NEPAD-OECD AFRICA INVESTMENT INITIATIVE
2008 HIGH-LEVEL MEETING / EXPERT ROUNDTABLE
KAMPALA, UGANDA, 10-11 DECEMBER 2008

Summary Report

The third NEPAD-OECD Africa Investment Initiative's Annual High-level Meeting and Expert Roundtable were held in Kampala on 10-11 December 2008, in the presence of His Excellency President Yoweri Museveni, Republic of Uganda and more than 150 participants. These two days stimulated challenging discussions on: advancing investment policy reform in Africa; making the most of the APRM and PFI for improving the continent's business climate (following up on the 2006 Brazzaville and 2007 Lusaka Roundtables); and investing in African transport infrastructure.

1. Ministerial Forum: advancing investment policy reform in Africa

- While the global financial crisis has already affected revenue flows to the continent, the Forum felt that Africa's progress in reforming the investment agenda is likely to mitigate its impact. More should however be done.

- Participants considered that consolidating investment policy reform was key to avoiding a backdrop. African governments can still reduce the cost of doing business, particularly for SMEs, through simplifying and further improving the regulatory framework. Participants also urged governments to "put more money into their infrastructure budgets".

- The importance of investing in regional public goods and furthering regional integration was strongly highlighted; participants warned that there "continues to be a preference for national over regional projects", and that simplifying cross-border regulations as well as developing new risk-mitigation instruments on a regional level could promote investment in regional projects.

- Examples of good practices were highlighted. Amongst others, they included:
    - Considerable progress in regional harmonization within the East African Community (EAC): the existing Customs Union should be fully operational by 2010; the Common Market Protocol (which would ensure free flows of goods and services within the EAC) should be signed by next year; regional infrastructure master-plans are being developed; under tripartite summits the EAC, SADC and COMESA have signed a Free Trade Area Formation *Initiative*; and an EAC Model Investment Court, which should promote transparency in business regulations, is under formulation. Nonetheless participants noted that implementing EAC council decisions remained challenging, and that much remained to be done before domestic and foreign investors were treated on an equal basis.
    - The Zambian Development Agency was launched in 2006, as a "one-stop shop" created by merger of governmental agencies and fostering economic growth and development by promoting trade and investment. Zambia has also initiated the Private Sector

Development Reform programme, which leverages private investment through general and sector-specific incentives on six key areas (including policy environment, trade expansion, and business and investment). This and some other programmes aim to reduce the cost of business by streamlining business-related institutions, reinforcing political stability, property rights and the rule of law, and creating special economic zones.

- Other recent national reforms to improve the business climate include: Uganda's Free Zones Bill, Competition Bill, Consumer Protection Bill, and Corporate Bill; and Kenya's streamlining of business licenses under the Business Reform and Regulation Unit (retaining only those which promote environmental or health policies). Kenya holds monthly roundtables among the Prime Minister, government ministries and the private sector, acknowledging the important role which the public sector must play in encouraging private investment. The Kenyan government also plans to finance high-yield infrastructure bonds, and to consolidate its External Development Policy to increase the country's absorption capacity of FDI funds and ensure that foreign investors comply with national procurement procedures.

2. Strengthening investment policy reform through peer learning and active private sector engagement

- The APRM was unanimously considered as a critical step forward in achieving good governance in Africa. Though initially slow, the pace of APRM implementation is picking up: out of 29 APRM member countries, 9 countries have been reviewed, 4 of which this year. It is hoped that all members will have been peer-reviewed by 2013, and that Kenya and Ghana will have completed a second review. African countries could further strengthen their economic governance through enhancing the investment component of the APRM.

- The APRM Secretariat indicated that, since last year's Algiers workshop on APRM reform, the APRM country self-assessment questionnaire was being revised in partnership with the AfDB. This revision considers how to practically include a specific business climate related component in the questionnaire. Among other suggestions, participants proposed that a separate questionnaire objective (such as investment policy, trade policy, or investment facilitation) be scheduled each year. The *NEPAD-OECD Africa Investment Initiative* can be a useful platform to deepen this review process.

- It was noted that the APRM touched on investment policy reform not only in the Country Questionnaire, but also in the externally-conducted Country Review missions. The APRM process was recognised to have been "a strong engine in strengthening private sector involvement", particularly in Ghana (considered to be the "best place to do business in ECOWAS" this year), Kenya (which launched a comprehensive Private Sector Development Strategy in January 2007), and Rwanda.

- However key challenges to APRM implementation were also identified:
  - Institutional and political obstacles raise the need for stronger national leadership; capacity constraints slow implementation down; the informal sector is excluded from the APRM process; and difficulties in boosting investor confidence persist.
  - Dynamic challenges to the APRM were also of concern: in particular, sustaining the momentum of APRM dialogue and re-engaging stakeholders after the completion of reviews was noted as a central difficulty. The need for mid- and long-term evaluations of the National Programmes of Action (NPOAs) and for concrete follow-up of the implementation of Country Review recommendations was also highlighted.

    - It was remarked that the APRM was given too little time in NEPAD summits and discussions, as a result of which country reviews were insufficiently considered. Such issues may be addressed at the APRM's upcoming January meeting.

- Partner institutions - including the ICF and the *Initiative* - were encouraged to support the investment component of the National Programmes of Action.

3. Making optimal use of policy tools for reform of the investment framework

- Panelists stressed that Africa must recognize the need for reforms on investment policy. Stakeholders that stand to benefit from such reforms include the government, the business community, investment promotion agencies, and civil society. African countries are encouraged to keep improving their business climate through self-assessing their investment frameworks, taking advantage of investment policy tools such as the Policy Framework for Investment (PFI). Participants also brought other tools to the roundtable's attention:
    - The International Roads Fund (IRF) alerted African policymakers to its roads toolkit, launched since October 2008, and to the potential usefulness of its past SWOT analyses on the strengths and weaknesses of PPPs;
    - UNIDO noted that it sought to develop a time-series dataset to encourage investment, and proposed to serve as a platform for investment monitoring and advocacy;
    - Comparing its policy recommendations in Liberia and Rwanda, the Investment Climate Facility for Africa (ICF) noted that investment policy reform had to be realistically scaled to country capacities. It encouraged concrete and rapid reform within African countries, for which ICF could play a facilitating role (as it has in the creation of a 'one-stop shop' for investors and land-access in Sierra Leone).

- The meeting took note that the *Initiative* will keep taking advantage of the PFI for supporting national investment policy reforms in African countries that have expressed interest, such as Rwanda and Mali.
    - The importance of the PFI in measuring and communicating progress on investment policy reforms was recognised, notably through its diverse utilisation world-wide. Japan and Finland are introducing the PFI into their bilateral ODA, and Latin American countries have expressed interest in launching a regional capacity-building initiative based on the PFI.
    - Similarly, the APRM Secretariat declared itself "willing to encourage other APRM countries to use the PFI", in the stead of Egypt and Rwanda.

- Investment policy reforms should also be tailored to domestic investment needs, especially as regards SME development.
    - The need for SME-targeted outreach programmes was emphasized, based on evidence that SMEs may otherwise remain passive and 'miss out' on the benefits of reform (SAIIA remarked that SMEs for instance only had an 8% uptake on South Africa's Small Business Project, because of low capacity and awareness of the project).
    - Participants warned that insistence on international competitive bidding, and rewarding the lowest tender in infrastructure projects, was sidelining domestic contractors. The AfDB suggested that strengthening domestic capital markets could facilitate engagement by the domestic private sector. Experiences in South Africa, Kenya, Zambia and Tanzania nonetheless suggested that the move from capacity-building for local road contractors to concretely involving small domestic companies in large-scale projects remained very difficult.

- Participants also highlighted the crucial importance of equitably distributing wealth and investment, particularly as concerns rural areas. The risk of wasting resources and of misusing investment funds in the infrastructure sector was also an issue of concern.

4. Investing in regional road infrastructure

- The link between adequate transport infrastructure development, economic growth and poverty alleviation was strongly emphasized. However, Africa faces huge financing needs: as noted by the Infrastructure Commission for Africa (ICA), USD 14.8 billion are needed to provide Africa with basic road infrastructure, half of which should go towards rural roads and maintenance.

- Efforts made by East Africa in deepening its regional integration were applauded:
    - The EAC's ten-year infrastructure Master Plan for energy is already in place, and that for transport is under preparation. The EAC has primarily engaged in project preparation, such as the Tanzania-Kenya links currently under construction with AfDB and Japanese funding.
    - Problems were however identified: projects are poorly prepared and are not accompanied by feasibility studies or environmental assessment reports; numerous missing links between roads persist; coordination between partner states and the EAC Secretariat is insufficient; and progress remains to be made in capacity-building.
    - The EAC Secretariat encouraged overcoming these obstacles by: preparing a pipeline of bankable projects ready for financing; creating EAC infrastructure funds; updating the EAC Treaty Provision on the joint financing of regional projects; and establishing an East African Transport Authority to coordinate the management, development and maintenance of regional roads and railways.

- All stakeholders were urged to take advantage of available facilities for the development of infrastructure projects, such as the NEPAD Infrastructure Project Preparation Facility (IPPF), the NEPAD Infrastructure Investment Facility (NIIF), and the G8's REC Capacity-Building *Initiative*. The IPPF has successfully funded two pilot projects in power pools in Africa, and will assist the EAC in updating its energy master-plan. In turn, JICA noted that it planned to provide technical assistance for regional corridor development, possibly in partnership with the AfDB.

- However, as noted by COMESA, these various frameworks provide a "very piecemeal" approach to infrastructure development; indeed, Africa currently counts 26 facilities for project preparation. It may therefore be "time to have a comprehensively integrated regional policy framework for all countries to negotiate in".
    - The various infrastructure facilities guiding project preparation could be streamlined, possibly within a common platform such as the ICA.
    - Regional organisations are currently developing a Programme for Infrastructure Development in Africa (PIDA), which should develop a strategic long-term vision for infrastructure development on the cross-regional as well as sector-specific scales.

- African governments were called on to harmonise their infrastructure policies, procedures, guidelines and standards with regards to transport infrastructure. There was specific agreement on the importance of careful *upstream* project preparation, strengthening local financial markets, and institutional capacity-building at the REC and country levels. As summarized by NEPAD-IPPF, "better project preparation attracts better financing", and "Africa must also invest in efficient RECs, as RECs will drive the agenda for infrastructure reform".

5. Furthering private investment in road infrastructure

- Given the enormous gap between Africa's needs and existing infrastructure in the transport sector, it was recognised that the main constraints to increasing private investment in road infrastructure must crucially be addressed.

- Private sector engagement was acknowledged to bring not only financial but also technical and employment benefits to countries' road sectors. With strong public backing, the private sector was called to:
  - Contribute to evaluating and managing the social and environmental impacts of its activities. It was agreed that developing secondary rural and urban roads should not be sidelined, and that projects should include local communities as much as possible.
  - Engage in transferring 'know-how' to the domestic industry. UNCTAD however noted that, as such transfers are often "far from automatic", government participation in this transfer could be necessary.
  - Ensure maximum benefits for local communities by employing local contractors in road projects to the greatest possible extent. This would also improve sustainability in road projects, as maintenance would be facilitated. Practical measures to encourage the participation of local authorities and contractors could be implemented by the government. UNECE notes that in India, encouraging foreign contractors to form join-ventures with local contractors led to considerable growth of the latter within 3 years.

- Governments were encouraged to improve regulatory frameworks and contracting arrangements, and to prioritise road maintenance, including through enhancing road funds' autonomy and developing performance-based contracting. The importance of strong financial support on behalf of the public sector was also stressed: the EAC noted that PPPs need "seed money" from national governments if they are to be successful; in this perspective the EAC plans to create a regional basket of funds. Likewise, UNCTAD warned that, "private FDI can be an interesting complement, but not a substitute, to government investment in infrastructure".

- Governments were also urged to tap into the vast financing potential of Sovereign Wealth Funds (SWFs), which will reach USD 10 trillion by 2015. The infrastructure sector was identified as particularly attractive for SWFs because of its stable revenue stream; the OECD Development Centre noted that "Africa is as well prepared as North Africa and the Middle East in terms of risk assessment", and has the potential for attracting an equal volume of SWFs. African governments thus have a considerable promotional role to play. The *Initiative* will work closely with the Development Centre and African countries to assess ways and means of promoting domestic and foreign investment in the road sector, notably so as to increase SWF interest in Africa.

- Participants agreed on the need for appropriately sharing risk in road PPPs. Risk-sharing mechanisms can take various contracting or guarantee-based forms:
  - The IRF noted that "PPPs don't always need toll roads": in several countries shadow toll or availability payments provide other forms of contracting, under which the government shoulders some of the private actor's risk and spreads project cost.
  - Development partners and African institutions could consolidate risk-mitigation tools. Participants noted that providing more innovative lending schemes and guarantees could enable more African countries to attract sustainable PPPs in infrastructure.