CHALLENGES AND PROSPECTS OF ATTRACTING INVESTMENTS INTO AFRICA

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INTRODUCTION

During the so-called "good" years of FDI flows into Africa (1993-97), the region received $6bn annually, compared to Malaysia ($5bn), Singapore ($7bn) and Indonesia, Malaysia Philippines, Singapore, and Thailand ($20bn). In 2001, global FDI flows declined to $735 billion, less than half the 2000 figure. Africa received only 2 per cent global flows or 8 per cent ($17bn) of the $205bn that went to developing countries. African investment policy review based on the 1996-2000 figures, classified Ghana as 20th in absolute and relative performance indicators. The same review also concluded however that "Ghana is making an FDI comeback".

What then are the challenges ahead?

Much of what I have to say regarding constraints to Ghana's and Africa's failure to attract private investments (including FDI) has been said on many occasions, not only by the continent's development partners and institutions such as World Bank, UNECA and others, but also, at several seminars and conferences after conferences! The fact, in my view, is that we should know what we ought to do. We need to listen a bit more attentively to what we say and hear, empower ourselves and act based on global best practice benchmarks and/or internal consensus. Africa generally, and Ghana in particular, needs to pay more attention to what others are doing for them and less to what we hear about ourselves.

In this opening decade into the new millennium and five years after President Mbeki's first remarks about the dawn of the Africa Renaissance at the (US) Corp Council on Africa meetings in Virginia, Africa's development challenges remain even more daunting. According to the Executive Secretary of the United Nations Economic Commission for Africa, Dr. K. Y. Amoako:

> If current trends hold, by 2015 when the world community hopes to halve extreme poverty, Sub-Saharan Africa (excluding RSA) would have a per capita income of only $326, with 4 of every 10 Africans living in extreme poverty on less than $1/day. Today 200m live in such poverty, by 2015, 100 million more would have joined them. The world would have succeeded in reducing extreme poverty from today's 22% to 11 **%.** Africa would remain at 37% more than three times the global average... (Millennium Lecture, 10 Downing St. London, 17 December 2001).

Poverty in the future will remain primarily an African phenomenon, unless we act now! Building a better future must be Ghana's and, indeed, Africa's primary objective in promoting private investments, including FDI.

We need to listen more to our own voices and act on what we know we should do about the challenges we face if we are to ensure sustainable development through increased contribution by private capital, both local and foreign.

I will confine my remarks to three broad challenges to Ghana and Africa generally in attracting private capital. These are:

i. Good governance, including macroeconomic stability and policy predictability;
ii. Infrastructure and market access; and
iii. Building confidence in ourselves, including enhancing the capacity of the Ghanaian/African entrepreneur to operate in a more “formal” sense and ability to identify business opportunities, professionally package and aggressively market and communicate these.

GOOD GOVERNANCE (Including Macroeconomic Management)

Appropriate and sensible macroeconomic management is at the core of governance. State monopolies, price subsidies, inflexible currency and markets, non-transparent fiscal policies, etc., all provide vast opportunities for rent-seeking behaviour of bureaucrats and these deter investors, both local foreign.

With the help of development partners, especially within the Poverty Reduction Strategy Programme (PRSP) framework, macroeconomic reforms are yielding growth dividends. Several well-managed, poor countries are still averaging 4 per cent growth, which is considerably better than the outlook before 1999 in spite of several adverse external conditions. Ghana can do so as well.

Such efforts alone, however, do not automatically lead to increased sector (particularly foreign private) activity. Sustained, predictable and generation reforms are required as integral aspects of broader good government.

In the final analysis, several actions of the public sector are critical to creating not only an "enabling" but "attractive" business environment. The situation today in several African countries, including Ghana, is that much of this is aimed at attracting the "foreign" investor, with little concern for local business. Thus administrative barriers to investor entry (especially location and employment issues) are given more attention than issues of maintaining an operation. This only leads to entrenching dependency on foreign official development assistance (ODA). Unfortunately this is where Ghana has found itself today with our dependency on ODA more than twice the African average!

Imports, exports and customs administration all remain constraints to business as are legal and judicial bottlenecks requiring urgent reforms. But these must be tackled within the framework of a rule-based culture, which promotes accountability and efficiency. The issues of enforcement of commercial contracts, establishment of commercial courts and arbitration legislation, among other things, become critical aspects of an attractive investment environment. Several rules and regulations that must facilitate an operating business in a number of African countries are either non-existent or outdated. "The company code of 1969 (ACT 179) which was formulated in the 1960s has hardly been reformed, except to very limited and minor extent in 1980s. This law and others pertaining to business and investment are out of step with dynamic progress in the international corporate environment..." This is a key challenge to the government and the business sector.

There can be no viable private sector with strong, efficient and investor-friendly public sector. Twenty years of military rule has sapped the confidence of the civil service. They are badly paid and feel unappreciated. Their morale is desperately low and investors complain that the attitude of civil servants is one of hostility to them. Regulations, licensing and inspection are weapons wielded by civil servants to frustrate the private sector.

Issues of governance aimed at facilitating business are (in several African countries) not matched by the rhetoric of making the private sector an engine of growth. For it to work, you would need engine oils and fuel. Greater public-private consultation and a sense of partnership are urgently required. This has started in a few countries, including Ghana, but needs to be broadened.

INFRASTRUCTURE AND MARKET ACCESS

Implementing NEPAD priorities, which include bridging the infrastructure gap, developing human resource, enhancing development capital flows and expanding market access, poses a particular challenge. At the core of progress with each priority, there is a need to have adequate infrastructure in place. Indeed, social infrastructure such as telecommunications, power, transport, roads, water and sanitation are vital for economic growth. Infrastructure is an input into all other factors of production. Africa pays a high price for its inadequate infrastructure resulting in lost opportunities for growth, for poverty reduction, and for access to services that could improve the lives of its citizens. Inadequate infrastructure lessens competitiveness and even affects the effectiveness of other programmes. Access to schools is vitally important for Africa's children, but they need paved roads to get there. Vaccines are essential to protect their health, but they equally need electricity to run the refrigerators in which those vaccines can be safely stored.

Until recent years, the provision of infrastructure in developing countries has been perceived as being in the public domain. In fact, public resources currently account for 90 per cent of all infrastructure investments in developing nations. But the resources needed for infrastructure expansion and modernization in developing countries are huge, and the public sector cannot do it alone. This fact underscores the relevance of the strategy of private-public partnership (PPP) in development. Private capital is needed to meet the challenge; in turn, infrastructure also plays an important role in determining the destination and size of private capital flows. For example, the huge growth in foreign direct investment in developing countries from about $45 billion in 1988 to $245 billion in 2000 was fuelled primarily by private investment in infrastructure.

There is no doubt that Africa's weak and often worsening infrastructure performance is limited to low spending on investment and maintenance. It is estimated by the African Development Bank that Africa would require about $18 billion per year in infrastructure (about 6 per cent of its GDP). We know that public saving cannot afford this level of investment and declining official development assistance (ODA) which has halved since the 1990s is paying less attention to services that are best provided by the private sector or through public-private partnerships. Given its low domestic capital mobilization, Ghana has had to depend on foreign direct investment (FDI) to fill the financing gap of several of its infrastructure projects. For example, Ghana needs to revitalize the Gateway programme with professionals and lead regional initiatives in West Africa similar to the Spatial Development Initiatives (SDIs) in South Africa Development Cooperation (SADC). Ghana (and indeed ECOWAS countries) is moving too slowly with many ad hoc actions to introduce greater private participation in the provision of infrastructure. Precisely because capital requirements are large and proper regulatory environment is needed for success, the earlier and the more systematic you organize your steps the better your chances of success in the programmes, referring here to activities in economic infrastructure such as telecommunications, energy, transport, and so on.

CAPACITY, CONFIDENCE AND BUSINESS COMPETENCIES

Enhancing the capacity, confidence and competence of our business sector form the foundation upon which we must build. We are often confronted with levels of competencies in areas such as basic accounting, marketing, management, basic negotiations and communication skills, as well as familiarity with essential business legal concepts, among other things. Even in the more formal sectors consisting of financially successful large and medium-size enterprises, these skills are severely inadequate.

Skills are what currently drive the global success of the business sector (primarily SMEs) in such Asian countries as Korea, Singapore, Taiwan, India and Malaysia. Much can be learnt from the experiences of these countries. Business success in today's liberalized global environment is increasingly based not on old-fashioned comparative advantages of location and natural resource endowments but on competitive advantage derived from knowledge and skills. The point is: Are Ghanaian entrepreneurs ready with requisite skills to contribute to the country's growth and development as well as act as critical partners of foreign capital? The answer, in my view, varies considerably across sectors; there are areas such as banking, finance and engineering where there are first world skills and there are other areas such as technology, agri-business, applied sciences, etc., where skills generally lack. My belief is that we need to take entrepreneurship development very seriously and integrate this to the extent possible at all levels of formal education.

African governments need to pay even more attention to the capacities of their domestic private sectors and not always consider doing for the foreigners what they are not prepared to do for local business. For example, business incubators have an important role here. In my view, one of the keys to building an effective Ghanaian private sector is conscious government actions that promote local businesses both in the manufacturing and the services sectors and to act as supplies to foreign investors, particularly large foreign trans-nationals in such areas as mining, hotels and heavy industry. This strategy has worked well in Asian countries, including Singapore and Korea. Recent actions by Botswana to strategically support local businesses are to be commended and examined by others for adoption. Also, we need to ensure that the Investor Advisory Council recently inaugurated does not become another talk shop of which there are many already.

Capital flight out of Africa is a sad measure of our confidence in ourselves. At last year's

Economic and Social Committee (ECOSOC) meeting on Africa in Geneva, Secretary General Kofi Annan observed that "37% of Africa's total private wealth is kept outside the region compared to 17% in Latin America and 3% in Asia outside their respective regions..." In today's world, it is important to recognize, as noted earlier, that "foreign direct investment" does not always mean "investment by foreigners." The large capital flight out of Africa means that foreigners should not be expected to find opportunities in Africa. The challenges to attract larger inflows of capital into our continent also signifies that we must take all necessary measures to encourage our own domestic African investors to invest in Africa, rather than contribute to the flight of capital out of Africa.

We must do everything necessary to reverse capital flight and to tap into the resources and talents of the Africa Diaspora. The Home Coming Summit organized in Ghana last year aimed at attracting the Ghanaian Diaspora to invest in the country is worth following up aggressively. It is important to bear in mind though, that the same risks that foreign businesses fear in Ghana and the rewards they want are the same ones locals and those in the Diaspora also expect. They must not be made to fear changes in government, especially if these are democratic. And when they return home they expect to find honest and serious businessmen and women who don't consider them as easy targets for exploitation and deceit. There have been too many of these.

We need to create in Ghana public and private capacities that professionally scope the investment landscape, identify competitive sectors and profile specific business opportunities. We must provide official promotion agencies such Ghana Investment Promotions Council (GIPC) and the Ghana Free Zones Board with adequate financial resources and equip their staff with international marketing skills, including the use of modern technology such as the Internet to disseminate business information.

CONCLUSION

To conclude, let me salute the efforts being made to revive FAPRA with the objective of making it assume its proper place and become more relevant to the aspirations of the continent. This has become imperative since, as you must be aware, the growth of international media, global business and global politics has strengthened the role the professional groups such as FAPRA. Alongside this development is the growth of international relationships resulting from the expansion of communication technology and a consequent broader public participation in the process of foreign affairs. Governments, international organizations and businesses have thus found themselves using public relations strategies as they conduct public diplomacy.

The image of a country – its reputation and credibility – is of decisive importance in the field of international policy. Indeed, these are important factors in mobilizing resources and receiving political and material support from other countries.

This is true of the quest for foreign direct investments and for the African continent; the challenge becomes more ominous because of the pervasive negative perception about Africa. Dealing with this perception lies at the doorsteps of our public relations professionals who must work with our governments and business entities. This underscores the role of FAPRA and, hence, the importance of its conferences which, I hope, will address the critical issues of rebuilding Africa's image. We in business are hopeful that our PR professionals will live up to our aspirations.