



# Aide Mémoire



## Information Platform for Investment in African Productive Capacity

Monitoring Investment Flows  
Calibrating Investment Governance  
Enhancing Investment Impact on Local Economies

*Expert Group Meeting*

*12 and 13 March 2007*  
Addis Ababa, Ethiopia

## Background

Most of the economies in Sub-Saharan Africa are striving to attract higher levels of international investments. They see the potential of international investment, in particular foreign direct investment (FDI), in supplementing domestic savings and, more importantly, in bringing in skills, know-how, technology and market access. Nevertheless, FDI in Africa is still limited and the sparse FDI inflows are mostly directed towards natural-resource exploitation in only a few resource-rich African economies. Other countries (and other sectors within the resource rich-countries) are marginalized by the investment considerations of transnational corporations (TNCs) and other foreign investors.

Improving the investment climate to accommodate greater inflows of FDI and leveraging of this FDI to mobilize more domestic investments requires political stability and predictably, macro-economic stability, upgrading of physical and institutional infrastructures and interventions to enhance positive market forces. The implementation of the necessary policy measures require a profound understanding of the dynamics and characteristics of the small portion of FDI in Africa going into sectors other than hydrocarbon and mineral extraction. Gathering direct evidence on the behaviour of investors, such as the trends in investment flows; enterprise performance; sectoral growth; investor expectations; impact of different types of investors on employment, skills development, technology diffusion and domestic investment, provides a map as to how investors respond to the business environment and how, eventually, impact the economy. A conducive environment, combining the right policy and incentive framework with competent, pro-active and transparent governance accelerates the rate of investment and enhances its impact in terms of creating new productive capacity, employment and improving competitiveness. In this context, the countries' ability to monitor the effects of policies and actions will be crucial to harness the potential of foreign investment to sustain local development, and accordingly secure the political consensus for continuous governance improvements.

In order to address these challenges UNIDO initiated a network of African Investment Promotion Agencies (IPAs) to develop strategies for enhancing the inflows and effectiveness of FDI. The Africa Investment Promotion Agency Network (AfrIPANet) was launched in 2001 and is made up of IPAs from countries of the region with ongoing UNIDO integrated programmes as well as the UNIDO Investment and Technology Promotion Offices (ITPOs). The network is supported by an Advisory Panel composed of chief executives of companies with operations in the region, academic researchers studying the dynamics of FDI in Africa and international experts. The network currently has 15 member countries<sup>1</sup> but its membership grows as new UNIDO programmes in the region are initiated. During this biennium the Network will be extended by 16 new countries<sup>2</sup>.

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<sup>1</sup> Burkina Faso, Cameroon, Côte d'Ivoire, Ethiopia, Ghana, Guinea, Kenya, Madagascar, Malawi, Mali, Mozambique, Nigeria, Senegal, Uganda, United Republic of Tanzania.

<sup>2</sup> Angola, Benin, Burundi, Congo, DR Congo, Gabon, Gambia, Lesotho, Liberia, Mauritania, Niger, Rwanda, Sierra Leone, Sudan, Togo, Zambia.

A bi-annual Survey of foreign investors is also conducted with the objective of compiling plant-level data that can be used as a basis for formulating investment promotion strategies. The 2001 and 2003 surveys, covering over 800 foreign owned companies in 10 countries, allowed first insights into the motivations, characteristics, perceptions and plans of foreign investors. The analysis revealed sectoral growth patterns as well as a picture of the IPAs' performances. It was also possible to gain a better appreciation of the new investment that existing foreign investors were prepared to make. Based on these results, a pilot aftercare service was developed and tested in Ethiopia, which will now be used as a model in other countries of the region.

The 2005 survey covered 15 countries and 1200 respondents. The 2005 UNIDO Africa Foreign Investor Survey Report can be accessed at [www.unido.org/afripanet](http://www.unido.org/afripanet). It was recognized by AfrIPANet members and academics as "path breaking", as it sheds light on the increasing diversity of foreign investors<sup>3</sup> in terms of dynamism, impact on local economies<sup>4</sup> with respect to employment and value added, perception of risks and location factors<sup>5</sup>. This analysis provides policy makers with essential information to better target investors, leverage their impact on local development, tailor the required services and policy interventions. The findings emerging from the 2005 UNIDO survey reflect new trends such as increasing proportion of South investors, stand-alone foreign entrepreneurs (FEs), and the changing profile of foreign investors over time. These trends underscore the growing importance of investor groups that currently are all but ignored by African countries in their investment strategies. In particular the paucity of new arrivals among 'traditional' TNCs (diversified European and U. S. origin TNCs entering established sub sectors) and the growing relevance of FEs and South TNCs in emerging sectors, seems to signal the need to re-examine the promotion strategies and priorities of IPAs.

The survey results were presented at the AfrIPANet III Conference held in Johannesburg in June 2006. AfrIPANet III was jointly organized with NEPAD and the Department of Trade and Industry (DTI) in South Africa. The three-day conference prompted a wide debate among the participants<sup>6</sup> on how to use the

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<sup>3</sup> Groupings in terms of organization structure (large TNCs, small TNCs, stand-alone entrepreneurs), origin (north, south), market orientation (local, regional global market-seeking), sector (primary, secondary, tertiary), share structure (joint venture, wholly-owned), start-up period (before 1980, 1980s, 1990s, after 2000) .

<sup>4</sup> Know how and technology dissemination (training expenditures per worker, R&D expenditures per worker); Economic growth (past and future sales and employment growth, future investment, past and future export growth); Local sourcing and interaction with local suppliers (efficiency upgrading, product quality upgrading, subcontracting (as % of sales), local material supply (as % of total sales)).

<sup>5</sup> A total of 26 factors about business climate conditions, market conditions, local resources, and other location factors.

<sup>6</sup> Participants in the Johannesburg meeting:

- Managers/Directors of the 15 Member IPAs
- UNIDO ITPOs
- Advisory Panel – John Dunning (Professor at University of Reading, UK and Rutgers University, New Jersey, USA), John Henley (Professor at the University of Edinburgh), Jagjit Srani (Co-Director, Centre of International Manufacturing, Cambridge University), Stephen Gelb (Executive Director of Economic Development Growth & Equity Institute), Nicholas Davis (Operations Manager, Oxford Investment Research (OIR)), Yew-Fook Phang (Malaysian Industrial Development Authority)
- Companies – UNILEVER (represented by Dennis Lewis, Board Member of UNILEVER Africa, Middle East and Turkey), Cadbury Schweppes (represented by Bunmi Oni, CEO Cadbury Schweppes Nigeria), JH Madagascar (Textile)
- Regional organizations – African Union, COMESA, EAC
- International organizations – Investment Climate Facility (Mr. Hugh Scott, Investment Climate Facility (ICF) and Department for International Development (DFID)), Mr. Ken Kwaku (Member of the ICF Board of Trustees and Advisor to former President Mkapa of Tanzania), European Commission (Mr. Andrea Rossi), EU-SADC Investment Promotion Programme (Mr. Paul Bishop)
- Financial Institutions - International Finance Corporation (IFC), European Investment Bank (EIB), Aureos Capital (CDC Group)

Survey's findings to support the African IPAs, particularly to reinforce their policy advocacy role and to strengthen their ability to implement investment promotion and servicing strategies. The discussions and three EGMs held during the conference yielded the outlines of a Regional Programme hinging on the creation of an operational Platform to support private sector investment and enhance investment governance in the countries of the region.

## The Regional Programme for Africa

The Regional Programme for Africa addresses the problem of slow growth of employment opportunities and income generation in the sub-Saharan region of Africa. Its objective is to assist African Governments to attract new FDI inflows and expand follow-up investments of firms that are already present in the region. The implementation of the Programme will maximize the impact of FDI on the economy, trigger a sustained and broader process of growth and foster the countries' integration into the global economy. The Regional Programme will have a duration of four years and will cover 31 SSA countries, with an estimated total budget of €23.2 million.

The programme is structured in three components with a view to provide the participating countries with a mechanism:

- To assess the investment climate,
- To calibrate policy measures, regulatory interventions and targeted services aimed at improving the investment climate,
- To monitor the effects of these policy measures and interventions on investor actions, performance and impact,
- To increase foreign investment flows and capture their potential to connect and stimulate the local private sector.

The first component focuses on **monitoring** the investment climate. It is based on the consolidation and expansion of the AfrIPANet Survey. It encompasses collection and processing of direct evidence on enterprise behavior (response to the prevailing investment climate, intentions, interactions with the local productive sector) and its integration with information needed by investors to assess risks and identify opportunities. On the basis of such a unique data set, indexes will be derived to capture the essential components of the investment climate (perception, services, confidence, investment dynamics, impact on local economy) and establish a reference benchmark for future country driven enhancements.

The second component aims at the development of local competence for **managing** and calibrating the investment climate, providing the countries with the possibility of monitoring the inter-dependence between changes in policies and services and enterprise behavior. The ability to measure the effects of policies undertaken and to adjust them accordingly is a crucial element for the sustainability of the process. As the countries will be able to demonstrate the benefits of FDI and domestic private investment, they will be able to secure the political support for a continuous investment governance reform process, enhancing the investment climate.

The third component of the programme addresses the complex interaction between foreign investment and the development of domestic industry. It will focus on building institutional capabilities to manage and coordinate investment inflows, **leveraging** their impact on the local economies through SME development, subcontracting and supply chain development and technology management and road-mapping. This component will involve partnerships with large TNCs established in Africa.

In this connection, support to Regional Economic Commissions (RECs) will be included in the programme, so as to strengthen regional trade potential and to encourage regionally oriented investors.

## **The EGM**

The EGM will bring together African stakeholders at the country and regional levels to agree on a set of activities over the next four years that will drive Africa's industrialization agenda. Participants will include Ministers, Heads of Regional Commissions and other African institutions along with the private sector and development partner representatives.

The outcome of the EGM is expected to be a regional programme focusing on the role and contributions of local and foreign investors on industrial development, trade and prosperity. Starting from the initial efforts of African Investment Promotion Agencies (IPAs) in Johannesburg in June 2006, the themes and priorities set by African stakeholders will be integrated into the final design of the regional programme and a consensus document presenting its essential features will be crafted.

The first day morning will be devoted to presentations of the key features of the proposed Programme to stimulate deliberations of the afternoon round table (RT) session. The RT will allow government and private sector representatives to interact with each other, discuss their views on existing weaknesses and possible remedial options, outline ways in which a monitoring and management system can fulfill their information needs and lead to the provision of desired services.

The second day discussions will summarize the points and arguments of the RT and build consensus on the set of activities to be implemented within the proposed Programme and the content of the Platform. A drafting committee will be charged with the responsibility of finalizing the Programme in accordance with the deliberations and formulate an outline to be presented for endorsement in the last session of the second day.

The final Programme, the output of the EGM, will be submitted to the AU summit in June 2007 for adoption as a priority for the industrialization of Africa. When fully funded, it is anticipated that the programme will lead to a marked increase in investments, create new productive capacity and enhance the competitiveness of the region. It will also stimulate improved trade conditions and expand employment opportunities.

## Participants

<b>Organizers</b>	<p>African Union (AU)  UN Economic Commission for Africa (UNECA)  New Partnership for Africa's Development (NEPAD)  United Nations Industrial Development Organization (UNIDO)</p>
<b>International Advisory Group</b>	<p>John Dunning (Professor at University of Reading, UK and Rutgers University, New Jersey, USA)  John Henley (Professor at University of Edinburgh)  Jagjit Srani (Co-Director, Centre of International Manufacturing, Cambridge University)  Tim Rose (Strategic Development Manager, Northwest Development Agency)  Ken Kwaku (Investment Climate Facility and Special Advisor to former President Mkapa, UR Tanzania)  William Kalema (Trustee, Investment Climate Facility)</p>
<b>Private Sector Representatives</b>	<p>Africa Business Round Table (ABRT)  Equity funds (AVCA, ACTIS, AUREOS)  Business action for Africa (BAA)  CEOs of companies that have activities in Africa (large transnational corporations and smaller international investors from both developed and developing countries)</p>
<b>Government Representatives</b>	<p>Ministers of Industry or Planning from African countries  Heads of Investment Promotion Agencies (IPAs) from African countries</p>
<b>African Stakeholders</b>	<p>African Development Bank (AfDB)  Southern African Development Community (SADC)  Common Market of Eastern and Southern Africa (COMESA)  East African Community (EAC)  Economic Community of West African States (ECOWAS)  L'Union Economique et Monétaire Ouest-Africaine (UEMOA)  Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC)  Communauté Economique des Etats d'Afrique Centrale (CEEAC)  Development Bank of Southern Africa (DBSA)  ECOWAS Investment Bank  PTA Bank  East Africa Development Bank (EADB)  Bank of Industry, Nigeria  ECO Bank  National Development Corporation, Tanzania  African Economic Research Consortium  RSA-Nigeria Chamber of Commerce  United Bank of Africa</p>
<b>International Development Partners</b>	<p>Investment Climate Facility (ICF)  European Commission  Development Agencies and Representatives of Foreign Ministries from donor countries  Organization for Economic Cooperation and Development (OECD)  The World Bank Group  Islamic Development Bank (IDB)  United Nations Development Programme (UNDP)</p>

# Preliminary Programme

## Monday, 12 March 2007

**09:00** Arrival and registration

**09:30** Opening

Statement by organizers:

- **African Union (AU)**  
Elisabeth Tankeu, AU Commissioner for Trade and Industry
- **NEPAD**  
Firmino Mucavele, Executive Head
- **United Nations Economic Commission for Africa (UNECA)**  
Abdoulie Janneh, Executive Secretary
- **United Nations Industrial Development Organization (UNIDO)**  
Kandeh Yumkellah, UNIDO Director General

**10:00** Presentations

- **F. Mithat Kulur** (Chief of UNIDO Investment Promotion Unit)  
*The UNIDO Foreign Investor Survey: conclusions and recommendations for a follow-up Regional Programme*
- **Illustrations of different aspects of the proposed programme by UNIDO partners:**
  - *Overcoming market and government failures and information asymmetries – presenting and interactive platform for investment climate and investment impact monitoring*
  - *Managing the interaction between governments and the private sector to harness the full potential of Foreign Direct Investment (FDI)*
  - *Experience and success stories of strengthening IPA after care service activities – the example of Ethiopia.*
  - *Methodologies for strengthening and expanding foreign-local supply chains in Sub-Saharan Africa.*
  - *Providing alternative financing options for African SME projects linked to foreign investment*

## **Monday, 12 March 2007 (continued)**

### **14:30 Round Table**

Round Table discussion on information and capacity requirements to assist African Governments in attracting new FDI inflows and expand their beneficial impact on local economies. Perceptions of public and private sector decision makers on how a monitoring platform, based on enterprise level data, can respond to their respective needs and facilitate the expansion and greater positive impact of productive investment.

From the perspective of the public sector:

- How a monitoring platform can support policy making.
- Types of analysis of enterprise level behavior that can assist in measuring the consequences of public sector interventions.
- The utility of an information feed-back mechanism that facilitates:
  1. Efficient calibration of investment climate parameters,
  2. Design of public goods that motivate desired private sector actions,
  3. Brings transparency to the impact and effects of FDI on domestic investment and public well being and,
  4. Provides the means for precise evidence based advocacy

From the perspective of the private investors:

- How a monitoring platform can reduce investment risk and assist decision making.
- Types of enterprise level data, indexes, rankings and benchmarks that can reduce transaction costs for both foreign and domestic investors in Africa (guideposts that exist in more advanced economies for assisting investor decisions).
- How periodic survey data can strengthen consultation process between private and public sectors.

### **Panelists**

- **2 Ministers of Industry**
- **Head of an African Investment Promotion Agencies (IPA) representing AfrIPANet**
- **Representative of a Regional and Economic Commission (REC)**
- **CEO of the African subsidiary of large transnational corporation**
- **Entrepreneur from the SME sector**
- **Representative of the financial sector**
- **Representative of a private sector umbrella organization**
- **Representative of Business Action for Africa (BAA) / International Business Leaders Forum (IBLF)**

**Facilitator:** Ken Kwaku (Special Advisor to the Investment Climate Facility (ICF) Board of Trustees; Special Advisor to former President Mkapa, UR Tanzania))

## **Tuesday, 13 March 2007**

### **09:00 General Debate**

#### **Rapporteur 1, Representative of the public sector:**

Monitoring Investment and Benchmarking - the vision of policy makers, administrators, facilitators, service providers.

#### **Rapporteur 2, Representative of the private sector:**

Reducing risk perception and the cost of investing, improving performance, increasing impact of operations on local economies and improving interaction- the vision of the private sector.

### **11:30 Drafting Committee (during extended lunch break)**

**Finalization of the Regional Programme**

### **15:00 Presentation of the Model**

#### **Adoption of conclusions and recommendations**

- **NEPAD**
- **African Development Bank (AfDB)**
- **European Commission**
- **Donor Country Representatives**
- **Investment Climate Facility (ICF)**
- **United Nations Economic Commission for Africa (UNECA)**

## The Venue and General Information

<b>Venue:</b>	UNECA Headquarters, Addis Ababa, Ethiopia
<b>Languages:</b>	English and French, Interpretation provided
<b>Number of participants:</b>	40-50 persons
<b>Travel arrangements:</b>	All participants make their own flight arrangements. Those whose travel will be financed by the organizers should send details to the contacts below for payment authorization (UNIDO will cover the travel cost via the most direct and economic route and pay DSA (daily subsistence allowance) at the prevailing UN rate for the duration of the Conference).
<b>Accommodation arrangements:</b>	UNIDO will arrange block bookings upon confirmation of participation.
<b>Other:</b>	<p>The participants will be responsible for travel and all other expenses incurred in the home country incidental to travel abroad, passports, visas, the required medical examinations, inoculations and other such miscellaneous items, as well as internal travel to and from the airport of departure in the home country. Round trip air transportation for the most direct and economical route between the home country and Ethiopia will be arranged and paid for by UNIDO, in accordance with UNIDO's Financial Regulations. The participants should await their formal travel authorization and should under no circumstances purchase their own tickets. The participants shall cover any additional cost incurred upon deviations from the authorized route.</p> <p><b>UNIDO will not assume responsibility for the following expenditures in connection with the participants' attendance at the meetings:</b></p> <ul style="list-style-type: none"><li>• Costs incurred by participants with respect to any insurance, medical bills and hospitalization fees;</li><li>• Compensation in the event of death, disability or illness;</li><li>• Loss or damage to personal property;</li><li>• Purchase of personal belongings and compensation for damage caused to them by climate or other conditions.</li></ul> <p>Participants are requested to make their own arrangements if a visa is required for entry to Ethiopia.</p>
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