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Investment and Ingenuity: Overcoming Obstacles to Doing Business in Sub-Saharan Africa

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In 2010, the Indian telecom giant Bharti Airtel acquired the East African operations of Kuwait's Zain Group for $10 billion. The deal marked a significant turning point for global business and particularly for companies seeking growth in the wake of the financial crisis. The sale catapulted African opportunities from a million-dollar to a billion-dollar scale and changed the way that many Western business executives looked at Africa. Africa markets were no longer the homes of small-time deals but billion-dollar game changers that required serious attention.

Since then, the buzz about "Africa Rising" has gone from the backroom to the boardroom. Many multinationals are now taking a hard look at investing in the continent. Corporate executives have heard that seven of the world's ten fastest-growing economies are located in Africa and are now interested. Almost two decades of solid macroeconomic performance and sustained commodity prices have buoyed investors' views of the continent and opened their wallets. Africa's share of global foreign direct investment (FDI) increased by 6.8 percent in 2013[1] to net inflows of $43 billion,[2] despite falling investment from developed to emerging markets as a whole over the past five years. In addition to Africa's traditional trading partners in Europe and the United States, Turkish, Chinese, Indian, Malaysian, Brazilian, and other companies are searching out opportunities in the energy, agribusiness, infrastructure, nascent manufacturing, and consumer goods sectors of African economies.

But significant obstacles to investing in Africa remain. These are not the obstacles that are commonly associated with Africa in the public imagination, however: political crises, security issues, and pervasive corruption. Although such concerns do factor into companies' and funds' consideration of African opportunities, many African countries—including Kenya and Nigeria—have grown and continue to grow despite the drag of lingering insecurity and instability. This brief argues that inadequate infrastructure across small national markets, lack of market data, and poor

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The Atlantic Council's Africa Center was established in September 2009 with the mission to promote strong geopolitical partnerships with African states and to redirect US and European policy priorities toward strengthening economic growth and prosperity on the continent.

The Africa Center provides thought leadership on emerging security, geopolitical, and economic challenges in Africa through congressional testimony, publications, briefings, events, and a robust media presence. The Center assists policymakers in addressing the complex security challenges facing Africa, including the problems of state collapse; humanitarian crises; piracy; the growing nexus between extremism and criminality in West Africa and the Sahel; the ongoing political transitions in North Africa; ongoing challenges in Central and Southern Africa; and the growing impact of Islamist extremism on African polities and economies. Within the context of the Atlantic Council's work to promote constructive US leadership and engagement in international affairs, the Center supports and collaborates with the public and private sectors in forging practical solutions to challenges and opportunities in Africa, especially those associated with the strong economic growth that many nations on the continent have experienced in recent years.

1 UNCTAD, "General FDI Rose by 11%; Developed Economies Are Trapped in a Historically Low Share," *Global Investment Monitor* no. 15, January 28, 2014, http://unctad.org/en/PublicationsLibrary/webdiaeia2014d1_en.pdf.

2 World Bank, "Africa Overview," http://www.worldbank.org/en/region/afr/overview.

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policy implementation and execution by African governments are by far more serious factors impeding Western investment in the region. They result in higher costs of doing business, inaccurate or inflated risk assessments, and policy uncertainty.

These obstacles have already slowed mainstream US investment in the region, and if not properly and concertedly addressed, will limit the success of US companies in Africa. They will also eventually act as a brake on critical African social development projects and job growth. But they are not insurmountable: Many companies are adjusting their mindsets to the realities of frontier markets and finding innovative solutions in the process.

Obstacle One: Inadequate Infrastructure and Small, Land-locked Markets

Land-locked Equals High-Cost. Location matters when it comes to trade and investment flows. Small, landlocked countries typically struggle to attract investment in the manufacturing sector because it is harder and more expensive to transport their exports to global markets. Smaller land-locked nations also tend to have small consumer bases that are not large enough to produce the economies of scale that transnational companies require to overcome the high costs of accessing the market. This is one of Africa's most profound structural disadvantages: Outside of Africa, only 12 percent of people in developing countries live in landlocked nations, as compared to nearly 30 percent in Africa.[3] There are sixteen land-locked developing countries in Africa, compared to ten in Asia and two in Latin America.[4]

The cost of transporting goods to distant ports can make potential investments economically untenable—transport costs in such cases can constitute up to 75 percent of the value of exports.[5] Currently, the majority of African exports have to be carried by truck over thousands of kilometers of poorly maintained roads. Goods from the Burundian capital of Bujumbura, for example, have to be driven over 1,500 kilometers and over the border to the Kenyan port of Mombasa before they are processed—a journey that can take over two weeks. Rail transport, where available, is not much more efficient: It costs three to five times what it does in the United States, usually around $0.12 per ton per kilometer.[6] Transport costs are, on average, 63 percent higher in African than in other developing countries. It can cost twice as much to ship a container from West to Central Africa than it does to ship the same container across the Atlantic, from the US East Coast to West Africa.[7] Low wages alone cannot make up for the economic implications of geography: In terms of doing everyday business, the differences are enormous and are a significant disincentive for investors considering opportunities in the region.

Figure 1. Africa's Growing Consumer Base

Country/ Region	Percent in middle class	Population (millions)	Potential consumer base (millions)
Africa	34.3	936	321
Nigeria	22.8	173	39.4
Kenya	44.9	44	19.8
Angola	38.1	21	8
South Africa	43.2	53	22.9
Ghana	46.6	26	12.1
Ethiopia	21.5	94	20.2

Source: African Development Bank, "The Middle of the Pyramid: Dynamics of the Middle Class in Africa," http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/The%20Middle%20of%20the%20Pyramid_The%20Middle%20of%20the%20Pyramid.pdf; World Bank Country data, http://data.worldbank.org/country.

The Infrastructure Gap. Africa's lack of infrastructure also increases the cost of investment, but there has been some significant progress made. In 2010, the World Bank estimated that Africa faced an infrastructure financing gap of $93 billion per year, with an over $40 billion deficit in the power sector alone. The gap is slowly closing due to a number of ambitious infrastructure spending programs being executed by African governments as well as foreign investment. According to Deloitte, there are over $67 billion in infrastructure projects under construction in East Africa, 42 percent

3 Paul Collier, "Africa: Geography and Growth," Center for the Study of African Economics, Department of Economics, University of Oxford, 2006, http://online.wsj.com/public/resources/documents/africa_geog_082806.pdf.

4 The sixteen in Africa are Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Lesotho, Malawi, Mali, Niger, Rwanda, South Sudan, Swaziland, Uganda, Zambia, and Zimbabwe. In Asia, Afghanistan, Bhutan, Kazakhstan, Kyrgyzstan, Laos, Mongolia, Nepal, Tajikistan, Turkmenistan, and Uzbekistan. In South America, Bolivia and Paraguay.

5 African Development Bank, "Infrastructure Deficit and Opportunities in Africa Economic Brief," vol. 1, September 2010, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/ECON%20Brief_Infrastructure%20Deficit%20and%20Opportunities%20in%20Africa_Vol%201%20Issue%202.pdf.

6 US International Trade Commission, *Sub-Saharan Africa: Effects of Infrastructure Conditions on Export Competitiveness, Third Annual Report*, Investigation No. 332-477, Publication 4071, April 2009, http://www.usitc.gov/publications/332/pub4071.pdf.

7 Ricardo Hausmann, "Prisoners of Geography," *Foreign Policy*, January 1, 2001, http://www.foreignpolicy.com/articles/2001/01/01/prisoners_of_geography.

of them in the transport sector.[8] China has invested much of its bilateral aid into infrastructure in the region. Angola, Côte d'Ivoire, Ghana, Nigeria, Rwanda, Zambia, and others have used Eurobonds to raise billions for infrastructure projects on international capital markets, and Kenya will soon issue a $1.5 billion bond to fund its priority projects. Kenya has also just closed a deal with China in the construction of an East African Railway system that will link all the capitals of the region with the coast. As part of its Growth and Transformation Plan, Ethiopia is building out a major road network and plans to spend over $1.3 billion annually in order to alleviate infrastructure bottlenecks and lay the ground work for investment in manufacturing.

Some companies see Africa's infrastructure challenges as an opportunity to build a competitive edge. General Electric (GE), for example, is capitalizing on its long history in the region by investing $350 million in the Nigerian power sector as part of a broader $1 billion five-year investment plan. GE has also just received part of a South African contract for the upgrading of rail, port, and pipeline infrastructure worth $4.7 billion. The mining company Rio Tinto is a lead player in a consortium developing the Simandou iron ore mine in Guinea. To date, $3 billion has been spent on this development with a third of the expenditure dedicated to the construction of critical infrastructure for export.

Nevertheless, given Africa's profound infrastructure deficit, the construction lag times, and the explosive demand for supply, it will take many years for these projects to dramatically reduce the cost of doing business for foreign and local African firms alike.

Lack of Regional Integration: The Need for Larger Markets. Companies doing business in the region are always reminded that Africa is not a country but a massive continent of fifty-four diverse and distinct economies. Each country has its own regulations—tax structure, court system, licensing regime, labor laws, etc.—which adds costly complexity and compliance obligations to firms operating locally and biases companies toward the larger markets. There is a "small market penalty" in the competition for foreign investment. In terms of economic development, most Africans would be better off if it were one single market of a billion consumers.

From Davos to the African Union ministerials, regional integration has emerged as the preferred solution to the challenge of Africa's small markets and inadequate infrastructure. In their search for larger markets, many global companies—including Procter and Gamble, Unilever PLC/Unilever NV, and GE—have embraced the regional integration agenda in order to more efficiently manufacture and profitably sell their products. Some multinational organizations such as the East African Community (EAC) have made some progress toward regional integration by eliminating tariff barriers, creating a single joint visa and developing collective infrastructure projects. The promise of deeper and broader integration in the future is strengthening the business case for investment in the region and already helping some African countries to overcome their inherent geographic challenges.

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Obstacle Two: Lack of Market Data Leads to Difficulty in Accurately Assessing Risk

The high returns made on African investments are fueling US interest in doing business in the region. Between 2002 and 2012, private equity in Africa performed on par with or better than investments made in China or strong Latin American markets, garnering average annualized returns of 11.2 percent. Several Exchange Traded Funds (ETFs) that track South Africa's industrial index have produced annual returns of over 30 percent over the past five years.[9]

High returns, however, are the corollary of high risk. Businesses must be able to accurately assess and measure risk before they can mitigate it.

8 Deloitte, *Deloitte on Africa: African Construction Trends Report 2013*, http://deloitteblog.co.za/wp-content/uploads/downloads/2013/11/African-ConstructionTrends-2013.pdf.

9 Jackie Cameron, "World-Beating Returns: One SA Index-Tracking ETF Shines in Global Pack," *Biznews*, March 7, 2014, http://www.biznews.com/world-beating-returns-one-sa-index-tracking-etf-shines-global-pack-stats/.

A Data Desert. Lack of traditional data sources makes understanding risk a fundamental obstacle to investment in Africa. Basic information about consumer behavior, income and educational status, and localized demographic trends is not regularly available from public sector sources. The predominance of the informal sector and cash transactions makes tracking consumer behavior costly, time-consuming, and logistically challenging. Firms doing business in Africa are obliged to gather most of their market intelligence through personal relationships and a unique combination of high and low tech problem-solving such as doing SMS surveys and verifying results by manually counting sales. Firms new to African markets are not often prepared to deploy such unconventional strategies and find themselves unable to ferret out the information needed to vet business plans, identify trusted local partners, and gain an understanding of rapidly evolving market trends.

To familiarize themselves with the operating environment and to build out the business case, companies entering African markets must be willing to invest money up front in order to identify the industry and country-specific risks they face. Some firms have engaged market research firms, such as Nielsen Holdings N.V. and Jana Mobile, to address this challenge. Specializing in the consumer goods sector, Nielsen has sent its employees to visit over a million small retail outlets across Africa to document what the shop owners sell, how their supply chains work, and the nature of their relationships with their customers. Jana reaches millions of African mobile phone users through SMS to ask about their consumer preferences.

BETWEEN 2002 AND 2012, PRIVATE EQUITY IN AFRICA PERFORMED ON PAR WITH OR BETTER THAN INVESTMENTS MADE IN CHINA OR STRONG LATIN AMERICAN MARKETS, GARNERING AVERAGE ANNUALIZED RETURNS OF 11.2 PERCENT.

Companies new to the market should also seek to learn from firms that have been in the region for decades and overcome obstacles by using high and low technology solutions. When deciding on where to place its new KFC stores in Lagos 2009-2011, for example, Yum! Brands used a combination of satellite imagery and on-the-ground surveying to identify traffic patterns. Over the past five years, Coca-Cola has developed a micro distribution centers (MDC) model for African markets that allows small kiosk owners to place orders by mobile phone and get the product delivered by the case by pushcart on the same day. The MDC model not only ensures that Coke products reach hard-to-access consumers, but also is operated on a franchise model that has created 3,200 micro businesses that employ more than 19,000 people.[10]

Inflation of Particular Risks. The lack of data also skews assessment of risk toward stereotypes and historical sentiments. Thus, because of their first-hand experiences and access to real-time data, companies already operating in African markets have a great advantage in assessing risk over those that have yet to enter. Misperception and overestimation of risk has been well-documented among companies sitting on the sidelines of business in Africa. Corruption dominates the thoughts of executives at the mere mention of some of Africa's largest markets (Nigeria and Angola, in particular). Fears of potential US Foreign Corrupt Practices Act (FCPA) and UK Bribery Act violations often prevent companies from fully considering African opportunities, and compliance for those that do move ahead is expensive. Accordingly, the general counsel often plays an elevated role in making market decisions in the Africa context.

Yet, corruption is not inherently an African problem; it is present in markets across the world. On the Transparency International Corruption Perceptions Index for 2013, eight African countries rank higher (more transparent) than Brazil, eleven higher than China, nineteen higher than India, and thirty-one higher

10 William Asiko, "Coca-Cola: Long-Term Partner in Africa," Initiative for Global Development, June 26, 2013, http://www.igdleaders.org/william-asiko-coca-cola-a-long-term-partner-in-africa/.

than Russia.[11] US corporations have ably apportioned governance risks in many of their global operations—only in regards to Africa does the corruption issue seem to dominate the debate. Corruption in Africa should be addressed, not exaggerated.

Developed Market Mindsets. Another significant obstacle to business success and profitable investment in Africa lies in the mindset of Western business executives evaluating opportunities in the region. A common mantra in Western capitals is that Asian firms have an unfair advantage in doing business in African markets and that someone somewhere should do something about it. Although there is certainly anticompetitive behavior taking place, equally important to the success of Chinese and other non-Western firms in the region is their better understanding of and approach to the African markets. Chinese, Indian, and Brazilian firms can effectively do business in villages and slums because they are used to doing so in their home markets. They can navigate governments with limited institutional capacity, poor infrastructure, and a heavy need for political engagement in the economic sphere. It is no surprise that Brazil, China, and India account for over 25 percent of African exports and nearly $35 billion in investment flows.[12]

And increasingly, African companies are growing their presence in neighboring markets. While decent data are lacking, recent surveys suggest that intra-African investment has begun to play a larger role in the greater FDI picture, with a compounded annual growth rate of more than 30 percent since 2007.[13] This investment is replacing that from developed countries and is more diversified across sectors than traditional inflows: In 2002, for example, 70 percent of new projects were made in the service sector.[14] South Africa is at the forefront of this trend as one of the top five overall sources of investors on the continent. Kenyan, Nigerian, and Angolan companies are also looking to expand beyond their borders. They are leveraging their access to local information and on-the-ground experience to capture market share before many of the leading multinational corporations even enter.

BASIC INFORMATION ABOUT CONSUMER BEHAVIOR, INCOME AND EDUCATIONAL STATUS, AND LOCALIZED DEMOGRAPHIC TRENDS IS NOT REGULARLY AVAILABLE FROM PUBLIC SECTOR SOURCES.

Intra-African investment has not been limited to companies and individual investors. African states have more to invest. By 2030, Africa will be home to one in four workers in the world and is projected to be the only region that will not see a decline in its savings rate.[15] Because of the savings of a youth-tilted demographic profile and the new resource wealth found on the continent, Africa has seen a steady increase in the number of pension and sovereign funds looking for regional opportunities. Over the past two years, Nigeria, Ghana, and Angola launched sovereign wealth funds, joining Botswana, Gabon, and a number of other African countries seeking to invest their resource wealth.[16] Angola intends to invest nearly 50 percent of its $5 billion fund in African agribusiness, hospitality, infrastructure, and mining projects. Other countries such as Uganda, Tanzania, Sierra Leone, and Mozambique are expected to soon follow. Some estimate that by 2020, African funds

11 Rankings: Botswana (30), Cape Verde (41), Seychelles (47), Rwanda (49), Mauritius (52), Lesotho (55), Namibia (57), Ghana (63), South Africa (72), Sao Tome and Principe (72), Senegal (77), Swaziland (82), Burkina Faso (83), Liberia (83), Zambia (83), Malawi (91), Benin (94), Djibouti (94), Gabon (106), Niger (106), Ethiopia (111), Tanzania (111), Mauritania (119), Mozambique (119), Sierra Leone (119), Togo (123), Comoros (127), Gambia (127), Madagascar (127), and Mali (127). For comparison, Brazil ranks 72, China is 80, India is 94, and Russia is 127. Transparency International, *Corruption Perceptions Index 2013*, http://cpi.transparency.org/cpi2013/results/.

12 Chinese investment is measured at $20 billion, India at $10 billion, and Brazil at nearly $5 billion. India-Africa overall trade grew at 32.4 percent from 2005-2011, which is higher than China-Africa trade growth at 27 percent, the total value of India-Africa trade (at $63 billion in 2011) is only 38 percent of the value of China-Africa trade (at $166 billion). Brazil-Africa trade is nearly $27 billion. World Trade Organization and the Confederation of Indian Industries, *India-Africa: South-South, Trade and Investment for Development,* 2013, http://www.wto.org/english/tratop_e/devel_e/a4t_e/global_review13prog_e/india_africa_report.pdf.

13 Ernst & Young, *Attractiveness Survey Africa 2013: Getting Down to Business,* 2013, http://www.ey.com/Publication/vwLUAssets/Africa_Attract_2013_-_Getting_down_to_business/$FILE/Africa_attractiveness_2013_web.pdf.

14 Ibid.

15 World Bank, *Global Development Horizons Capital for the Future: Saving and Investment in an Interdependent World,* Washington DC, 2013, http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1368197310537/CapitalForTheFuture.pdf.

16 Javier Blas, "Sovereign Funds Expand in Africa" *Financial Times*, December 15, 2013, http://www.ft.com/intl/cms/s/0/515caa8e-5750-11e3-9624-00144feabdc0.html#axzz2xfSbOYkQ.

will have over $600 billion under management and will be investing not only in the region, but globally.[17]

Given global demographics and resource allocation, emerging markets will play an even more prominent role in corporate strategy and growth planning in coming years. US companies that figure out how to succeed in African markets will benefit and those that do not will be bought by those that do. As Ashish Thakkar, the founder of the pan-African Mara Group, advises, "Until you are on the ground, getting your hands dirty and getting a feel for what's happening, you simply cannot assess the situation properly. Reality can be very different to perception; the perceived risk is bigger than the actual risk. In fact, the larger risk lies in your general approach.[18]

Slow Dissemination of Lessons Learned. It is imperative that US companies and investors learn from those with successful track records on the ground in African markets such as SABMiller, Caterpillar, DHL, and Unilever.[19] Unfortunately, slow dissemination of lessons learned, sectoral silos, and a lack of the traditional consulting services doom many companies to make the same mistakes over and over again. While the number of FDI projects into sub-Saharan Africa has increased at a compound rate of 22 percent since 2007, many multinationals view African markets as long-term consumer plays and endure 30 to 40 percent higher costs of doing business in order to get in early.[20] The consumer class in Africa is already the size of India's—with twenty-three African countries at lower-middle to high-income status—and is growing rapidly. Many observers expect Africa's consumer markets to be worth $1.4 trillion by 2020—a market size that justifies getting serious about overcoming infrastructure and risk assessment challenges. Unilever, for example, plans on opening a manufacturing facility in the coming year as a long-term bet on Ethiopia's demographic trends.[21] Global brewers also take a long-term view of the continent. SABMiller, for example, grew earnings by 15 percent in the region in 2013.[22]

Figure 2. SABMiller's Rising Profits in Africa

Year	Africa operating profit	Total operating profit	Percent of operating profit
2012	$584M	$5,013M	11.6
2013	$518M	$4,192M	12.4
2014	$560M	$4,242M	13.2

Source: SABMiller, http://www.sabmiller.com/docs/default-source/investor-documents/reports/2014/financial-reports/annual-report-2014.pdf?sfvrsn=8.

The companies already playing an active role in Africa's economic transformation can be the most effective ambassadors for doing business on the continent. It is critical that African governments create an operating environment conducive to business and job creation and help ensure that the companies have a positive story to tell.

Information sharing is better within investor circles. The pioneer private equity and fixed income funds that entered African markets over a decade ago and have since delivered solid double digit returns paved the way for many to follow. The African Venture Capital Association (AVCA) estimates that there is currently $25 billion under management targeting African opportunities with fundraising increasing in 2013 by 136 percent. In April 2014, the Carlyle Group raised a $700 million dedicated sub-Saharan Africa fund that was $200 million oversubscribed, and the Blackstone Group is expected to raise an even larger one this year. On the public equity side, Nile Capital Management's Pan Africa Fund won the 2014 Lipper Award—a performance-based award given by Thomson Reuters for consistent and strong risk-adjusted returns—for the best three-year performance of any emerging market fund. Nile's Pan Africa Fund, with nearly $30 million in assets, beat out 335 other funds, proving that Africa is carving out a place in global portfolios.

Firms and funds looking to gain access to investment opportunities and execute deals in African markets need to learn from the successes and failures of those that have gone before them. At this take-off stage in African markets' development, sharing strategic lessons learned and innovations in market research are the best ways to build out a more complete picture of the risks related to new investments.

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17 Tosin Sulaiman, "Africa Investment—From FDI to AIA: Africans Investing in Africa," Reuters, August 8, 2013, http://www.reuters.com/article/2013/08/08/africa-investment-idUSL6N0G92SW20130808.

18 Ernst & Young, *Attractiveness Survey Africa 2013: Getting Down to Business,* 2013, http://www.ey.com/Publication/vwLUAssets/Africa_Attract_2013_-_Getting_down_to_business/$FILE/Africa_attractiveness_2013_web.pdf.

19 Trefis Team, "Unilever Bets on Doubling Its Revenues in Africa By 2015," http://www.trefis.com/stock/ul/articles/119762/unilever-bets-on-doubling-its-revenues-in-africa-by-2015/2012-05-15.

20 Scheherazade Daneshkhu, "Drinks Groups Scent Opportunities Brewing in Africa," *Financial Times*, November 1, 2013, http://www.ft.com/intl/cms/s/0/b09408cc-42cd-11e3-9d3c-00144feabdc0.html?siteedition=intl#axzz2xfSbOYkQ.

21 William Davison, "Unilever Plans Manufacturing in Ethiopia to Emulate Vietnam," *Bloomberg*, March 14, 2010, http://www.bloomberg.com/news/2014-03-09/unilever-plans-manufacturing-plant-in-ethiopia-as-growth-surges.html.

22 Nick Hedley, "Africa Buoys SABMiller's Six-Month Growth," *Business Day Live*, November 22, 2013, http://www.bdlive.co.za/business/retail/2013/11/22/africa-buoys-sabmillers-six-month-growth.

MANY OBSERVERS EXPECT AFRICA'S CONSUMER MARKETS TO BE WORTH $1.4 TRILLION BY 2020—A MARKET SIZE THAT JUSTIFIES GETTING SERIOUS ABOUT OVERCOMING INFRASTRUCTURE AND RISK ASSESSMENT CHALLENGES.

Obstacle Three: Poor Policy Implementation and Execution by African Governments

While hard to quantify, policy uncertainty is certainly one of the persistent and substantial obstacles to investment in African countries.[23] If a firm is unsure of the rules that govern business in a particular sector, it cannot measure or mitigate risk properly. For example, platinum mining companies are holding off investments in South Africa until tax and labor policies are clarified; oil companies are delaying billions in investments in new infrastructure until the Petroleum Industry Bill (PIB) finally passes through the Nigerian parliament; and power producers in Ghana are waiting until natural gas allocation policies are put in place before building gas fired power plants.[24]

Enforcement and Execution. On paper, African governments have adopted many of the world's best-practice regulations in regard to investment incentives, facilitation, and ease of doing business. They have been supported for decades by the donor establishment with technical advisers, and some countries—including Mauritius, Rwanda, and Botswana—have climbed in the ranks of the World Bank's Doing Business Indicators over the past few years. For the majority of African countries, however, having the right policies in place is not the problem: Execution, implementation, and enforcement are the critical challenges. Companies often spend valuable time and resources lobbying African governments not for new incentives or reforms, but rather for the implementation and consistent application of the ones already in place. The gap between what is on the books and what happens on the streets in Lagos, Nairobi, Luanda, or Accra causes companies to hesitate in the face of the African growth story.

Five- and ten-year national development plans are often written by African administrations only to be rewritten two years later or replaced with new policies as governments change. "New Visions" and "Transformation Plans" are launched amid fanfare, but African administrations have tended to lack the commitment to implementation that is required to make a meaningful impact on business operations and investment projects. Since the 1950s, for example, Nigeria has had five national development plans; four three-year rolling plans that were reevaluated at the end of every year; a Vision 2010; and a Vision 2020, all of which have reiterated similar, unsatisfied priorities, including infrastructure and agricultural development projects.[25] Similarly, the challenges that the Nigerian aviation sector has faced over the years in terms of safety and inefficiency stem from poorly implemented reforms.[26]

In 2001, African heads of state gathered in Abuja, Nigeria, to declare a commitment to spend 15 percent of national budgets on health care. A similar declaration was announced in Dar es Salaam, Tanzania, in 2002, to dedicate 20 percent of national budgets to education; and in Maputo, Mozambique, in 2003, African heads of state promised to spend 10 percent of national budgets on agricultural investment. Again, these commitments remain largely unfulfilled: Over ten years later, only

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23 Mary Hallward-Driemeier, Gita Khun-Jush, and Lant Pritchett, "Deals Versus Rule: Policy Implementation Uncertainty and Why Firms Hate It," National Bureau of Economic Research, working paper no. 16001, 2010, http://www.nber.org/papers/w16001.

24 Mariam Isa, "Uncertainty Makes Firms Reluctant to Invest in South Africa, Survey Shows," *Business Day Live*, February 19, 2013, http://www.bdlive.co.za/economy/2013/02/19/uncertainty-makes-firms-reluctant-to-invest-in-south-africa-survey-shows; Femi Asu, "Nigeria Tops List of Least Favourable Countries for Oil, Gas Investments," *BusinessDay,* January 21, 2014, http://businessdayonline.com/2014/01/nigeria-tops-list-of-least-favourable-countries-for-oil-gas-investments/#.U0CTLfldWSo; Noel Onoja, "PIB: Uncertainties Stall Shell's $30bn Investment," *Vanguard News*, February 21, 2013, http://www.vanguardngr.com/2013/02/pib-uncertainties-stall-shells-30bn-investment/.

25 Jide Ibietan and Oghator Ekhosuchi, "Trends in Development Planning in Nigeria: 1962 to 2012," *Journal of Sustainable Development in Africa*, vol. 15, no. 4, 2013, http://www.jsd-africa.com/Jsda/Vol15No4-Summer2013B/PDF/TrendDevtPlanning%20InNigeria.pdf.

26 Sade Williams and Praise Makolo, "Poor Policy Implementation Eroding Growth of Nigeria's Aviation Industry, Experts Say," *BusinessDay*, August 22, 2013, http://businessdayonline.com/2013/08/poor-policy-implementation-eroding-growth-of-nigerias-aviation-industry-experts-say/#.Uz39jvldWSo.

three countries of the fifty-three members of the African Union (South Sudan joined later) have met the health target; nine have met the agriculture target; and ten have met their obligations on education (though many are close and complete data are lacking).[27] In February 2014, cabinet secretaries from over a dozen African countries met in Addis Ababa to establish a new council that will work to improve government decision-making and encourage the implementation of new policies on the continent. Although a good step, the committee will not be able to make a significant impact on the lack of implementation. For business, there is no substitute for predictability and transparency in regulation.

FOR THE MAJORITY OF AFRICAN COUNTRIES, HAVING THE RIGHT POLICIES IN PLACE IS NOT THE PROBLEM: EXECUTION, IMPLEMENTATION, AND ENFORCEMENT ARE THE CRITICAL CHALLENGES.

Recommendations

In the final analysis, investment in Africa is limited primarily by a lack of infrastructure that increases investor costs and by companies' inability to accurately assess and manage risks. Those firms that figure out how best to leverage local knowledge, employ appropriate technology, and learn from others will be able to execute successful investment plans. During implementation, those that remain flexible, able to adjust to changing policies and to innovatively overcome logistical challenges will earn the high returns for which Africa has become known.

Companies looking to achieve success in Africa can build an advocacy agenda with the US government, African governments, and global stakeholders in African development that presents solutions to the challenges of doing business in the region. The following should be considered:

To address inadequate infrastructure and small markets in Africa:

- The US Trade and Development Agency (USTDA) should spearhead the formation of a brain trust to address the challenge of lacking project data and feasibility studies in Africa. The lack of credible and professional feasibility studies delays and prevents many infrastructure projects from being financed and constructed by US firms. African governments typically lack the budgetary and human resources to execute the studies and are often dependent on Chinese firms that do their own in order to gain support for projects from China's Export-Import Bank. USTDA could work with a diverse group of stakeholders including the World Bank, Engineers without Borders, leading African banks, global consulting firms, the World Economic Forum's African Strategic Infrastructure Initiative, and others to come up with innovative ways to support capacity development in African governments to lead and own feasibility studies on their priority projects.

- The US government should supplement its current strategy of supporting individual economic development projects with enhanced budget support for African regional organizations, such as the East African Community (EAC) and the Common Market for East and Southern Africa (COMESA). Regional integration will facilitate the development of the larger markets that are essential for many African countries to build broad-based investment appeal. Unfortunately, although the United States has been vocal in supporting African economic integration, budgetary support for the process and for regional infrastructure projects has been lacking.

To address the lack of data:

- The US Departments of Treasury and Commerce should encourage the World Bank to package its data in more commercially accessible ways as part of the Doing Business in Africa Initiative. The World Bank has an incredible depth of information, but much of it is dense and difficult to search. One-pagers on the cost of power across the region, the time to port, port processing times, and minimum wage levels would assist companies considering investing in the region. The World Bank could

27 One Campaign, *The Maputo Commitments and the 2014 Year of African Agriculture,* October 9, 2013, http://one-org.s3.amazonaws.com/us/wp-content/uploads/2013/10/131008_ONE_Maputo_FINAL.pdf.

US Secretary of State John Kerry and Angolan Minister of Foreign Affairs Georges Rebelo Pinto Chikoti meet with GE employees at the Port of Luanda. *Photo credit*: US Department of State.

also continue to explore contracting with niche technology firms to gather business relevant data in nontraditional and innovative ways.

- The US Department of Commerce should enhance its annual reports on the Commercial Service by including easily accessible reporting on the relative effectiveness of US embassies in providing business intelligence and facilitating investment into their local markets. In addition to reporting collective performance against metrics, the Department of Commerce could add a ranking of commercial service teams based on the effectiveness of representing US business interests.[28] US companies working in Africa often feel that US commercial diplomacy is underdeveloped and sidelined. By creating transparent and accessible reporting and metrics, the US government will be more able to enhance the performance of US agencies in promoting US exports and investment.

- As part of the US Power Africa Initiative launched in 2013, the US Department of Energy's Energy Information Administration (EIA) should partner with the national statistical services of the six Power Africa focus countries (Tanzania, Kenya, Ethiopia, Ghana, Liberia, and Nigeria) and the pan-African banks (Ecobank Transnational, Standard Bank, United Bank for Africa, Bank of Africa Group) to create a power sector data portal. This open-access portal should provide hard-to-get data on the varying costs of a kilowatt hour, system losses, distribution and collection rates, the availability and cost of fuel (renewable or otherwise), and other information critical to investors. The portal could also serve as a central depository for Power Africa projects and the participating US agencies—USTDA, United States Agency for International Development (USAID), Millennium Challenge Corporation (MCC), Department of Commerce, etc.—could post the projects that they develop thereby facilitating the evaluation of African power opportunities by US companies.

To address the inaccurate risk assessment:

- The US Department of Commerce, the Overseas Private Investment Corporation (OPIC), and African governments could emphasize projects more than countries in their roadshows of opportunities. This would help companies to look beyond the often-

28 US Commercial Service, *Powering Export Growth: 2011 Annual Report*, http://www.trade.gov/cs/cs_annualreport12.pdf.

negative stereotypes of particular countries and to focus instead on project fundamentals. African governments, in particular, often try to sell the country more than the project when they meet with potential investors. More project-level detail and sectoral expertise are needed to enhance the effectiveness of African government investment promotion efforts.

THE UNITED STATES AND THE BROADER DONOR COMMUNITY SHOULD ENCOURAGE MORE AFRICAN GOVERNMENTS TO PURSUE SOVEREIGN RATINGS.

To address poor policy implementation by African states:

- African governments should identify potential "corporate ambassadors"—foreign firms that are already doing business in their markets—and provide them with fast-tracked interministerial service to address problems around investments that meet certain national development objectives such as bolstering large-scale foreign investment, creating jobs, and technology transfer. Most African governments have, in theory, introduced one-stop shop investment facilitation offices. In practice, however, the "shop" often has little power within the policy decision-making structure and is just one more office companies are required to touch base with while doing business and investment outreach.

- African governments should consider e-government and digitization approaches to speed and smooth policy implementation. If applications for licenses, duty waivers, and other government permits could be submitted, tracked, and delivered via accessible and secure web portals, much uncertainty and corruption could be eliminated from the system. There is already some support for the development of these platforms on the continent: Nigerian Minister of Finance and Coordinating Minister of the Economy Ngozi Okonjo-Iweala has been a strong advocate of technology solutions to implementation problems.[29]

- International companies should collaborate with international think tanks and global stakeholders in African development to encourage the development and maturation of African think tanks. Professionalized local think tanks could measure and monitor uneven policy implementation and increase the availability of good local data. The Hewlett Foundation, along with Gates Foundation and Canadian support, launched a funding program—the Think Tank Initiative (TTI)—in 2008 to support think tanks across twenty-two countries, including eleven in Africa.[30] Despite the injection of over $100 million, the first phase of the program (ending this year) has been slow to deliver results with policy or commercial relevance. The next phases of the Initiative should explore the introduction of business approaches such as franchising and technology transfer programs to enhance quality-control and capacity-building efforts within African think tanks.

- The United States and the broader donor community should encourage more African governments to pursue sovereign ratings. Ratings agencies monitor policy consistency as part of their rating process and can provide a strong external, market-oriented validator of progress or slippage.[31] Currently only twenty-five of Africa's fifty-four countries have sovereign ratings.[32]

29 Ngozi Okonjo-Iweala, "Reforming Nigeria: A Conversation with Ngozi Okonjo-Iweala," *Foreign Affairs*, March 2014, http://www.foreignaffairs.com/discussions/interviews/reforming-nigeria.

30 International Development Research Center, *2011-2012 Think Tank Initiative Annual Report: Enabling Success*, http://www.thinktankinitiative.org/sites/default/files/tti-20112012-e_0.pdf; John Young, Volker Hauck, and Paul Engel, *Final Report of the External Evaluation of the Think Tank Initiative*, September 2013, http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8576.pdf.

31 Anant Vijay Kala, "Policy Implementation Key to India Rating—Fitch," *Wall Street Journal*, February 4, 2013, http://online.wsj.com/news/articles/SB10001424127887324445904578283751613206568.

32 They are: Angola, Botswana, Burkina Faso, Cameroon, Cape Verde, Côte d'Ivoire, Democratic Republic of Congo, Egypt, Ethiopia, Gabon, Ghana, Kenya, Mauritius, Morocco, Mozambique, Namibia, Nigeria, Republic of the Congo, Rwanda, Senegal, Seychelles, South Africa, Tunisia, Uganda, and Zambia. Trading Economics, *Credit Rating*, http://www.tradingeconomics.com/country-list/rating.

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