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Investing in Africa

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Introduction - Marking African Momentum

- Greetings
- Two years ago at the G-8 Summit in Gleneagles, we welcomed a promise to double development assistance to Africa—from about \$25 billion in 2004, to \$50 billion in 2010. In addition, the international community called for debt reduction and trade opening moves. While debt reduction has been a success, the push to improve trade access for Africa has faltered. And development assistance for most African countries hasn't increased.
- Perhaps the most significant development of the past decade is Africa's growth recovery. [though poverty remains widespread, Africa countries grew at an average of 5.5% in 2005, with estimates of 5.3% for each of the two years that follow. Indeed more than a third of all Africans live in countries that have grown at more than 4% for the past ten years.
- As pleased as we are to see this recovery in growth, we have to push further. To meet the Millennium Development Goal of cutting poverty in half by 2015, we will have to see growth of 7% or more. And what about the countries that aren't growing or are growing so slowly that citizens aren't likely to notice the impact? 36% of Africans live in these countries.
- Our challenge as development partners to African countries is to help the countries showing sustained growth to push to the next level, and to get the slow-moving economies onto the growth path.
- In either case, a big part of the solution will be unleashing Africa's and international private sector, which will be the source of job creation, innovation and diversified exports.

Private Sector Environment: Beginning of a Turnaround

- Africa lags other regions of the world in terms of private investment, productivity, exports and the business environment.
- [The ratio of private investment to GDP stood at about 11%, compared to 15% or more in Asia, Latin America, and the Middle East.
- The relatively absence of investment is a response to a difficult and costly environment. Overall, the cost of doing business in Africa is higher than other developing regions.¹
- Micro, Small and Medium-sized enterprise are often vibrant and innovative, but are held back by low access to finance and regulatory burdens that made it preferable to remain small and informal, rather than expand and create jobs.
- However, we are seeing the beginnings of a turnaround, and we are determined to invest in it.
- In the Bank's 2007 *Doing Business* survey, two of the top ten reformers—Tanzania and Ghana—are African countries. And two-thirds of all African countries surveyed enacted at least one reform to ease the cost of establishing and running an enterprise.²
- In Nigeria, Africa's most populous nation, government cut the time to register property from 274 to 80 days. Court reforms lowered the time to resolve disputes from 730 to 457 days. And updated customs procedures that reduced import delays by 8 days and export delays by 16 days.³
- These changes have impact. The Bank's analysis shows that higher rating on the Doing Business indicators translate directly into lower levels of unemployment.

Closing the Infrastructure Gap

- But it isn't simply a matter of cutting through the unnecessary red tape in Africa. Enterprises on the Continent are held by significant gaps in every aspect of infrastructure.
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- It takes just short of 80 days to obtain an electricity connection. That compares with 27 in the rest of the developing world. Once the connection is in, electrical outages occur 90 days per year. 47% of all firms surveyed are forced to invest in acquiring and maintaining their own generating equipment.
- It takes an average of 96 days to obtain a telephone line in sub-Saharan Africa, compared to 43 in other developing countries. The, again, outages occur 28 days out of the year.
- Twenty countries of the region lack direct terrestrial access to global information and communications infrastructure and networks and are forced to rely on expensive satellite connectivity to link up with each other and the rest of the world. This translates into some of the highest communications costs in the world.
- These are burden Africans cannot afford. But, again, we are starting to see signs of a turnaround. The most dramatic is the explosion in mobile telephone use: at the end of 2006, there were 123 million mobile subscribers in Africa.
- From 2005 to 2006, OECD donors upped their infrastructure investment in Africa to \$5.5 billion from \$4.4 billion. Meanwhile, China and India are emerging as important players in this sector. IDA alone has scaled up its lending for infrastructure from \$0.6 billion in 2000 to 4.6 billion in 2007. But the needs are enormous
- Development partners' funding for energy—a gap that must be closed to advance shared growth in Africa—has risen from \$642 million in 2004 to \$700 million in 2005 and \$1.2 billion in 2006.
- Bu more needs to be done. No economy can expand and generate jobs if it lacks something as basic as electricity. Electrical outages occur so often that 47% of all firms we surveyed are forced to invest in acquiring and maintaining their own generating equipment.
- Africa's roads—which have deteriorated from neglect and lack of maintenance over the last two decades—are getting increased attention. Overall, funding for transport—which is mostly roads—rose to \$2.3 billion in 2006, excluding South Africa, from \$1.9 billion the year before. The Bank alone has 28 projects underway in the transport sector, and another 34 address transport issues through other vehicles such as direct budget support.

- The results again, are not only important for the investment climate, but they should make a difference in the lives of millions of ordinary Africans. Under the Africa Action Plan we are targeting the construction or rehabilitation of 30,000 kilometers of roads by 2013, of which 14,000 kilometers will be rural roads.

Can Africa Compete?

- Our analysis shows, that if you visit the floor of many African factories, the workers are as productive, and the quality of the products as high, as their counterparts in China, India, and Vietnam. The costs kick in through the density of regulation and the infrastructure obstacles.
- As African leaders continue to bring down the regulatory burdens, and investment begins to close the infrastructure gap, what about the work force? Currently, countries such as Rwanda and Burkina Faso show less than 20 of the appropriate age cohort is enrolled in tertiary education.
- Although a lack of educated (and healthy) work force would clearly hold back Africa's success in the global economy, development assistance for secondary education and higher education has been dropping in the first part of this decade. In 2005, development assistance to secondary education received only 5% of the total development assistance for education in Africa, down from 11% in 1999.
- At the Gleneagles Summit in 2005, the G-8 called for donors to assign a much higher priority to post-primary education. But this has yet to translate to scaled-up resources for secondary education and tertiary education at the country level.
- Any program to unleash Africa's private sector must include a robust strategy for supporting women entrepreneurs, through much improved access to credit, to skills and education and to markets.
- The International Finance Corporation has a unit that focuses on Gender-Entrepreneurship- Markets and together with the Africa Region at the Bank it has new advisory and analytic instruments to improve the business environment for African women. In Uganda and Kenya, these suggestions have been integrated into the private sector strategies.
- In Nigeria, a \$15 million line of credit for women entrepreneurs was provided Access Bank plc in Nigeria and by January, 2007, \$4.5 million had been disbursed to 33 women-headed businesses.

- Efficient financial sectors are needed in order to broaden access to financial services for the poor and respond to the needs of the SMEs.
- The German G8 presidency is championing the "Partnership for Making Finance Work for Africa". We fully support it as a key pillar for increasing private investment in Africa. The Partnership should provide an efficient framework for a scaling-up of resources in support of financial sector development.

Conclusions:

- It is time now to invest in Africa. The prospects are improving, and significant new investors are now engaging in Africa from within and outside the continent
- Africa now needs more and more sustainable investments to accelerate growth and poverty reduction
- We call for the fulfillment of commitments made at Gleaneagles, to help Africa mobilize more investment and domestic resources
- This calls for support for:
 - More efficient finance sectors
 - Simplification and improvement of domestic regulations and overall improvements in the business climate
 - A revision of the multi and bi-lateral guarantee schemes to further reducing investment risks in Africa
 - Accelerated implementation of new form of cooperation, such as the Investment Climate Facility and the Infrastructure Consortium for Africa
 - More regional integration, creating capacity and harmonized business regulations for regional investment promotion, and
 - Continued improvements in economic governance and corporate responsibility
- What want to see as a result is a proliferation of African and African based companies, more constructively connected to the global economy,

generating jobs for a generation of Africans who are agile, connected, innovative and ready to succeed.