

Presentation by Mr. Dick Kramer*

Thank you Mr. Chairman.

I must start out by saying that Capital Alliance is a miniature copy of CDC Partners in the sense that we also have proven that the best practices in venture capital and private equity work can be transferred into Africa, and can be quite successful. In fact, CDC is an investor in our Cape Funds, and our Capital Alliance Private Equity Fund, which focuses on West Africa. It is fully invested, and I believe that we will have some very good returns similar to what Patrick said earlier.

We have also been involved in the small and medium enterprises sector, which the Government in Nigeria has required the banks to go into and set aside 10 per cent of their before-tax profits for investment in companies that have capital requirements of US\$ 2 million or less. Our methodology is very similar to what you saw in CDC, so what I would like to do is to focus on how we can assist the IPAs and the policy-making processes on the basis of our practical experience. Actually, UNIDO's work with the African Investment Promotion Agencies is extremely encouraging. I see a clear focus on structure, best practices, successful techniques, and tailoring the IPA plans to the unique local situations. For me, this is a good sign that maybe Africa is finally getting its investment act together.

However, there are four relevant principles drawn from experience that I think may offer practical help for today's topics.

The first principle is, do not try to make water run uphill. If investments like water are not flowing, it is probable that the environment is not right, and no amount of incentives or marketing will overcome the problems of political or economic instability, the lack of sound macroeconomic fundamentals, weak infrastructure or problems with law and order. These environmental conditions must be fixed first if you want investment flows. Even then, water will not run uphill unless investment conditions are positive. And you have seen some of those conditions in the previous presentations.

Now I will use a case in Nigeria where policy-makers are totally obsessed with manufacturing and yet the conditions in this country and timing are not right. It is an oil-producing economy, with an over-valued currency, which favours imports and discourages exports, local raw material production and local manufacturing. But, there are numerous emerging opportunities in many service and service-related businesses, which create jobs, improve productivity and contribute directly to the GDP. For example, we are seeing significant investments in a number of areas, many of which we have targeted in our Cape Funds. Particularly in Nigeria, we have seen a 10-fold expansion in telecoms in the past two years. Not only does this create peripheral opportunities but it changes the way that many businesses do business.

Secondly, there is an opportunity for outsourcing of non-core businesses by companies that had to originally do these things because potential suppliers of such goods and services were not available.

Thirdly, Nigeria has a big emphasis on local content in the oil sector, and there are numerous oil service and other suppliers that can be developed. Interestingly enough, the whole logistics, distribution, wholesaling and retailing area is yet to be developed, and there is lot of interest in this area. I may add in this connection that capital and technology inflows from South Africa in particular are really booming. Now, I would expect the Nigerian IPA to prioritize these sectors and not try to make water run uphill towards manufacturing. As my grandkids say: "Oh granddad, you have to go with the flow!" That is what they should do.

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The second principle is to remember that we are enablers and not the entrepreneurs – by we I mean not only the IPAs, but also UNIDO, policy-makers, academics, multilaterals, and yes, even venture capitalists. We all tend to focus inward on our methodology, our best practices, our own organization and our structure, but the results are always outside, with the entrepreneurs and with the foreign investors. The focus must fundamentally be on their success, and our role must be to help them succeed. The recent UNIDO study of investors in Africa will help all of us to focus ourselves on helping investors succeed. As a fund manager, for example, we have found UNIDO very helpful with our invested companies and management in several areas.

We have to understand markets and understand technology. We routinely take companies to UNIDO for its kind of support of finding technical partners, improving business practices, training and capacity building. I would suggest that the IPAs keep focused on how to help investors succeed.

The third principle deals with capacity building. We cannot sell from an empty wagon. All of us need to focus on the skills; the experience and the expertise that will help the entrepreneurs and foreign investors succeed. For IPAs, this will require the introduction of private sector people and skills and mindsets, people who know what entrepreneurs and foreign investors need and talk their language. Once an IPA can demonstrate value added, then selling becomes easier to achieve.

As an example from the field of venture capital, we have found that entrepreneurs particularly appreciate our help with several different areas such as access to markets, introduction to potential customers, and access to funding, including how to structure funding and filling in those skill gaps that they do not have. I want to keep reminding us that they pilot the plane. I do not want to get on any plane because I cannot fly but I do not mind being a co-pilot. The entrepreneurs are the ones that we back.

The fourth and final principle deals with what President Museveni told us today. It deals with pragmatism, as distinct from theory. Our search should always be for what works in practice, not some erratic theory. This advice is aimed squarely at those who continue to have the anti-foreign investment bias as described today by President Museveni. They also tend to have an anti-private sector bias for indigenous entrepreneurs as well. Perhaps we can learn something from the dictum laid down by Deng Xiaoping, when he triggered China's take-off with the phrase, "I don't care whether a cat is black or white, as long as it catches mice". Perhaps we can re-phrase this for Africa. We do not care whether our investment policies are white or black, or even green, red or yellow, as long as they catch entrepreneurs and foreign investors. I think it is time for us to take the practical steps which create wealth and empower the private sector. Then we will have a larger cake to divide among us.