# Hope for financing Africa's Development through private equity

Cape Town, 09 May 2013 (ECA) - A high-level roundtable on ***Building Private Equity and Private Capital Markets in Africa,*** met on 8 May, to explore the promise and obstacles facing private capital investments in Africa.The roundtable ofinvestors and policy makers met under the auspices of the Economic Commission for Africa (ECA) and the World Economic Forum on Africa to navigate the complex world of private equity, which in recent years has shown increased interest. According to the participants, this could be Africa's next development financing frontier and could mark an end to an aid dependency.

However, the bane of negative perceptions, which portray Africa as "a risky continent in which to do business", must be tackled.  According to Mr. Carlos Lopes, Executive Secretary of the ECA, these perceptions hinder the growth of the sector.

"No one mentions the Saba insurgency in Malaysia or the Mindanao problem in the Philippines, which affect the investment climate for these countries; investors must understand that the Continent is not any riskier than other regions. There are far more people affected by conflict and insecurity in Asia than in Africa," he stresses.

Issues that concern many industry players here at the World Economic Forum on Africa include working with the high cost of raising capital in Africa; the mix of regulatory systems; and low levels of skills in the area of private equity.

There are positive indications, however. The investors and policy makers here underscore that harmonizing regulatory systems and deepening regional integration as a means to develop capital markets across boundaries, could bring about long-term investments that could bolster the Continent's

development aspirations.

This view is backed by some good news sprouting across the landscape. After a decade of macro-economic reform, the financial sector in a country like Rwanda for instance, has grown at 20 per cent, which is more than double the average of 8 per cent growth rate in the overall economy over the last decade. Thus, African countries have the basis for developing capital markets that can finance the Continent's development.

But entrenched views on doing development are being unhinged; and according to ECA officials, Vision 2063, currently under preparation in partnership with the African Union and the African Development Bank, will help to change mindsets.

"In this visionary document, we contend that the discourse on financing Africa's development must shift; it must move out of the aid syndrome," says Lopes. Furthermore, the ECA forthcoming study on domestic resource mobilization for Africa aims to demonstrate that the Continent can harness enough resources to finance development by tapping into reserves held by African Central Banks and in remittances.

A number of proposals are being mooted for further analysis, such as establishing minimum standards that governments could sign on to for attracting more private capital, particularly in areas where governments may not be able to invest.

With opportunities presented in many developments, such as Africa's rapid urbanization and a growing middle-class, investors agree that entrepreneurship and growth is encouraging; the need for infrastructure is enormous and there is a need for pooled funds that could also help attract additional capital. In addition, these opportunities mean that the growth of Africa's private equity ought to be based on a model that benefits local people.

More studies, however, are needed on private equity scalability and getting African markets to work together as a means of building liquidity. Industry players and policy makers here think that the regional integration experience can offer useful lessons in this regard. For instance, the expansion of the banking sector across the continent shows that it is possible to overcome national sovereignty concerns.

Given that Africa is in the early stages of developing its financial sector, there may be a need to create frameworks and institutions that will allow for leveraging existing capital. In addition, policymakers warn that leveraged buyouts are not in the interest of developing countries due to tax erosion. Countries may also need to balance short-term returns with long-term sustainability and promote related financing options, such as venture capital.

The message from policy makers and development finance experts is that while private equity investors have seen tremendous returns in Africa, thus fueling the idea of Africa as the new *El Dorado*, new investment may need to contend with Africa's emerging priorities and tap into sectors that can use and

develop local skills as well as benefit the Continent.

ECA intends to sponsor the establishment of a high-level task force that will analyze these issues in depth and present a proposal, as well as recommendations, for follow-up at the next World Economic Forum on Africa.

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