical training and education which can then be employed by the private sector.
12. Standards: There was concern that the uneven enforcement of standards, or even the perceived uneven enforcement, reduces the appetite for investment as it creates uncertainty.
13. Sovereign creditworthiness: The country's perceived creditworthiness affects private businesses ability to raise funds to invest in that market.

Next steps:

Some participants indicated an interest in discussing potential policy solutions however due to time constraints, the discussion could not continue. In Sarah Alade's closing remarks, she highlighted that the findings from the session would be shared with the African Advisory Group at the April meeting and thanked the participants for their engagement and candor.