



REALIZING THE POTENTIAL FOR PROFITABLE INVESTMENT IN AFRICA
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Realizing the Potential for Profitable Investment in Africa African Private Sector Perspective

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Realizing the Potential for Profitable Investment in Africa African Private Sector

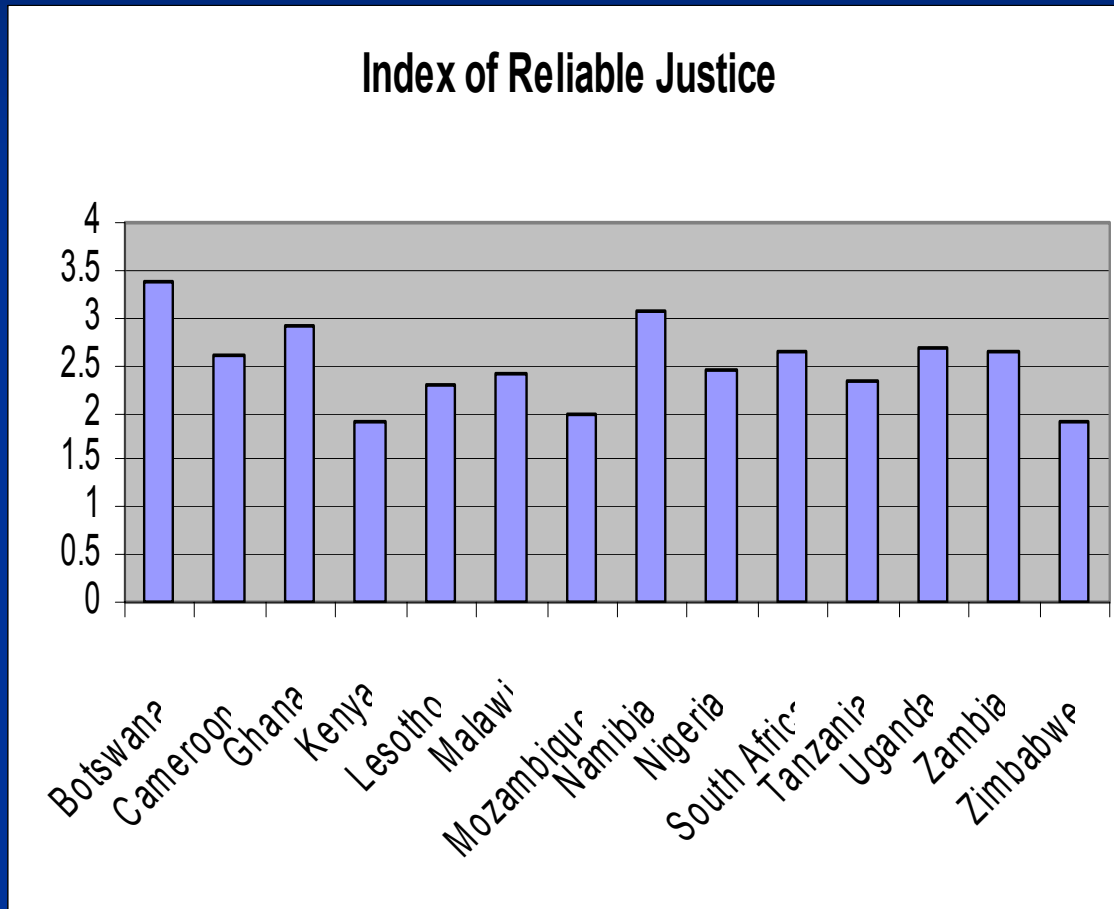
Perspective
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Wits Business School
IMF Conference, Tunisia
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Factors Affecting Investment for African Entrepreneurs

- Property Rights
- Small banking sector
- Shallow Financial markets
- Expensive Capital
- Poor Accounting Standards
- Exchange Rate Volatility
- Monetary Policy Conduct
- Poor Financial Innovation
- Undeveloped Pension Fund System
- Undeveloped Fund Management/Private Equity market
- Slow Privatization
- Human Skills/Migration
- Weak Institutions

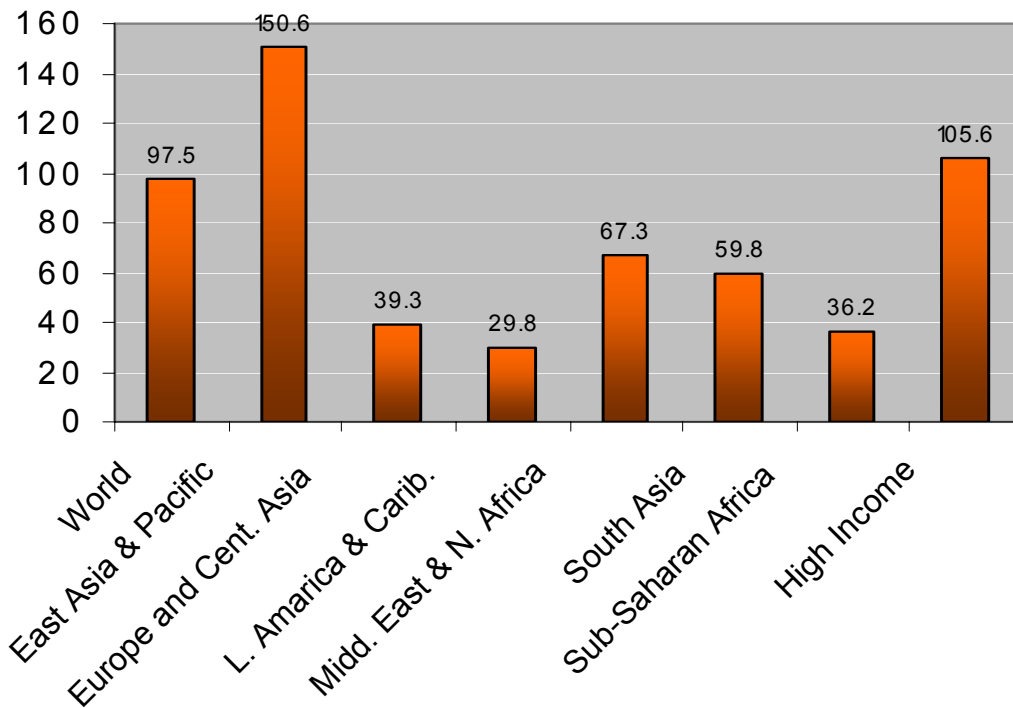
Property Rights



- The protection of property rights is important for realizing one's investment
- In some countries private property is not protected
- State ownership of land hindering entrepreneurship
- Need local partners for investments for protection

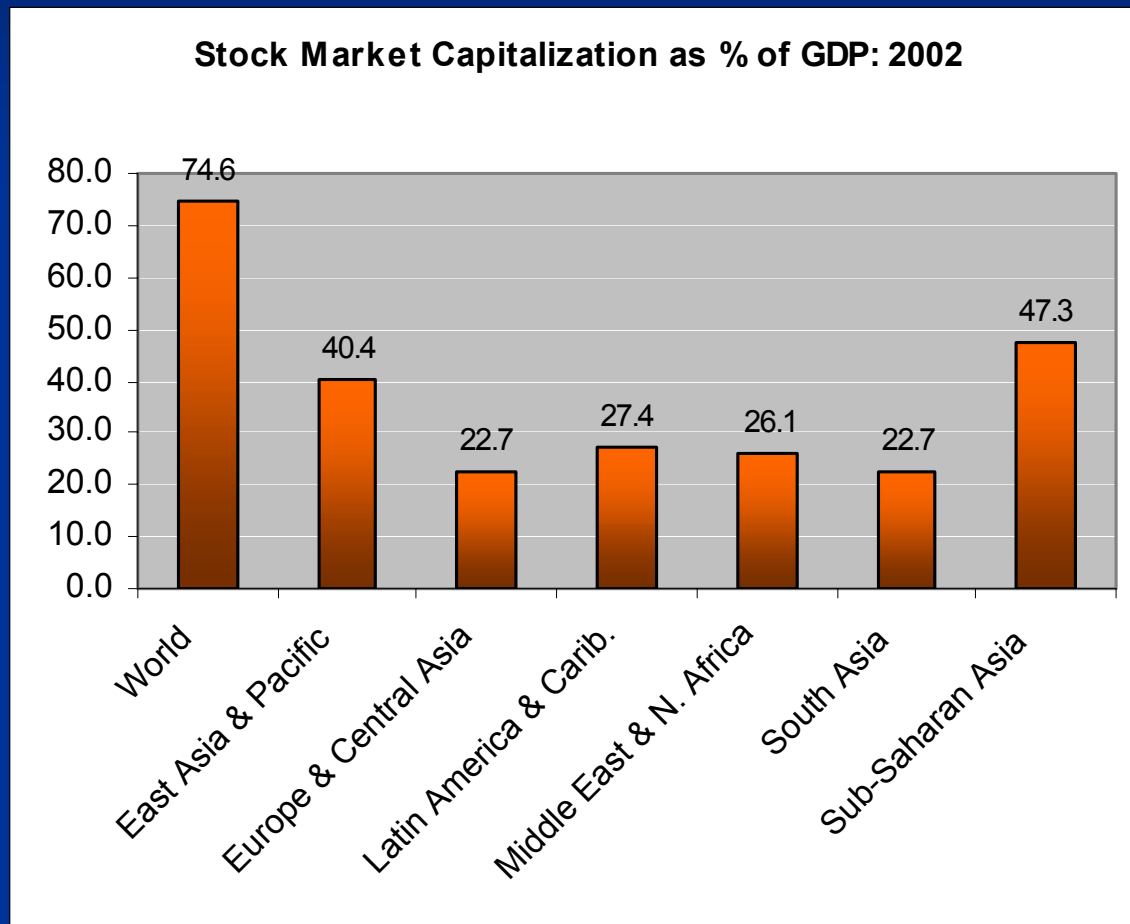
Shallow Financial Markets (M3 as % of GDP: 2002)

Liquid Liabilities as % of GDP:2002



- Small banking sector in Africa hinders risk diversification
- Big projects, particularly resources and infrastructure, always need foreign funding because local banking system is small

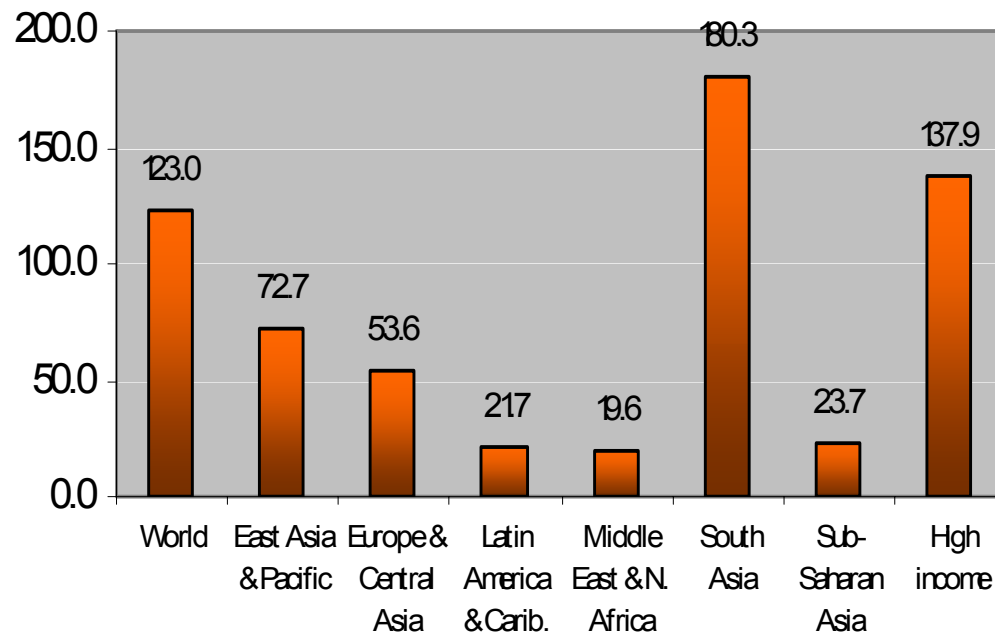
Stock Market Capitalization (as % of GDP: 2002)



- Small African stock markets, if we exclude South Africa
- Equity capital not easy to raise

Stock Market Turnover Ratio (Liquidity) (%): 2003

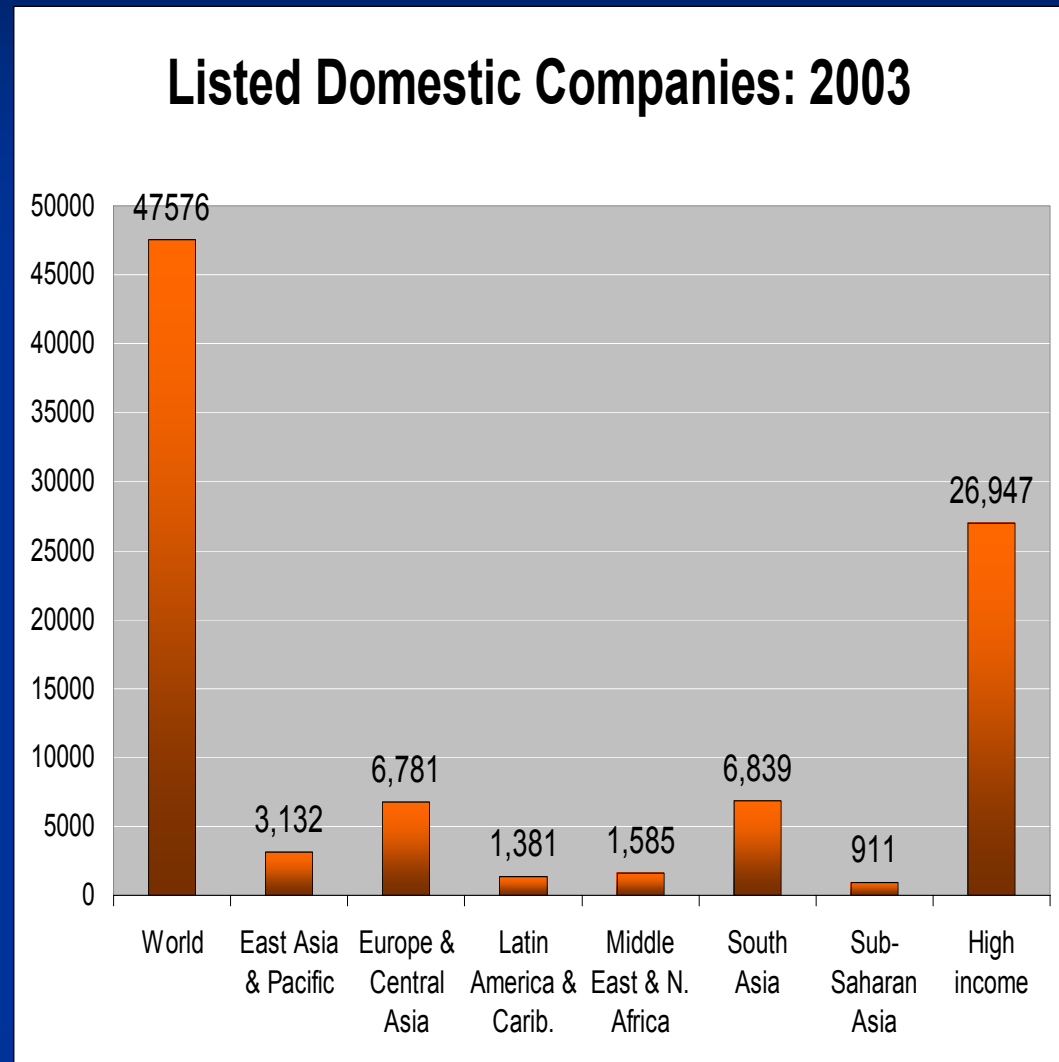
Figure 9: Value of Shares Traded as % of Market Capitalization (Turnover Ratio): 2003



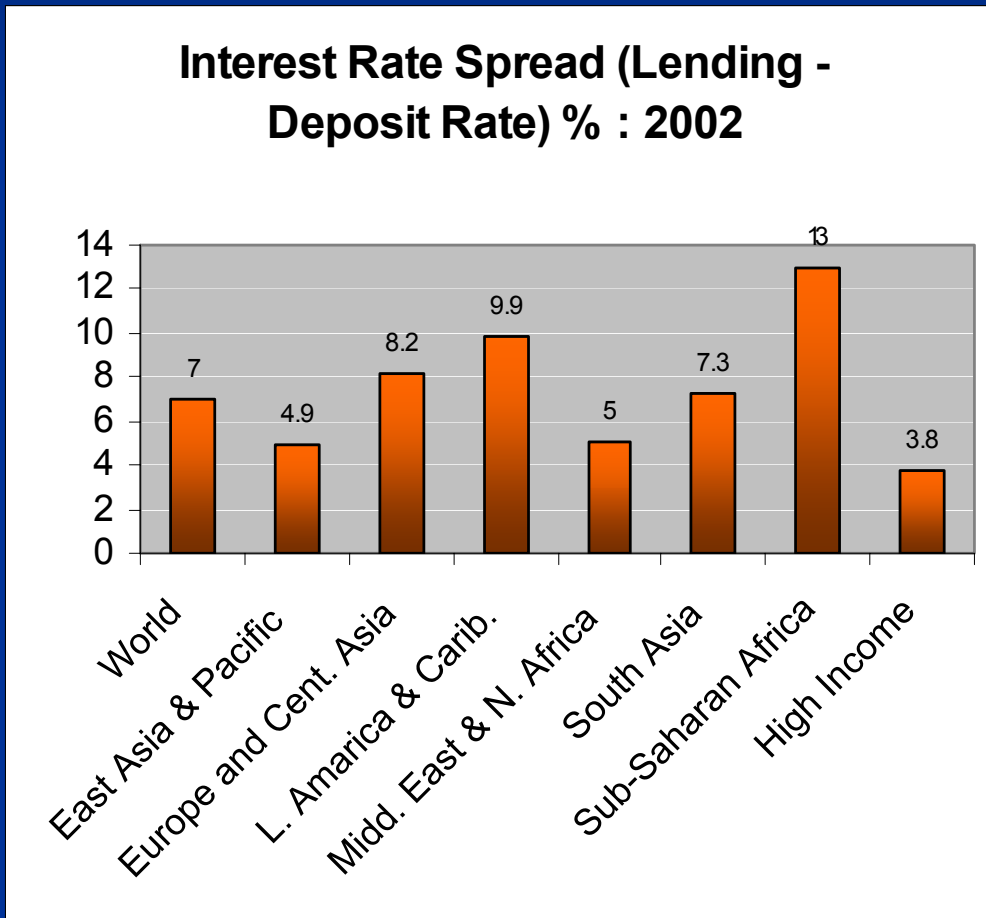
- Turnover ratio (Liquidity) for Sub-Saharan Africa below world average
- Affects efficient price discovery
- Discourages global investors

Publicly Listed Companies

- Few publicly listed companies for investment in Africa
- Most companies in South Africa



Expensive Capital: Interest Rate Spreads (%):2002



- Interest rate spread in sub-Saharan Africa is 13 % compared to 7% for the rest of the world
- Capital quite expensive in Africa

Holdings of Government Debt in Africa (1980-2000)

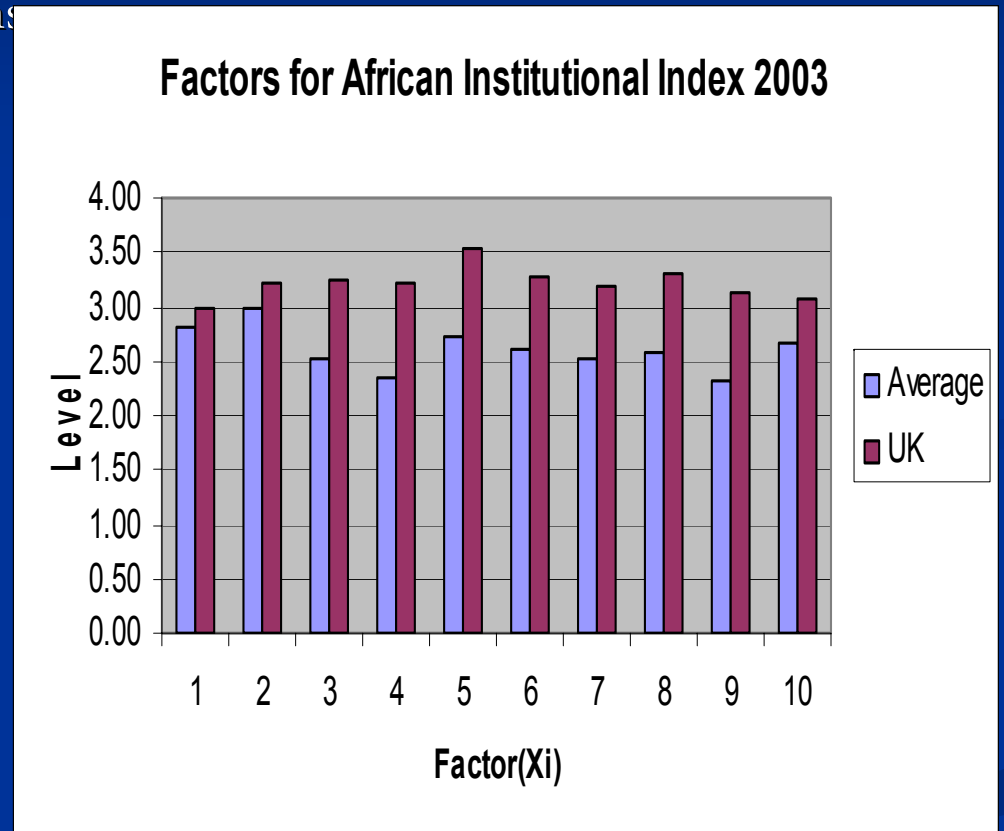
Country	Commercial Bank holdings (%)	Central Bank holdings (%)	Total Banking Sector (%)	Non-bank holdings (%)
Burundi	22	55	77	23
Ghana	39	27	66	34
Kenya	39	11	50	50
Mauritius	40	5	45	55
Nigeria	30	66	96	4
Rwanda	21	0	21	79
Seychelles	86	0	86	14
Swaziland	66	0	66	34
Tanzania	42	44	86	14
Uganda	73	17	90	10
Zambia	77	0	78	22
Zimbabwe	35	19	53	47
Average	54	17	70	30

Additional Factors

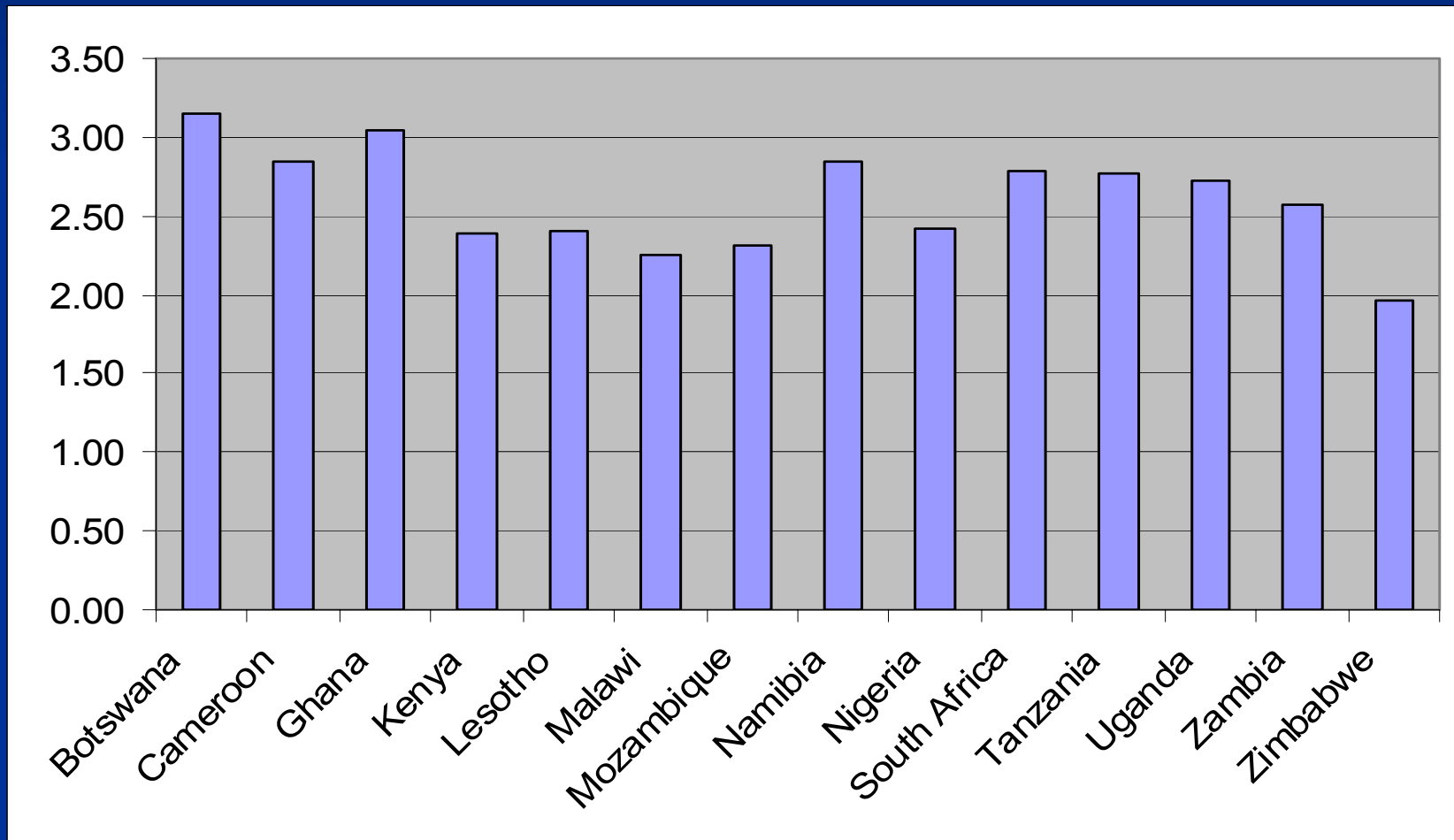
- Exchange Rate Volatility/Exchange Controls
- Monetary Policy Conduct/Crowding Out
- Poor Financial Innovation
- Undeveloped Pension Fund System
- Undeveloped Fund Management/Private Equity market
- Slow Privatization
- Human Skills/Migration
- Weak Institutions (both Macro and Micro)

Weak Institutions in Africa: Macro

- 1: Government Business Relations
- 2: Free Media
- 3: Reliable Justice
- 4: Efficient Administration
- 5: Effective Government
- 6: Corporate Governance
- 7: Human Resources
- 8: Financial Infrastructure and Framework
- 9: Corruption Reduction
- 10: Consistent Policies
- ((FROM CBC..14 countries))



Institutional Ranking of African Countries: 2003..(MACRO)



Institutional Factors: Micro

- Mostly Regulatory factors for business.....see “World Bank, Doing Business” survey..
- Number of procedures required to start a business;
- Number of procedures to enforce a contract; and
- Amount of time taken to close a business.
- Affects ENTREPRENEURSHIP Activity

Regulatory Conditions For Business

	Number procedures to start a business	Number of procedures to enforce a contract	Months to close a business
<u>Best country</u>	2 (Australia, Canada, New Zealand)	11 (Australia)	5 (Ireland)
<u>Worst country</u>	19 (Chad)	58 (Sierra Leone)	120 (Brazil, India, Chad)
Argentina	15	33	34
Brazil	17	25	120
Chile	9	28	67
India	11	40	120
Mexico	8	37	22
South Africa	9	26	24
Thailand	8	26	31
Uganda	17	15	25
Venezuela	13	41	48
Average for developing countries only	12	30	56

Source: Doing Business, World Bank, 2004

Entrepreneurship (TEA) and Poverty Levels in 25 African Countries

Table5: Regression between Poverty Measures and Total Entrepreneurship Activity (TEA) Index Across 25 Countries

Dependent Variable	Constant	Coefficient	Adjusted-R squared	No. of Observations
% Pop below US\$1 a Day	-2.4408 (-3.6533)*	0.5383 (9.6914)*	0.795	25
% Pop below US\$2 a Day	-5.5075 (-3.3773)*	1.2133 (8.9496)*	0.767	25

*significant at 99% level. Figures in parenthesis are t-values; F-Value = 14.94 and significant at the 99% level.

Poverty Levels vs Micro Institutional factors

Regression of Poverty levels on various factors Constraining Entrepreneurship across 25 countries

Dependent Variable	Constant	Start-up Procedures	Time Taken	Cost of Registration	Capital Requirements	Contract Enforcement	Employment Laws index	Adj-R ²
US\$1 a Day	-3.123 (-1.65)*	-0.254 (-1.3814)	0.0655 (2.9219)*	0.1576 (4.0911)*	-0.0448 (-3.372)*	0.4271 (4.139)*	-0.088 (-1.497)	0.754
US\$2 a Day	-5.4315 (-0.9278)	-0.4675 (-1.1646)	0.1680 (3.4352)**	0.3564 (4.2389)**	-0.0990 (-3.4104)**	0.9641 (4.2796)**	-0.2659 (-2.0739)*	0.777

Thank You