

*Towards a private sector
enabling environment*

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Mitigating the risk of investment in Africa

BizClim is set to undertake a feasibility study on the creation of an Investment Guarantee cum re-insurance Agency for the ECOWAS region. This should comfort investors.

Though previously perceived as a high-cost and a high-risk region to do business, sub-Saharan Africa is becoming a more attractive and hospitable destination for investors at a time when it presents best resources investment climate in more than ten years.

Over the past two decades, foreign direct investment (FDI) has become a vital source of economic development for the African continent. With an increase from approximately US\$ 9 billion in 2000 to US\$ 18 billion in 2004 and US\$ 88 billion in 2008, FDI has become a major source of finance for Africa's development (UNCTAD 2010). Analysts forecast strong growth of new FDI into Africa from 2012 onward, reaching US\$150b by 2015. Nevertheless, much work remains to be done if African nations are to begin to replicate the kind of economic successes recently seen in major emerging countries. In this respect, FDI inflows play an important role in improving competitiveness in African economies, notably through advancing managerial skills and technological capacities of host countries. Foreign direct

investors can play a critical role in reducing poverty, by building roads, for example, providing clean water and electricity, and above all, providing jobs.

The 2011 African Competitiveness Report affirms that without the transfer of technological capabilities and homegrown innovation, the productivity gap between African countries and more advanced economies will not be reduced and could even widen further. Concerns about investment environments and perceptions of political risk often inhibit foreign direct investment, with the majority of flows going to just a handful of countries and leaving the world's poorest economies largely ignored. It is no wonder then that African leaders have recognized the central role FDI can play in wealth creation and that policy makers are now advised to limit the risk taken by investors.

**Calls for an African Investment
Guarantee cum re-insurance Agency
become louder**

Data obtained from risk rating agencies (e.g. Institutional Investor, Euromoney,

The ACP Business Climate Facility (BizClim) provides technical assistance that is essentially about improving regulations, legislation, the institutional set up and financial measures (the rules of the game) relating to the enabling environment of the private sector in ACP countries or regions and to do so by focusing on possible support to ACP governments or regional institutions and private sector organizations.

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» Economic Intelligence Unit, International Country Risk Guide) portray Africa to be still a risky environment when the continent is compared to other regions. Africa is viewed to be risky because of several factors including vulnerability to external shocks, relatively weak financial systems, the reputational legacy of former policy regimes and weak institutions. In the long term, Africa's best chance for prosperity and stability is from sustained private investment, which could be achieved notably thanks to a guarantee agency that could mitigate the political risks faced by investors.

A Guarantee Agency's role usually addresses these concerns by providing political risk insurance for foreign investments in Africa and dispute resolution services for guaranteed investments to prevent disruptions to developmentally beneficial projects. MIGA – Multilateral Investment Guarantee Agency - also helps countries define and implement strategies to promote investment through technical assistance services managed by the World Bank. Besides MIGA, there are also investment guarantees offered by developed countries. Arab countries have their own investment guarantee agency. Recently calls have been made for setting up an African agency. The latest comes from UNECA (United Nations Economic Commission for Africa), which has called for the creation of an African Investment Guarantee Agency (AIGA)

to support and strengthen the financing of infrastructure projects. The AIGA's main objective will be “to provide non-commercial investment guarantees to African and non-African investors, private or public, who are desirous of investing in Africa, but do not have the appetite for the above non-commercial risks”.

An Investment Guarantee Agency in the ECOWAS region

The ECOWAS region and BizClim will work together in order to determine the feasibility of the establishment of a political risk guarantee mechanism for FDIs and, at the same time offer a window for reinsurance to the insurance industry in ECOWAS. This project also seeks to conserve foreign exchange for the region by providing a reinsurance window for the insurance industry, which hitherto places most of the reinsured risks with institutions outside the region. More specifically, it will study the feasibility of extension of political risk insurance to Foreign Direct Investors in ECOWAS; and provision of reinsurance services to insurance companies in the region. In the practice, a needs assessment and opinion gathering will take place, followed by the organization of an engagement and validation workshop where about 50 key stakeholders from the region will discuss the establishment of an ECOWAS Investment Guarantee/ Reinsurance Agency. ■



BizClim in the Pacific Region

The Embassy of the Republic of Vanuatu - an archipelago of 83 islands located in the South Pacific – has expressed interest in collaborating with BizClim with the objective of identifying private sector development needs and opportunities in Vanuatu and the Pacific region at large. As a result of a first meeting with the Embassy, a fact-finding mission to this region is being prepared by the BizClim team aiming at identifying business environment issues in the region, where this programme could provide useful and effective assistance. In this context, a 2-Day meeting with high-level officials from Vanuatu and selected key stakeholders from the region will be held in Port Vila, Vanuatu, with the objective of brainstorming on possible measures to improve the business climate. The BizClim team will take this opportunity to share its experience in assisting other ACP countries and regions as well as disseminate information about findings and best practice in the area of boosting the business climate.

NEW BIZCLIM REQUESTS

Republic of Vanuatu	Identification of business environment issues for BizClim assistance in the Pacific region	Pacific
NEPAD Planning and Coordination Agency	African Bioenergy Investment Workshop Series	ACP Countries
African Union	Organizing African Business Forum on Intra-Regional Trade	Africa