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**PRIVATE CAPITAL FLOWS TO SUB-SAHARAN AFRICA: TRENDS,
CHALLENGES AND WAY FORWARD**

Talking Points for Presentation at Side Event on “Increasing Capital Flows to Africa”

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I. INTRODUCTION

- African countries have low domestic savings relative to other developing regions of the world and this has been a serious obstacle to the development of the private sector. It also limits the ability of African countries to undertake public expenditure in infrastructure and social services needed to boost domestic demand, encourage private sector activity and sustain high levels of economic growth.
- International capital flows can play an important role in augmenting Africa's low domestic savings. Indeed, the Monterrey Consensus on Financing for Development emphasized the role of external private capital as an important source of financing development.
- African countries have recognized the importance of international private capital flows and have put measures in place to attract such flows, including economic reforms to create a conducive environment for private investment as well as establishing export processing zones to attract FDI into export-oriented manufacturing.

II. TRENDS IN PRIVATE CAPITAL FLOWS TO SUB-SAHARAN AFRICA

- Available evidence suggests that there has been an increase in private capital flows to the region as result of recent measures undertaken by African governments. Net private capital flows to sub-Saharan Africa increased considerably in recent years, from US\$ 17.4 billion in 1999 to US\$56.6 billion in 2007, with foreign direct investment (FDI) accounting for a substantial share of private flows.
- Net FDI inflows grew from US\$9.7 billion in 1999 to US\$25.3 billion in 2007. There has also been an increase in other types of private capital flows. For example, net private debt flows increased in recent years, reaching over US\$21 billion in 2007. Furthermore, several African countries have made progress in accessing funds through international bond markets. In 2007, Ghana and Gabon successfully issued external bonds and more countries in the region are increasingly making attempts to exploit this source of financing.
- Remittances have also become an important source of development finance for African countries, rising from US\$4.6 billion in 2000 to US\$10 billion in 2007. These numbers are clearly below the actual or true value of remittances to the region given the fact that most remittances to Africa go through informal channels and so are not recorded. More efforts are needed to increase the role of remittances in development in the region through reduction of transaction costs and providing incentives for migrants to remit money through the banking system.

This would ensure that these funds can be used for investment purposes and not for consumption alone.

- Despite the increase in private capital flows to Africa, the continent accounts for a marginal share of global private flows, averaging 3 % in recent years. Concerted efforts are needed at both the national, regional and international levels to reverse this trend and increase the integration of African countries into the global economy.

Table 1: Net Private Flows to sub-Saharan Africa (US\$ Billions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Net Private Capital flows	17.4	10.2	12.2	7.2	15.1	23.6	32.4	40.1	56.6
Net Equity flows	18.7	11	14.2	10.1	15.1	19.2	24.7	32.2	35.5
Net FDI inflows	9.7	6.8	15.1	10.5	14.4	12.5	17.3	17.1	25.3
Net portfolio equity inflows	9	4.2	-0.9	-0.4	0.7	6.7	7.4	15.1	10.2
Net Private debt flows	-1.3	-0.8	-2	-2.9	0	4.4	7.7	7.9	21.1
Worker's remittances	4.4	4.6	4.7	5	6	8	9.3	10.3	10.8

Source: World Bank, Global Development Finance, 2008

III. WHAT SHOULD BE DONE?

- Globalization has increased competition for private capital flows and made it even more difficult for African countries to increase their share of global capital flows. African countries must adopt an effective strategy to attract capital flows and ensure that they play a positive role in the region. This is important because the benefits of private capital flows are not automatic. They accrue to countries that have taken appropriate measures to exploit them.
- African countries need to design and implement policies to increase the flow of private capital, especially long-term stable flows while encouraging sectoral diversification in the allocation of foreign investment. Although FDI is the most effective way of financing sustained long-term growth and development, in designing incentives for attracting FDI flows there is the need to target specifically sectors with high potential for employment creation and poverty reduction.

- Political stability and good governance must be important elements of any program to boost private capital flows in the region. The benefits of economic reforms cannot be realized in an environment characterized by political instability and weak governance. Consequently, more efforts must be made at the national and regional levels to reduce the incidence of political instability and improve governance.
- The poor state of infrastructure development acts as a deterrent to the mobilization of private investment. Therefore, addressing this challenge is crucial for mobilizing private capital flows to Africa. In this regard, development partners can play an important role in assisting African countries overcome the infrastructure challenge by allocating more ODA to the infrastructure sector. This is important in light of the declining relative importance of infrastructure in ODA allocations.
- Institutions are also important for mobilizing private capital flows. Therefore concrete actions are needed to strengthen the quality of institutions, including enforcing contracts as well as property rights and reducing corruption.
- Evidence shows that labor costs and human capital development are important determinants of capital flows. In this regard, there is a need for reforming labour markets to make them flexible. This should be supported by measures to strengthen human capital development through training and education. This is particularly important for attracting investment into high-value added activities.

IV. ECA's EFFORTS TO PROMOTE CAPITAL FLOWS TO AFRICA

- The Economic Commission for Africa provides valuable assistance to African countries to increase their capacity to attract private capital flows. Our assistance to African governments and the private sector in this area has been in the form of research support, advisory services and facilitating consensus on issues facing the region.
- To enhance our ability to assist our member States, we launched a Capital Market Development Program in 2003 to provide support to the region in exploiting the potential of capital markets for mobilization of private capital. This program ended in December 2006 and several stock exchanges, finance houses, and policymakers benefited from activities organized under this program.
- We also created a Financing for Development Section in 2006 to enhance our activities in the area of mobilization of internal and external resources. This section is now fully functional and is providing valuable assistance to countries in the region on development finance issues.

- Finally, ECA continues to support the African Peer Review Mechanism (APRM) which we believe contributes to efforts to improve the state of governance in the region and make the region a more attractive destination for private capital flows.

I thank you.