NEPAD's APRM and the Investment Climate in Africa

Emmanuel Nnadozie[1], Kavazeua Katjomuise[2] and Ralf Krüger[3]

Introduction

Doing business is challenging in a large number of countries across the African continent. Investors face difficulties in starting a business, getting requisite licenses, hiring and firing workers, registering property, obtaining credit, protecting investments and enforcing contracts. In 2007, of the 50 lowest ranking countries (out of 175) in the World Bank's *Ease of Doing Business Index*—which assesses entry regulation, building a warehouse, employment regulation, regulation of property transfers, legal rights and credit information, corporate governance, imports and exports, court efficiency, tax rates and compliance, and bankruptcy—32 are in Africa. Yet, despite the considerable obstacles to doing business and the slow pace of political and economic reform, some countries have registered significant progress since 2005. For instance, nine African countries—South Africa (29th), Mauritius (32nd), Namibia (42nd), Botswana (48th), Swaziland (76th), Tunisia (80th), Kenya (83rd), Seychelles (84th), Ghana (94th), Ethiopia (97th)—appear in the top 100 countries of the World Bank's 2007 index.[4]

The unfavourable investment climate in many African states results from poor governance, institutional failures, macroeconomic policy imperfections and inadequate infrastructure, as well as rampant corruption, bureaucratic red tape, weak legal systems and a lack of transparency in government departments. These and other factors have made it difficult for the continent to attract foreign capital and mobilise adequate and sustained levels of domestic private investment to attain the levels of growth necessary for massive job creation and poverty reduction. In general, it is believed that over the next 10 years an annual average growth rate of 7 percent is required to achieve the level of poverty reduction consistent with the attainment of the MDGs.

Achieving higher levels of investment in African countries is subject to an improvement in the macroeconomic environment, combined with an improvement in public infrastructure. The latter is critical to business for lowering production and transaction costs. Fortunately, many African countries have demonstrated substantial improvements in recent years including Mauritius, Botswana, Ghana and Tunisia. More fundamentally, good governance—the other dimension of a good investment climate—underpinned by strong and functional institutions, is critical for increasing domestic and foreign

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[1] Emmanuel Nnadozie is Professor of Economics and Chief, NEPAD Support at the United Nations Economic Commission for Africa (ECA), Addis Ababa, Ethiopia.
[2] Kavazeua Katjomuise is Economic Affairs Officer at the United Nations Economic Commission for Africa (ECA), Addis Ababa, Ethiopia.
[3] Ralf Krüger is Associate Economic Affairs Officer at the United Nations Economic Commission for Africa (ECA), Addis Ababa, Ethiopia.
[4] Doing Business in 2007 – How to Reform. Washington DC :The World Bank.. 2006.

investment. Both contribute towards a more favourable business environment by addressing coordination failures[5], promoting political stability, enforcing property rights, regulating economic activities, and upholding the rule of law.[6] In short, an increase in investment and private sector growth requires an institutional framework that supports a well-functioning market economy.[7]

To achieve this aim the African Heads of States established the African Peer Review Mechanism (APRM) in March 2003. A regional process under the New Partnership for Africa's Development (NEPAD), it is designed to promote good governance and institutional change, increase growth and generate sustainable socioeconomic development and greater regional integration on the continent. The mechanism is voluntary and self-monitoring. It targets institutional strengthening by improving the quality of political, economic and corporate governance in African countries and thereby promoting socioeconomic development. The five-stage process includes periodic reviews and benchmarking of the policies and practices of participating states. The review ascertains progress made towards achieving mutually agreed goals, as well as compliance with adopted political, economic and corporate governance values, codes and standards. The APRM's five stages include self-evaluation, external review, report preparation, peer review and dissemination of findings.

Given the APRM's purpose to improve the overall political and economic environment of African countries, it raises a number of questions about whether a successful and smooth APRM process is likely to have a positive impact on the business climate. Is it capable of creating a favourable investment climate in participating African countries? What impact will it have on the countries that have completed the review process? What lessons can be learnt from the implementation of the Mechanism for private sector development in Africa?

Since the APRM is essentially a new initiative and only three out of the 26 African countries that have acceded to the Mechanism have completed the review process at the time of writing, it is difficult to determine the impact of APRM on the investment climate. Hence, a further examination of the process is needed to shed light on the extent to which APRM as it is currently structured and implemented is likely to improve the investment climate through its support of good governance and strong institutions. More specifically, does the APRM explicitly target the factors that affect private sector development? Is the APRM being implemented in a way that will favour the emergence and persistence of and improvement in the conditions for investment? Is the Mechanism

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[5] Co-ordination failure may be the result of external and internal shocks that can lead to protracted economic crises and also manifest itself as a mismatch between abundant natural resources and economic performance. See Bardhan P, 'Institutions matter, but which ones?' *Economies in Transition.* Vol. 13 (3), 2005. 499-532.

[6] Rodrik D, 'Institutions for High-Quality Growth: What They Are and How to Acquire them', *Studies in Comparative International Development*, Vol. 35, no. 3, 2000.

[7] Shirley MM, 'Institutions and Development' in Ménard C and MM Shirley (eds). *Handbook of New Institutional Economics*. Netherlands: Springer, 2005. pp. 611-638.

likely to lead to a two-tier system composed of participating and non-participating countries? Answers to these questions constitute the main objective of this chapter.

The lessons learnt and the policy implications for a more favourable investment climate are largely garnered from the peer review processes in Ghana and Kenya. The chapter is arranged as follows. Section 1 deals with the role of APRM in improving the investment climate and in building investor confidence. It looks specifically at those factors which are addressed in the APRM that could potentially affect the investment climate. Section 2 provides a detailed discussion of the impact of the Mechanism on the business climate in the case of Ghana and Kenya. Section 3 presents the challenges and way forward.

Focusing mostly on the self-assessment questionnaire, performance was measured in the APRM's four thematic areas and the resultant Programme of Action designed to address the key challenges arising from the peer review. Using additional stylised indicators of the investment climate, especially those of the World Bank (such as the ease of starting a business, obtaining licences, hiring and firing of workers, registering property and enforcing contracts), the chapter analyses the extent to which these indicators are captured both at the review stage and in the Programme of Action.

The main conclusions are the following: First, the APRM will play a key role in improving the business climate in participating countries if the process is implemented according to design. Second, its impact on the investment climate will depend on the implementation of the subsequent Programme of Action to address problems identified by the peer review and on the ability of the country to mobilise the necessary resources. Third, as the Programmes of Action of Ghana and Kenya show, the major determinants of the business climate are addressed. The improvements will thus depend on the implementation of these programmes and how international monitoring and peer pressure will contribute to the implementation.

The Role of the APRM in the Investment Climate in Africa

Investor confidence

While foreign capital is considered essential in financing private sector development in Africa, the continent has not benefited significantly from the surge in private capital flows to developing countries since the early 1990s. Africa remains on the sidelines of financial globalisation. For example, over the period 1989 to 2004, Sub-Saharan Africa's (SSA) share in the world's FDI flows averaged 1 percent compared to 10 percent and 17 percent for Latin America and the Caribbean, and Asia and the Pacific, respectively.[8]

Despite the implementation of wide-ranging economic reforms, the business environment in many African countries is poor compared to other developing countries. The authors

[8] See UNCTAD, Foreign Direct Investment in Africa: Performance and Potentials. United Nations Publication. New York, 1999; UNCTAD, World Investment Report: Promoting Linkages, Geneva: United Nations Publication, 2001; UNCTAD, World Investment Report: Transnational Corporations and Export Competitiveness, Geneva: United Nations Publication, 2002 and UNCTAD, World Investment Report: Transnational Corporations and the Internalisation of R&D, Geneva: United Nations Publication, 2005. However, Africa's share of global FDI flows has risen to 3% in 2005.

used the World Bank's Doing Business indicators that measure government regulation and the protection of property rights and their effects on businesses (See Table 2) to measure the quality of the business climate, as well as other indicators not covered by the Doing Business project. These include a country's proximity and access to large markets, quality of infrastructure services, security of property from theft and looting, transparency of government procurement, macroeconomic conditions, and the underlying strength of institutions,[9] as well as corruption as a cross-cutting issue.

The quality of government regulation of business remains weak in most African countries making SSA the least attractive region for doing business. The procedures for starting a business are more cumbersome and create more opportunities for rent-seeking activity. For example, the number of days it takes to start a business in Africa ranges from 32 days (Ethiopia) to 192 days for São Tomé and Príncipe compared to an average of two days for Australia, 11 days for Hong Kong, 9 days for Jamaica and 35 days for Kuwait.[10] Enforcement of contracts due to a weak and/or slow legal system and a lack of resources are further contributing factors for the dire view of investors of the continent. In addition to the high cost of doing business in Africa, a poor physical infrastructure, unreliable energy and water supply combine to make Africa a less attractive destination for investment.

However, Africa's 'image problem' is also an important consideration.[11] International investors have a negative and at times, ill-founded, perception of Africa that undermines the effects of economic reform on capital flows. For example, 56 percent of firms surveyed in an UNCTAD study reported that the actual business environment in SSA is better than the continent's image would suggest.[12] This finding is corroborated by empirical evidence which suggests that credit rating agencies tend to rate African countries as riskier than warranted by their macroeconomic fundamentals.[13] Furthermore, because of a lack of information about individual African countries and their investment opportunities, investment decisions are often based on inferences from the environment of neighbouring states rather than on country-specific conditions.[14] This is partly the result of the way that Africa is portrayed by the western media as 'one big country' rather than a continent made up of different countries.

Therefore, to improve investor confidence in Africa, individual African countries must put in place appropriate macroeconomic and microeconomic policies to streamline business processes. By addressing issues that would directly contribute to a better

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[9] Doing Business in 2007 – How to Reform. The World Bank. Washington. 2006.
[10] *Ibid*.
[11] Asiedu E, "On the determinants of foreign direct investment to developing countries: Is Africa different?" *World Development*, 30(1), 2005. pp. 107-19.
[12] UNCTAD, UNCTAD Press Release, 2000. See www.unctad.org/en/press/pr2854en.htm
[13] Haque NU, Nelson M & DJ Mathieson, "Rating Africa: The Economic and Political Content of Risk Indicators" in P. Collier and C. Pattillo (eds), *Investment and Risk in Africa,* 2000. pp. 33-70. New York: St Martin's Press
[14] Asiedu E, "On the determinants of foreign direct investment to developing countries: Is Africa different?" *World Development,* 30(1), 2005. pp. 107-19.

Box 1. Objectives of the APRM's Themes

Objectives of Economic Governance

- Promotion of macroeconomic policies that support sustainable development
- Implementation of transparent, predictable and credible government policies
- Promotion of sound public finance management
- Combating corruption and money laundering
- Acceleration of regional integration through harmonization of monetary trade and investment policies among participating states

Objectives of Corporate Governance

- Promotion of an enabling environment and effective regulatory framework for economic activities
- Ensuring that corporations act as good corporate citizens with regards to human rights, social responsibility and environmental sustainability
- Promotion of adoption of codes of good business ethics in achieving the objectives of the corporation
- Ensuring that corporations treat all their stakeholders in a fair and just manner
- Providing for accountability of corporations, directors and officers

The sub-themes of the Socioeconomic Development thematic area:

1. Promotion of self-reliance in development and building capacity for self-sustaining development
2. Acceleration of socioeconomic development to achieve sustainable development and poverty eradication
3. Strengthening policies, deliver mechanisms and outcomes in key social areas including education and combating HIV/AIDS and other communicable diseases
4. Ensuring affordable access to water, sanitation, energy, finance, markets, ICT, shelter and land to all citizens especially the rural poor
5. Progress towards gender equality in all critical areas of concern, e.g. access to education for girls at all levels
6. Encouraging broad-based participation in development by all stakeholders at all levels.

The objectives of the Political Governance Section have a more indirect relationship with the business environment, except to the extent that it deals with political stability and corruption which have direct impact on the business environment.

Source: The APRM Questionnaire

enabling environment, NEPAD in general and the APRM in particular, have the potential to influence investor perceptions towards Africa in a positive manner.

How can the APRM improve the investment climate in Africa?

The APRM is a relatively new process, and it is thus difficult to assess how the Mechanism is affecting the investment climate in APRM participating countries. Although 26 African countries had acceded to the APRM by the end of 2006, only three, Ghana, Rwanda and Kenya have completed the peer review process and are implementing their national Programmes of Action (PoAs). South Africa completed the external review stage in July 2006. However, by addressing weaknesses in governance, the APRM is well-positioned to contribute towards creating an enabling environment for private sector development, while boosting investor confidence in APRM participating countries.

The four thematic areas of APRM all cover issues which have a direct bearing on the investment climate. However, the economic and corporate governance themes deal directly with issues that reflect on the business environment (Refer to Box 1).

How directly and how explicitly does the Mechanism's self-assessment exercise address these issues? One way of answering this question is to analyse the extent to which the self-assessment questionnaire interrogates factors such as political stability, inflation, fiscal deficits, corruption and the rule of law.

Political stability

Conflict has been a recurring feature of most African states throughout the pre- and post independence period. However, according to the World Bank, nearly 20 African countries have experienced at least one period of civil war in the post-independence period.[15] Conflicts in Africa have had far reaching negative effects, often undermining post-independence gains on the economic and social front. Some of the costs include the destruction of physical infrastructure, loss of institutional and social capital, loss of life and flight of human and financial capital.[16] Empirical evidence shows that political instability discourages investment with negative consequences for economic growth and development.[17] The impact is more pronounced for long-term investment because of the financial and material costs associated with these types of investments. Therefore, resolving conflict is vital for attracting private investment.

The APRM addresses issues of conflict extensively in the Democracy and Political Governance cluster of the questionnaire. Specific measures are proposed ranging from the ratification and adoption of the United Nations Charter and the Universal Declaration of Human Rights, to measures that ought to strengthen democratic governance and popular participation in the political process, including the inclusion of marginalised groups in the decision-making process.

Table 1. Coverage of the Business Environment Factors in the APRM Questionnaire

Factors	Thematic Area	Depth of Coverage
Corruption	Democracy and Political Governance, Economic Governance & Management, Corporate Governance	Extensive
Fiscal Deficits	Economic Governance & Management	Extensive
Inflation	Economic Governance & Management	Extensive
Political instability	Democracy and Political Governance	Extensive
Infrastructure	Corporate Governance, Socio-economic Development	Extensive
Image	Corporate Governance	Not extensive
Regulatory framework	Corporate Governance	Extensive
Rule of law	Corporate Governance	Extensive
Property rights	Corporate Governance	Extensive

Notes:

[15] Although there are fewer African countries involved in conflict today than a decade ago, post-conflict states face a high risk of reverting back to conflict. Empirical evidence shows that a typical post-conflict state has a 50 percent probability of reverting to conflict within five years of cessation of conflict See Collier Paul, "Economic Policy in Post-Conflict Societies", in Augustin Fosu and Paul Collier (eds), *Post-Conflict Economies in Africa*, London: Palgrave MacMillan Publishers, 2005. pp. 45-56.

[16] See World Bank, *Can Africa Claim the 21st Century?*, Washington DC: The World Bank, 2000.

[17] Gyimah-Brempong K & TL Traynor, "Political Instability, Investment and Economic Growth in Sub-Saharan Africa". Journal of African Economies, Vol. 8, Issue 1, 1999. pp. 52-86.

Extensive = Covered comprehensively in the self-assessment questionnaires with proposed measures and indicators against which progress will be measured.
Not extensive = Not covered comprehensively in the self-assessment questionnaires.

Source: Tabulated from Country Self-Assessment for the African Peer Review Mechanism, NEPAD. 2003.

The APRM is already contributing to the emergence of a truly consultative and participatory polity. In countries that have carried out their self-assessments, the governments consulted extensively with a broad spectrum of the society including the private sector, media, trade unions and other segments of the civil society.[18] Moreover, the elaboration of the Programme of Action has been a truly participatory and consultative process. Indeed, the space for the popular participation in the political process is gradually improving in the APRM-participating countries because the process encourages popular participation in all the stages of the APRM.

Another innovation proposed by the Democracy and Political Governance cluster is the need for countries to put special measures in place to manage ethnic, religious and economic diversity. Rwanda for example has included specific measures in its Programme of Action to secure the rights of all Rwandese. The government is in the process of enacting laws to this effect.[19] This is important for Africa given its high degree of ethnic fractionalisation and failure of African governments in the past to manage diversity, which has often fuelled civil wars.[20]

Inflation

One of the objectives under the Economic Governance and Management questionnaire is the need for a country to maintain consistent and sound macroeconomic management. According to the APRM questionnaire,[21]

> 'sound macroeconomic policies is to be assessed against quantitative indicators such as average inflation over the last five years, real GDP growth rate, debt service ratio and fiscal deficit'

Inflation takes on an important role in this context given its far-reaching effects on the economy. High and variable inflation causes many distortions in the economy.[22] More

[18] See for example the Ghana Self-Assessment report. APRM, Country Review Report of the Republic of Ghana. June 2005. URL: www.nepad.org.
[19] APRM (2007), Rwanda's APRM Programme of Action Implementation: Progress Report, June-December 2006. Midrand, South Africa:
[20] Paul Collier argues that ethnic fractionalization should not necessarily lead to political instability. It is the lack of democratic governance rather than the mere ethnic diversity that leads to conflict. Collier P & A Hoeffler, "On the Economic Causes of Civil War", Oxford Economic Papers, Vol. 50, 1998. pp. 563-73.
[21] NEPAD Secretariat, African Peer Review Mechanism (APRM): Guidelines for Countries to Prepare for and to Participate in the African Peer Review Mechanism (APRM). Midrand, South Africa: NEPAD Secretariat, 2003.

[22] Dornbusch R, "Lessons from Experiences with High Inflation", World Bank Economic Review, Vol.6: 1992, p. 13-31.

importantly, it discourages savings, as the future value of money is less worth than its present value.[23] Inflation also causes nominal interest rates to rise and this may affect demand for credit, thus affecting investment and economic growth negatively. Inflation also erodes the value of financial assets. Furthermore, investors become increasingly uncertain about the direction of economic policies in a highly inflationary environment.[24] This uncertainty may have an adverse effect on planned capital investment.

It is clear from the foregoing that inflation has a deleterious effect on the wider economy, and if sound macroeconomic policies are to be sustained, countries have to tackle the problem of inflation. Fortunately, there has been a substantial improvement in the reduction of inflation rates in a large number of African states over the past three years. Many African countries continue to record single-digit inflation rates. However, managing inflation remains a challenge in an increasingly globalised world as externally propelled events such as the increase in oil prices exert upward pressure on domestic inflation.

Fiscal Deficit

A related problem that also has profound implications for macroeconomic stability is high fiscal deficits. The fight against inflation is unlikely to be won if the fiscal deficit keeps rising. Large budget deficits and associated increases in inflation cause considerable uncertainty about the direction of government policies, and thus discourages both domestic and foreign private investment.[25] Given the shallow nature of financial markets in Africa, government financing of large budget deficits leads to high interest rates, which crowds-out private investment.[26] The increase in interest rates associated with deficit financing puts pressure on the exchange rate and may erode the country's export competitiveness. Moreover, rising budget deficits raise government debt. Servicing this debt diverts resources away from critical social sectors such as health, education and infrastructure, which are of critical importance for private sector development. The increase in domestic debt may also raise the risk of default and reduce private sector confidence in the sustainability of the fiscal stance.

Furthermore, a high fiscal deficit also affects public investment, which is essential for attracting private investment. The APRM questionnaire, especially the Economic Governance and Management thematic area addresses the problem of a high fiscal deficit extensively and proposes concrete measures to be pursued by countries within the context of each country's development priorities. These include among others reducing the share

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[23] For an elaborate discussion on the causes and effects of inflation, see for example, Hall R (ed), Inflation, Causes and Effects., University of Chicago Press, Chicago, 1982.

[24] Masimo C, "Investment and the Persistence of Price Uncertainty", Research in Economics, Vol. 55, June 2001, pp. 189-217.

[25] Deficits may not necessarily lead to inflation, especially if the economy is operating below full employment. In this case, larger budget deficits would be accompanied by increased demand and greater output (See J. Bhattacharya, Economic Brief: The fiscal deficit, at http//:www.macroscan.com/eco/aug02/eco170502FiscalDeficit.htm).

[26] For an extensive discussion of the effects of fiscal deficits on investment, see for example Agénor PR & J Montiel, *Development Macroeconomics.* Princeton, New Jersey. Princeton University Press.

of the fiscal deficit to GDP, limiting central bank financing of fiscal deficits and keeping public debt within sustainable levels.

Corruption

Corruption, although a global problem, is particularly endemic in Africa.[27] For example, 27 of the 45 African countries assessed (163 countries assessed overall) by the Transparency International Corruption Perception Index were ranked amongst the bottom 100 of the index in 2006.[28] However, others have done well such as Botswana (37), Mauritius (42), South Africa (51), Tunisia (52) and Namibia (56). It is no surprise that these countries attract consistently large volumes of foreign investment compared to others on the continent. But clearly others such as Angola, Sudan, Chad, Equatorial Guinea and Nigeria have also performed well despite doing very poorly in the Transparency International ratings. This is largely because investment in the extractive industries is not so sensitive to macroeconomic fundamentals.

Empirical evidence shows that corruption has a negative effect on investment. For example, using a cross-country regression, Mauro shows that corruption inhibits investment and economic growth.[29] In many African countries government officials demand kickbacks before granting licenses to potential investors. Investors view these kickbacks as implicit taxes and may be discouraged to undertake investment activities in countries where such practices are common.[30] In a survey conducted by the World Bank, for example, more than 75 percent of firms in Kenya reported that they had to pay bribes.[31]

The APRM recognises the adverse impact of corruption on development. It therefore addresses corruption extensively in the self-assessment questionnaires. Corruption in the political sphere is addressed in the Democracy and Political Governance questionnaire, while corruption involving state-owned entities and private sector companies is covered in the Corporate Governance questionnaire. The questionnaire requires countries to provide both an assessment of the state of corruption in the country and to document legal and institutional measures introduced to combat corruption. Furthermore, countries are asked to provide details of major cases of alleged corruption and disciplinary actions taken. They are also required to report on the adoption and implementation of international and regional standards. Money laundering is also an important theme. APRM participating countries are expected to implement specific measures, such as

[27] The Corruption Perception Index may not reflect the true state of corruption in any given country as it based on people perception, which is inherently subjective.

[28] Transparency International, The 2006 Transparency International Corruption Perception Index, 2006 at www. Infoplease.com/ipa/A0781359.html.

[29] Mauro P, "Effects of corruption, growth, investment and government expenditure: A cross-country Analysis, Institute of International Economics, 1995, downloaded at http//www.iie.com.

[30] Sachs and Warner argue that resource-rich countries are more prone to rent-seeking behaviour than resource-poor countries. Sachs, J., and A. Warner (1995), "Natural resource abundance and Economic growth", NBER Working Papers 5398, Cambridge, MA: National Bureau of Economic Research.

[31] World Bank, World Development Report 2005: *A Better Investment Climate for Everyone*, Washington, DC: The World Bank, 2005.

improving the transparency of public finances; addressing the root causes of corruption in public administration; establishing clear and enforceable procurement rules in the public sector and introducing legal provisions establishing a national code of conduct for civil servants. All these measures, if fully implemented, would reduce the scope for rent-seeking activities considerably, thus reducing corruption.

Rule of Law

Under corporate governance, the key objective of the APRM is to provide an enabling environment and effective framework for regulating economic activities. Central to this is the existence of a robust legal framework, which guarantees protection of property rights. For example, the APRM questionnaire requires countries to strengthen provisions that establish the rule of law and affirm the supremacy of the constitution. It assesses the effectiveness of the separation of power between the executive, legislature and the judiciary and lists mechanisms for resolving conflict among the three branches of government. The weakness of the legal system is a significant barrier to both domestic and foreign investment.

Infrastructure

Infrastructure development in most Sub-Saharan African countries is poor or at best insufficient to accommodate the needs of foreign investors. The only notable exception is South Africa. Infrastructure, including power, telecommunication, transportation, water and sanitation is critical for economic growth and development.[32] Indeed, they are important factors in attracting private investment.

The African Peer Review Mechanism recognises the importance of good and reliable infrastructure in mobilising private investment. The Corporate Governance questionnaire not only emphasises the creation of an enabling environment and effective regulatory framework for economic activity, but gives special attention to infrastructure development. Countries are expected to assess the state of the infrastructure in their countries, including roads, ICTs, and energy supply and to introduce measures in their Programme of Action to improve the quality of infrastructure where necessary.

In addition, the Socio-economic Development section of the APRM questionnaire covers other "hard" infrastructure services such as water, sanitation and energy. The objective is to ensure that people have reliable and affordable access to these services. To the extent that poor infrastructure inhibits private sector development through raising the cost of doing business, addressing deficiencies in infrastructure development will enhance business environment and thus facilitate private sector development.

Image Problem

Addressing all the above-mentioned factors, while necessary, is not sufficient. As indicated earlier, Africa has an image problem, which undermines the impact of reform on foreign investor sentiment. While improvement of the environmental factors (such as political stability and corruption) may bolster the continent's image, there is an urgent need to address investor concerns with well-designed and targeted programmes.

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[32] World Bank, *Can Africa Claim the 21st Century?*, Washington, DC: The World Bank, 2000.

Although the APRM does not address the image problem directly in the self-assessment questionnaire (Table 1); the Investment Climate Facility (ICF),[33] does attach considerable importance to fighting the negative image and stereotypes associated with Africa. Designed as a programme to support NEPAD, the ICF finances programmes aimed at improving the investment climate in APRM participating countries. Its activities are geared towards strengthening property rights, improving competition, simplifying business registration regulations, and removing regulatory and institutional obstacles to private sector development. Within the broader objective of encouraging businesses to invest in Africa, the ICF strives to improve the image of Africa as a good business destination, by highlighting best practices in investment climate reform in Africa and promoting Africa as an investment destination. It also endeavours to raise awareness among international investors of the progress in investment climate reform in the region. By fostering strategic partnerships with African and international media, the programme is geared towards creating a differentiated view of the continent and its possibilities. The first batch of projects to be financed by the ICF was announced in March 2007.

The Impact of the Mechanism on the Private Sector

Because the APRM is so new it is difficult to assess its impact on the private sector. The best that one could do at this early phase is to gauge the Mechanism's likelihood of influencing the business climate by looking at the Programme of Action flowing from the review. Ghana and Kenya present a useful departure point for this assessment. Supplemented by the World Bank's Doing Business indicators[34] as well as other indicators it is possible to ascertain the extent to which the PoAs address these and other indicators of the business climate.

Assessing Ghana's and Kenya's APRM Experience so far

The APRM is hailed as the most innovative and progressive programme of NEPAD despite its many flaws.[35] As a voluntary instrument of the African Union and a self-monitoring mechanism it lacks the authority to sanction non-compliant governments. The effectiveness of the peer-review process depends largely on the political will within a country to implement reform as stipulated in its PoA and the level of persuasion of other African governments to ensure adherence to commitments made by the states under review.

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[33] The ICF is a partnership between African governments, institutions, private sector and international donor community established to support NEPAD.

[34] World Bank, Doing Business in 2006 – Creating Jobs. Regional Profile Sub-Saharan Africa Region. Washington, DC: The World Bank, 2005; and World Bank, Doing Business in 2007 – How to Reform. Washington, DC: The World Bank, 2006.

[35] Hope RK, "Toward Good Governance and Sustainable Development: The African Peer Review Mechanism", *Governance: An International Journal of Policy, Administration and Institutions*, Vol. 18, No. 2, 2005. pp. 283-3116 and Jerome A, "The African Peer Review Mechanism: An Update and Evaluation", Paper Prepared for Presentation at the Conference on "Nepad and the future if economic policy in Africa" held at IDEP, Dakar, Senegal, 9-12 November 2005.

The extent to which countries are following-through on their PoA commitments is difficult to assess without undertaking a thorough monitoring and evaluation exercise. However, given that all the countries that have complemented the peer review process are in the early stages of implementing their PoAs, it is useful to examine the extent to which the country PoAs address weaknesses identified in the self-assessment reports. This way it is possible to infer how these and other proposed measures stipulated in the PoA could contribute towards improving the investment climate in these countries.

Table 2 gives an overview of the areas relevant to the business climate covered by the PoAs of Ghana and Kenya, as well as the performance of both countries in the areas monitored by the *Doing Business* project of the World Bank.[36] Business procedures, costs and implementation time are assessed by looking at other indices. For example, the ranking, of 'Hiring and Firing Workers' was established by the Difficulty of Hiring Index, a Rigidity of Hours Index, a Difficulty of Firing Index, a Rigidity of Employment Index, as well as specific cost figures, in this case, hiring cost (% of salary) and hiring costs (weeks of wages). The other areas were introduced in the section on investor confidence.

Table 2: Performance and coverage of PoAs of Ghana and Kenya in important areas of the business climate

Area	Country	Rank	Procedures	Cost (% of income)	Time (days)	Coverage in PoAs
Starting a Business	**Ghana**	**145**	**12**	**49.6**	**81**	**Yes**
	Kenya	**111**	**13**	**46.3**	**54**	**Yes**
Dealing with Licenses	**Ghana**	**83**	**16**	**1,314.1**	**127**	**?**
	Kenya	**24**	**11**	**37.6**	**170**	**Yes**
Hiring and Firing Workers	**Ghana**	**120**	**-**	**-**	**-**	**?**
	Kenya	**68**	**-**	**-**	**-**	**Yes**
Registering Property	**Ghana**	**113**	**7**	**1.9**	**382**	**Yes**
	Kenya	**115**	**8**	**4.1**	**73**	**Yes**
Getting Credit	**Ghana**	**117**	**-**	**-**	**-**	**Yes**
	Kenya	**33**	**-**	**-**	**-**	**Yes**
Protecting Investors	**Ghana**	**33**	**-**	**-**	**-**	**?**
	Kenya	**60**	**-**	**-**	**-**	**Yes**
Trading Across Borders	**Ghana**	**61**	**5/9[+]**	**822/842[++]**	**21/42[+++]**	**Yes**
	Kenya	**145**	**11/9[+]**	**1,980/2,325[++]**	**25/45[+++]**	**Yes**
Enforcing Contracts	**Ghana**	**50**	**29**	**13.0**	**552**	**Yes**
	Kenya	**67**	**25**	**41.3**	**360**	**Yes**
Paying Taxes	**Ghana**	**77**	**35***	**32.3****	**304*****	**Yes**
	Kenya	**127**	**17***	**74.2****	**432*****	**Yes**
Closing a Business	**Ghana**	**94**	**-**	**22.0[§]**	**1.9[§§]**	**Yes**
	Kenya	**128**	**-**	**22.0[§]**	**4.4[§§]**	**Yes**
Markets	**Ghana**					**Yes**
	Kenya					**Yes**

[36] World Bank, Doing Business in 2007 – How to Reform. Washington, DC: The World Bank, 2006.

Infrastructure	**Ghana**	**Yes**
	Kenya	**Yes**
Security of property	**Ghana**	**Yes**
	Kenya	**Yes**
Government procurement	**Ghana**	**Yes**
	Kenya	**Yes**
Macroeconomic environment	**Ghana**	**Yes**
	Kenya	**Yes**
Institutions	**Ghana**	**Yes**
	Kenya	**Yes**
Corruption	**Ghana**	**Yes**
	Kenya	**Yes**

Notes:
In general, the number of procedures, the cost in % of income per capita, and the time in days are measured.
*Deviations include: + Documents for export/import; ++ Costs per container for export/import; +++ Days for export/import; * Number of payments; ** Total tax rate as % of profit; *** Time in hours; § Cost in % of estate; §§ Time in years.*

Source: Compiled from World Bank Doing Business Database: November 2006; APRM, 2005; APRM, 2006.

Thus, analysing the PoAs of Ghana and Kenya by looking at the ten indicators measured in *Doing Business*, in addition to other indicators, shows that APRM could be a useful tool tracking progress in creating a better business climate.

However, it is important to note that the proposed measures in the PoAs of both countries are hardly new. The vast majority of measures refer to existing initiatives. Thus the value-add of APRM lies primarily in its role as an additional monitoring mechanism tracking whether the governments of Ghana and Kenya are delivering on their promises.

For example, in the Economic Governance and Management section of the PoA of Ghana, only three proposed activities do not encompass ongoing initiatives, namely ‘Building efficiency, predictability and transparency in economic management’, ‘Fiscal decentralisation’, and addressing the ‘Lack of information on credit worthiness of corporate bodies and individuals’. The following section provides more details on the areas covered by the four sections of the Programmes of Action of Ghana and Kenya.

Implementation of the APRM in Ghana

Areas that are critical for the day-to-day activities of business that are not covered in the Ghana PoA[37] (see table 2) are ‘Dealing with Licenses’ and the ‘Hiring and Firing of Workers’. The latter is particularly important given that Ghana fares poorly in this area, expressed in its ranking of 120 out of 175, the second worst ranking it received for any of the ten areas in the *Doing Business* index. Thus, a further simplification of operational and labour market procedures might be necessary, even after the PoA has been

[37] APRM, Country Review Report of the Republic of Ghana. June 2005. URL: www.nepad.org

implemented. Measures dealing with the protection of investors are also not explicitly addressed in the PoA, but might be covered by actions proposed to strengthen the judiciary. It should also be noted that this is not perceived as a major problem in Ghana given its ranking of 33 in this area.

Some aspects of the business climate addressed in the Democracy and Political Governance section of the PoA are not covered by the *Doing Business* index, but will nevertheless lead to further improvements in the environment. For instance, quite a number of actions are meant to strengthen the institutional foundation of the Ghanaian democracy, particularly the judiciary, and to a lesser extent the law enforcement agencies. A stronger institutional base will facilitate doing business in Ghana, as issues related to the enforcement of contracts and security of property are addressed.

One of the priority measures proposed by the government is to enact a law to improve access to land for investment. This action to facilitate land acquisition under the umbrella of a broader land reform programme, is meant to reduce conflict about land, and will improve Ghana's performance in the category of 'Registering a Property'. The poor land tenure system–with a lack of adequate record keeping of land titles–has been identified as a major hindrance to private investment. The proposed reform will also reduce delays in acquiring land for commercial purposes, decreasing the time it takes to acquire land for investment from an average of two years to three months.

The government has also proposed measures to strengthen the judiciary, e.g. by increasing the budget allocation to the courts by 30% and updating court procedures, thereby improving the ability of investors to enforce contracts. The section also deals with measures designed to reduce delays in the resolution of commercial disputes, relevant to 'Enforcing Contracts'. The aim is to reduce the average time and cost of commercial dispute resolution to 50% of the 2004 average.

Actions proposed to fight corruption in the political sphere are complementing these efforts and will also improve the business climate. For example, comprehensive anti-corruption legislation will be passed in 2007. This will be complemented by a Whistleblower's Protection Bill with clearly defined guidelines on conflicts of interest. Explicitly addressed is also the issue of transparency, efficiency and effectiveness in public resource use, particularly in the area of procurement, but also other aspects of public service delivery.

The Economic Governance and Management section of the Ghana PoA is primarily dedicated towards adopting measures that will improve macroeconomic conditions by strengthening economic policies, the underlying management of the economy, as well as public finance issues. Some of the measures that the government has already introduced include: imposing expenditure limits for ministries, departments and agencies (MDAs) by 2005; improving coordination between the National Development Planning Commission (NDPC) and Monetary Policy Committee (MPC) in economic policy formulation by 2005; stabilising the exchange rate and prices by 2006; and improving debt management by 2006.

To strengthen corporate governance in Ghana, the government plans to develop a single corporate governance framework modelled after the OECD and the Commonwealth systems, which will replace the plethora of corporate governance guidelines in place today. The State Enterprise Commission, the Bank of Ghana, and the Ghana Stock Exchange are tasked with implementing this process by 2007. Besides looking at traditional corporate governance standards and good corporate citizenship measures; this section deals with many areas relevant to the business climate, several of which had been identified as deficient in the country's assessment.

Various measures are listed to facilitate 'Starting a Business', including the simplification of the registration processes and removal of licensing requirements. These also include among other things; reducing the number of days it takes to register a company from 21 to 5 days; introducing a single business registration form and identification number; and reducing the time it takes to obtain immigration and work permits.

Access to credit is being facilitated by establishing a credit referencing system; creating a venture capital fund; increasing the support of commercial banks to indigenous SMEs in the form of business advisory services and expanded credit facilities; strengthening equity market regulators; fighting corruption in the public and private sector; and making 'Closing a Business' easier by passing a Bankruptcy Bill and a Personal Insolvency Act.

Moreover, the PoA makes provision for the furthering of regional integration and other measures to making 'Trading Across Borders' easier, such as opening markets for Ghana's exports in the ECOWAS region and encouraging non-traditional exports with incentives and assistance to exporters. A whole section lists potential measures to improve infrastructure services, particularly roads, railways, airports, energy and water supply, storage facilities, and improved access to ICT. Some of these measures will also facilitate trade between Ghana and its immediate neighbours.

With its key objective of effective poverty reduction, the Socio-Economic Development section of the Ghana PoA repeats many of the proposed measures from other sections of PoA to strengthen growth and employment and access to opportunities for the poor. Continued macroeconomic reforms, reduced cost of doing business, and improved infrastructure are among the primary activities.

The Case of Kenya

The Kenya Programme of Action encompasses all areas that are of importance to the business climate.[38] However, the PoA might be deficient in the area of the 'Hiring and Firing of Workers', as the proposed actions seem to be directed mostly at forcing companies to comply with existing regulations rather than to simplifying regulations. Nevertheless, Kenya is ranked much better compared to Ghana in 68th place. Areas that require substantial improvement seem to be 'Trading across Borders' (145), 'Paying Taxes' (127), and 'Closing a Business' (128). However, all of these are included in the PoA and are thus subject to monitoring under the APRM from now on.

[38] APRM, Country Review Report of the Republic of Kenya. May 2006. URL: www.nepad.org.

The Democracy and Political Governance section of the PoA addresses similar areas as in the case of Ghana, but covers them to a lesser extent. ‘Registering a Property’ will most likely be facilitated with respect to acquiring land once the Land Policy, which will address ownership, use, tenure and administration, is finalised. For example, an improved information management system is proposed for the Ministry of Land Affairs. Several measures are proposed to strengthen institutions. As in the case of Ghana, there is a major focus on the judiciary, which should improve the enforcement of contracts. Proposed actions include enhancing the capacity of the judiciary through training, provision of research facilities, improvement of information flow, and instituting performance-based contracts. The security of property will be increased once measures are in place to reduce cattle rustling and banditry along the borders. In addition, measures to fight corruption are proposed.

Like in the case of Ghana, the Economic Governance and Management section of the PoA deals with measures to improve macroeconomic conditions with focused economic and public finance policies, and improved economic management. These proposals are complemented by specific actions that deal with important areas of relevance to the business climate.

‘Getting Credit’ might benefit from measures to increase the availability of credit to the private sector as part of the government’s efforts to increase private investment. Increased efforts to further regional integration will make ‘Trading Across Borders’ easier and improve access to markets for Kenyan products through harmonised trade and customs policies, especially within the context of the East African Community and COMESA. ‘Paying Taxes’ will most likely become easier once the proposed tax administration reform is implemented.

The quality of infrastructure services will benefit from further development of the road network, which is explicitly mentioned in the PoA. The government aims to reduce the share of the road network in poor condition to 20 percent. Kenya has one of the largest road networks in Africa (about 64,000 km in 2000), but only a small fraction of 12 percent is paved.[39]

Security of property will surely benefit from improved public safety, which is another objective. As an effort to implement sound, transparent and predictable government policies, operationalisation of the Public Procurement Act is proposed. Stricter enforcement of the existing anti-corruption laws is also proposed, as well as stepping up the fight against corruption and the information available on these measures.

As in the case of the Programme of Action of Ghana, the Corporate Governance section of Kenya focuses primarily on implementing and strengthening codes and standards of good corporate governance and corporate citizenship. A Private Sector Development Strategy launched in January 2007 and expected to be finalised by 2010, include measures to improve security of property, while reducing crime levels. Seventy percent

[39] World Bank, World Development Indicators 2006, CD-ROM Edition, Washington, DC: The World Bank, 2006.

of managers surveyed in 2003 saw crime as a major business constraint in Kenya. This was the highest level measured in all African countries in the period 2003-2005.[40] The Private Sector Development Strategy will also address the improvement of infrastructure such as air navigation aids, provision of water, and access to ICT and energy.

The Corporate Governance section deals with almost every single area identified to be of importance to the business climate: 'Starting a Business' and 'Dealing with Licenses' will benefit from proposed actions to decrease the number of business licenses needed with the explicit objective of increasing the number of newly registered businesses. (At present there are 11 procedures needed when 'Starting a business' and 11 when 'Dealing with Licenses', which ranks Kenya at 111 and 24 respectively.)[41]

'Getting Credit' is further supported by a whole range of measures, including strengthening the stock exchange and microfinance institutions. Specific provision is made for 'Protecting Investors' by way of ensuring that the legal framework protects all classes of investors. 'Enforcing Contracts' will benefit from judicial reforms and measures to strengthen judicial institutions. Some of these measures are specifically targeted at speeding up the settlement of commercial disputes.

'Trading across Borders' benefits from further measures planned to strengthen the infrastructure. Apart from improvements to the road network and other hard infrastructure mentioned earlier, it includes the expansion of the rail network (building a rail line to Southern Sudan); and upgrading the Jomo Kenyatta Airport and Mombassa port services (including introducing simplified customs procedures and stamping out corruption at the port).

'Paying Taxes' is targeted by measures to reduce the level and multiplicity of taxes. 'Closing a Business' is also dealt with in the PoA, as the Bankruptcy and Liquidation Laws are supposed to be revised and modernised. (Currently it takes 4.5 years to close a business.)[42]

Other areas that will receive attention under the Corporate Governance section of the PoA include rural access to agricultural markets, enhanced access to market information and the promotion of Kenya internationally, specifically to boost tourism.

Besides listing several measures to fight corruption and strengthening it explicitly to improve the business climate, the PoA also lists measures to fight corruption in the areas of the judiciary and the ports, as well as in the area of labour inspections and labour union officials.

The Socio-Economic Development section of the PoA of Kenya does not contain as many proposed actions as the respective section of Ghana. However, the business climate might benefit from measures to increase access of the (rural) poor to markets and infrastructure services in the areas of energy, water and ICT.

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[40] *Ibid.*
[41] World Bank, Doing Business in 2007 – How to Reform. Washington, DC: The World Bank, 2006.
[42] *Ibid.*

Are APRM Countries Different from Non-APRM Ones?

Will the peer review mechanism create a two-tier system consisting of APRM and non-APRM countries, one benefiting from international largesse, the other trapped in a vicious circle of bad governance, ineffective institutions and low international support? In answering this question, it is important to determine whether the APRM countries differ *ab initio* from non-APRM countries.

This distinction matters because of the tendency of high performing countries to be more reform-minded. Furthermore, it is equally important to see if the countries that have completed the Mechanism differ both from those that have not yet completed the APRM and those that have not yet acceded to the Mechanism. Finally, it is important to determine qualitatively, the potential effect that participation in the APRM might have on attracting international support for no other reason than the significant implications for the development of individual African countries.

The World Bank's latest Doing Business Report assessing 175 countries clearly shows that there is much room for improvement for Africa's states. Generally they have not fared as well as other developing countries.[43] The highest ranked country is South Africa at rank 29 followed by Mauritius (32), Namibia (42), Botswana (48), Swaziland (76), Tunisia (80) and Kenya (83). All are in the upper half of the ranking index. This means that only 7 African countries out of 49 assessed are positioned in the upper half, while 42 countries are positioned in the lower half, many of them at the very bottom of the list (see table 3).

APRM countries are not performing any better or worse in the ranking index. About half of the African countries ranked have signed up for the APRM (26 out of 49). In terms of absolute ranks there is a steady alternation of countries participating and countries not participating, when going down the ranks. For instance, out of the 7 countries in the upper half, 3 participate in the APRM while 4 are not participants. However, a two-tier system could emerge if APRM countries are improving in their rank, while others fall back. This has not yet manifested itself even though more APRM countries improved their ranking than non-APRM countries. Out of the 26 ranked APRM countries, 10 improved their ranking on the index, when compared to the previous ranking for January 2005. In contrast only 7 improved their ranking out of the 23 non-APRM countries. Thirteen APRM-countries and 12 non-APRM countries dropped in their ranking, while 3 APRM countries and 4 non-APRM countries maintained their positions. Even when looking at the 3 APRM graduates Ghana, Rwanda and Kenya, the mixed picture is confirmed: Kenya at rank 83 dropped slightly from rank 80 in the previous index, Ghana improved by 8 ranks to 94 and Rwanda maintained its rank at 158.

Thus the overall ranking does not show a significant effect of APRM on the business climate in the very short run. Even more revealing is that countries that have signed up to the APRM do necessarily have a good business environment in place measured against African norms and standards.

[43] *Ibid.*

However, whereas APRM countries currently do not present a more enabling business environment than non-APRM countries, they are more reform-minded. A look at the sheer number of reforms introduced during the 2004/05 cycle, which should ultimately lead to a better business climate in the future, changes the picture considerably.[44] During this period, 14 out of 36 SSA countries implemented reforms to improve their business climates. Ten of these have signed up to the APRM. In addition, only 4 non-APRM countries implemented reforms, while 12 such countries did not introduce reforms, alongside another 10 APRM countries.

Most of the reforming countries introduced reforms to improve only one set of the Doing Business indicators, whereas the APRM countries Rwanda (3), Nigeria (3) and Mauritius (2) implemented reforms to improve more than one set. Keeping in mind that most countries signed up for the APRM from 2004 onwards, it seems that these countries were more willing to pursue reform.

Looking at the latest available data, the picture of APRM countries outpacing non-APRM countries when measuring their willingness to improve the business climate is confirmed, even though overall the willingness to reform increased in both groups of countries. Out of the 45 SSA countries 29 implemented reforms, 17 of them participating in the APRM. Sixteen countries did not implement any reforms to improve the business climate, 7 of them APRM countries. Ten countries implemented reforms in more than one set of the Doing Business areas, 8 of which had signed up for the APRM.

However, this raises the concern that the Mechanism might create a two-tier system in which donors favour APRM countries over non-APRM countries. This raises a number of questions. For instance, what are the implications for countries if the Investment Climate Facility focuses only on those states that have acceded to APRM? Likewise, the report of the Millennium Project headed by Jeffrey Sachs[45] identifies countries that should receive rapid and significant support to ensure that they attain the Millennium Development Goals. The criterion applied is that they have achieved or are in the process of achieving a high level of good governance. Accession to the APRM is used to determine who should be fast-tracked in this manner.[46] The G8 and others seem to put a premium on participation in APRM which means that the Mechanism is likely to become the barometer for aid eligibility. All these point to a segmented system that could create a two-tier system in Africa. This could mean that many of the non-APRM African countries that are not performing well might become trapped in a vicious circle.

Table 3. Ranking on the Ease of Doing Business in Africa

[44] World Bank, Doing Business in 2006 – Creating Jobs. Regional Profile Sub-Saharan Africa Region. Washington, DC: The World Bank, 2005.
[45] UN Millennium Project, Investing in Development – A Practical Plan to Achieve the Millennium Development Goals, New York, 2005.
[46] The other criteria for recommending which countries should be fast-tracked are Highly Indebted Poor Country (HIPC) completion point of World Bank for debt relief; Millennium Challenge Corporation Qualifier; Millennium Challenge Corporation Threshold; Poverty Reduction Strategy Paper and World Bank Absorptive Capacity Study.

Country	World ranking 2007	Africa Ranking 2007	APRM countries
South Africa	29	1	+
Mauritius	32	2	+
Namibia	42	3	
Botswana	48	4	
Tunisia	80	5	
Kenya	83	6	+
Seychelles	84	7	
Ghana	94	8	+
Ethiopia	97	9	+
Zambia	102	10	+
Uganda	107	11	+
Nigeria	108	12	+
Malawi	110	13	+
The Gambia	113	14	
Lesotho	114	15	+
Morocco	115	16	
Algeria	116	17	+
Cape Verde	125	18	
Gabon	132	19	+
Benin	137	20	+
Mozambique	140	21	+
Cote d'Ivoire	141	22	
Tanzania	142	23	+
Comoros	144	24	
Senegal	146	25	+
Mauritania	148	26	
Madagascar	149	27	
Equatorial Guinea	150	28	
Togo	151	29	
Cameroon	152	30	+
Zimbabwe	153	31	
Sudan	154	32	+
Mali	155	33	+
Angola	156	34	+
Guinea	157	35	
Rwanda	158	36	+
Niger	160	37	
Djibouti	161	38	
Burkina Faso	163	39	+
Egypt	165	40	+
Burundi	166	41	
Central African Republic	167	42	
Sierra Leone	168	43	+
Sao Tome & Principe	169	44	+
Eritrea	170	45	

Congo Republic	171	46	+
Chad	172	47	
Guinea-Bissau	173	48	
Congo Democratic Republic	175/175	49/49	

***Source: World Bank, 2006*.**

Challenges

Does the APRM explicitly target those factors that create a favourable investment climate and does it address the inhibiting factors? Moreover, is the APRM being implemented in a way that favours the emergence of an improved investment climate of participating countries in the long term? It is clear that a favourable investment climate is a prerequisite for the development of the private sector. The question is, will it in turn spur economic growth, create jobs and reduce poverty.

It is equally clear that the business climate in a large number of African countries is unable to respond to the needs of foreign and domestic investors and would require concerted action for it to contribute to the continent's economic growth and poverty reduction goals. The extent to which the APRM could improve the investment climate and unleash the potential of the private sector is still unclear. Nonetheless, a careful examination of the Mechanism and its implementation in Ghana and Kenya shows that it does concern itself with those factors that create an unfavourable investment climate and that inhibit private sector growth, such as poor governance, institutional failures, and inadequate infrastructure.

Based on the way it was structured and implemented in Ghana, Rwanda and Kenya, the APRM provided for a largely participatory, self-assessment exercise. Designed to be consultative and inclusive, it also provided a platform that would enable the country to identify governance and institutional capacity gaps and come up with a Programme of Action to address the gaps. Furthermore it provided for a follow-up review and verification by a team of outside experts who carry out the[47]

> '…widest possible range of consultations with Government, officials, political parties, parliamentarians and representatives of civil society organisations (including the media, academia, trade unions, business, professional bodies)'

The experience of the countries that have gone through the process shows that the Mechanism does identify key challenges associated with the investment climate. But identifying bottlenecks to a more favourable investment climate is only part of the challenge while undertaking steps to address it the other. This is more so because the key dilemma in the development of African countries usually is neither a lack of knowledge about what ought to be done or how to implement these steps, but rather inconsistent

[47] NEPAD Secretariat, African Peer Review Mechanism (APRM): Guidelines for Countries to Prepare for and to Participate in the African Peer Review Mechanism (APRM). Midrand, South Africa: NEPAD Secretariat, 2003. See paragraph 19.

implementation. The experience in Kenya is instructive. It shows clear implementation lassitude despite the establishment of regulations in good faith, as well as the enactment of laws to improve the investment climate.

A key issue to consider is whether the APRM would in fact help to improve the implementation of policies in participating countries in the long term. External financial support that specifically targets policy implementation could make a positive contribution. This is particularly relevant within a context of strong political leadership and will to implement programmes that might flounder on the lack of human and financial resources. The price tag for implementing Ghana's PoA is $5 billion. This is far beyond the reach of the country's financial means. The government thus requires support from other sources to implement the reforms recommended by the peer review process.

The Mechanism faces many other challenges to its relevance, methodology and legitimacy. Whereas most have expressed satisfaction with its design, it is regarded as too comprehensive. Nor does it inculcate the important role of informal relationships revolving around trust and personal connections. Arising out of the prevailing culture and social interaction in individual countries it determines access to markets and opportunities. These aspects have a fundamental impact on economic outcomes.

Moreover, the Mechanism requires significant human capacity and financial resources that are often not available in the countries undergoing review. The United Nations Development Programme (UNDP), the African Development Bank (AfDB) and to a lesser extent the United Nations Economic Commission for Africa (ECA)—the strategic partners of the APRM—have provided financial support to the implementation of the Mechanism. The UNDP has also assisted with the establishment of APRM Trust funds at the continental level and in some participating countries. However, key structures and processes, including the national governing councils upon which the success of the Mechanism greatly depends are not standardised across participating countries. There is also a serious information gap even within participating countries about the purpose of APRM.

To make matters worse, the multiplicity of programmes and plans can lead to fatigue and a wasteful duplication of efforts. The APRM is seen as one more programme on top of others such as the Poverty Reduction Strategy Papers (PRSPs), Millennium Development Goals (MDGs) and Medium-term Expenditure Framework (MTEF), amongst others. The linkages among these initiatives are not always well understood. While the process of peer-review by the Forum of Heads of States remains amorphous, the process has also been much slower than expected. Only three countries have undergone a full review by 2006—three years after the process began.[48]

[48] This section relies heavily on Nnadozie E, "The African Peer Review Mechanism (APRM) and Institutional Change in Africa" presented at Ethiopian Economic Association Annual Conference in Collaboration with UNECA, June 2006.

Way Forward

The success of the APRM in creating a favourable business environment in African countries depends on the extent to which the operational challenges previously identified are addressed, the quality (and will) of the political leadership, and the degree of ownership and stakeholder participation in the peer review process. This in turn, depends on how well the government articulates the process to its stakeholders. It also depends on the ability of a country that has completed its review to mobilise resources to implement its Programme of Action.

Since the Mechanism explicitly targets factors that affect the business environment, measures have to be put in place that will not only address these gaps, but that will also sustain the consistent application of reforms. The establishment of the Investment Climate Facility for Africa, a public-private financial facility, is a useful development in addressing those key bottlenecks that impede the investment climate. As mentioned previously, the facility targets as a matter of priority, countries that have acceded to the APRM. The ICF not only aims to improve the investment climate in Africa through strengthening regulatory frameworks and the rule of law, but also seeks to facilitate dialogue between governments and the private sector on removing constraints to investment on the continent. It contributes directly to the objectives of the APRM, by providing financial resources to APRM participating countries to implement their economic and corporate governance measures proposed in their Programmes of Action.

The ICF has identified the following priority areas for their activities:

- Strengthening of property rights.
- Simplification of business registration.
- Improving tax collection and customs, especially working to make it easier and faster to transport goods across Africa's borders.
- Removing regulatory and institutional obstacles to private sector infrastructure development.
- Strengthening competition by supporting institutions that promote competition.
- Reducing and eventually eliminating corruption and crime that are undermining investor confidence in African economies.

Since the ICF focuses on APRM participating countries, it will contribute towards strengthening economic and corporate governance, thereby increasing investor confidence in African economies.