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Cover

Tension between the two economic giants in the world, China and the United States, might have a silver lining for Africa.

The administration of president Donald Trump, as well as the U.S. corporate sector, are set to increase investment into the continent, in a bid to counter the narrative that China's influence in Africa is rising, while the US falls off with its "America first" approach.

BUILD Act

President Trump signed legislation, the Better Utilization of Investments Leading to Development Act, or the BUILD Act, into law in October 2018. It combines the U.S. Overseas Private Investment Corporation (OPIC) and other U.S. agencies focusing on international economic development into a new consolidated agency called the U.S. International Development Finance Corporation (DFC).

It is anticipated that the DFC will be operational in October 2019 and there is potential that the DFC will increase the amount of U.S. equity capital invested in African private equity.

The DFC expands OPIC's budget from US\$29 billion to US\$60 billion and provides the DFC with the authority to make limited equity investments. Previously, OPIC was limited to debt investments.

Sub-Saharan Africa has long been a priority for OPIC, accounting for over one-quarter (27%) of the agency's current portfolio. Although not clear, the hope and expectation are that the portfolio will remain at 27% of the additional capital, therefore additional capital of more than US\$8 billion available to invest in Africa.

Investment in Africa

While the U.S. is the largest direct investor in Africa, with US\$54 billion in FDIs, it is trailing behind in its collaborative efforts, being more selective of the countries with which it engages (primarily South Africa, Lesotho, Kenya, Mauritius and Ethiopia), two-way trade at below US\$39 billion, and only having ever held one summit with African leaders under the Obama administration in 2014.

In contrast, China leads in active engagement with Africa, with seven heads-of-state summits under its belt to date. However, Chinese support has mainly taken the form of loans to governments and state-owned entities (in excess of US\$86 billion between 2000 and 2014, and growing), with foreign direct investment (FDI) making up only 5% of total global investment in Africa. Regardless, two-way trade has grown exponentially, and now exceeds US\$200 billion. China has also established more than 10 000 firms across Africa, becoming the most integrated investor into the continent.

The DFC “launches” a new era for development finance”, said Ray W. Washburne, President and CEO of OPIC, with the signing of the legislation. “With more tools, flexibility and more running room – the U.S. will be able to have even greater impact.”

According to Washburne the DFC will make the U.S. “a stronger and more competitive leader on the global development stage, with greater ability to partner with allies on transformative projects and provide financially-sound alternatives to state-directed initiatives that can leave developing countries worse off”.

Increasingly investors, be it the DFC or other private investors, are focused on the impact of their investments, and not solely focused on the financial returns.

Factors

Environmental, social and governance (ESG) factors are increasingly important considerations for investment decisions.

OPIC is the largest impact investor in the U.S. government, and most of the projects that OPIC supports are in high-impact sectors such as agriculture, education, access to finance, housing for the poor, small and medium enterprise finance, healthcare, renewable energy, water and sanitation.

The challenge for African companies is to convince global investors, including American investors, that there are indeed opportunities to invest in Africa.

Companies, the private equity industry, and African fund managers must be more pro-active in reaching investors.

A focused approach in marketing to the right potential investors – those with a mandate to invest in Africa and who have shown interest in Africa as an investment destination – together with the right investment “story” of Africa’s enormous potential and advantages, can still go a long way in attracting the much-needed capital to the continent.

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