

# Sunny outlook for business climate

Africa's Investment Climate Facility (ICF) promises to improve doing business. **Michael Klein**, VP of Private Sector Development at the IFC, and Baroness **Valerie Amos**, argue its merits

**Q** Is the top-down approach of the ICF going to benefit the SMEs it is designed to support?

It's all about policy: you create a space for SMEs by talking to their governments and assisting them to reform the investment climate.

The biggest thing you can do for SMEs is fix a few rules that will allow them to see the wisdom of setting up formally. We need to reduce the cost of doing business and increase access to finance.

**Q** What about the importance of access to equity for SMEs?

Equity is complicated, and requires strong corporate governance. When it comes to SMEs, writing corporate governance contracts is a relatively costly exercise. Personally I don't think that the pure equity concept will be a major instrument in the near term. What is likely to be more popular are quasi-equity instruments, where you give a basic loan that may have an interest rate of whatever the market rate is, plus a participation in extra income if the business grows. Generally, monitoring revenue is easier than monitoring profit, where you have to incorporate costs and write-offs.

**Q** What is your verdict of Paul Wolfowitz's first year at the World Bank Group?

There is a lot of continuity in policy, but there is a clearer emphasis now on Africa, with greater budget allocations and recognition for the business environment, as well as a special emphasis on governance and anti-corruption. Africa remains the great challenge, because everywhere else in the world poverty reduction is succeeding. In Africa the share of people living below a dollar a day has stopped growing, but a dramatic improvement in livelihoods has not yet happened.

**Q** How important is access to finance in the development mix?

We want to see foreign companies come into the continent, but we also want the continent to develop its own industrial fabric. Access to finance is critical in this regard. It's not that there is no money around, but there are few systems to identify good borrowers from bad ones. Credit information systems, which are easy to set up, and collateral systems, which in turn require property rights to be

reasonably well-defined, would improve SME access to finance.

**Q** Is private sector-led growth a trend that can last?

I wouldn't have predicted that donors and companies would be prepared to put up the kind of money that they are currently putting up. This sort of public policy work for the private sector, which the ICF embodies, did not elicit much support previously. It's new on the agenda, especially for many policy-makers in Africa. Early indicators suggest, however, that it's becoming more popular and that reforms are picking up.

**Michael Klein** talked to **Marcus Courage**



## EXPERT INSIGHT

The important thing about the Investment Climate Facility (ICF) is that it embodies a recognition among African leadership about the need to improve investment climates, and combines a commitment by the private sector to invest in these reforms.

The corporate sector is saying to us: 'We can help to identify the barriers and the bottlenecks, but most important, we want to work with you (government and donors) to overcome these hurdles.' Individual countries, with support from donors, have made great progress. The UK Government, for example, has done some pioneering work with the Government of Mozambique on customs reform, and with the Government of Tanzania

looking at the whole issue of investment climate.

But capacity needs to build regionally and pan-continently too. In this respect, the contribution of NEPAD to the ICF is significant. You may have improvements in one country, but you have to have improvements in neighbouring countries if they are going to have the kind of impact that is needed to help boost and sustain economic growth.

Social impact is at the heart of the ICF, because it's about countries building capacity, getting the right kind of investment climates and being able to place more and more resources into areas that count, such as health and education, and building a business sector

## by Baroness Valerie Amos

that supports small businesses and large multinationals. The ICF places business at the heart of development. Once the Facility takes off and a couple of projects have delivered, and the investment climate in a couple of countries begins to change, I think you will see a campaign to change the image of the continent more generally.

**Baroness Valerie Amos** is Leader of the **House of Lords, UK**

