

Preliminary Text

**Promoting Market Development
and Investment in Africa**

**The Office of Market Development and Investment
Africa Bureau
U.S. Agency for International Development**

The Office of Market Development and Investment (AFR/MDI), a major unit of the Africa Bureau of the U.S. Agency for International Development, works to promote private-sector growth in Africa. The title of the office reflects the importance that Africa Bureau senior management places on developing more open and effective markets, and the important role that investment plays in the Bureau's growth-oriented strategy.

Growth of the private sector is key to the development of African economies. The failure to sustain an environment in which the private sector can flourish has been a major contributor to economic stagnation in Africa. Problems that must be overcome include the legacy of colonialism, traditional patterns of donor assistance that facilitated the expansion of the public sector into inappropriate areas, and the lingering mistrust of business and its role.

Africa's Economic Plight

Africa is a rich continent where entrepreneurship and investments should yield good returns. But per capita incomes in most countries are among the lowest in the world. Africans suffer from malnutrition, low health standards, lack of educational opportunities, illiteracy, low productivity, shortages of capital and credit, shortages of goods and services, and lack of productive industries. The debt of most African governments is very high, and the flow of new investments has been stagnant.

To reverse this depressing situation, African governments must rely more on competitive markets, trade, and private enterprise to create broad-based, self-sustained economic growth. As growth occurs, resources will become available for investments in activities that will ultimately benefit the mass of people and better fulfill their basic needs.

The Bureau for Africa and AFR/MDI are assisting the private sector in Africa in the following ways:

- **Policy reform:** helping governments identify and change or adopt policies that promote healthy private-sector growth.
- **Identification of business bottlenecks:** conducting surveys in conjunction with local businesspeople to identify impediments and constraints to business growth, and practical steps to take to overcome them.
- **Financial markets and credit:** freeing up and diversifying financial markets, and making more credit available to entrepreneurs and businesses at reasonable terms.
- **Venture capital:** encouraging and assisting in the creation and expansion of venture capital undertakings in Africa.
- **Debt conversions:** introducing debt-equity and swap schemes to convert some existing foreign debt into productive investments.
- **Privatization:** helping governments undertake effective programs to sell off or divest parastatal enterprises.
- **Small and microenterprises:** promoting the growth of small and microbusinesses and of new businesses, and the institutional base to support them.
- **Informal markets:** studying the vast informal market systems and market towns of Africa, and assessing what assistance, if any, might improve these markets and make them more effective.

- Trade promotion: assisting in the growth of trade, including the creation of effective free trade and processing zones.
- Business promotion: working with indigenous and American business firms, and with other U.S. Government agencies, to promote investments in specific projects and businesses in Africa.
- Private business participation in public projects: identifying and helping governments get private companies involved in such traditional public-sector undertakings as electric power generation and transmission, marketing of agricultural products, transportation, school and education systems, and family planning programs.
- Private-sector advisors: identifying and hiring qualified private-sector advisors for A.I.D. field missions.
- Coordination: working with other U.S. Government agencies, such as other parts of A.I.D., the Overseas Private Investment Corporation (OPIC), the Trade and Development Program (TDP), and the Peace Corps; with international organizations, such as the International Finance Corporation (IFC) and the United Nations Development Programme (UNDP); with other bilateral donors; and with private business groups and associations, to undertake many of the activities listed above.

Policy Reform

The Bureau for Africa, especially USAID Missions in Africa, usually in coordination with other donor organizations such as the World Bank and the International Monetary Fund (IMF), is attempting to persuade and help governments to undertake policy reforms designed to promote more vigorous economic growth, including private-sector growth.

Examples of government policy reforms in which MDI experts might be involved include:

- Reducing or eliminating price controls and price subsidies. The elimination of such price distortions on products usually results in increased production of the products by private producers.
- Designing incentives to encourage exports, such as reduced taxes on exported goods and retention of a portion of or all foreign exchange earnings derived from exports.
- Deciding to sell parastatal companies to private investors. Government-run companies in Africa produce such items as soap, cement, machinery, and many other products; government companies also market agricultural products, such as fertilizer and farm machinery.

Identification of Business Bottlenecks

Impediments and bottlenecks to sound, productive business growth are many in most African countries. Such impediments include price controls, excessive legal and regulatory restrictions, strict licensing requirements, internal transportation restrictions, excessive fees, bureaucratic delays, and informal payments to get things done.

AFR/MDI, in conjunction with USAID Missions, conducts a program, called Manual for Action in the Private Sector (MAPS), to systematically identify such bottlenecks and recommend ways to eliminate or reduce them. To ensure that the MAPS exercises and documents are realistic, the MAPS teams consult with and involve local businesspeople

and bankers. Also, the exercises are periodically updated, so that the current impediments to private-sector growth are always clear.

MAPS exercises have been undertaken or are planned in many African countries, including Swaziland, Lesotho, Botswana, Ghana, Kenya, Cameroon, and Senegal. They are proving most useful to A.I.D., local governments, and other donors in the planning of programs and projects to promote growth of the business sector.

Financial Markets and Credit

Important problem areas in most African countries are the lack of effective financial mechanisms and markets, and the shortage of credit for business use. Because of these problems, savings cannot be effectively mobilized and used, banks and financial institutions are weak, and businesses have difficulty growing due to lack of credit and equity capital.

AFR/MDI has experts available to address such problems, devise solutions, and help governments and central banks carry out recommendations. Specific examples of work undertaken by such experts include:

- In Kenya, in conjunction with the World Bank and other donors, helping the government draft new legislation to reform and modernize the financial sector to assist in greater mobilization and more effective use of domestic capital.
- In Senegal, also with the World Bank, assisting the government in reforming the banking system and decreasing the number of government-controlled banks and encouraging growth of private banks.

Venture Capital

Lack of term credit and equity finance hinders productive long-term business investments in most African countries. Businesspeople and entrepreneurs, with the exception of the largest companies, usually have to rely on their own resources or loans from families or expensive moneylenders because banks are not geared to serve them. Equity capital is not available because of lack of systems to mobilize and efficiently dispense such capital.

Commercial banks concentrate on serving large companies (many of them partly or completely foreign-owned) and traders, and require substantial collateral. The banks should not be blamed for this. Government policies and the general investment climate are not conducive to term lending and risk taking, and in many countries the principal banks are owned by the government rather than the private sector.

Unfortunately, the result is that numerous businesses cannot grow or get started because of lack of credit. To help address this problem, MDI has under way a venture capital promotion program that provides the following:

- Technical assistance and advice to provide a healthier climate and atmosphere for term lending and equity positions in productive, indigenous business enterprises.
- Promotion and education campaigns, including conferences, workshops, and publicity material, to encourage term lending, equity undertakings, savings and investment, and venture capital.
- Financial assistance to provide a portion of start-up or expansion costs for venture capital companies and investment clubs.

Debt Conversions

Most African countries have substantial foreign-exchange debts to donor governments and to private banks and companies. These debts usually cannot be serviced from export and other earnings, and therefore almost every government is in arrears on a substantial portion of them. Frequent debt reschedulings and reductions thus have been necessary between the debtor nations and their creditors. Development prospects and programs have been slowed because of these debt overhangs.

Various debt conversion mechanisms have been devised in recent years to alleviate this problem. These mechanisms have been widely practiced in Latin America and the Far East, but have had only limited use in Africa. MDI has taken steps to introduce African officials and bankers to them. For example, MDI, along with OPIC and the African Development Bank, has conducted conferences in Abidjan for officials from African countries to discuss these mechanisms. More such conferences are planned, and practical debt conversion projects are being negotiated as a result of them. For example, MDI was instrumental in arranging a major debt-for-nature swap in Madagascar in 1989.

A debt conversion project can result in both elimination of the debt and new productive investment. A simple example is as follows: Assume that African country A owes an American bank \$1 million but cannot pay; also assume that company XYZ plans to build a new factory in country A and needs local financing. As a result of negotiations, company XYZ pays the bank some percentage of country A's total debt as full payment, and country A sells company XYZ local currency at a substantial markdown from the official rate. All three parties have profited: country A has \$1 million less foreign debt and a new productive investment, the American bank has received a significant sum for its bad debt, and company XYZ has acquired necessary local currency at far less cost than it otherwise would have to pay.

Privatization

Privatization involves transferring enterprises from government control to private hands. This has become a worldwide phenomenon in recent years because most state-run companies have proven to be inefficient and lose money, thus requiring continued subsidies from government budgets. Private companies operating under competitive, free-market conditions generally produce better results at lower cost.

Unfortunately, in Africa there are numerous countries in which a high percentage of large and medium-sized enterprises are in government hands. It was thought at independence that the state would do a better job than private interests. This has not proven true. These state-run companies contribute to heavy government indebtedness, are a continual drain on national resources, and hinder economic development. Examples of countries that have large numbers of government-operated companies are Tanzania, Uganda, Ghana, Zambia, and Mozambique.

Many African leaders now recognize that their economies must be freed up and market forces permitted to operate. Government should, for the most part, put the ownership and running of companies in private hands. MDI, working with A.I.D. field Missions and the Center for Privatization sponsored by A.I.D.'s Private Enterprise Bureau, assists African countries in all aspects of privatization. This includes formulating policies; developing public awareness and training programs; drafting laws and regulations; valuing company assets; preparing prospectuses, documents, and marketing plans; and searching for investors. Some examples are:

- In Uganda, MDI helped both to finance and conduct a major privatization conference and to field a team of experts to assist the government in organizing and planning the sale and divestiture of hundreds of state-owned companies.
- In Malawi, an MDI-assisted consulting team evaluated and made recommendations concerning the sale of individual companies and assets owned by the large parastatal ADMARC.

Small and Microenterprises

Small and microenterprises are key factors in operation of African economies. Tens of thousands of such businesses produce and market the necessities of everyday life throughout Africa—they operate small markets, transport goods, provide services, and produce and sell bread, drinks, garments, and household items. They also provide most of the jobs in Africa. This is true even in largely state-controlled economies; effective state control in such cases ranges over large enterprises and macro aspects of the economy, but not over small and microbusinesses.

Nevertheless, governments often hinder the creation and growth of such businesses by imposing excessive regulations, fees, and taxes. Entrepreneurs are required to seek permits and licenses to operate, pay high fees, and adhere to other controls. Much time is required to get the necessary approvals from the bureaucracy, and high fees and unofficial payments often are necessary. Thus, small and microbusinesses are hampered, their growth is less than it should be, and economic growth is adversely affected.

MDI, in conjunction with our field Missions, can help governments to streamline, standardize, and improve the regulatory process, so that businesses, entrepreneurs, and job creation are helped rather than hindered. Some examples of MDI work in this area are:

- In South Africa, an MDI expert helped our Mission to evaluate the Get-Ahead program, which supports black businesses with loans and technical assistance, and to plan future assistance to the program.
- In Senegal and Zambia, MDI has worked with Missions to design informal sector and rural credit strategies.

Informal Markets

Most small and microenterprises in Africa do not meet all the excessive regulations and requirements of their governments; instead, they operate informally, outside government requirements. MDI has assisted in sponsoring research that shows that a large percentage of the total economic activity in many African countries is carried out through these informal markets. Studies indicate that about 90 percent of total economic activity in Zaire is of this type, and 70 percent in Senegal.

Because of the great importance of such informal sectors to economic activity and growth, the question arises as to whether or not and how to assist these sectors in becoming more effective and efficient. MDI and others are now involved in studying this matter. Important conferences on this topic have been held in Abidjan, Nairobi, and Washington, D.C. An active participant in each was Hernando de Soto, whose research and operations on this topic in Peru and elsewhere are impressive and world famous.

Trade Promotion

Trade between nations continues to grow apace. Extensive trade is a concomitant of an open, free international economic system. Countries with extensive and increasing trade tend to grow rapidly—witness Japan, Western Europe, and developing countries such as South Korea, Taiwan, Singapore, and Mauritius. Those with limited international trade, such as the countries of Eastern Europe, grow less rapidly or stagnate.

Unfortunately, trade in sub-Saharan African countries as a whole declined during the 1980s. On the export side, the demand for many African commodities has declined, and, exacerbating the problem, state-dominated governments have not promoted exports. Thus, a significant part of the ongoing policy reforms in many African countries involves steps to encourage exports. Lack of foreign exchange has hindered imports, and many African countries have become excessively dependent on foreign aid for many essential goods.

MDI and the Bureau for Africa as a whole have programs to assist governments in freeing up their external markets and promoting trade. These range from policy measures to implementing specific projects. Almost invariably, such measures involve support to the private sector. Some examples of these programs are:

- MDI is working with OPIC to promote effective trade processing zones in Cameroon and Togo. In such zones, foreign private companies can set up operations utilizing imported and local materials and local labor to produce finished goods for export, and do so without being hampered by import duties and excessive taxes and government control. Such zones, if managed in a businesslike manner, attract foreign direct investments by prominent companies, and result in exports of high-value processed goods.
- A.I.D. has assisted Mauritius in its successful export-led development program; a similar endeavor is now under way in Cape Verde.
- MDI is working with the Foreign Investment Advisory Service (FIAS) of the World Bank to provide more advice and technical assistance to African countries. FIAS helps countries attract foreign direct investment by adopting streamlined laws and regulations, setting up systems to deal with potential investors in an efficient, expeditious manner, and conducting marketing campaigns to interest companies in investment opportunities in their countries.

Business Promotion

One of the major causes of economic stagnation in Africa in recent years has been the low level of investment in business and private enterprise. MDI, working with A.I.D. Missions and other U.S. Government agencies, attempts to spur such investments.

To encourage indigenous investments, MDI participates in policy reforms aimed at freeing up markets and revising regulations to encourage private entrepreneurship. MDI also undertakes more specific programs, such as technical assistance to small and microbusinesses and provision of risk capital through venture capital projects. MDI staff also see and counsel African businesspeople visiting Washington, D.C. under various U.S. Government and international programs.

In addition, MDI is actively seeking to promote more U.S. private investment, especially in agribusiness, in countries in Africa in which the investment climate is attractive. Agribusiness opportunities that have been identified include a wide variety of food-processing possibilities, seed production and distribution, livestock production in arid and

semiarid lands, and production of leather goods. Countries such as Swaziland, Botswana, Kenya, and Cameroon are among those in which such investments seem promising. MDI contacts pertinent U.S. companies to attempt to interest them in taking a serious look at such opportunities.

Sponsorship of investment trips by U.S. companies to Africa is important in this regard. Along with OPIC, MDI was involved in a visit by 15 American companies to southern Africa, and is now arranging larger such undertakings to other parts of Africa.

As a result of MDI counsel and assistance to American companies, many millions of dollars of new investments by American firms are under consideration. Almost invariably these involve joint ventures with African companies and investors. A particular attraction for many American firms is the opportunity to penetrate the European Economic Community from production facilities in African countries, which have favored trade access to the Community.

Private Business Participation in Public Projects

In African countries, many of the economic activities that are normally conducted by private companies in other parts of the world, or in which private companies participate with government entities, are performed entirely by government. This represents part of the excessive state control that has hindered African efficiency and growth.

Such activities include government purchase and sale of such agricultural inputs as fertilizer, pesticides, and seeds; state marketing boards that purchase and sell crops such as wheat, coffee, and tea; government monopoly on the sale of population control products; and state monopolies in public transportation and power generation and distribution systems.

Many governments now realize that they must permit the private sector to play a significant role in, and even take over, many of these activities. MDI is working with our Missions and other entities in this area. Some examples of activities transferred from public to private hands include:

- In Cameroon, private companies are now importing and distributing fertilizers and pesticides, in contrast to the previous government monopoly; this change in policy was stimulated partly through conditions attached to A.I.D.'s financing of agricultural inputs.
- In Nigeria, many population control products and devices are now purchased and marketed by private companies.
- Urban garbage systems have been or are being privatized in such cities as Abidjan and Nairobi.

Private Sector Advisors

A.I.D. field missions almost invariably are involved in a wide range of activities. These include policy reform programs and projects in such A.I.D. high-priority development areas as agricultural production and distribution, public health and population, and education. Special areas such as environment and child survival projects also often are part of Mission portfolios.

Mission personnel available to handle these activities often are stretched very thin. Thus, they often do not have time to pursue private sector matters of the type mentioned earlier

in this brochure. Also, Mission officers most often are experts and experienced in sectors such as agriculture, health, and education, but do not have much background in private enterprise.

MDI has a program to identify, attract, and hire private sector advisors to be attached to Missions to help them increase their programs and projects in the private sector. These advisors are experienced business or financial people with overseas experience and the ability to work within a U.S. Government setting. Normally the Missions share with MDI the salary and other expenses of these advisors.

Private sector advisors are in place in such centers as Abidjan, Nairobi, Cameroon, Swaziland, Botswana, and other places, and more are in process of being identified and hired.

Coordination

MDI is an integral part of A.I.D.'s Africa Bureau. As such it cooperates and coordinates closely with all elements of the Bureau. In particular, since the great bulk of MDI's work is field oriented, it advises and assists the field missions in promoting private sector growth in their countries.

MDI also works closely with other entities within A.I.D., especially the Private Enterprise Bureau and Science and Technology Bureau; with other U.S. Government agencies such as OPIC, TDP, and the Peace Corps; with other bilateral donor agencies; and with international organizations such as the International Finance Corporation and the United Nations Development Program. Many of these organizations devote more resources to Asia and Latin America than they do to Africa. MDI tries to get them to commit more to Africa through both persuasion and the joint financing of activities.

MDI also deliberately seeks out and works with a wide variety of private sector organizations in Africa, the United States, and Europe. These include private companies, business associations and chambers of commerce, banks, and investment houses. A.I.D. in recent years has not been accustomed to dealing much with such private sector bodies, so in this sense MDI is breaking new ground in support of private business growth in Africa.

In sum, MDI is a catalyst. It promotes many private sector activities, some traditional and some new to A.I.D., and it invariably works closely with other organizations in carrying out its work.

Contacts and More Information

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