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EXECUTIVE COUNCIL
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Accra, GHANA

EX.CL/345 (XI)

REPORT OF EXPERTS ON THE FRAMEWORK FOR FOREIGN PRIVATE INVESTMENT JOINTLY ORGANIZED BY THE AUC AND UNIDO IN ADDIS ABABA, ETHIOPIA, FROM 12 TO 13 MARCH 2007

PRESENTATION NOTE ON THE EXPERTS GROUP MEETING ON INVESTMENT FOR AFRICAN PRODUCTIVE CAPACITY

1. Still, in preparation for the January 2008 Summit on Industrialization, the Commission organized jointly with UNIDO an expert group meeting on Investment for African Productive Capacity in Addis Ababa on 12-13 March this year. The objective was to bring together African stakeholders from both the public and private sectors to identify the main barriers to the flow of investment resources needed for the development of productive capacity and to formulate a regional programme to remove these barriers. Participants included some Ministers, RECs, African institutions, private sector, and development partners.

2. A proposal based on surveys of foreign investors carried out in fifteen sub-Saharan countries by the UNIDO African Investment Promotion Agency Network (AfrIPANet) was presented for discussion. It consists of an investment monitoring platform, capacity building to use the platform and targeted action to maximize the impact of FDI to stimulate domestic investment.

3. The key feature of the meeting was the launching and demonstration by UNIDO and Microsoft of the investment-monitoring platform designed to enhance communication between governments in Africa and investors. By providing greater information and transparency, it is hoped that the software will facilitate more informed investment decision-making and deeper partnership between governments and business towards sustainable development in Africa. The platform will be a key component of AfrIPANet initiative and will enable African Investment Promotion Agencies (IPAs) to formulate better strategy, conduct evidence based policy advocacy and provide more detailed and useful information for potential investors. By gathering direct evidence and data on factors such as behaviour and expectations of investors, sectoral growth and the impact of different types of investment on local economies, the existing investment knowledge gap in Africa is addressed. The provision of accessible and reliable firm performance data can also contribute towards lowering the risk of doing business in Africa by reducing uncertainty and transaction costs.

4. The meeting concluded that since investors are aiming at higher economies of scale where trade and investment regimes between neighbouring countries are becoming more consistent, effort should be deployed in implementing a Regional Investment Code. There is also scope for developing a regional approach to regulating anti-competitive behaviour and monopolies.

EX.CL/345 (XI)

EXPERT GROUP MEETING ON INVESTMENT FOR AFRICAN PRODUCTIVE CAPACITY

MONITORING INVESTMENT FLOWS
CALIBRATING INVESTMENT GOVERNANCE
ENHANCING INVESTMENT IMPACT ON LOCAL ECONOMIES

12 and 13 March 2007
Addis Ababa, Ethiopia

1.0 Background

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The High Level Expert Group Meeting (EGM), held in Addis Ababa on 12-13 March 2007, was sponsored by the African Union (AU), the Economic Commission for Africa (ECA), NEPAD and UNIDO. The objective of the EGM was to bring together African stakeholders from both the public and private sectors to identify the main barriers to the flow of investment resources needed for development of African productive capacity and to formulate a regional programme to remove these barriers.

The UNIDO African Investment Promotion Agency Network (AfrIPANet) produced concrete proposals based on surveys of foreign investors in fifteen sub-Saharan countries as a basis for discussion by the EGM. The proposals were derived from the conclusions and recommendations of the Third AfrIPANet meeting of June 2006 in Johannesburg.

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The outline of a regional programme, building on from the Johannesburg meeting, was presented to participants in the EGM in Addis Ababa. Presentations were organized in nine of the AfrIPANet member countries and inputs and recommendations from stakeholders (companies, government institutions, chambers of commerce, trade associations etc.) were integrated into the proposal. The proposal which consists of the following three components:

1. An investment monitoring platform based on enterprise-level survey data combined with other UNIDO and third party databases. It would assist industrial enterprises in making more informed management decisions that lead to expanded business operations, new partnerships, facilitated access to finance and employment creation. For government institutions, it would provide the means to conduct evidence-based policy advocacy, to measure the response of investors to policy interventions, to identify trends and to compile indicators that can assist both private sector decision makers and public sector policy makers.

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2. Capacity building at country level to ensure that the relevant institutions acquire the capability to use the monitoring platform effectively and bring transparency to public-private sector dialogue about business activities and improve investment governance in the countries of the region.

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3. Targeted action to leverage FDI for maximizing its impact on the host economy through the stimulation of domestic investment. FDI in the manufacturing sector is used as the engine to spur improvements in the products and services of domestic suppliers, improve local competitiveness and help them get a foothold in international markets.

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The presentations at the EGM included a demonstration of how firm-level data on foreign investment performance can be used to assist in designing effective public policy to support the mobilization of private investment. The provision of accessible and reliable firm performance data can also contribute towards lowering the risk of doing business in Africa by reducing uncertainty, transaction costs, and providing forward indicators, currently lacking in most African countries.

The Microsoft Corporation announced its decision to partner with the initiative at the EGM and provide the technical expertise for designing and rolling out the investment monitoring platform. The Chartered Institute of Purchasing and Supply (CIPS), based in South Africa and with 9,000 members throughout the continent, presented how its membership's linkages and methodologies can support the programme in developing deeper local supply chains to enable leveraging of FDI to stimulate domestic investment. The African Venture Capital Association (AVCA), with around 100 Africa-based member funds, also confirmed its intention to partner with the initiative by assisting with mobilizing equity funds for investing in opportunities that arise from the supply chain development component of the programme.

During subsequent discussions, both public and private sector participants in the EGM voiced their concerns about many aspects of investment including the prevailing business climate. Many commented very positively about the opportunity the meeting provided for exchanging views with different stakeholders. These views were recorded and consolidated as general recommendations for presentation to the Conference of African Ministers of Industry (CAMI) and the AU Summit. The public sector was represented both at the policy level (the Minister of Industry, Mines and Technological Development, Cameroon and the Minister of Tourism, Trade and Industry, Uganda and the Permanent Secretary, Ministry of Trade and Industry, Kenya) and at the institutional level (Investment Promotion Agencies from Cameroon, Côte d'Ivoire, Ethiopia, Ghana, Kenya, Madagascar, Nigeria, Tanzania, Uganda, Zambia) and at the regional level (ECOWAS, SADC and COMESA). The private sector was represented both by representatives of employers' organizations (African Business Round Table, National Confederation of Employers of Senegal and others), as well as by individual CEOs of small and large companies.

A drafting group representing the different stakeholders in the investment promotion and implementation process from among EGM participants, defined the issues that the regional programme should address and specified the parameters of the outline programme.

1.1 General Conclusions of the Round Table Discussion

Four overarching conclusions were reached in the roundtable discussions of the Expert Group Meeting (EGM). First, it was stressed that there is a need to ensure African ownership of the next and more ambitious phase of the AfrIPANet development programme. Second, the EGM identified the critical importance of capacity building at all levels of government and intergovernmental institutions and in the private sector so that all participants in the economic development process fully understand and appreciate the proper roles of domestic and foreign investment. It was stressed that African countries need a thriving private sector in order to accelerate their development. A third

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general conclusion was the recognition and acknowledgement by all participants in the EGM of the central role of accurate and current firm-level information about investors, their business performance and perceptions of the investment climate, in improving governance and reducing actual and perceived business risk in Africa. A final and related theme was the importance of having reliable firm-level performance indicators, if those engaged in investment promotion are to successfully persuade the world's media that there are many business success stories in Africa. Therefore, seven themes were identified as encapsulating the discussion in the EGM, namely ;

- Maximizing the impact of FDI and developing the value chain approach.
- Development of domestic investment
- Information system and monitoring platform.
- Access to finance and rating systems.
- Public private partnerships and governance
- Infrastructure, and.
- Regional economic integration

The Way Forward

The meeting recommended the expansion of the AfrIPANet initiative into an African programme. It is understood that AfrIPANet will not only be expanded geographically across almost the entire African continent but also in terms of thematic issues. In order to keep the programme focused and ensure complementarities between its modules not all issues can be addressed to the same extent.

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It was agreed that more importance needs to be assigned to the role of FDI in the private sector-driven growth strategies of countries in the region. Rather than treated simply as a component, FDI must be addressed as key *driver* of these strategies because of its critical function as a source of innovation. If the magnitude of FDI flows into SSA is seen in this context, it becomes more important to place greater emphasis on the choice and targeting of investor types according to the impact they have on the domestic economy. ¶
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It was agreed that IPAs need to develop the capacity to be able to respond to the requirements of the new generation of stand-alone foreign entrepreneurs with operations in Africa, particularly those which exhibit high sales growth, employment generation and/or diaspora mobilization. The increasing diversity of foreign investors, their motivation and variety of impact on the region mean there is an urgent need to develop a method for rationalizing incentives to match investors' contributions to economic development. The hyper-growth of for example, export-oriented manufacturing firms from Asia indicate that, at least in the immediate term, the investment conditions are already favorable. Publicizing this fact could be sufficient inducement for attracting new arrivals.¶
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The presentations at the EGM included a demonstration of how firm-level data on foreign investment performance can be used to assist in designing effective public policy to support the mobilization of private investment. The provision of accessible and reliable firm performance data can also contribute towards lowering the risk of doing business in Africa by reducing uncertainty, transaction costs, and providing forward indicators, currently lacking in most African countries.

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It was agreed that more importance needs to be assigned to the role of FDI in the private sector-driven growth strategies of countries in the region. Rather than treated simply as a component, FDI must be addressed as key *driver* of these strategies because of its critical function as a source of innovation. If the magnitude of FDI flows into SSA is seen in this context, it becomes more important to place greater emphasis on the choice and targeting of investor types according to the impact they have on the domestic economy.

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It was proposed that investment promotion efforts should be channelled towards the identification of joint ventures enhancing the capability of local companies through the transfer of technological and management know-how. To this end, it was suggested that many local firms require training in partner identification and negotiating joint venture agreements with foreign investors. Mutual misunderstandings between local and foreign partners are still reported to be too common.

Building on from the findings of the Africa Foreign Investor Survey that there are many opportunities for increasing local procurement by TNCs, it was proposed that government support is necessary for strengthening domestic industry-TNC linkages. Private sector initiatives are already underway to deepen local supply chains of large international subsidiaries (Business Action for Africa/International Business Leaders Forum). The emergence of these initiatives testifies to the fact that it is often more efficient to allocate scarce resources on engaging traditional TNCs that are already invested, to maximize their positive impact through enhancing collaborations with local firms and suppliers, rather than trying to attract new TNCs.

One of the major constraints on investment in Africa is the small size of individual national markets. More needs to be done through inter-governmental initiatives to encourage cross-border investment within Africa. The African Productive Capacity Initiative (APCI) was welcomed as a statement of intent.

1.3 Development of domestic investment

A fundamental assumption under-pinning the EGM discussion is that domestic and foreign investment are equally important drivers of economic development and should be treated as such. Accordingly, increasing support for the local SME sector, especially agro-industry, to unleash employment and growth effects is an entirely appropriate part of promoting productive investment more generally.

Investment promotion activities need to be mainstreamed into the broader economic development agenda. If inward FDI is to have a significant impact on the domestic economy it should trigger domestic investment growth. It was emphasized that the investment promotion agenda should therefore be at the core of the development agenda which may require closer cooperation (if not actual merging) of institutions and sharing of capacities between those engaged in wider social and economic development and in investment promotion.

Developing strategies to maximize the use of local productive capacities and hence to reduce the dependency on imports were considered to be another important objective for the regional investment development programme. The potential to rely upon domestic supply is far from being fully used and The Africa Foreign Investor Survey revealed that investors from the North by comparison with those from the South utilize a higher portion of locally produced inputs. This suggests there is considerable scope for improving supply chain linkages within the domestic economy, particularly with manufacturing firms from the South. The expertise developed in UNIDO's programme for industrial subcontracting and partnership exchanges (SPXs) could be drawn on to provide technical assistance in support of these local supplier.

Increasing the productivity of all firms through improving capacity and resource utilization, training and extension of the APCI, it was agreed, would contribute to attracting increased flows of both domestic and foreign investment to Africa.

1.4 Information system and monitoring platform

It was generally recognized by the EGM, that in order to develop effective and flexible investment promotion strategies and to support investors to make rational investment decision, it is necessary to have access to a wide variety of reliable data to inform decision-making. Otherwise, as one participant observed, "it would be like talking in the dark". It was also noted that surveys of firms reflect 'investors´ voice' and should therefore, as part of a policy of equal treatment of established investors, include both domestic and foreign companies in the sample.

The information platform supporting AfrIPANet should be configured to enable firms to carry out feasibility analyses of different investment locations. It should enable comparisons of the actual operating performance of enterprises in different countries to facilitate the identification of new market opportunities. The information platform should, accordingly, be accessible to companies and assist with their decision-making and market development scenario planning. The systematic assessment and monitoring of the responses of different types of firms, including domestic businesses, to changes in the investment climate helps identifying country-specific impediments to investment. A system of governance indicators and performance benchmarks tailored to the specific investment opportunities afforded by a given location would provide the capacity to customize services and support programmes for each group identified as a promotion prospect.

It was felt that it was necessary for IPAs to have both generic capabilities and a sub-sectoral focus in order to fulfil their function properly. As the host government's first official point of contact with most foreign investors, it is crucial that IPAs project an image of efficiency. The EGM considered that the introduction of e-government services for tracking and processing investor enquires and business registration should be a priority for IPAs. Thus, the strengthening of management information systems (MIS) within IPAs or other country level stakeholders needs to be addressed, especially if a seamless integration with the platform is expected.

The EGM expressed concern about the generally negative media coverage of business activity in Africa which it was felt deterred prospective investors from the region. There was much discussion about the need to develop a pro-active communication strategy for handling the media and publicising success stories of investment in Africa. It was suggested that IPAs should develop a media strategy and that there might be scope for sharing experiences within AfrIPANet. It was remarked that a direct link between private investment in productive capacity and improvement in the overall quality of life of society; or a direct link between FDI and the growth of local incomes and the invigoration of the domestic economy are not always apparent to the general public. This is especially true for LDCs where poverty is widespread and income distribution highly skewed. This breeds contempt and suspicion of private business activity in the public at large and of foreign investors by local businesses. Private investment driven growth has to be explained and understood and its implications, both positive and negative, made transparent. This will engender broader support from the population and greater social responsibility from the private sector.

There was general agreement that the scope of the investor survey, database and information platform should be extended to cover countries in Southern and Central Africa, the Mediterranean Rim as well as Central Asia.

1.5 Access to finance and rating systems

There was considerable debate about the availability of investible funds in Africa and explanations for the apparent scarcity of medium to long-term investment capital for private businesses. While it was recognized that a few of the larger commercial banks are beginning to actively extend credit to SMEs, these initiatives need to be strengthened and broadened to embrace more of the banks operating in the region. There was also a suggestion that in some countries there is a need for selective government intervention to stimulate consolidation of domestic banks and financial institutions so that lending capacity is enhanced.

A particular concern is the limited coverage of African countries by rating agencies as this affects the underlying cost of credit to private business. It was suggested that the new investment monitoring platform should be able to provide data that is of interest to the rating agencies and thereby encourage them to extend their coverage of the region.

A more immediate priority is implementing and sustaining a credit rating system that covers at least medium-sized companies and that allows financial institutions to better evaluate financial risk. The technical details of such a scheme were beyond the remit of the EGM but it was proposed that the investment monitoring platform should be designed to accommodate, as much as possible, the data requirements of some aspects of financial risk appraisal techniques.

The rapid growth and role of private equity and venture capital funds in the global capital market attracted a lot of interest. It was agreed that there was considerable scope for private equity funds at a regional and continental level in Africa, especially as these funds combined both debt and equity financing. Some participants expressed concern about governance issues and protection of minority shareholder rights in capital structures involving private equity funds.

Against this backdrop, creative formulations are required that synergize technical assistance, FDI promotion and equity fund activity. There was general recognition of the need for well-designed technical assistance programmes to promote better linkages between businesses operating in Africa and private equity funds, and to strengthen the regulatory capacity of national governments to monitor this growing area of activity. A further suggestion by the EGM, to mobilize a portion (around ten percent) of national domestic social security funds for investment in productive capacity, if implemented, would require even more stringent regulation. The record of state-controlled development finance institutions in Africa is not encouraging, though outsourcing funds management to private financial institutions under the correct regulatory regime maybe more promising. These measures were deemed to be an adequate response to the increased interest of private equity funds in SSA, including the participating African Venture Capital Association (AVCA).

1.6 Public private partnerships and governance

It has been well-established by a number of surveys, including the UNIDO African Foreign Investor Survey, that stability and predictability of macro-economic policy and the investment climate are important for sustaining and attracting new business investment. Adopting governance arrangements that encourage investment can stimulate or intensify a virtuous circle in which investment inflows increase productivity, expansion and long-term growth and, thereby, draw in even more investment by improving the internal dynamics of the market.

The importance of getting the business environment “right” was at the center of the discussions and the imperative to address both government and market failures that prevent individual economies from participating in regional and global markets was underscored many times. Unlike the situation in industrialized countries where market-supporting institutions provide accurate public information and set standards allowing market agents to assign resources more efficiently, such institutions are virtually absent in Africa, which entails that many market failures remain un-addressed. Therefore many informational constraints, i.e. lack of information about the host country's physical and human resources, business climate, available skills, technical services and infrastructure facilities still prevail. Market failures are often coupled with government failures that often appear in the form of government-imposed barriers to entrepreneurship, macroeconomic instability and high inflation, a large tax burden, corruption, unclear and badly enforced legal codes etc. Prospective foreign investors are also very sensitive towards entry procedures and requirements concerning their daily business operations.

Participants in the EGM also acknowledged that there was often a gap between the investment climate and investors‘ expectations. Clearly, investment promotion agencies have a role to play in advising governments on how to better meet these expectations. The UNIDO survey data, embedded in the investment monitoring platform, can strengthen the IPAs’ policy advocacy role by providing empirical evidence of the varying benefits of FDI impact.

In this context, it was more or less undisputed that IPA one-stop services are desirable to reduce cumbersome licensing requirements and other forms of red tape. Yet, there was also some scepticism expressed about the reality of the provision of one-stop investment promotion services that become ineffective if the accord and respect of other national institutions is not warranted. The EGM agreed that there is much that still needs to be done to make one-stop investment promotion services the norm across Africa. Several examples of single-window schemes being undermined by line ministries were provided to the meeting. Those responsible for implementing the local conditions of investment that the IPA presents to international investors must adhere to those conditions. For example, if the IPA and the revenue authority are giving investors different pictures of the tax framework, the IPA losses its credibility and its ability to influence investor decisions (independently of the attractiveness of the tax regime). This places on them a “national coordination” responsibility that requires the IPA to convince these stakeholders to rally around a common strategy.

The investment monitoring platform will provide a powerful tool for identifying any shortcomings in the investment climate of a country or region. Particular attention was drawn to the need to harmonize the political priorities and interventions of senior ministers with industrial development policy in order to avoid investors being deterred by apparently arbitrary changes in direction. A number of examples were cited in the meeting.

It was agreed there was considerable scope for improving the implementation and legal enforcement of policies and regulations affecting businesses. The enforcement and protection of property rights is a major concern in many countries.

1.7 Infrastructure

No one disputed that efficient infrastructure is a prerequisite for trade and investment growth. However there was considerable debate about prioritisation and the lesson to be learned from the experiences of Asian countries in integrating public investment in physical infrastructure and attracting inward investment. It was agreed that more experimentation and innovation is required to mobilise funds within a public-private partnership framework for infrastructure development in Africa.

Examples identified by the EGM, of where infrastructure investment is required, are in support of rural-based agro-industries to provide links to markets, and investment in business services and technology parks to enable market-driven innovations. There is also a more general requirement to invest in upgrading and enhancing vocational training provision across the region.

1.8 Regional economic integration

One of the most frequently voiced explanations for the low productivity and poor rate of investment in SSA countries is the small size of domestic markets. Consequently, there was unanimous recognition of the need to encourage cross-border investments in order to allow firms to achieve economies of scale. To achieve this objective, the capacity and authority of Regional Economic

Communities (RECs) to simplify cross-border trade and investment needs strengthening. The regional initiatives of the African Union to facilitate cross border trade through the introduction of a single administrative document (SAD) and harmonize taxes and customs procedures were broadly welcomed by the EGM. The meeting urged the AU to assign more resources to this potentially very significant initiative.

Many at the EGM felt it was time for additional resources to be invested in regional trade facilitation programmes and export promotion efforts. Small and fragmented African markets have to be opened up on a regional basis to increase attractiveness for investors. The UNIDO Survey provides some indications that a new breed of regional market-seeking investors with high quality characteristics is evolving. This group is aiming at higher economies of scale and will thrive as trade and investment regimes between neighbouring countries are becoming more consistent. Effort needs to be invested in implementing a Regional Investment Code. There is also scope for developing a regional approach to regulating anti-competitive behaviour and monopolies. Specifically in West Africa, there is an urgent requirement for a high level inter-governmental initiative to rationalize and simplify the complex web of overlapping regional trade agreements.

The final outcome of the EGM round-table discussion was recognition of the potentialy important role IPAs could play in fostering moves towards greater regional economic integration through collaborative networking.

2007

Report of Experts onthe framework for foreign private investment jointly organized by the AUC and UNIDO in Addis Ababa, Ethiopia, from 12 To 13 March 2007

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