

Background Note on Promoting Investment in Africa

Growth across Africa continues to be robust in many countries, driven by a variety of factors including increased investment, rising consumer spending, growing exports to both developed and developing countries, improving infrastructure, continuing high commodity prices and improvements in agricultural production.

That being said, there is still a long way to go in many areas to raise households out of poverty and to boost living standards across the continent.

Outside of North Africa, 70 per cent of the population is still without access to electricity and over 45 per cent of the population lives on less than \$1.25 a day.

Many communities remain woefully underserved by links to transportation, electricity, water and sanitation.

It is estimated that less than 40 per cent of the population on the continent has access to improved sanitation.

There has been considerable investment in many countries over the past decade, although a substantial amount of that investment was related to resource extraction and exports.

The Economic Commission for Africa (ECA) highlights in their most recent Economic Report on Africa the need for increased industrialization and industrial policies in order to leverage the revenues from the considerable natural and human capital resources that are already present.

In this context, economic diversification and the development of higher-value-added economic activities are needed to create more stable growth and to improve the employment picture.

Moreover, greater investment in infrastructure will be a key driving force in the industrialization of the continent, both to power new industries and to foster continued growth in intra-African trade. This will be an important step towards facilitating NEPAD's goal of improving regional integration and infrastructure.

A continuing issue with the current state of investment is the financing gap in Africa, with domestic savings persistently below the region's investment needs.

Some of this gap is made up by foreign direct investment (FDI), which has been increasing, while much of that FDI is still in the extractive sectors.

Remittances and ODA make up a substantial share of external financing in some markets, but are subject to fluctuations based on external conditions and are often unavailable for the larger scale investments necessary for Africa's development.

Some of this shortfall has been covered by external debt, which is an increasingly popular route for a number of countries, but cannot be a primary source of investment resources given the dangers of excessive foreign debt. Recent debt sales have seen some African countries selling debt at historically low yields, on par with some peripheral EU countries, but as global interest rates are expected to rise slowly in the near future, borrowing costs for frontier African markets will increase as well, putting additional strains on public budgets.

Increased promotion and development of Intra-African trade channels will be an important area for investment in a number of areas.

Alongside the necessary infrastructure for the facilitation of these links, there are many opportunities for trade and investment in regional goods and services networks. Infrastructure investment will help in a variety of ways, speeding the transport of both exports and imports as well as improving the resilience of regional trade and power networks.

Given the high percentage of labour employed in the agricultural sector, improved access to both inputs such as fertilizer and water and markets for produce will help to alleviate poverty for producers and consumers.

As well it can limit the impact of localized food security constraints from environmental issues such as droughts, with movement of goods to the affected areas from regions with better conditions.

In addition, investment in human capital will be a critical component of any strategy for African development. This will involve both investment in education at all levels as well as programs for skills development and sectoral transitions in addition to promotion of industrial policies and

entrepreneurial activities to ensure that there are sufficient opportunities for the newly educated workers to be productively employed. A skilled workforce must be part of a larger planning process to ensure that the skills are being properly utilized. Without that, one will continue to see high rates of youth unemployment and a perpetuation of “brain drain”.