Executive Summary

Africa has recently made great strides in economic reform and performance. After more than a decade of setbacks in the 1980s and early 1990s, the region began to achieve sustained growth in real gross domestic product (GDP) in 1995. Yet the business environment remains problematic in many respects and incapable of generating the high rates of private investment that can foster more rapid growth. More and deeper reforms will be necessary to improve the business environment, and the financial sector in particular must be stronger and more diverse if it is to support private business growth. Business capacity remains weak, as does the state of physical infrastructure.

Recognizing the need for a more focused approach to private sector development in Africa, the World Bank Group has devised a strategy that coordinates the efforts of the Bank, IFC, and the Multilateral Investment Guarantee Agency. Utilizing bottom-up entry points, the Bank Group will focus on concrete opportunities to build upon Africa's established strengths, as well as on opportunities for reform and change. IFC's role is to finance productive private enterprise, help support the financial sector, build business capacity, and support the Bank in its efforts to improve the business environment.

In the 1990s IFC has substantially increased the resources devoted to Africa. Investments in African enterprises now total more than $350 million approved per year, and the portfolio at the end of FY99 is approaching $676 million. The performance of these African investments continues to improve. IFC has been particularly supportive of the petroleum, mining, and financial sectors. The Africa Enterprise Fund, IFC's vehicle for direct investments in small enterprises, has also expanded significantly. These direct investments are complemented by IFC's support facilities: the Africa Project Development Facility and the African Management Services Company.

In some areas, IFC has not met expectations. It has not yet reached its potential in financing private infrastructure projects, especially in comparison with IFC activity in these sectors in other regions. This has been due in large part to the slow pace of privatization and of the reforms needed to encourage private participation in infrastructure.

IFC's strategy in Africa follows several lines that respond to the widespread need for more effective private sector development. The strategic objectives are to mobilize savings and improve access to finance for business expansion, to build the capacity of African businesses to compete in open markets, and to establish the basic physical infrastructure on which all businesses depend. IFC has had some success in meeting the first two objectives; it has been a leader in achieving the third, but in regions outside Africa. As a result, IFC will not only expand its efforts to develop the financial sector and support small businesses but will also greatly expand its activities in private infrastructure development and finance to support the liberalization of these sectors now taking place across Africa.

IFC will thus target its resources to these three areas in the following manner:

- IFC will build African financial sectors through direct investments, technical assistance, advisory services, and greater collaboration with sectoral reform programs of the World Bank.
- IFC will support indigenous entrepreneurship by strengthening and focusing SME financing programs and by expanding and rationalizing the structure of support facilities.
- IFC will rehabilitate and expand physical infrastructure through project finance, privatization advisory services, and technical assistance.

These three areas constitute the basic foundations of private sector development and reflect the needs of virtually all the countries in the region; individual countries also have specific financing and other demands for IFC assistance. IFC will continue to support other sectors with comparative advantage, in projects that have a substantial development impact and a strong demonstration effect. In its country focus, IFC will concentrate on those countries in which governments are instituting effective reforms and in which there is potential for rapid growth in private investment.

Supporting this sectoral and country focus will be a series of organizational changes to build the capacity of the field locations: IFC will establish three regional hubs in Abidjan, Nairobi, and Johannesburg; improve the functioning of SME financing by fully integrating the Africa Enterprise Fund into IFC operations; establish regional priorities with dedicated staff in IFC's industry departments; and refocus the organization of the Africa regional department.

IFC's operations in Africa have been a source of innovation within the Corporation. This innovation will continue with the extension of options for lending in local currencies, more extensive use of quasi-equity instruments, and incorporation of World Bank instruments into its operations, such as partial risk guarantees for commercial lending. Greater collaboration within the World Bank Group has already yielded substantial results and can be expanded to take advantage of opportunities for joint projects and sectoral initiatives.

In its role as the most important development partner for the private sector in Africa, IFC will build on its impressive track record and help overcome further obstacles to private sector development. By fostering greater private investment in Africa, IFC can help improve the lives of citizens and alleviate poverty throughout the region.