

**NEPAD-OECD Africa Investment Initiative
Ministerial Meeting and Expert Roundtable, 11-12 November 2009
Johannesburg, South Africa**

Summary Report

The fourth *NEPAD-OECD Africa Investment Initiative* Ministerial Meeting and Expert Roundtable took place in Johannesburg, South Africa, on 11-12 November 2009. Ministers from Uganda, Malawi, Senegal, Sierra Leone and Cameroon participated in the meetings, along with more than 250 high-level representatives from business, government, international organisations and civil society.

The meetings took place at a pivotal time. In the past few years, African countries have enjoyed strong economic growth and put in place important reforms to improve their investment and business climates. However, more recently, the prevailing economic and financial crisis has hit Africa hard, with commodity prices falling and FDI declining in most countries. In addition, Africa is facing an energy crisis. Against this backdrop, the ministerial meeting considered how to mobilise additional resources in the face of the crisis. Following up on previous series on infrastructure in Lusaka (2007) and Kampala (2008), the expert roundtable focused on how to increase private sector investments in African energy infrastructure and make the most of carbon finance.

Discussions covered a range of policy areas and concentrated on specific recommendations for how African countries might better mobilise resources for investment, trade and innovation, and boost private investment in energy infrastructure. They called for reforms in the areas of tax, financial markets and energy. Key points included:

1. Mobilising Resources for Investment, Trade and Innovation

- Participants agreed that macro-economic stability was key for Africa to develop and thrive in an increasingly globalised world.
- The Forum called on developed countries to complete the Doha Round and take African needs into account. African countries were urged to trade more with each other, especially in agribusiness.
- It was agreed that regional cooperation was crucial to address the competitiveness challenge in a global economy.
- Ministers highlighted examples of national reforms and initiatives, including:

- Senegal's efforts aimed at expanding its tax base and integrating the informal sector into the mainstream economy. Taxation was also recognised as being an integral part of an investment friendly policy regime;
 - Uganda's Presidential Fund, focussing on promoting science, research and patents;
 - Cameroon's adoption of a Charter for Investors which was providing important incentives for private investment;
 - Malawi's success in overcoming food scarcity was noted; and
 - Sierra Leone's solid steps to recovery since the end of conflict, including through a renewed focus on infrastructure building.
- The importance of deepening financial markets was highlighted, including through tackling the low culture of savings in some countries. Governments were urged to consider economic targeting in order to identify and focus on specific sectors or resources.
 - Experts called for the creation of innovation centers, and the boosting of institutions of innovation and technology. The role of cities and provinces in driving innovation was also underlined.
 - The importance of linking research and development (R&D) to innovation was pointed out.
 - Experts highlighted good examples of institutions which were advancing trade and innovation. These included:
 - TIA in South Africa, which provides funding and support services for the innovation pipeline from research to market access;
 - South Africa's Department of Science and Technology, which has published a Ten-Year Innovation Plan to move South Africa from a commodity-based economy to a knowledge-based one; and
 - The Support Program for Industrial Innovation, which works with industries to develop new technology products.

2. Accelerating Private Investment in Africa's Energy Infrastructure

- Participants agreed that energy was key to economic growth and that efforts to overcome the current power crisis would require national reforms and greater regional cooperation if the continent's abundant potential was to be realised.
- The importance of improving policy coordination and harmonization at national and regional levels was also stressed.
- Key impediments to boosting investment in Africa's energy infrastructure were highlighted as follows:

- High capital costs and limited sources of financing due to narrow domestic markets; weak sovereign credit ratings; and limited use of innovative financial instruments such as pension funds and municipal bonds;
 - National interests, which often competed with regional needs and priorities;
 - Poor regulatory frameworks at national, sub-national and regional levels. This highlighted the need for transparency in bidding and tenders as well as cross-border market regulation;
 - Gaps in policy coherence. This could be remedied, at least in part, through creating national energy policies that promote private investment; and
 - High risks due to the asset-specific nature of energy investments.
- Experts highlighted regional energy initiatives, such as the Nile Basin River Initiative. They also pointed out forward-looking initiatives aimed at trading power in an open market, such as a new power trading scheme under the aegis of the Southern African Power Pool, while also emphasizing the need to develop bilateral power purchase agreements.
 - It was noted that public investment, including ODA, should be directed towards unlocking private investment, for example through developing innovative financing schemes. Donors were also encouraged to come together in support of specific energy projects, such as the West African Power Pool, which currently involves five different donors.
 - A number of institutions and programmes were highlighted by various experts as playing a positive role in boosting private investment. These included:
 - The IDC's catalytic role in funding sizable projects through a combination of equity and debt;
 - NEPAD's Short-Term Action Plan, supporting power pools and hydropower – while the NEPAD Infrastructure Project Preparation Facility also provides a useful resource for governments and project developers; and
 - The successful unbundling of Uganda's utility as a way to allow the free entry of Independent Power Producers (IPPs). The unbundling was accompanied by a new renewable energy policy, as well as feed-in tariffs to stimulate the production of power from renewable energy sources.
 - Representatives of the private sector shared their challenges and experiences in operating in the African energy sector:
 - Aggreko highlighted that careful risk management helped to significantly reduce commercial risk. However the industry suffered from chronic

shortages in new capacity, as well as a lack of refurbishment of energy infrastructure.

- A representative from Areva argued that nuclear power was a viable energy option in some African countries and called on African Governments to strengthen multi-national cooperation through coordinating bodies to facilitate nuclear energy investment.
- The International Chamber of Commerce called for greater regional coordination for the energy sector generally, including the harmonisation of standards within transmission and distribution networks.

3. Promoting Carbon Finance in Africa: the CDM and Beyond

- Experts noted that of the three instruments established by the Kyoto Protocol, the CDM was the only one that involved both developed and developing countries.
- Panelists further agreed that the CDM did not register strong African participation, with Africa's share of global CDM projects standing at only 2 percent. Views varied on the reasons behind the CDM's weak impact in Africa:
 - Some panelists believed the CDM had not been successful in Africa because of its complexity, and the high transaction costs involved in applying for CDM eligibility for projects. For example, carbon credits were only offered after the project has taken off; and
 - Another panelist argued that the CDM did not provide incentives for investors in Africa because it did not favor countries with low emissions and added that the reform of the mechanism was geared towards overcoming this issue. Others considered that the CDM should possibly be replaced with a new mechanism more appropriate to the needs of African and other developing countries. This would include a significant restructuring of the current system to take into account Africa's peculiar endowments, such as in agriculture and biomass.
- The Roundtable considered future prospects for the evolution of the CDM. These included:
 - An EU proposal for a new mechanism for sector-wide crediting which, if agreed upon at the COP15 meeting, would allow for specific sector targets for developing countries;
 - Expansion of eligibility criteria for credits to include deforestation and degradation;
 - Credits for Nationally Appropriate Mitigation Actions (NAMAs); and
 - Upfront provision of carbon credits for projects in countries with fewer than ten CDM projects.

- Positive efforts to make the most of the CDM and to develop renewable energy were brought to the attention of the Roundtable. Specific examples of good practice included:
 - The focus, in Zambia and Swaziland, on capacity building and training;
 - The role of the Nairobi Framework in boosting national capacity to make use of the CDM; and
 - The Sub-Saharan Africa Project Preparation Facility's work in supporting viable CDM projects through funding from the German government.