

27/08/2001

## Trade insurance agency boosts Africa's prospects

Hardev Kaur

MUNYOYO (Uganda): Africa suffers from a poor image and at times adverse public relations. The images of war, conflict, poverty, devastation, diseases such as HIV/AIDS and malaria keep investors and potential investors away. The political and economic risks mean that the continent is not on the radar screens of businesses and investors.

It is no wonder then that with all the adverse publicity, negative reports and perceived risks - political and economic - Africa continues to lag behind other regions of the world in attracting foreign direct investment (FDI). Many of the countries rank at the bottom of the poor countries' league.

With constant coups and political instability, investors are unwilling to take the risk despite the fact that the rate of return on investments is, in some instances, higher than that in Europe and the US. While there are risks, as there are in any country including in the developed world, the situation is not "as bad as it has been made out to be".

Two years ago, Prime Minister Datuk Seri Dr Mahathir Mohamad, in urging businesses to venture into Africa, had said that having travelled to Africa "many times in the last five years or so I have been amazed at the potential for business, and opportunities and profits that Africa offers... Africa is not one nation any more than Asia is one nation".

Policies have greatly improved in many African countries, but the negative perception of the continent in large parts of the business community has constrained the positive impact of good policies.

Africa needs better promotion and its public perception needs to be improved. It suffers on many fronts in addition to its poor image and higher cost of doing business. Among them, trade finance is scarce. The demand on government finances is heavy, with large percentages of the budget set aside for repayment of debts and the interest of loans, leaving very little for basic needs such as education and health.

Because of the "risks" the cost of doing business in Africa and with African countries can be very high and at times prohibitive. Cover for commercial sources for export credit agencies is not available in some African countries. Even where it is available it is costly and based on unfavourable terms.

For example, the cost of a letter of credit from an international bank can be very steep - up to 5 per cent of the amount of the sale, compared with 0.1 per cent in Europe.

In an effort to reduce the risks and attract greater FDI and business to the "dark continent" and to boost trade, African governments have come together to provide a political risk insurance.

This was unveiled during Global 2001 at the lakeside resort of Munyonyo near Kampala last week.

Launched by Dr Mahathir Mohamad, the African Trade Insurance (ATI) agency, based in Nairobi, aims to provide political risk insurance in an attempt to stimulate growth and cross border trade.

Seven countries in Africa have signed up for the facility - Burundi, Kenya, Malawi, Rwanda, Tanzania, Uganda and Zambia. Membership is open to all African countries and it is understood that many have expressed interest. Start up funds of US\$105 million (US\$1 = RM3.80) are provided by the International Development Association, the concessional lending arm of the World Bank.

"The initiative is unique as it is the first multi-lateral export credit and political risk agency in which its own member countries assume financial liability for the political risks affecting trade within their own countries," Bernie de Haldevang, ATI's chief executive and former political risk underwriter at Lloyd's of London says.

ATI's credibility also rests on its private participants. Ivan Rossignol, the World Bank's project manager in Nairobi says the aim is to use public money to encourage private insurers to venture further into Africa.

The World Bank loans will be used to pay first for losses, and the underwriters at Lloyd's of London will insure an additional US\$200 million worth of exposure. In addition, the agency is also looking into providing full credit insurance before year end.

With time and increased trade and investments, the private sector contribution is expected to increase. It is estimated that over the next 10 years, ATI is expected to foster an additional US\$5 billion in trade for the seven participating countries.

The self-help move by the African leaders is a step in the right direction. Investors, businessmen and entrepreneurs view this as a positive move and a commitment on the part of the leaders to do something about their own countries' future. It also means there will be greater commitment to ensure that the scheme works to attract more investment into the countries, generate business activities and create employment.

The cooperative efforts are also a welcome move as the African leaders, who are generally seen as being at odds with each other or in conflict by the rest of the world, show with these efforts that they are willing and able to work together for the betterment of their countries and their people.

Some of them came together for four days, in addition to Dr Mahathir, at Munityo, to seek ways to attract FDI as well as encourage increased domestic investments in their countries.

A vibrant and domestic private sector is needed to encourage and boost economic growth. It is estimated that Africa needs growth rates of 7 per cent per annum over the next 10 to 15 years to achieve significant and sustainable poverty reduction.

This in turn requires a vibrant private sector, foreign and domestic, willing to invest in Africa and help reduce brain drain which is further depleting the badly needed skills and expertise in the developing countries.

It is estimated that some 20 medical doctors leave Kenya for other developed countries every month.

The ATI will help boost the confidence of companies that see commercial opportunities in Africa and help improve the economies and livelihood of the people in the vast continent with its enormous riches.

For Africa to achieve its development objectives and succeed in the fight against poverty, there is a need to enable the private sector to benefit from the tremendous opportunities and resources that exist.

The best way to address this problem is through a smart partnership between the African governments and the private sector.