

Mobilizing Private Investment in Africa in Support of Development: Laying the
Foundation for Sustained Progress

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How Can the APRM Process Contribute Towards Improving the Investment Environment?

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I. Introduction: Goals, Objectives and Assumptions of the APRM

- The APRM is primarily a mutually agreed upon instrument for self-monitoring by participating members.
- The instrument is voluntary but assesses the extent to which each of the participating countries adheres to accepted and established governance codes and standards.
- It is a learning tool, an instrument for peer learning that is not punitive but encourages mutually shared best practices and experiences with the aim of building capacity for improving their governance systems.
- Ultimately, the goal is that the review will lead to uniformity of governance practices and thereby greater political stability, economic growth and sustainable development and accelerate regional and continental economic integration.
- Through the APRM, Africa hopes to reverse its global image as a marginalized continent by demonstrating their commitment to good governance and policy reform that will make it an attractive place for private investment.
- The APRM is the credible litmus test of Africa's commitment to good governance, transparency and accountability in governance. It is the strongest evidence yet, that African governments are ready for a new way of doing business.

II. Context: Characteristics of the APRM as Compared to the OECD Policy Framework of Investment (PFI)

Compared to the OECD's Policy Framework for Investments (PFI), the APRM takes a holistic approach:

- The APRM is an all-encompassing and comprehensive approach to review of development issues – political, economic, corporate and Socio-Economic governance.
- The investment environment under the review APRM is addressed by assessment of the political, economic, corporate and socio-economic governance spheres.
- Democracy and good political governance is just as important as the areas bearing directly on investments policies e.g. promoting political stability, peace are preconditions for attracting private investments. (Ghana with a four consecutive competitive elections will be more attractive to private investors the DRC.)

- The Corporate Governance component is broader than just promoting suitable investment environment; it also incorporates a “**rights based approach to development**” focusing on issues of human rights, labor rights and corporate social responsibility relating to the environment. The PFI also incorporates these aspects under the Corporate and Public Governance Chapters Governance.
- The APRM questionnaire asks complex, technical and data-specific questions under the Corporate Governance section that ordinary citizens may find it inaccessible. For example, indicators under questions on corporate structure, laws, and the business regulatory environment are specific enough it would require a technical knowledge. The PFI could be used as a diagnostic tool in this area.

III. How the APRM Can Contribute to the Enhancing the African Investment Environment

- The APRM is making strides in identifying policies that will, in the long-run, stimulate private investment, promote trade and economic growth. For example, the Kenya report identified corruption, high cost of doing business due to poor infrastructure and the general lack of security. If the APRM policy recommendations were to be taken seriously, they would contribute towards improving the investment climate.
- As a baseline assessment, the APRM can open up opportunities to use the PFI as a diagnostic tool to deepen policy recommendations to enhance the investment environment. For example, the Corporate Governance findings show that the environment is hospitable in Ghana and government has specific initiatives to spur SMEs growth in Ghana. The PFI can assist in this regard.
- The APRM reports create an incentive effect and serves as a catalyst to deepen reforms that are already underway in participating countries to be accelerated. For example, there are parallel reform-based programs like the United States Millennium Challenge Account (MCA). Those African countries that met eligibility to participate in the MCA – Senegal, Ghana, Mali, Benin, Cape Verde, Lesotho, Madagascar and Mozambique – are among countries that have already embraced the APRM (except Cape Verde). The complementarity of indicators between the two processes would enhance performance and measurable achievements that impact favorably on the investment climate of those countries. There also MCA threshold countries – Tanzania, Burkina Faso, Uganda – who are also APRM participating members.

IV. The Challenges Facing the APRM as a Diagnostic Tool for Private Investment Climate

- The APRM questionnaire intersperses investment indicators among all the four pillars as opposed to grouping them together. Corruption is split under Political and Economic Governance; autonomy of Central Bank, effectiveness and enforcement of competition regulations, anti-money-laundering laws, protection of property rights, fiscal policy and labor laws are all split between Economic and Corporate Governance pillars. Education, health, and pandemic diseases are also treated under Socio-Economic Governance. There is no coherent and integrated set of indicators for assessing the investment climate under the APRM.
- The complexity of the APRM process and the length of the APRM Self-Assessment questionnaire obviate the comparative advantage of a quick policy diagnostic tool that the PFI provides. This may take away opportunities for targeted policy reforms for sectoral investments.
- Issues under investment policy like land is treated under the APRM as source of communal conflicts rather than in terms of property rights and as a capital for productivity enhancing investment.
- APRM assessment in the Socio-economic development pillar tend to focus more on the demand side – access to education, health, etc, but does not investigate strategies of leveraging human resource development to attract investment opportunities. However, Rwanda, for example, had ICT as a priority sector in the long-term development strategy including attracting investments in the tourism.

V. Potential and Prospects

- One of the strengths of the APRM is its ability to adapt the questionnaire to reflect the constraints and needs of the country of under review. For example, in Ghana, it included tax issues; Rwanda highlighted the role of Gacaca Courts in administering justice and, in Kenya, the questionnaire addressed issues of land distribution, etc.
- The mutual sharing and learning principle, if enforced and backed by capacity building, should eventually lead to common institutional values among participating African states that is essential in adopting common policies to enhance the investment climate in Africa.
- Enhanced public mechanisms for a public dialogue with the private sector in the APRM process could lead to a more systematic, coherent and integrated approach to inclusion of private investment policy issues in the APRM evaluation. Whereas civil society sees APRM as

an integral part of their work and is willing to invest the time and energy in the APRM self-assessment, the private sector finds the process too cumbersome.

- Through the Africa Investment Climate Facility (IFC), funds should be made available to the National Chambers of Commerce to effectively participate in the APRM process, using the PFI at its main guidance for their inputs into the process.
- The lack of expertise and capacity in most of the APRM participating countries requires a capacity building strategy during the APRM self-assessment review that should feed into the design of the National Plan of Action (NPA) as well as monitoring and evaluation systems for the APRM report. IFC should partner with APRM countries in defining and identifying solutions for improving the investment climate through the National Plan of Action (NPA).

VII. **Conclusion:**

- The APRM is uniquely positioned to generate political will for policy reform among participating member countries in part due to its voluntary nature.
- The questionnaire is complex and cumbersome but allows room for flexibility and creativity with regards to specific areas/issues pertaining to the investment environments of individual countries. To achieve this, investment issues should be grouped under sectors, so that self-assessment can address them specifically.
- APRM National Plan of Action (NPA) must be strategically constructed with the view of shaping investment policies for identified priority sectors in development strategy.
- There is a lack of capacity in the specialized areas of corporate governance, investment promotion, competition policy, and other areas that the IFC can assist participating countries to build capacity to apply in the APRM process.