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MOBILISING INVESTMENT FOR DEVELOPMENT
– ODA AND INVESTMENT SYNERGIES IN AFRICA

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INTRODUCTION AND EXECUTIVE SUMMARY

1. The Monterrey Consensus found that “a substantial increase in [official development assistance (ODA)] and other resources will be required if developing countries are to achieve the internationally agreed development goals and objectives, including those contained in the Millennium Declaration” and that “private international capital flows are vital complements to national and international development efforts”. There is consequently a need to intensify efforts to “[p]romote the use of ODA to leverage additional financing for development, such as foreign investment, trade and domestic resources”.

2. Africa presents many challenges for donors and African governments that are committed to mobilising domestic and foreign investment for better development. Africa is the only continent that has grown poorer in the past 25 years, that has had its share of world trade halved in a generation and that received less than 1% of the world’s foreign direct investment (FDI). More recently though, countries such as Ghana, Mozambique and Uganda have shown that high levels of economic growth can be achieved and sustained and that significant inroads into reducing poverty can be made.

3. Africa has been a major recipient of ODA from around the world. In 2003, official grants to Sub-Saharan Africa rose to 3% of gross domestic product (GDP) and were projected to remain at that level in 2004. The present overview study was commissioned by the OECD Secretariat to learn from the experiences of using ODA to mobilise more domestic and foreign investment in countries in Africa, with a specific focus on Sub-Saharan Africa.

4. Based on the analysis undertaken for this study, donor agencies working in Africa were found to support the following development themes that impact on mobilising private investment:

- *Improving the policy, legal and regulatory framework for investment and growth*. This includes support for the design, implementation and monitoring of policy reforms; the improvement of the legal and regulatory framework for private sector development and investment; the privatisation of state-owned enterprises; the improvement of markets, particularly those that help the poor successfully participate in the economy; the introduction and application of competition policy, laws and institutions.

- *Improving governance.* This spans the public and private sectors. Reducing corruption, improving transparency, promoting democracy, and improving the administration of government services are important aspects of donor efforts to improve governance in public institutions. Within the private sector, donors are supporting the design and enforcement of corporate governance principles and codes of conduct, while also facilitating processes that improve private sector representation and dialogue between government and the private sector.

- *Improving infrastructure and utilities.* While donor support for infrastructure is not new, this review highlights ODA that endeavours to involve the private sector. Donor support in creating opportunities and mechanisms for private investments into infrastructure development and maintenance represents a potent opportunity for the mobilisation of domestic investment and the attraction of investments from elsewhere in Africa as well as the broader international investment community.

- *Facilitating international trade.* There appears to have been a boon in donor activity geared toward improving trade for developing countries, including in Africa. Whereas once donors directed their support to improving the export capacity of selected industries, they have begun to take a more systemic and comprehensive approach. This has involved support for trade-related institutions, improving the legal and regulatory regime for trade, creating new foreign trading opportunities, and supporting African countries comply with international standards and protocols, along with their capacity to participate effectively in trade negotiations.

- *Improving financial services.* Many donors have supported the establishment of financial schemes in Africa over the years. However, in more recent times, donors have taken a more comprehensive and systemic approach to this work. Rather than setting up loan schemes or guarantee facilities, greater attention is being given to the functioning of financial markets and identifying those features that limit access to finance by the poor. Thus, attention has turned to improving financial regulation and management, as well as to the performance of commercial financial institutions.

- *Developing human capital and entrepreneurship.* Many donors are involved in supporting programmes that develop human resources in African countries (e.g., through education, vocational training, health). These kinds of interventions have been longstanding. While this kind of ODA contributes to the long-term capacity of a country to compete in the global economy (e.g., with a skilled and productive workforce), this review focuses more on those measures that have supported the promotion of entrepreneurship and enterprise development.

- *Providing incentives for private investment, guarantees and risk mitigation.* Donor agencies also undertake micro level interventions to improve investment in Africa through the provision of incentives for private investment, investment guarantees and risk mitigation. Because Africa suffers from a negative perception among many foreign investors, increasing attention is given to the ways investor perceptions can be changed and programmes that reduce risk.

5. There are a number of instruments and mechanisms donor agencies use to support reforms in African countries. These include a variety of instruments that address the investment climate and the business environment in which private firms operate. While donor instruments for reform may not appear to differ from other fields of ODA (e.g. budget support, capacity building, technical assistance), achieving results in investment-oriented ODA requires these instruments to be applied in a specific manner. Investment-oriented ODA mostly needs to focus on engaging all stakeholders (public and private) in sustainable processes of reform. While in some cases investment-oriented ODA may involve fewer funds than certain other development fields, the time required to design and implement reform can be substantial.

6. A large number of mechanisms for the design and implementation of donor-supported reforms are described in this annex. The way in which donors monitor their programmes and measure impact is also reviewed. Finally, a number of lessons learnt in the practice of investment-oriented ODA in Africa over the last decade are suggested. Investment-oriented ODA should:

- *Build a demand for reform.* The motivation for reform must come from governments that have to see the need for change and to take measures themselves to improve their capacity to mobilise investment and stimulate economic growth. Donors can take measures to stimulate debate around reform issues in an effort to build a stronger and broader demand for reform. They may facilitate the involvement of private sector organisations, civil society and even the local media in these processes.

- *Be based on political commitment*. Sustainable reforms only work when they are driven, owned and managed by domestic agents. To achieve success, governments need to exhibit a commitment to reform from the highest to the lowest level.

- *Build the analytical capacity of host governments.* Donor agencies are paying greater attention to the capacity of governments to undertake their own analysis and to monitor the progress of reforms. There is a need for capacity building programmes for government as well as private sector organisations.

- *Be sequenced.* Moving from analysis to reform, finding appropriate starting points for reform, and establishing a mutually agreed upon sequence of reform interventions is a major challenge for investment-oriented ODA in Africa.

- *Involve collaborative monitoring and adjustments.* Donors recognise the value of good long-term relations with government, especially through the use of a well-established and strategically focussed institutional frameworks for managing aid.

- *Be coordinated.* Investment-oriented ODA has some specific needs for good co-ordination. Sound co-ordination increases credibility with the host country, including of the relevant reform processes, and improves efficiency and effectiveness of donor efforts.

- *Help build strong domestic institutions.* Many donor agencies are paying more attention to how they can build stronger domestic institutions, although the difficulty of doing this is also acknowledged.

- *Take into account the local private sector.* Recent donor experiences in improving investment climates have shown that the competitiveness of the domestic private sector is an important ingredient in mobilising investment and stimulating economic growth.

- *Involve sub-national levels of reform*. As a complement to interventions at the national level, attention is also being paid to the role of sub-national levels of government, in particular local government. While on the one hand this involves support for reforms that enhance the decentralisation of government services, it can also address the roles of local and provincial governments in improving sub-national investment climates.

- *Recognise the importance of perceptions.* Because reform is a political process some donors have developed interventions to help local actors deal with change, build on success and keep their eye on the big picture of reform.

MOBILISING INVESTMENT FOR DEVELOPMENT
ODA AND INVESTMENT SYNERGIES IN AFRICA

I. Background and purpose

7. The Monterrey Consensus recognised that “a substantial increase in ODA and other resources will be required if developing countries are to achieve the internationally agreed development goals and objectives, including those contained in the Millennium Declaration” (para. 41). Private international capital flows, says the Monterrey Consensus (para. 20), are “vital complements to national and international development efforts” and ODA “plays an essential role as a complement to other sources of financing for development, especially in those countries with the least capacity to attract private direct investment” (para. 39). But in addition, and as the Monterrey Consensus recognised, “ODA can be critical for improving the environment for private sector activity and can thus pave the way for robust growth”(para. 39). There is consequently a need to intensify efforts to “[p]romote the use of ODA to leverage additional financing for development, such as foreign investment, trade and domestic resources” (para. 43).

8. Governments in Africa committed to achieving the MDGs face many challenges. Africa is the only continent that has grown poorer in the past 25 years, that has had its share of world trade halved in a generation and that received less than one per cent of direct foreign investment.[1] The HIV/AIDS pandemic has had a major impact, in some countries it has set development back decades. More recently though, countries such as Ghana, Mozambique and Uganda have shown that high levels of economic growth can be achieved and sustained and that significant inroads into reducing poverty can be made.

a) Official development assistance in Africa

9. Africa has been a major recipient of ODA from around the world. The International Monetary Fund (2004) suggests that in 2003 official grants to Sub-Saharan Africa rose to 3% of GDP and were projected to remain at that level in 2004.[2] However, some countries are expected to receive sharply higher levels of foreign assistance in 2004. One-quarter of the countries in Sub-Saharan Africa are expected to receive grants exceeding 6% of GDP (e.g., Ethiopia and Uganda).

10. The question addressed in this annex concerns the impact ODA has on the capacity of African states to reduce poverty and achieve the MDGs by increasing their levels of domestic and foreign investment and expanding opportunities for higher, more sustainable and more inclusive growth processes. How directly and explicitly should donor agencies focus on supporting activities that affect the potential for investment and growth? For most donors the answer to this question will depend on evidence that

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1. The British Prime Minister cited these figures when launching the Commission for Africa in February 2004.

2. Total external debt in Sub-Saharan Africa (excluding Nigeria and South Africa) fell from an average of close to 90 per cent of GDP in 1997-2001 to 68 per cent in 2003 and a projected 59 per cent in 2004. This improvement reflects the declining reliance on debt-creating flows as well as debt forgiveness, in particular under the HIPC initiative (International Monetary Fund 2004, p. 2).

shows how ODA can increase investment, which will subsequently create economic growth and reduce poverty.

11. Dollar and Easterly (1999) found that the links between aid, investment and growth are tenuous. "Aid does not necessarily finance investment and investment does not necessarily promote growth". Aid is not the main determinant for investment and growth and there appear to be a number of links between these domains that influence the impact of aid on investment and growth in Africa. The first of these is the economic policies established by governments. The second is the poor quality of public services, closed trade regimes, financial repression, and macroeconomic mismanagement. Thirdly, foreign aid cannot easily promote lasting policy reform in countries where there is not a strong domestic movement in that direction.

12. While these findings may appear to argue against directing ODA towards better investment and growth, they in fact show that the "combination of private investment, good policies, and foreign aid is quite powerful" and "disbursing aid into good policy environments would be an improvement on current practices". Burnside and Dollar (2004) argue that donors should focus on the policy and institutional determinants of investment and growth when designing their interventions. Indeed, a robust conclusion from a number of recent academic studies covering a diverse sample of countries is that "aid is effective in promoting growth and, by implication, in poverty reduction" (McGillivray, 2003).

13. Thus, if donors are to apply their resources in an investment-oriented manner, they should focus on strategic interventions that improve policies and the way governments manage the economy. They should help African countries to reform their policies and institutions. Arcand, Guillaumont *et al*. (2001) argue that foreign aid does have an effect on the process of reform in Africa, "but its impact is a function of the circumstances faced by a given country as well as of the manner in which aid is allocated". Devarajan, Dollar *et al*. (2001) in their study on aid and reform in Africa found that most major policy reforms were driven by the political economy and were preceded by economic and political crises. Moreover, a large amount of aid to countries with bad policy was found to sustain those poor policies. They argue that donors have not discriminated effectively among different countries and different phases of the reform process; instead they tend to provide the same package of assistance everywhere and at all times.

14. This brief review highlights the challenge for ODA in Africa, which endeavours to increase investment and economic growth. It sets the scene for an investigation into the ways donor agencies design and implement aid that improves the prospects for investment and growth.

15. In the last decade, donor agencies have increasingly recognised the importance of the private sector as an engine for economic growth. Many agencies have formulated programmes that support private sector development programmes containing interventions that can help developing countries promote the development of a larger, more diverse and more competitive private sector.[3] Within this context, an increasing amount of attention has also been given to the role of markets for development. Since private sector development revolves around access to markets and the capacity of domestic entrepreneurs to identify and pursue new market opportunities, this area of work has been found to be extremely relevant to pro-poor development approaches.[4] Similarly, with the new age of globalisation ushering in a more closely

3. For examples of donor private sector development strategies see AusAID (2000), ADB (2000), Cida (2003), DFID (2004a), OECD (2004a; 1995), Sida (2001), UNDP (Commission on the Private Sector and Development 2004) and World Bank (2002b).

4. For further information on the role of markets in pro-poor development see DFID (2000), OECD (2004a), Sida (2003) and World Bank (2002a).

integrated world economy, the international flows of private investment have become a more potent resource for economic growth.[5]

16. This focus on the private sector, markets and mobilising investment has been accompanied by a better understanding of the factors that contribute to the creation of a more diverse, competitive and robust private sector. While attention has long been given to addressing the internal constrains of enterprise growth (e.g., through the provision of financial and business development services), greater attention is now given to the broader conditions in which private enterprises are required to operate.

17. In Africa, the private sector is characterised by its non-dynamic aspect and informality. Improving governance is a prime concern for African countries, but it is also important to foster the emergence of a dynamic private sector that can take advantage of better governance conditions and a more stable macroeconomic environment.

18. The *World Development Report 2005* (World Bank 2004a) focuses on the role of investment climates for economic growth and poverty reduction: “Improving the investment climate – the opportunities and incentives for firms to invest productively, create jobs, and expand – is the key to sustainable progress in attacking poverty and improving living standards” (p. 19). One of the primary actors in bringing about a good investment climate is government. Government policies and behaviours exert a strong influence on the behaviour of firms through because of the way they affect costs, risks and barriers to competition. Thus, working with governments – and bringing the private sector and other key actors into dialogue with governments – is important factor for donors wishing to improve the investment and growth opportunities for developing countries, including countries in Africa.

19. The OECD has recently described this as a “new private sector development agenda”. The new agenda is broader than the old one. It moves from directly helping the poor (e.g., to establish their own enterprises or to provide micro-finance programmes), to the development of “market outcomes that may be more or less pro-poor”. It suggests, therefore, that the focus of donor support should be on “institutions and policies that influence market outcomes” (OECD 2004a). This focus was confirmed in a recent World Bank Group evaluation of its assistance for improving the investment climate that highlighted the importance of reforms at the institutional level, even more than at the policy level (World Bank Group, 2004b).

b) Looking for synergies between ODA and investment in Africa

20. The purpose of this study is to examine the range of activities donor agencies undertake that work to improve the investment attractiveness and capacity of countries in Africa, even if this was not the formal or main objective pursued. While the promotion of a stronger investment climate in Africa influences many policy domains, the present study focuses on those domains in which donor agencies appear to be most active.

21. While some agencies focus their efforts on a narrower range of themes, most appear to agree that improving levels of investment in African countries requires reforms in a number of areas or development themes. DFID, for example, states it is increasingly adopting a multidisciplinary approach involving enterprise, economic, governance, livelihoods and infrastructure perspectives (DFID, White *et al.* 2004).

22. Donor agencies vary in their views on which fields or development themes are the most appropriate or most significant to address when supporting reforms that improve investment. For example

5. Overall, FDI flows to developing countries have declined by 26 per cent since 1999 and Sub-Saharan Africa continues to receive a very low and decreasing share of global FDI (FIAS 2004a).

the World Bank's Operations Evaluation Department have categorised areas of investment climate reform into "core" and "non-core" themes.[6] Core investment climate themes include regulation and competition policy, corporate governance, legal institutions for a market economy, judicial and other dispute resolution mechanisms, and personal and property rights. Non-core themes include tax policy and administration, infrastructure services for private sector development, export development and competitiveness, trade facilitation and market access, and other financial and private sector development (World Bank Group, 2004b).

23. The OECD distinguishes between "meso" level interventions – those dealing with the regulatory framework, infrastructure and governance – and "micro" level interventions – such as investment promotion and facilitation and the development of local businesses. While improvements to the "meso" enabling environment help, in themselves they are not enough to maximise the investment potential in developing countries. Strategies are consequently also required to promote appropriate "micro" or supply-side responses to increase the capacity of local firms to take up the opportunities that arise from an improved investment climate and greater international linkages (OECD, 2004b).

24. Owing to the magnitude of activity in Africa by both bilateral and multilateral donors, including activities that can be considered "investment-oriented", the present study focuses mainly on meso level interventions. Many of these areas present new opportunities for donors to increase the impact and sustainability of their efforts. These include the following:

- Policy, legal and regulatory framework: including private sector policy development and implementation, legal and regulatory reform, privatisation policies and programmes, making markets work better, and competition policy and law.

- Public and corporate governance: including interventions that improve public sector governance as well as corporate sector governance.

- Infrastructure and utilities: special attention is given to those interventions that support the mobilisation of private investment (foreign and local) into the development and maintenance of infrastructure and utilities.

- Openness to external trade: rather than supporting firms to become more active in foreign markets (supply-side or micro level interventions), this study addresses the broader conditions in which foreign trade is facilitated and regulated.

- Improving financial services: rather than supporting new financial schemes (again, a supply-side response) greater attention is given in this study to the regulation and improvement of financial markets.

25. Some micro level interventions are nevertheless also addressed in this annex, mainly those that improve human capital and entrepreneurship as well as ODA that creates incentives for private investment and provides guarantees and risk mitigation.

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6. The Government of the Netherlands has proposed that the categories "core" and "non-core" be replaced with "narrow" and "broad" to avoid the implication that one category of activities is more important than the other (Vlaar 2005)

26. The range of donor activities presented in the annex is not exhaustive. Africa is a large continent with many countries and with more donor activity that any other region in the world.[7] Thus, the donor activities presented in this annex are used to illustrate the new approaches many donors are taking to supporting reforms in African countries that will lead to more investment and growth.

27. This study has also sought to take into account the various instruments and mechanisms donors have used to design, implement and monitor their interventions. It has endeavoured to gauge the short- and long-term effect of these strategies have had on foreign and domestic investments and set these against the costs of implementation. While all donor agencies find it difficult to determine the impact of specific interventions, including investment-oriented activities, there are lessons that seem to be emerging.

28. The present annex is organised in the following manner. The next section considers the specific challenges that need to be addressed by African governments if they are to improve their prospects for investment and growth. Section III reviews the range of investment-oriented ODA provided to African countries. The information presented in this section highlights the major trends and direction bilateral and multilateral donors are taking in number of key development themes. Section IV looks at donor practice. It examines the instruments donors use to support reforms and then the kinds of mechanisms that are used for this purpose. Finally in this section, the claims of effectiveness are examined. Section V draws the findings of the previous two sections together to highlight the lessons that can be learnt from investment-oriented ODA. It then draws conclusions from the findings contained in this annex.

II. Facing the challenges to improving investment in Africa

29. Most donor agencies have a long history of involvement in Africa. The programmes they offer to reduce poverty have varied over the years and, in some cases, were closely linked with geopolitical concerns or responding to the interests of domestic constituencies. In many cases, donors are now looking to improve the effectiveness of their aid and to find better ways to improve the lives of the poor in Africa. Take for example the Commission for Africa. When launching the Commission, British Prime Minister Tony Blair described the social and economic distress of Sub-Saharan Africa as the “scar on the conscience of the world”. The Commission seeks to raise the profile of the development agenda in Africa and to take a fresh look at the responses that are required by developed countries. The immediate aim of the Commission is to determine how the Millennium Development Goals can be achieved in Africa and to bring recommendations to the Group of Eight when it meets in the United Kingdom in 2005. Gordon Brown, the British Chancellor of the Exchequer, has similarly called for a new “Marshal Plan for Africa”.

30. Within Africa itself, governments are taking new initiatives to address the social and economic problems they face. Initiatives such as the New Partnership for Africa’s Development (NEPAD), although still in its formative stage, show that there is increasing recognition that taking local responsibility for getting the conditions right is the key to sustainable reform and development.

31. In recent years great attention has been given to understanding the reasons behind the comparative low growth of Africa (see Bloom & Sachs, 1998; Collier & Gunning, 1999a and 1999b; Easterly & Levine, 1997; Jenkins & Thomas, 1999; Temple, 1999). Why, for example, did African growth

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7. For example, Tanzania hosts 1,000 donor meetings every year and prepares 2,500 donor reports every quarter (Birdsall 2004, cited in Eifert, Gelb *et al*. 2005, p. 34). While, a recent study of donor-supported interventions geared toward developing the micro and small enterprise sector found 130 projects in operation. Seventy of these provided financial services to MSEs, 29 were education and training projects, 15 dealt with infrastructure and institutional development, nine with information and technology and seven with policy (Mbugua, Ronge *et al*. 2004).

outperform growth in Asia in the period 1960-73, only to be left behind Asia from the 1970s onwards?[8] There is no simple answer to this question. Africa's development challenge is embedded in a range of sub-challenges facing African governments, the private sector and the international donor community. Among these is a specific set of challenges that have to be addressed if countries in Africa are to increase their levels of investment and grow their economies. What follows is a brief survey of these challenges:

- **The challenge for a more diverse, more competitive and robust private sector.** There is growing evidence that the main reason for slow growth and the lack of industrialisation in Africa is because of the absence of the private sector, especially the manufacturing sector (Bloom & Sachs 1998; Collier & Gunning 1999a; 1999b; Easterly & Levine 1997; Jenkins & Thomas 1999; Temple 1999). The mobilisation of domestic investment and the attraction of foreign investment require a diverse, competitive and robust private sector. In some countries of Africa this means government should get out of running business itself (i.e., privatisation), while in other cases there are legal and regulatory barriers to competition that should be removed. Overall, African governments need to establish a macroeconomic framework that is conducive to the development of the private sector.

- **The challenge for a better investment climate.** Wage levels, says the World Bank, are not the primary obstacles to African competitiveness. "Competitiveness must come from increased productivity and largely from lower non-labour costs and greater development of worker skills… the emphasis on improving productivity must include the business environment factors that drive up non-labour costs and drive down productivity in Africa". This includes factors associated with weak financial systems, macro economic instability, concentrated market structure, infrastructure and service deficiencies, over-regulation, corruption, and poor security (Eifert & Ramachandran, 2004).

  Various African Country Assistance Strategies of the World Bank Group have emphasised the need to improve the enabling environment for business and make progress on privatisation. Furthermore, the recent World Bank evaluation of Poverty Reduction Strategy Papers (PRSPs) found that most PRSPs to date have not considered the full range of policy actions required for growth and poverty reduction. Consequently there is scope for PRSPs to address more directly the actions required to enhance the investment climate (World Bank 2004b).

- **The challenge of good governance.** The governance challenge in Africa is very broad. It includes the need for better public governance in state institutions, as well as the need for better corporate governance. The challenge of good public governance includes the requirements to reduce corruption, increase transparency and accountability, and improve public services. Collier and Gunning (1999b) claim that poor service delivery has handicapped firms in Africa as a result of unreliable transport and power, inadequate telecommunications networks, and unreliable courts.

- **The challenge of human resource development and entrepreneurship.** The level of human capital is extremely low is Sub-Saharan Africa. This is so in absolute terms and also when one controls for its structural determinants (Schultz, 1999). Thus, the development of the human resource is a major challenge. It is one that affects the potential of African countries to improve their productivity and competitiveness in the global marketplace. Sadly, a major deterioration in human capital is expected from the HIV/AIDS epidemic, which chiefly affects working adults, including those who are well educated. It is also interesting to note that many of Africa's

8. Collier and Gunning cite evidence that suggests growth in Africa in 1960-73 was more rapid than that in the previous half century (p. 3).

brightest and most skilled do not live in Africa – having left for better education and employment opportunities in Europe and the United States they have become part of the large Africa Diaspora.

However, Arcand, Guillaumont *et al.* (2001) claim that there are three reasons to be optimistic that these human resource problems are improving: (1) school enrolments, which fell in the 1980s, appear to be rising again; (2) the depreciation of numerous currencies has made it easier to invest in education because of its high labour component; and (3) the level of foreign aid toward human resource development has increased. The promotion of entrepreneurship is also a critical challenge for African countries wishing to develop domestic enterprises and help these enterprises compete in national, African and international markets.

- **The challenge of inadequate infrastructure.** The impacts of many reforms in African countries have been undermined by inadequate infrastructure. The failure to address this challenge has increased the cost of doing business in African countries. For example, manufacturing firms in Zimbabwe need to hold high levels of inventories, despite high interest rates, due to unreliable delivery of inputs tied to poor transportation infrastructure.

- **The challenge of open trade.** African countries are part of an increasingly integrated world economy. They are faced with new challenges that are brought about by the liberalisation of trade and the removal of subsidies. This creates many threats to African economies that have shown themselves to be extremely vulnerable to external shocks. However, it also creates opportunities for increases in foreign investment flows that can be channelled toward economic growth. The challenge is to effectively manage these processes. This issue concerns the move toward more integrated African economies that create better investment flows within and across Africa, as well as with other developing countries. FIAS (2004a) claim that "south-south" FDI flows have expanded from 17% of FDI to developing countries in 1995 to 30% in 2001, the latest year for which figures are available. For example China and South Africa are becoming major players in Africa with about 2.7 billion US dollars (USD) and USD 1.6 billion respectively of FDI invested there in 2001.

32. The above challenges are but a collection of those that are most relevant to the investment and growth prospects of African countries. While most of these challenges are not new, the urgency to address them has reached a critical point. The failure to do this will further marginalise African countries at a time when integration and participation in the world economy has become a prerequisite for achieving sustained economic growth and sufficient social development.

III. Review of donor activities in supporting investment in Africa

33. This section reviews the range of ODA interventions that improve private investment in African countries. Due to the high volume of activities in Africa by bilateral and multilateral donors, the findings presented here cannot claim to be comprehensive. Therefore, the purpose of this section is to highlight examples of ODA that could be considered investment-oriented and contribute to mobilising investment in African countries.

34. The most recent OECD/DAC figures indicate that bilateral and multilateral donors provided USD 26 billion of net ODA to Africa in 2003. Table 1 below shows the change in ODA from 2001 to 2003.

Table 1. OECD/DAC ODA to Africa, 2002-2003

	2001 (US$ millions)	2002 (US$ millions)	2003 (US$ millions)
Africa – South of Sahara	13 812	18 404	23 749
Africa – North of Sahara	2 395	2 348	2 066
Africa – Total	16 681	21 250	26 308

Source: OECD/DAC.

35. Fifty-four per cent of ODA in Africa was allocated to Social Infrastructure and Services (comprising Education, Health and Population, Water, Government and Society, Employment/Housing/Other), 21% to Economic Infrastructure and Services (comprising Transport, Energy, and Communications/Banks/Business) and 13% to Production (comprising Agriculture, Industry/Trade/Tourism).[9]

36. Table 2 shows the top ten donors to Africa in 2001-02. The top ten African recipients of ODA in 2002 are listed in Table 3.

37. Donor agencies contribute to improving the opportunities for investment in Africa in a broad range of areas, referred to in this annex as “development themes”. As described in Section I, donor agencies vary in their views on which fields or development themes are the most appropriate or most significant to address when supporting reforms that improve investment. The OECD distinguishes between meso level and micro level interventions (OECD, 2004b).

Table 2. Top ten donors in Africa, 2001-2002

Country	Value of aid to Africa (US$ millions)	% All Donors	% of Total Donor
United States	3 189	14	25
EC	2 750	12	29
IDA	2 617	12	48
France	2 603	12	56
United Kingdom	1 048	8	29
Germany	1 009	5	28
Netherlands	956	4	37
Italy	811	4	81
SAF+ESAF (IMF)	769	3	81
Japan	700	3	10
Other	5 844	26	31
Total	**22 296**	**100**	**32**

Source: OECD/DAC 2002.

9. The remaining proportion was allocated as ‘Other and unallocated/unspecified’. Of all ODA provided to Africa in 2001-2002, 36 per cent was allocated to Social Infrastructure and Services, 14 per cent to Economic Infrastructure and Services, and nine per cent to Production. These figures are from 2001-2002.

Table 3. Top ten recipients of aid in Africa, 2001-2002

Country	Value (USD millions)	% All African countries	
Mozambique	2,058	9	HIPC
Ethiopia	1,307	6	HIPC
Egypt	1,286	6	
Tanzania	1,233	6	HIPC
Cote d'Ivoire	1,069	5	HIPC
Congo, Dem. Rep.	807	4	HIPC
South Africa	657	4	
Ghana	653	4	HIPC
Zambia	641	3	HIPC
Uganda	638	3	HIPC
Other Africa	11 949	54	26 other HIPC
Total	**22 296**	**100**	

Source: OECD/DAC 2002.

38. Meso level interventions, refer to donor-supported reforms dealing with the regulatory framework, infrastructure and governance. While these interventions provide opportunities for donors to increase the impact and sustainability of their efforts, as later sections will show this is dependent on the way in which these interventions are designed and implemented.

39. The following meso level interventions are described in this section:

- Policy, legal and regulatory framework (subsection a, below): including private sector development policy and implementation, legal and regulatory reform, privatisation policies and programmes, making markets work better, and competition policy and law.

- Public and corporate governance (subsection b): including interventions that improve public sector governance as well as corporate sector governance.

- Infrastructure and utilities (subsection c): special attention is given to those interventions that support the mobilisation of private investment (foreign and local) into the development and maintenance of infrastructure and utilities.

- Openness to external trade (subsection d): rather than supporting firms to become more active in foreign markets (supply-side or micro-level interventions), this annex addresses the broader conditions in with foreign trade is facilitated and regulated.

- Improving financial services (subsection e): rather than supporting new financial schemes (again, a supply-side response) greater attention is given in this annex to the regulation and improvement of financial markets.

40. Micro level interventions, also know as supply-side responses, include donor-supported investment promotion and facilitation and the development of local businesses. In many cases, donors have been active in these fields for some time. However, recent innovations at this level have shown the importance of synergies between meso and micro level interventions. Micro level interventions addressed in this annex focus mainly on those that improve human capital and entrepreneurship (see 3.6) as well as ODA that creates incentives for private investment and provides guarantees and risk mitigation (see 3.7).

a) Improving the policy, legal and regulatory framework for investment and growth

41. The policy, legal and regulatory framework for investment and growth is a broad multifaceted sphere of government activity that has been given greater attention by donor agencies. The role of government in the design of policies and programmes has become particularly important to donors wishing to improve private investment in African countries. This is inline with the findings of research on ODA and growth, cited earlier, in which the importance of good policies and laws is highlighted. There are six sub-themes that receive donor attention, which are described below.

1) Policy development and implementation

42. Donor agencies have been assisting selected African governments to improve the quality of their policy frameworks and their implementing institutions. While government policy affects all the development themes described in this annex, the emphasis on this aspect of ODA is the adoption and implementation of macroeconomic policy frameworks that promote the private sector development and investment.

43. Different countries have different starting points. Tsikata (2001), for example, describes the challenges faced by Ghana and Tanzania in their donor-supported policy reform programmes. Since independence, Ghana was an open free-market economy, which encouraged private sector development.[10] However, political instability and economic mismanagement created a demand for policy reforms and capacity building that were very different to Tanzania. Tanzania began its early period of independence as a socialist state, which – with the support of various Nordic donors – encouraged community-based initiatives. Later, with the rejection of socialism, Tanzania faced a completely new set of policy reform demands such as the privatisation of previously nationalised enterprises and the opening of the economy to private interests.

44. The World Bank Group (WBG) has been the most prominent provider of this kind of support to governments in Africa. However, depending on the specific issue, other donor agencies, including bilateral donors, have provided ODA of this nature. The Swedish International Development Agency (Sida), for example, has supported private sector development programmes in Ethiopia, Uganda and Zambia, while GTZ has support private sector development in Ghana and Tunisia.

2) Legal and regulatory reform

45. Improving the legal and regulatory framework for private sector activities in African countries has been a growing theme of investment-oriented ODA. In most cases, the emphasis of donor efforts here is on the simplification and improvement of business laws and regulations and the development of more accessible commercial justice systems.

46. Various African Country Assistance Strategies of the WBG have emphasised the need to improve the legal and regulatory framework for private sector development (World Bank Group 2004b). As a result, a number of agencies within the WBG are active in this field in Africa.

47. The Foreign Investment Advisory Service (FIAS) is a joint service of the International Finance Corporation (IFC) and the World Bank that helps developing country governments improve the foreign direct investment environment in their countries. It is increasing its role in Africa and is already very active on the continent. To attract more private investment, diversify their economies and reduce poverty, FIAS

10. In 1988, Ghana became the first country in Sub-Saharan Africa to introduce foreign exchange bureaus, where foreign exchange was traded with ‘no questions asked’ (Tsikata 2001).

claim that African governments urgently need to tackle the key constraints that affect the investment climate. On this basis, FIAS claims it has intensified its engagement in the region by extending its assistance to critically impoverished and even post-conflict countries.

48. FIAS has developed a Sub-Saharan Africa strategy, which is being implemented in countries such as Gabon, The Gambia, and Zambia. This approach enables FIAS to address a large number of issues in the countries' legal and regulatory framework in a progressive manner – typically starting with a general diagnostic of the business environment and then digging deeper with a thorough review of administrative barriers to investment or an analysis of the corporate tax system. This sequences the reform effort and enables subsequent reviews to build on each other. Many countries have already made basic investment law reforms and FIAS advice has moved toward the next generation of products, such as incentive structures, simplifying maze-like administrative systems, and creating investment agencies that focus on promotion rather than regulation. FIAS conducted 15 advisory projects in Sub-Saharan Africa during 2003-2004 – see Box 1.[11]

Box 1. FIAS in Gambia

In 2003, FIAS received a request from the government for assistance in determining major impediments to investment, with an emphasis on exports. The government asked FIAS to carry out a general diagnostic analysis, to be followed by an administrative barriers study and a review of taxes.

FIAS carried out the diagnostic study to identify major constraints and to establish a framework for public-private dialogue and subsequent pieces of work to be carried out in a three- to four-year program of assistance.

The study revealed that constraints found in the export sector also existed in all sectors and that the environment for FDI was hampered by a general lack of implementation capacity within responsible agencies. General problems included poor intergovernmental coordination, lack of public-private dialogue, and a large amount of discretion in administrative decisions, such as implementation of investment incentives. The study also identified major weaknesses in infrastructure, legal frameworks, the judicial system, and tax and customs administration.

The FIAS report is now being used by the government as a catalyst for engaging the private sector in a dialogue about economic policy and for developing an explicit action plan. The diagnostic's broad focus provides the context for the design of follow-up studies in the areas of administrative procedures and taxes.

Source: FIAS (FIAS 2004a, p. 15).

49. Some examples of FIAS's work in Africa in the field of legal and regulatory reform include: Lesotho where FIAS provides technical assistance to the Government of Lesotho for the modernisation of the company registration functions in the Office of the Registrar General and for the reform of the manufacturing and trade licensing system. In Zambia FIAS is carrying out an administrative barriers

11. The range of product areas includes diagnostics (in the Seychelles), administrative barriers studies (in Kenya, Cape Verde, and Eritrea), administrative and regulatory costs surveys (in Cape Verde, Ghana, Guinea-Bissau, Burkina Faso, Uganda, and Zambia), reviews of investment laws (Kenya and Sierra Leone), and taxation and incentives policy and implementation (Guinea-Bissau, Senegal, Sao Tome and Principe – not yet an IFC Shareholder). FIAS also pursued work at the regional level with programmes addressing constraints and the reform agenda of the West African Economic and Monetary Union and the East Africa Community (FIAS 2004a).

project, to provide inputs for a reform program aimed at improving the business environment, increasing investment and ultimately contributing to the reduction of poverty (FIAS, 2004b).

50. FIAS has also developed a programme for working with frontier and post-conflict countries (e.g., Sierra Leone and the Democratic Republic of Congo). This programme breaks down large reviews in two to three phases so that the countries' reform efforts can focus on a few priority recommendations and a smaller number of governmental agencies involved.

51. USAID's work in legal and regulatory reform in Africa takes a number of forms. It includes improvements in business regulation in countries such as Ghana, Kenya, Madagascar, Mali, Nigeria and Zambia, as well as contract enforcement and dispute resolution in Ghana, Madagascar, Mozambique, Senegal and Zambia (United States Agency for International Development, 2004b).

52. DFID have been active in eastern and southern Africa in efforts to improve the legal and regulatory framework for private sector reform. DFID is supporting a better investment climate in Africa through its work with NEPAD (NEPAD Business Group, Small Business Project *et al*., 2004) and has been supporting comparative reviews of the business environments in a number of African countries (Small Business Project, 2003). DFID has also supported commercial justice reform in Uganda, while GTZ have supported legal and regulatory reform for micro, small and medium-sized enterprises in Nigeria and Mozambique. As well as supporting the work of FIAS in Africa, Sida supports specific country-based programmes such as tax reform in Zambia.

53. The Business Environment Strengthening for Tanzania (BEST) programme is a multi-donor programme launched in 2003. Its components include: (1) achieving better regulation; (2) improving commercial dispute resolution; (3) changing the culture of government; and (4) empowering private sector advocacy. Under the first component, BEST will establish a Better Regulation Unit within the President's Office – Planning and Privatisation to drive forward regulatory reform and to ensure better regulation-making in the future; repeal or reform of specific regulations already identified as imposing an unnecessary burden on businesses in the following areas (e.g., central and local taxation, land planning, allocation and site development, labour laws, businesses licensing and registration, import and export procedures, and sector-specific regulations affecting priority sectors including agriculture); enact a Deregulation Act to repeal or reform legislation that imposes an unnecessary burden on business; and, introduction of Regulatory Impact Assessments as part of the legislative process in Tanzania. Four donor agencies have collaborated to support the BEST programme: Royal Netherlands Embassy, DANIDA, DFID and Sida. These donors contribute a total of USD 19 million over a five-year period (Government of Tanzania, 2003).

54. UNIDO has also undertaken work in a number of countries in Africa to improve the legal and regulatory framework for women and rural entrepreneurs.[12] In Mozambique, for example, UNIDO supported the establishment of a *Balcåo Unico* (BU), or one stop shop, in Quélimane. The BU facilitates correct and efficient applications of rules and regulations in order to stimulate private sector-led growth (UNIDO, 2003).

12. UNIDO's diagnostic study of regulatory and administrative constraints is used to inform remedial actions by national and local partners. Specific reference is made to women entrepreneurs for whom "the constraints are often exacerbated by laws and regulations that explicitly discriminate against them. Further more, the gender-sensitivity of many officials in rural areas tend to be more heavily influenced by local tradition than in urban areas".

3) Privatisation policies and programmes

55. Many donor agencies have been supporting the reform and privatisation of state-owned enterprise and banks to reduce the fiscal pressure on governments and to facilitate private sector development by unblocking sectors of economy dominated by inefficient public enterprise. However, various African Country Assistance Strategies of the World Bank Group have emphasised the need to make better progress on privatisation (World Bank Group, 2004b).

56. USAID supports privatisation in Nigeria and South Africa. In Nigeria, USAID has most recently worked with the National Privatization Program by providing technical assistance to the Bureau for Public Enterprises to streamline and expand its operations. In South Africa, USAID assisted the government's Municipal Infrastructure Investment Unit in the creation of a sustainable framework for private infrastructure investment. Ultimately, this framework will enable local governments to provide much-needed infrastructure services, primarily in the water and sanitation field, to their rapidly growing constituencies. USAID is also supporting the development of public-private partnerships to develop needed infrastructure, such as the Gautrain, which will provide rapid-rail transit between Johannesburg and Pretoria (Kleinberg, 2005).

57. Sida has supported the privatisation of the Maputo port in Mozambique and many other DAC members provide programmes in selected sectors and countries in Africa promoting privatisation. Further reference is made to these programmes in section 3.3 when donor support for infrastructure and utilities is presented.

4) Making markets work better

58. Because private sector development and the movement of private investments are directed by the performance of markets, a growing number of donors are supporting initiatives to improve the conditions for participation in markets. Markets are recognised as powerful mechanisms that drive development and pro-poor growth. In some cases donor support has a strong emphasis on helping the poor gain access to markets. In other cases this involves helping African countries address the challenges created by a more integrated world economy.

59. Donor agencies such as DFID have become more engaged in supporting programmes that promote access to markets and the capacity of potential entrepreneurs to identify and pursue new market opportunities, this area of work is extremely relevant to pro-poor development approaches (DFID, 2000). In Nigeria, DFID has established a new programme to extend rural market development and agricultural supply chains. Two specific areas of market development dealt with below are financial markets and markets for business development services.

60. Sida established the Export Promotion of Organic Products from Africa (EPOPA) programme in 1994. The programme has projects present in Uganda and Tanzania.[13] EPOPA has projects in Uganda and Tanzania and aims to give smallholder farmers a better livelihood through developing local and national business. The increase in agricultural production benefits rural communities, and as a result local farmers. Smallholder farmers benefit from better prices for their crops and a more transparent price setting from the exporter who buys more directly and pays in cash.

61. USAID increasingly finds that value chains and sectoral approaches provide useful frameworks for enhancing dynamic economic growth, investment, and opportunities for the poor. USAID's approach is based on developing solutions to economic development using current market structures and frameworks.

13. For more information see http://www.grolink.se/epopa/

Through this approach, sustainability issues are addressed at the start of the program, rather than at a later stage, as was common with previous programs. For example in Kenya USAID has developed a programme to address barriers and deficiencies in the horticulture and tree fruit sectors. This programme has relied exclusively on local private sector actors, with the objective of increasing skills and capabilities. The programme is structured to keep local partner costs low and enable a gradual reduction of the subsidy required to provide needed services (Kleinberg, 2005).

5) Competition policy and law

62. Another market-related theme of investment-oriented ODA is the establishment, improvement and implementation of appropriate competition policy regimes to maximise the benefits of competition and guard against anti-competitive practices such as cartels and the misuse of market power, which are some of the causes of market failure.

63. The OECD has established the Global Forum on Competition (GFC), which has become an important vehicle for helping to strengthen the role of competition policy around the globe – with OECD members and non-members. The GFC is achieving this by facilitating dialogue, providing a channel for the dissemination and discussion of good OECD practices and helping to identify priority areas for capacity building and technical assistance in developing countries. In 2003, a peer review was done with South Africa – the first peer review of a developing country at the GFC.

64. In a recent report of the GFC (2004) it was recommended that, due to the competencies required when helping a developing country to establish competition laws and policies, bilateral donor agencies should ensure that their own competition authorities play a significant role in these assistance programmes. At a minimum, the GFC suggests, competition agencies could become more involved in planning their countries' assistance activities in the competition field.

65. DFID encourages the adoption of appropriate competition law regimes. Projects implemented by country offices located in Africa include the revision of Tanzania's competition law, as well as a peer review of South Africa's competition law regime. DFID has also undertaken a project known as "7-Up". This was a comparative study of the competition regimes of seven developing countries, four in Sub-Saharan Africa and three in south Asia. This two-year project was undertaken through a combination of in-country research, case studies and national and regional meetings. It has helped build national capacity and promoted awareness of the role of competition law and policy in national economic strategies. It highlighted the need for policy changes, and created an international network of competition experts who have contributed to ongoing discussions on international competition issues (DFID, White *et al*., 2004). DFID has also prepared a variety of resources on this subject that can be used by programme partners (DFID, 2003b).

66. FIAS undertook a competition policy study in Burkina Faso covering the cotton, fruits and vegetables, and cattle/leather sectors. It has also held a regional conference on Competition Policy in Tanzania, while in South Africa FIAS is planning a series of small, focused studies on regulation, trade, and competition policy that will span two to three years (FIAS, 2004a).

67. Investment-oriented ODA in this development theme has become more focussed. Donor skills and knowledge required to bring about sustainable policy and institutional change are growing. Much more needs to be learnt in this area and long-term impacts are hard to measure, but it appears that there is much to be gained from further interventions in this theme. A critical concern is the way donors work with domestic partners. The need for trust, mutually agreed reform processes, and regular monitoring is clear.

68. The drafting of new policies, laws and regulations is not enough. Nor is it adequate to create new or different organisations, such as regulatory units and commercial courts. New policies need to be implemented; laws and regulations should be consistent across all portfolios; organisations need to be run efficiently and transparently. In the push for deregulation and smaller government, greater attention should be given to helping African governments understand the importance of good regulation and strong governments.[14] Donors need to work closely with national counterparts over a sustained period of time to achieve this. They are also required to work with private sector and civil society counterparts to ensure they are properly equipped to engage with governments on these matters.

69. Some donors may view these interventions as discrete and strategically focussed programmes that bring about quick wins. However, achieving a desirable impact through these interventions is not a short-term process. While a new policy may be produced in, say, two-to-three years, its implementation and the other efforts that are required to ensure other policies and laws do not compete with or undermine the effect for the new policy will take much longer.

b) Improving public and corporate governance

70. Governance as a theme for investment-oriented ODA has been growing in importance and relevance. Where once economic growth and governance were treated almost as independent, it is now clear that these issues are closely connected. Indeed, improvements in governance have been found to contribute to economic growth (Kaufmann & Kraay, 2002).

71. One of the major governance challenges is choosing a place to start. As described earlier, the failure of public governance is a major obstacle to economic growth in Africa and there are many layers of failures in governance that need to be addressed. Mason (2002) argues that the setting of priorities among governance reforms requires a broad frame of reference that recognises the political and economic context in which reforms are formulated. "It is clear" he says, "that establishing basic political legitimacy and order is an essential first step for countries with collapsed states. This task inevitably must take precedence over other important, but less urgent, reforms such as public expenditure management, civil service reform, and decentralisation of public services" (e.g., Sierra Leone). While other countries are in need of basic institutions to ensure some degree of political stability, basic physical protection of citizens, and initiatives that increase the legitimacy and authoritativeness of government, laws, and public policies (e.g., Burkina Faso). While others have enough institutional coherence to think more about expanding public services to their poor majorities, diminishing the most development-averse forms of corruption, and setting up systems for better management of public resources (e.g., South Africa).

1) Improving public sector governance

72. Investment-oriented ODA dealing with public sector governance focuses on a range of issues. Among these are programmes to reduce corruption, improve transparency and public administration in general. Agencies such as Sida and the ILO have drawn the clear connection between poor governance and the growth of the informal economy, which is substantial in Africa (Becker, 2004; ILO, 2002) (see also Annex 1).

73. In some cases, improvements in governance have been tied to privatisation and civil service restructuring programmes. This may include the substantial range of programmes that support the decentralisation of government services and the development and strengthening of government reporting and accountability mechanisms. The promotion of public-private partnerships is also relevant as are other

14. As Wade (2001, p. 26) argues "stronger markets need stronger states, and stronger states need both stronger markets and stronger civil societies".

programmes that engage the private sector in a broader range of development efforts. However, Eifert, Gelb, *et al*. (2005) claim that privatisation programmes have not been completely successful at eliminating rent-seeking and patronage.

74. DFID's governance work in Africa comprises reforms that improve governance in the public sector, i.e., improvements in the ways governments' manage the business environment, such as by becoming more transparent and accountable (DFID, 2002).

75. An issue that appears to have become more important to donor agencies within this field is the need for the private sector to become a more articulate and consistent advocate for reform. Private sector demand for reform is often considered lacking and donor agencies have worked with private sector organisations to assist them in expressing these demands. Tsikata (2001) claims that in most African countries, "public discourse on economic development and reform remains inadequate and the means of sanctioning poor government performance are equally meagre" (p. 16).

76. USAID supports improved public sector governance through addressing the supply of local skills in economic analysis and improving mechanisms for policy decision-making. USAID is increasing the supply of locally trained economists through supporting graduate-level institutions across the continent. USAID is also supporting the development of policy research institutes to conduct research and inform policy discussions. Improving public sector governance is often a sub-component of other USAID activities, including privatisation, trade facilitation, tax reform, and red tape reduction.

77. The UNCTAD Advisory Service on Investment and Training programme on Good Governance in Investment Promotion and Facilitation provides assistance to Ethiopia, Lesotho, Mali and Tanzania. In 2003, a review of the status of governance in investment promotion and facilitation was carried out in Lesotho and Tanzania. Advisory reports with recommendations were presented to the governments of these countries. Follow-up assistance to Ethiopia, Lesotho and Tanzania included training in customer services for employees of institutions dealing with foreign investors and the development of client charters for national investment promotion agencies (United Nations Conference on Trade and Development. 2004a).

2) Improving corporate governance

78. Because the mobilisation of private investment implies action by the private sector, growing attention has been given to improving corporate governance. Poor corporate governance contributes to anti-competitive and monopolistic behaviour, which in turn reduces the demand for reform from within the private sector. Thus, improving corporate governance contributes to strengthening and broadening the domestic demand for reform. Investment-oriented ODA is used to support these processes, which also require support for better-organised, more representative private sector organisations.

79. The Commonwealth Business Council endeavours to mobilise its global membership, comprising corporate members from both developed and developing countries, to promote the following objectives with respect to corporate governance:

- To achieve a common understanding of what corporate citizenship means in practice;
- To understand the perspective of companies in developed and, particularly, developing countries;
- To set out the views of members on how corporate citizenship can be made to work for them; and

- To produce research that examines the interaction between business, government and other sectors of society on support for sustainable development within an enabling business environment.

80. DFID also supports better corporate governance and social responsibility (DFID, 2003a and 2003c). DFID supports the Extractive Industries Transparency Initiative (EITI). This initiative works with African governments, donor agencies, NEPAD, trans-national corporations, investors, civil society organisations, and international financial institutions to increase transparency and accountability in the extractives sector in Africa (as well as other developing countries). It was launched by the British Prime Minister at the World Summit on Sustainable Development in Johannesburg in September 2002.

81. Investment-oriented ODA in this development theme has been relatively recent and motivated by a better understanding as to why previous reform efforts have failed. Thus, it is wise to continue to work on improving public and corporate governance with an eye on the impact this can have on investment, economic growth and poverty reduction. Within the public sector the importance of state building has been recognised and looks particularly relevant for many countries in Africa. However, here again, donors should not look for short-term impacts.

82. Improving corporate governance is an important objective in a more integrated world economy in which multi-national corporations have increasing economic and political power. Donors can add-value to this field of work and ensure there is a connection between corporate governance and pro-poor growth, but there are other agents that appear better positioned for this work. Private sector organisations engaged in improving corporate governance in OECD countries, for example, should be encouraged to extend their reach to developing countries. South-south links between private sector organisations could also be encouraged for this purpose.

c) Improving infrastructure and utilities

83. Weak infrastructure has consistently been identified in investment climate surveys conducted in Africa as one of the most significant impediments to private investment. Infrastructure has traditionally been addressed by donor agencies through development loan programmes (e.g., provided by bilateral and multilateral development banks) or by the direct provision of grants to developing countries. However, in recent years, the private sector has become more engaged in infrastructure provision.

84. For some donor agencies, infrastructure and utilities have always featured strongly. Within the World Bank Group's lending operations, for example, "infrastructure for private sector development" is a major investment (World Bank Group, 2004b).[15]

85. The OECD (2004b) has noted previously that DAC members have supported infrastructure and utilities in many countries with specific interest in transportation, water supply and sanitation, energy generation and supply, and telecommunications. Denmark, for example, supports Ghana's National Road Sector Development Programme and has improved roads between Accra and neighbouring Cote d'Ivoire. France supports a programme to supply drinking water in Mali, Senegal, Niger and Burkina Faso. While in Zambia, Germany has supported reforms to the regulation of water supply and sanitation. Sida supports energy sector policy and institutional reforms in Tanzania, Uganda and Zambia.

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15. "Infrastructure for private sector development" is the dominant theme in "non-core investment climate themes" (i.e., above tax policy and administration, export development and competitiveness, trade facilitation and market access, and other financial and private sector development) (World Bank Group 2004b).

86. Donor agencies have been giving attention to the importance of information and communications technology in recent years. USAID for example supports the DOT-COM Alliance to promote the use of information and communications technology across all development sectors.[16] It also supports the regulation of telecommunications through the Southern Africa Telecommunications Policy and Regulatory Support Project which aims to harmonise a common framework of telecommunications policies, regulations and procedures in Southern Africa (United States Agency for International Development, 2004a). Sida supports the development of an information and communications technology policy in Tanzania, along with improvements to the way this sector is regulated.

MIGA in Africa

Mozambique Aluminium Smelter. MIGA issued a $40 million guarantee to the Industrial Development Corporation of South Africa for an aluminium smelter in Mozambique. The Mozal project, located near the capital city of Maputo, is covered against the risks of expropriation, and war and civil disturbance. It is one of the largest foreign investments in the country.

Mining in Mauritania. MIGA provided $68.3 million in guarantees to Tunisie Télécom of Tunisia for its equity investment in, and loan guaranties to, the Société Mauritano-Tunisienne des Télécommunications in Mauritania. The coverage is against the risks of transfer restriction, expropriation, and war and civil disturbance. The project involves the installation, operation, and maintenance of a new GSM telephone network, which will significantly improve Mauritania's teledensity levels, which are among the lowest in the world.

Source: MIGA (2003)

87. Connectivity Africa is one of three initiatives launched at the June 2002 G8 Summit in Kananaskis, Canada as part of its response to the G8 Africa Action Plan and the recommendations of the Digital Opportunity Task Force. Implemented by Canada’s International Development Research Centre (IDRC) in partnership with the United Nations Economic Commission for Africa, Connectivity Africa is funded by the Canada Fund for Africa and aims to improve access to information and communication technologies in Africa. Among other programme activities Connectivity Africa facilitates linkages between national strategies and regional infrastructure priorities and supports the development of mechanisms for enhancing intra-regional Internet connectivity (International Development Research Centre, 2003).

88. The Public Private Infrastructure Advisory Facility (PPIAF) provides technical assistance to developing-country governments to develop and implement appropriate policies, laws, regulations and institutions that will enable and encourage greater private investment in infrastructure. It includes some 15 multilateral and bilateral donor agencies and provides technical assistance to developing-country governments to improve the enabling environment for private sector involvement in infrastructure (i.e., water, sanitation, electricity, telecommunications, gas transmission and distribution, and transport).[17]

89. The facility funds a range of activities across developing and transition countries and, at the end of March 2004, the PPIAF portfolio covered 310 activities in more than 84 countries. National and

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16. See http://www.dot-com-alliance.org/

17. PPIAF is governed by a Program Council of contributing donors, which meets once a year and is chaired by the World Bank's vice president for infrastructure. PPIAF also has a Technical Advisory Panel, a Program Management Unit (located in the World Bank in Washington D.C.) and three Regional Coordination Offices (located in Kenya, Singapore, and South Africa).

regional activities in Sub-Saharan Africa have represented 32% of PPIAF's portfolio by value since PPIAF's inception (Public Private Infrastructure Advisory Facility, 2004).

90. In Senegal, Uganda and Lesotho PPIAF prepared a comprehensive study of the country's state of infrastructure, to identify opportunities and measures to improve the regulatory framework to improve private sector involvement in infrastructure. Roundtable discussions were then organised between government, private sector, potential investors, to build consensus between all stakeholders.

91. The Private Infrastructure Development Group (PIDG) is a group of donor agencies, presently comprising DFID, the Netherlands Minister for Development Co-operation, the Swiss State Secretariat for Economic Affairs of the Government of the Confederation of Switzerland, and the World Bank. PIDG members share a common interest in terms of designing approaches that promote private sector involvement in infrastructure development and this has led to the design of a number of donor-supported infrastructure programmes.

92. Finally, the Multilateral Investment Guarantee Agency (MIGA) is a member of the WBG, which promotes FDI into developing countries by offering political risk insurance (guarantees) to investors and lenders, and by providing technical assistance to help attract and retain foreign investment. MIGA’s guarantee portfolio in Africa has grown from 7% in 1999, to 17% (or USD 793 million) by end of fiscal year 2002 (MIGA, 2003).

93. Investment-oriented ODA in this development theme is critical in Africa, but it is clear that new modes of ODA are required and are being elaborated. This annex has described a number of new facilities that have been established to deal with some of the specific concerns related to private sector investment in infrastructure. Engaging the private sector has been an important step toward increasing the reach and therefore impact of this area of work. However, this should be balanced by support for a stronger role for government in regulating competition to ensure the social benefits of improved infrastructure.

d) Facilitating external trade and mobilising investment

94. In terms of number of projects, it appears that donor agencies are very active in efforts to promote reforms that increase external trade in African countries. Trade-related technical assistance and capacity building (TRTA/CB) has been the central theme of much of this work. These are efforts design to improve the capacity of governments to engage effectively in international trade. The following agencies appear particularly active in this development theme in Africa: European Commission, FIAS, France, Germany, Japan, Portugal, United Kingdom, United States, United Nations Conference on Trade and Development, and the World Bank.

95. The Integrated Framework (IF) is a multi-donor program that helps least developed countries to expand their participation in the global economy and enhance their economic growth and poverty reduction strategies. Launched by six multilateral institutions (IMF, ITC, UNCTAD, UNDP, World Bank and the WTO), the Integrated Framework has two objectives: (1) to “mainstream” (integrate) trade into the national development plans such as the Poverty Reduction Strategy Papers (PRSPs) of least-developed countries; and (2) to assist in the co-ordinated delivery of trade-related technical assistance in response to identified needs (IMF, ITC *et al*., 2004). Thirteen Sub-Saharan African countries have benefited from the IF or are targeted for assistance under it: Benin, Chad, Guinea, Burundi, Lesotho, Senegal, Madagascar, Djibouti, Malawi, Eritrea, Mali, Ethiopia, and Mauritania.

96. The United States has contributed funds for the past three years to the Integrated Framework Trust Fund to finance diagnostic trade integration studies and, along with other IF partners, seeks to help partner countries follow up on TRCB priorities identified in IF diagnostic exercises. In 2003, US trade

capacity building assistance to the 13 Sub-Saharan African countries participating in the IF exceeded USD28 million, more than three times the 2002 level for these countries. The United States has also provided bilateral assistance to Cape Verde in support of its efforts to accede to the WTO (Office of the United States Trade Representative 2004, pp. 26-36).

97. Much of the US Government's support for trade in Africa centres on the African Growth and Opportunity Act (AGOA). Signed into law on 18 May 2000, the Act offers incentives for African countries to continue their efforts to open their economies and build free markets. The United States provided USD 133 million to trade capacity building activities in Sub-Saharan Africa in 2003, up 26% from 2002. These activities are implemented though about a dozen agencies including USAID, the Department of Commerce, the Department of Agriculture, and the US Trade and Development Agency (Office of the United States Trade Representative 2004, pp. 26-36).

98. The European Commission established the "Capacity building in support of the preparation of Economic Partnership Agreements (EPA)" programme in 2002 to provide technical assistance to assist the African Caribbean and Pacific members in their preparation for and conduct in EPA negotiations. Capacity-building operations include activities such as research, technical assistance or training in accession to WTO, preparation of and participation in WTO negotiations, and compliance to the multilateral trading system in general (European Commission, 2002).

99. The Sub-Saharan Africa Transport Policy Program (SSATP) is a partnership between the World Bank, the United Nations Economic Commission for Africa, and a large number of bilateral and multilateral donors. SSATP facilitates policy reforms in the transport sector in Sub-Saharan Africa and helps Sub-Saharan African countries to formulate and implement sound transport policies by: (1) sponsoring research, documentation, publications, and conferences; (2) disseminating information via publications distribution, the Internet, and at seminars and meetings throughout Africa; (3) co-ordinating initiatives and sponsoring links between institutions in Africa and elsewhere; and (4) serving directly as advisor or facilitators to transport policy reform in many African countries (World Bank Group, 2004c). GTZ has also supported a programme with the Southern African Development Community, which promotes better regional trade.

100. The number of investment-oriented activities carried out by DFID in the trade field has grown dramatically in recent years: from around five trade-related projects in the period 1990-1993, to over ten projects in the period 1993-1995, to a very broad trade programme currently. The influence of the Government's 2000 White Paper on Globalisation has contributed significantly to the increase of DFID's activities in this area. Over half the overall funding DFID provides in this theme is in Africa. Nearly two-thirds of trade policy and regulation programmes have been aimed at integrating trade into development plans or poverty reduction strategies and nearly three-quarters of trade development programmes assist small businesses gain access to trade finance (OECD, 2003). In Zambia, for example, DFID has helped to identify barriers to foreign and domestic investment, and the potential for supply chain linkages in commercial agriculture from big business to smallholders.

101. DFID claims it has moved the focus of its programmes in trade from technical assistance (TRTA) to trade facilitation and promoting awareness and knowledge amongst national institutions of the rules, procedures and institutions of the international trading system. A part of this shift in focus has been the move from a sectoral focus (i.e., working in sectors that showed the most promise for export promotion), to a broader systemic approach and the facilitation of trade. DFID programmes in this area go beyond the country level – the regional and global concerns of trade have become more prominent. The United Kingdom's International Trade Department focuses more on working with multilateral agencies (e.g., UNCTAD, ITC, WTO) than it has in the past (North-South Institute, 2004).

102. The programme of the Government of France, *Programme pour le renforcement des capacités commerciales*, which works predominantly in Sub-Saharan Africa focuses on increasing negotiating capacities and export capacities. In addition, the Government of Portugal provides assistance to Portuguese-speaking countries in Africa to build their negotiations capacity within the WTO and to promote a better integration in the multilateral trading system (OECD, 2003).

103. The OECD launched the Initiative on Investment for Development in 2003 in Johannesburg, South Africa. The Initiative supports the agreements of the Monterrey Consensus and includes three closely inter-related projects: (1) the development of a Policy Framework for Investment; (2) drawing lessons on the use of ODA in support of countries' efforts to mobilise investment for development; and (3) sharing the OECD's experience with investment policy peer reviews as capacity building mechanisms.

104. The Policy Framework for Investment is intended as a non-prescriptive checklist of issues for consideration by any interested governments engaged in domestic reform, regional co-operation or international policy dialogue aimed at creating an environment that is attractive to domestic and foreign investors and that enhances the benefits of investment to society. The Framework will serve as a reference point for investment promotion agencies and donor agencies as they assist developing and transition country partners in improving the investment climate, as well as businesses, trade unions and NGOs in their dialogue with governments. The Framework will be developed by a Task Force through a partnership process involving OECD Member and non-Member governments, in co-operation with civil society and other international organisations (OECD, 2004c).[18]

105. The Commonwealth Business Council (CBC) promotes the Commonwealth Investment Principles, which were endorsed by Commonwealth Heads of Government at their March 2002 meeting. This Action Programme for Investment forms an important part of CBC's work to help mobilise investment into Commonwealth countries.

106. Finally, a number of OECD countries have employed home country measures (HCMs) to promote foreign direct investment to developing countries. This is done on the premise that FDI is good for development and that there are market and co-ordination failures that deter investment and cause the social benefits to FDI to be greater than the private benefits. A recent review of these programmes in the United Kingdom and the European Commission has found that one-stop-shops for outward investors could be useful to reduce potential confusion among investors (te Velde, 2003).

107. Investment-oriented ODA in this development theme appears to hold great potential. Indeed, many donor agencies are increasing their involvement here. The shift from focussing on exports toward better trade regimes and improving the capacity of African countries to negotiate trade agreements has been crucial. However, it should be recognised that while trade barriers around the world have been removed, many developed countries continue to apply subsidies to specific sectors such as agriculture. African governments are unable to afford such subsidies, leaving them at a distinct disadvantage, which could have a negative affect on investment. Thus, there are issues beyond the reform of policies and institutions in African countries that should be addressed to achieve results in this theme.

18. The first plenary meeting of the Task Force took place at the OECD in Paris on 17 June 2004 and identified a preliminary list of policy building blocks for the Framework: investment policy; investment promotion and facilitation; trade policy; competition policy; tax policy; corporate governance and responsibility, and market integrity; human resource development; infrastructure development; and public governance. In addition to host-country policy action, the contribution of international co-operation, including through regional integration, and home-country policy action will also be addressed.

108. For donor agencies working in Africa to improve investment and growth, reforms that support increasing trade demonstrate the potential for positive impacts in the near future. Increased trade can quickly lead to greater investment. A particular challenge to address in this regard is the need to change investor sentiment or attitude towards Africa. As trade increases, so too will investor confidence, which will lead to significant long-term benefits.

e) Improving financial services

109. The inadequacy of financial services in Africa has been raised in several assessments as one of the most significant obstacles to greater investment and economic growth. Donor efforts in this theme have shifted significantly. While previously ODA mainly supported the development of financial schemes and loan programmes (and, indeed, some donors continue to provide this kind of support), there has been a shift toward supporting reforms that take a more comprehensive and systems approach to financial services. Here, the emphasis falls on broadening and deepening the access the poor have to financial services. As with other areas of investment-oriented ODA, improving financial services has moved from supporting initiatives that directly affect the poor, to working upstream and helping governments, regulators and commercial banks to improve the ways in which financial services are provided.

110. DFID is currently undertaking studies of the impact of country credit ratings and taxation regimes on private investment in Africa. DFID also supports the FinMark Programme, which works across Southern Africa, in which the Banking Council of South Africa is helping to deepen financial markets. USAID has predominantly worked with institutions to broaden and deepen the availability of financial services. Its work on policy initiatives has been predominantly limited to the environment for microfinance institutions (Kleinberg, 2005). Sida supports a number of financial development programmes in Africa, including projects in Tanzania and Uganda. GTZ supports similar programmes in Ethiopia and Uganda.

111. The Financial Sector Reform and Strengthening (FIRST) initiative is a large technical assistance facility, located within the World Bank and funded by a number of multilateral and bilateral donor agencies. It supports capacity building and policy reforms to the financial sector in developing and transition countries.[19] The management unit is located in London, while the co-ordination unit is in Washington DC FIRST has up until now focussed on regulation, stability, and security. There is a need for facilities such as FIRST to be more closely linked to country offices so that country-level programming can draw more effectively from the resource that this facility offers.

112. Investment-oriented ODA in this development theme has, like other themes reviewed above, also taken on a more systemic approach. This has brought a field of work that has previously been closely tied to poverty initiatives out into the mainstream of the economy. Inadequate financial services have been cited in many assessments as a major obstacle to investment and growth. Reform in this theme can contribute to the mobilisation of domestic investments and the correction of market failures that have marginalised the poor from full participation in the economy.

113. Future donor interventions in this theme will lead to a better understanding of the policy and institutional characteristics that are required to ensure increasing investment and economic growth benefits the poor (i.e., toward pro-poor growth).

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19. FIRST provides technical assistance grants for short and medium-term projects in the areas of financial sector regulation, supervision and development. FIRST supports activities and interventions mainly in the public sector, principally by providing technical assistance grants to policy makers and regulatory bodies. It also supports private sector activities when organised through recognised institutions. Source: http://www.firstinitiative.org

f) *Developing human capital and entrepreneurship*

114. Investment-oriented ODA includes support for the development of the human resource in African countries. Developing the human capital of African countries is critical to the long-term attraction of foreign investment and the mobilisation and growth of domestic investment; skilled, productive workers are required to compete in an integrated global economy, just as local firms and entrepreneurs are required to innovate and respond to changes in African and international markets.

115. This is a broad theme of development work, containing a long history of donor intervention and a high volume of donor activity by bilateral and multilateral donors alike. It includes support for the improvements of education, vocational training, health services (including HIV/AIDS programmes) and social protection schemes.[20] Because of the magnitude and diversity of ODA provided to the development of human resources, this review will focus on a more narrow set of interventions: those promoting entrepreneurship and the development of domestic enterprises.

116. Strategies that support the development of domestic enterprises have strong synergies with the potential of a country to attract foreign investment. However, large foreign and minority firms in many African countries exhibit much higher levels of productivity than their smaller indigenous counterparts (Eifert, Gelb *et al*., 2005).

Box 2. Enterprise Africa

The Enterprise Africa programme was established in January 1998 as a regional initiative of the UNDP Africa Bureau designed to provide a regional framework for facilitating and coordinating private sector support activities in Africa and to increase indigenous African entrepreneurship. It provides a focal point for coordinating country-led initiatives in Africa, which seek to develop a new generation of dynamic and successful SMEs that can contribute significantly to enhancing productivity, competitiveness, job creation and sustainable livelihoods in Africa.

Enterprise Africa operates in 20 countries, both at the national level – by establishing new private sector programmes and strengthening existing ones – and at the regional level – by promoting cross-border linkages, trade and investment as well as technology transfer. The flagship programme model on which these interventions at the country level are based is the Empretec programme.

117. There are many donor agencies involved in enterprise development in Africa. They include: European Union, France, GTZ, ILO, Italy, UNDP, UNIDO, United Kingdom, United States, and the World Bank Group. There is a broad sweep of programmes contained within this theme, ranging from the provision of financial and business development services to small enterprises, to the facilitation of linkages with large and foreign firms, to the improvement of the representation of enterprises, to the reform of the business environment for enterprises.

118. Improving the representation of small enterprises is a focus of a number of donor agencies. These programmes build the capacity of small enterprise membership organisations and facilitate links with government policy-making structures. Some GTZ examples include the SME Promotion Project in Egypt and the promotion of sectoral associations in Algeria.

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20. Data provided by OECD/DAC indicates that 54% of DAC funds (USD 6,626 million) were allocated to Social Infrastructure and Services (comprising Education, Health and Population, Water, Government and Civil Society, Employment/Housing/Other) in 2001-2002. This was 36% of all aid to Africa in 2001-2002.

119. Many donor agencies have an emphasis on the promotion of small enterprises, including those in the informal economy.[21] This has largely been because of the extremely high numbers of micro and small enterprises found in African countries, as well as the high participation of the poor in small enterprises. In addition, smaller firms in Africa are more vulnerable to the high transaction costs associated with a poor business environment (Naudé & Krugell 2003, p. 66).[22]

120. Skills development is a feature of many donor interventions in this field. The ILO, for example, has provided the Start and Improve Your Business training programme, with financial support from Sida, for many years and in many countries in Africa. Despite the range of training programmes provided by donors, outside South Africa, Sub-Saharan Africa has not a single accredited business school (Eifert, Gelb *et al.*, 2005). UNDP has supported a number of enterprise development programmes in Africa through regional and national approaches. See Box 3.

121. The Africa Project Development Facility (APDF) was established by the International Finance Corporation (IFC) in 1986 as a multi-donor initiative helping African small and medium enterprises (SMEs) to develop bankable business plans and secure project financing. Headquartered in Johannesburg, with regional hubs in Abidjan, Accra, Johannesburg and Nairobi, and offices in Lagos and Cape Town, it facilitates access to a wide set of business development services for local SMEs and the organisations in Sub-Saharan Africa. APDF also works closely with its sister organisation the African Management Services Company, which provides management support, training, and corporate governance assistance. APDF's new five-year cycle includes Business Advisory Services to support the development of business plans (including due diligence and valuations); business diagnosis; and financial structuring and fund raising.

122. IFC is in the process of creating the Private Enterprise Partnership – Africa to take over the provision of technical assistance to SMEs in the region from the APDF. This will include support for consulting services, business associations, and local financial institutions.

123. UNIDO has supported the development of a number of industrial development policies and programmes in Africa, while agencies such as the ILO, GTZ and DFID have supported the development of small enterprise promotion policies and programmes. A number of agencies have provided assistance to the support of youth entrepreneurship programmes (e.g., UNIDO in Uganda). Donors have also provided special programmes of support to help women entrepreneurs. This included ILO in Zambia, Malawi and Tanzania; UNIDO in Kenya and Morocco.

124. In addition, a growing number of donor agencies are supporting the promotion of local economic development initiatives in African countries: European Union in South Africa; GTZ in South Africa; ILO and the Italian Government in Mozambique, Angola and South Africa.

125. USAID has a number of programs to support entrepreneurship in Africa. Its Development Credit Authority program often packages portfolio loan guarantee programmes with technical assistance to banks to increase credit available to particular sectors. Programs in Kenya increase the availability of credit in a number of sectors, including tourism, dairy, horticulture and agro-processing. In Mali, the facility increases the capacity of the private sector to benefit from other USAID programs in the agricultural sector.

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21. The term “small enterprises” is used to describe a wide range of enterprises that are often disaggregated into micro enterprises as well as small- and medium-sized enterprises (SMEs), with the specific definition depending on the purpose or country context.

22. This view is supported by Goedhoys and Sleuwaegen (2000) in their study of small firms in Côte d'Ivoire, and Mollentz (2002) in South Africa.

126. Credit to small and micro entrepreneurs is a key element of many USAID programmes in Africa. Recently, credit activities have come to be more co-ordinated with the broader enterprise development portfolio, either in sectoral or geographic focus. USAID is also working to increase the access of small and micro firms to high-value niche markets, such as cacao and coffee. For example, coffee growers in nine African countries are gaining access to high value specialty coffee markets, through developing a greater understanding of cupping and grading standards (Kleinberg, 2005).

Box 3. Mediterranean 2000

This programme assists ten countries in the Mediterranean basin and Horn of Africa to promote SMEs that can grow, partner and compete in the global economy. The Government of Italy funds the programme so that SMEs in these ten countries will be able to participate in the future regional free trade area. Its gradual opening will hopefully provide sufficient time for the region's SMEs to modernise and be ready to successfully compete in fully liberalised markets. The process of economic liberalisation has to be accompanied by appropriate action and support measures to enable SMEs to survive and grow in the new environment. Besides having a multi-country approach, various international agencies such as the ILO, ISO, ITC, UNCTAD and UNIDO, are being encouraged to intervene in an integrated manner while executing their own SME development projects.

127. The Committee of Donor Agencies for Small Enterprise Development was established in October 1979 at a meeting in Berlin, convened at the invitation of the World Bank. Participants are representatives of bilateral and multilateral donor organisations from around the world that are engaged in programmes of assistance in the development of small enterprises. The objectives of the Committee is to promote small enterprises in developing countries by exchanging information on the programmes of participating agencies in the field of small enterprise development; share experiences and lessons learned in the implementation of projects; and co-ordinate efforts and establish guidelines in these fields.

128. The second major conference of the Committee was held in Abidjan, Cote d’Ivoire in 1983. This conference had a regional focus on Africa and was followed by a conference ten years later at which the focus changed from a forum of (mainly Western) academics and donors to practitioners and policy makers from around Africa. The outcomes of this conference are documented in the publication *Agents of change; studies on the policy environment for small enterprise in Africa* (English & Hénault, 1995).

129. Over the years, the Committee has produced a number of reports and technical documents of use to donor agencies and other development partners engaged in small enterprise development. Among the most relevant of these are:

- Small and micro-enterprise finance: Guiding principles for selecting and supporting intermediaries (1995)
- Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention, 2001 Edition (Known as “The Blue Book”)

130. In 2001, the Committee of Donor Agencies established the Working Group on Enabling Environment. A first initiative of the Working Group was to commission research into the role donor agencies play in promoting an enabling environment in five countries/regions.[23] This resulted in the publication of a report entitled, *Enabling small enterprise development through a better business*

23. The five countries/regions examined were the Balkans (encompassing Albania, Bosnia-Herzegovina and FYR Macedonia), the Caribbean (specifically Dominica, Grenada, Guyana, and Jamaica), Peru, Tanzania, and Viet Nam.

environment. In 2004, the Working Group commissioned a second research report. This report, entitled *Donor approaches to improving the business environment for small enterprises*, presents a more detailed examination of the concepts, tools and programmes donor agencies use to assess and reform the business environment.

131. In November 2005, the Committee plans to hold another major conference in Africa. This will be in Cairo and will focus on the roles donor agencies can play in supporting reforms that create business environments that are more enabling of small enterprise development.

132. Investment-oriented ODA in this development theme has been longstanding and should continue for some time. All commentators appear to agree: Africa's potential to successfully engage with the world economy is subject to improvements in its human capital. In this context, all ODA directed toward human development in Africa can be seen as a contribution to increased investment and economic growth. However, there are a number of ODA activities within this theme that could be specifically called investment-oriented. This includes the support for entrepreneurship and the promotion of small enterprises.

133. There is great debate concerning the final impact of entrepreneurship and the promotion of small enterprises on investment and economic growth. One argument is that these programmes do little to contribute to growth and tend to further distort dysfunctional markets. Others suggest that getting the big picture right (i.e., improving the investment climate) is where the focus should lay. While others argue that working with the poor, building entrepreneurial skills and supporting the growth of small enterprises is an important contribution to the mobilisation of domestic resources, which are an essential ingredient for improving investment.

134. There are benefits to be gained in a continuation of donor efforts to unravel the lessons of new approaches in this theme. Donors are becoming more critical of their work and this has helped to improve practice.

g) Incentives for private investment, guarantees and risk mitigation

135. Donor agencies have also undertaken micro level interventions to improve investment in Africa through the provision of incentives for private investment, investment guarantees and risk mitigation. The design and implementation of investment policies and programmes have been one of the most common forms of donor intervention in this regard. For example, the German Investment and Development Corporation has supported the setting up and management of investment promotion programmes in Lesotho since 1985 through its 10% ownership of the Lesotho National Development Corporation. Similarly Japan has supported trade and investment promotion seminars in Africa and has conducted training and other capacity building measures in this field (OECD, 2004b).

136. The United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce have established a programme that provides investment guides and capacity building support in Ethiopia, Madagascar, Mali, Mozambique and Uganda. UNCTAD has also established a programme entitled, "Needs Assessment to Attract Asian FDI into Africa" providing assistance to African countries in formulating policies favourable to attracting FDI from Asia, including by SMEs. The potential of Botswana, Ghana, Madagascar, Mozambique and Tanzania to attract Asian FDI was reviewed in 2003. The UNCTAD Advisory Service on Investment and Training (ASIT) strengthens the capacity of developing countries to create and manage their FDI policy frameworks. In 2003, advice was provided to Angola on its newly enacted law on private investment. In addition, this programme provided assistance to a number of African countries (Botswana, Ethiopia, Lesotho and Tanzania) in follow-up to recommendations contained in the investment policy reviews prepared by UNCTAD (United Nations Conference on Trade and Development, 2004a).

137. Donors have also supported private investment in Africa through the provision of risk capital, investment guarantees and risk mitigation mechanisms. For example CIDA established the Canada Investment Fund for Africa to stimulate domestic and foreign investment through risk capital. The fund is a public-private partnership with the aim of channelling at least CAD 200 million in additional funds to Africa (OECD, 2004b).

138. UNCTAD provides advice, guidance and training for insurance supervisory authorities, in particular for the establishment of legal and supervisory frameworks geared towards sustaining the development of competitive insurance markets. A total of 32 African countries were involved in training and other events organised on selected insurance issues in 2003. In addition, some 30 African insurance companies received a credit rating under a scheme set up by UNCTAD and the African Insurance Organization (United Nations Conference on Trade and Development, 2004a).

139. The Emerging Africa Infrastructure Fund (EAIF) is a public-private financing partnership initiated by PIDG as a new financing approach for the long-term alleviation of poverty in sub-Saharan Africa through combining public and private funding partners and adopting commercial and developmental principles in support of sustainable development and economic growth. The UK Secretary of State for International Development launched EAIF on 30 January 2002. EAIF has the following objectives:

- To address the scarcity of long-term debt for significant private sector-based infrastructure development through the provision of long-term debt finance that can be tailored to suit the typically longer term nature of cash flow profiles arising in infrastructure.

- To be responsive to market needs by working with all participants (host governments, private sector sponsors and NGOs alike) to create appropriate financing solutions to meet the challenges of private sector financing in the region, including where possible and appropriate the facilitation of local capital market involvement.

- To ensure as far as is possible that all activity receiving support from the Fund conforms to internationally acceptable environmental and social impact standards.

- To operate on private sector commercial principles and so demonstrate the viability of long-term commercial lending into sub-Saharan Africa.

- To increase the size of the Fund and its effectiveness through using leverage of additional donor money to attract new private sector capital that would otherwise be unlikely to be made available to the region.

140. Many investment promotion and risk mitigation programmes endeavour to overcome the negative perceptions foreign investor have of Africa. For example, the Commonwealth Business Council established Investors in Africa, also known as Friends of Africa, which includes more than a dozen leading multinational companies with successful investments in Africa. The group aims to improve external perceptions of the African continent in the belief that more accurate perceptions will attract new interest from the investment community. The Friends of Africa are beginning with a study of the key issues facing new investment in Africa. In addition, the group is arranging introductions to key African government personnel, and organising information sessions between investors and African lenders to promote new cross-border investment. The Norwegian Investment Fund for Developing Countries is another example of an initiative that has been established to promote sustainable, viable private investment which perceptions of risk would otherwise prevent from taking place.

h) Summary

141. The above review illustrates a high volume of ODA in these themes. It is clear that donors are heavily engaged in these activities and are likely to remain involved. However, it is not always clear that donor agencies are involved in these activities for the same reasons or for the purposes of improving investment levels. Dag Larsson (2004) of NORAD notes that while "most donors have supported from some to all themes", not all do so with "the objective of enhancing the investment climate or promoting private investment". Some themes, such as human resource development and infrastructure, can be supported by donor agencies for other reasons and while this study is unable to determine the rationale behind donor interventions, the following sections attempt to examine those features of ODA practices that are investment-oriented.

IV. Implementing and assessing investment-related ODA strategies in Africa

142. Having reviewed the range of development themes and sub-themes that investment-oriented can ODA focus on, this section turns to the issue of implementation. Here, the ways donor agencies assess African investment climates and business environments, then design and apply reform interventions are reviewed with the aim of determining those aspects of ODA that appear to contribute to increased investment and economic growth.

143. Also addressed in this section is the issue of effectiveness. The thorny issue of impact assessment in investment-oriented reforms is briefly reviewed, while attention is given to the claims donors make about the benefits of their support.

a) Instruments of investment-related ODA

144. The investment-related ODA described in the previous section applies a variety of instruments and models. For many bilateral and multilateral agencies, the process of intervention begins with assessment. A number of donor agencies have been undertaking assessments to identify the areas where meso level and micro level reforms are required. While these activities lead to the production of up-to-date and well-focussed data that can lead to the design of reform programmes, there are other benefits that result from these activities. In some cases, donor agencies work closely with African country partners in these activities in an effort to improve their capacity to undertake such assessments in the future. In other cases, the data produced is used to compare countries and to promote competition among countries through the use of scoring systems, thus, contributing to a growing demand for reform from within countries. Finally, assessments can be used to benchmark changes. Thus, regular assessments provide a measure for monitoring the impact of reforms over time.

145. The World Bank Group is by far the largest provider of analytical information to countries in Africa. The World Bank Group conduct Investment Climate Assessments (ICAs) and Investment Climate Surveys (ICSs). ICAs were begun in July 2002 and are used to identify and prioritise investment climate constraints, benchmark reform progress, provide cross-country comparisons of investment climate indicators, and help countries forge broad consensus on priority areas for reform. These assessments ultimately feed into World Bank operations and technical assistance.

146. Underpinning all ICAs is a standard core investment climate survey instrument, which allows the comparison of existing conditions and the benchmarking of conditions to monitor changes over time. The survey is administered to managers of firms and consists of a core set of questions as well as several

modules that can be used to explore in greater depth specific aspects of the country's investment climate and links to firm-level productivity.[24]

147. ICAs have been completed for 18 countries and ICA reports are available for the following countries in Africa: Algeria, Ethiopia, Eritrea, Kenya, Morocco, Mozambique, Tanzania, Nigeria, Uganda, and Zambia. South Africa is currently the only country in Africa being assessed at the moment.

148. The World Bank Group also conducts Doing Business assessments. These cover 145 economies including 36 from Africa. The most recent results of this survey were published in the report *Doing Business in 2005*. It involves a review of existing laws and regulations in each economy; targeted interviews with regulators or private sector professionals in each topic; and co-operative arrangements with other departments of the World Bank, other donor agencies, private consulting firms, and business and law associations. The main topics covered include are: starting a business; firing workers; enforcing contracts; getting credit; and closing a business. The Doing Business Survey provides compelling data that is comparative across countries and over time.

149. FIAS also provide analysis into specific aspects of the investment climate. Where Investment Climate Surveys identify legal, regulatory and administrative barriers, FIAS aims to look more closely at specific problems, mainly associated with administrative barriers. In Kenya, for example, FIAS conducted an administrative barriers study and commercial legal framework review project has been developed in close collaboration with the World Bank and several bilateral agencies. The projects build upon the findings of the ICA and focus on the business regulatory areas indicated by the ICA as the most problematic, provide in-depth analysis and recommendations, and feed into the economic and sector work of the African Division of the World Bank (FIAS, 2004b).

150. USAID's investor's roadmap is a tool used by many USAID missions in Africa to develop their program frameworks and objectives, mainly by assessing the overall constraints to investments from administrative barriers. These assessments involve a three-phased process. First, they chart for government officials the needless red tape and administrative barriers to investment. Second, they examine how these barriers can be reduced. Third, they assist in the design of reform programmes. Investor's roadmaps can be repeated over time to compare changes (Kleinberg, 2005).

151. Also in the field of trade-related analysis, the United Nations Conference on Trade and Development (UNCTAD) undertakes Investment Policy Reviews (IPRs) to help countries improve policies and institutions that deal with FDI and increase their capacity to attract and benefit from it. IPRs have been undertaken in 14 countries, including the following countries in Africa: Botswana, Egypt, Ethiopia, Ghana, Lesotho, Mauritius, Tanzania, and Uganda. Ongoing IPRs are occurring in Benin, Kenya and Zambia (United Nations Conference on Trade and Development, 2004b).

152. The Commonwealth Business Council (CBC) has conducted three Business Environment Surveys: 1999, 2001 and 2003. The 2003 survey covered 31 Commonwealth countries, a wider range than in previous years. Business Environment Surveys have been supported by DFID with technical assistance from by Oxford Analytica. The survey provides information for the future development of national action plans. The survey also provides a valuable resource for dialogue with governments at the Commonwealth Business Forum and the CBC's series of national investment conferences. Through these activities the CBC will continue its work to help mobilise investment in Commonwealth countries and to strengthen the role of the private sector in that process.

24. The ICS uses large samples of firms (i.e. 1,500 firms), while the ICAs supplement this with information from key informants.

153. The International Labour Organization has undertaken assessment of the business environment for small enterprise employment in a number of African countries, including Egypt, Guinea, South Africa, and Tanzania. These have mainly involved local consultants and agencies applying an assessment guide, with support from an international consultant. The ILO has also commenced a programme in Tanzania to help the Employer Organization assess the business environment for small businesses and come up with an advocacy programme that is linked to the implementation of the PRSP. Finally, the ILO has supported a regional programme in West Africa that has involved an assessment of the business environment for small enterprises, with the ultimate aim that this will lead to reform efforts in the region.

154. When moving from assessment of the investment climate and business environment to the design of reform programmes, donors have been found to apply a variety of instruments and models. Some of the most common reform activities supported by donor agencies in their support of reforms to the investment climate and business environment are as follows:

- **Advocacy**: activities that help certain actors (e.g., the private sector) create a demand for reform of the investment climate.

- **Budget support**: the provision of funds for investment climate reforms, which are integrated into government budgetary processes.

- **Capacity building**: activities that improve the ability of key organisations (e.g., government ministries, regulatory authorities) to carry out reforms or to manage the investment climate more effectively (e.g., training programmes).

- **Enterprise development**: activities that support the development of private enterprises.

- **Facilitation of dialogue**: activities that bring the public and private sectors together, or assist in negotiations between national governments and international agencies.

- **Financial support**: the provision of funds for investment climate reforms, but not through the national budget (as described above).

- **Management support**: activities that support change in key institutions.

- **Policy development and implementation**: activities that lead to the design and implementation of new policies.

- **Technical assistance**: the provision of technical information and advice (e.g., drafting policies and laws, advising on strategies and implementation arrangements).

- **Monitoring and evaluation**: activities that help reform partners monitor and evaluation the impact of their efforts on the investment climate and business environment.

- **Raising awareness and exchanging information**: activities that make government, the private sector, and other stakeholders more aware of the importance of the investment climate, as well as activities that facilitate the sharing of information on how to improve the investment climate.

- **Research:** activities that focus on better understanding the problems or constraints of the investment climate.

155. Presented in the above manner, none of these instruments appear to be very different from the kinds of instruments used in other development themes supported by donor agencies. Many of these instruments can be used in livelihood, housing, health or agricultural programmes. However, there appear to be a number of interesting differences in the use of these instruments for investment-related ODA.

156. Firstly, investment-related ODA has an increasing focus on facilitation and process. Donors are less inclined to provide direct solutions to perceived problems in this field. Rather than build a road to improve access to markets, donors are more likely to support processes that lever private sector investment into such projects. Rather than establish a loan guarantee fund, investment-related ODA is more likely to work with local counterparts to improve financial systems. Rather than push governments to listen to them, investment-related ODA brings in other domestic partners who demand change and provides them with the information (e.g., assessments) and skills to do this. While there are exceptions to this, investment-related ODA appears to focus more on building sustainable processes for change.

157. Secondly, although bilateral and multilateral donors spend a significant share of their aid on investment-related activities – 26% of all foreign assistance according to the World Bank (World Bank, 2004a) – well designed interventions can produce significant economic and social benefits in the medium term, sometimes in return for comparatively modest outlays of ODA. Ultimately, however, spectacular success stories involving few funds are comparatively rare and project approaches are more effective and sustainable when activities are linked up to form part of a comprehensive strategy.

158. Thirdly, investment-related ODA can be very time consuming. Reform doesn't happen overnight and will often not happen within a typical three-year programme cycle. Thus, donor agencies need to apply these instruments in a consistent manner. Tsikata (2001) argues that "both donors and aid recipients need to work much harder at creating conditions that will ensure that reform policies are properly defined, articulated and implemented. The donor communities desire to control aid, in order to ensure full accountability to the home electorate must be balanced against the need to allow sufficient space for recipients to refine their bureaucratic systems and evolve their own procedures for aid management".

159. Fourthly, because reform interventions should be sequenced different instruments will be required at different stages in the reform cycle. While advocacy, research and other forms of diagnostics will be required in the early stages, later ODA will be required to support capacity building and programme management. Monitoring and evaluation will also become a consistent, but later-stage instrument. Devarajan, Dollar *et al*. (2001) argue that the design of donor-support reform interventions is important. When designing reforms technical assistance and policy dialogue are most supportive of reform. During periods of rapid reform, policy dialogue is important, as is finance. This is the phase in which conditional loans tend to be useful and effective. At a later stage of reform, conditionality is less useful, while finance remains important.

160. FIAS is presently embarking on a three-year strategy for fiscal years 2005-2007, which includes what it calls a new "programmatic approach" to its work. This new approach would be applied in many parts of the world, but specific reference has also been made to Africa. It builds a stronger link between diagnostic studies and the reform interventions that follow them (FIAS, 2004a).

161. Finally, a word on conditionality: many writers claim that conditionality, as it has been used in the past, has often not worked as a universally applied instrument of donor support (Arcand, Guillaumont *et al*., 2001; Collier, 1997). In some cases conditionality may help ensure specific measures are taken that affect the performance of donor-intervention, but often it undermines efforts to build ownership of the reform agenda. Arcand, Guillaumont *et al* (2001) argue that conditionality has been more appropriate for authoritarian regimes than for democracies. However, there are new variations on conditionality that are more appropriate when promoting sustainable reforms that lead to economic growth. Indeed, the World

Bank Group has recently found that conditionality can be used to strengthen the hand of reformers (World Bank Group, 2004b).

162. Thus, the new approaches to conditionality should focus on steps to be achieved within the reform process. They should involve both donors and their development partners in monitoring and responding to change so ODA is allocated according to performance, instead of being tied to specific policy measures.

b) Mechanisms for donor-supported reform

163. Donor agencies promoting reform of the investment climate and business environment in Africa use a variety of mechanisms to design, implement and monitor their programmes.

1) Direct programme interventions

164. This refers to a typical donor-supported activity in which a single donor agency provides direct support to one or more development partners. Because policy and institutional reform can take a long time, in many cases donor agencies work with development partners over quite a few years.

2) Collaborative projects

165. In some cases, donor agencies collaborate together on specific projects. Increasing evidence can be found of donors working together to improve investment growth in developing countries. Such collaborations enable donors to share risks and provide access to a larger pool of expertise. Some examples of the variations found in donor collaboration include:

- *Collaboration among bilateral donors.* The Business Environment Strengthening for Tanzania (BEST) Programme was cited earlier in this study. It is a good example of collaboration between a number of donors, in this case four donors. Some effort was required on the part of each donor to sequence their programme cycles and the Government of Tanzania has signed contracts with each separate agency.

- *Collaboration between bilateral and multilateral donors.* Collaboration between bilateral and multilateral donors can benefit reform processes. White and Chacaltana (2002) found that many host governments were suspicious of bilateral donors becoming involved in high-level policy reform; host governments often questioned the motivations and interests of the bilateral agencies. By comparison, multilateral agencies were treated differently. Thus, collaboration between bilateral and multilateral agencies provides for the complementary application of each agency's capabilities and capacities.

- *Collaboration among multilateral donors*. FIAS (2004a) describe how most of its work in Africa is supported by and co-ordinated with IBRD/IDA, IFC, MIGA, the IMF, and a range of multilateral and bilateral agencies. For instance, IDA incorporated a large number of the FIAS recommendations on administrative barriers reform in Cape Verde into a new project of the World Bank's Private Sector Department that is now financing the implementation of these reforms.

166. There are a number of recent development frameworks that have been adopted by donor agencies and development organisations that encourage better coordination and collaboration. These include Poverty Reduction Strategy Papers (PRSPs), the Monterey Consensus, and the Millennium Development Goals (MDGs). "Multilateralism should not be seen as a competitor of individual donor efforts", says Mark

Mallick Brown, the UNDP Administrator recently, rather it is an "instrument at the service of both donors and recipients to achieve a better and more effective distribution of international development efforts…. the MDGs constitute a significant, if not perfect, framework for international cooperation around which OECD/DAC donor countries could discuss a new division of labour, for example different donor countries championing different MDG targets. If the global partnership agreed upon in Goal 8 gained momentum, trade barriers hampering access to markets for developing countries were removed, market distortions like agricultural subsidies drastically cut, it would leave many developing economies with sufficient resources to advance their human development effectively.[25] If on top of that ODA increases to at least the doubling of ODA required to meet the MDGs, targeted on recipient country MDG priorities, the present geographic differences and preferences would have less relative weight. That means that major donors like bilateral agencies, the EDF and the Bretton Woods institutions have to coordinate around nationally owned country strategies"(Brown, 2004).

3) Participation in formal multi-donor facilities

167. There appear to be an increasing number of formal facilities being established to facilitate the involvement of different donors in the support investment-oriented reform programmes. A good example of the multi-donor facility model is PPIAF, referred to above. Another example is the Integrated Framework, a multi-donor structure supporting trade capacity building, as well as the Financial Sector Reform and Strengthening (FIRST) initiative which is a large technical assistance facility, located within the World Bank and funded by a number of multilateral and bilateral donor agencies.

168. The OECD/DAC is the principal body through which the OECD promotes donor collaboration and consensus on co-operation with developing countries. The DAC produced orientations for donor support for private sector development in 1995 and is now developing policy guidance for donors on growth and poverty reduction.

4) Establishment of specialised funding and programme facilities

169. Within certain fields, investment-oriented ODA can benefit from the use of dedicated facilities that can be used to focus and coordinate more effectively. In some cases a single donor will establish these facilities (e.g., the World Bank Group Project Development Facilities, DFID Challenge Funds); in other cases a group of donors will do this.

170. The World Bank Group's Small and Medium Enterprise Department has established the African Project Development Facility, along with other facilities located in other regions of the world. Project Development Facilities provide technical assistance needed to build commercially viable businesses, and take other broader initiatives to develop sustainable and dynamic SME sectors. Bilateral donors can contribute to the work of PDFs. These facilities help SMEs directly, while also create local capacity to give them technical and financial support. PDF teams also provide other essential services such as training and research, and work with the World Bank to frame and promote policy reforms aimed to improve the local business climate.

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25. Millennium Development Goal 8: Develop a global partnership for development; Target 12: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system, including a commitment to good governance, development, and poverty reduction – both nationally and internationally; Target 13: Address the special needs of the least developed countries (LDCs), including tariff and quota free access for LDC exports; enhanced programme of debt relief for HIPC and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction.

171. DFID has developed a specific mechanism for engaging the private sector more strongly in development co-operation. Challenge Funds were designed in the late 1990s to find creative ways for DFID to collaborate with the private sector and overcome the unsuitability of conventional grant-making processes to private companies. In general, Challenge Funds aim to stimulate innovative approaches to development challenges; encourage the private sector to engage in commercially viable business activities that particularly benefit the poor, provide a simpler, less costly funding mechanism to build new partnerships between donors and private agencies undertaking such initiatives; and lever management and financial resources from the private sector.

172. Two Challenge Funds have been established, each with a specific purpose. These are:[26] (1) Financial Deepening Challenge Fund, a GBP 18.5 million fund designed to encourage banks and other commercial institutions such as insurance and leasing companies to develop innovative financial services that benefit the poor in 12 Sub-Saharan countries, as well as India, Pakistan and the United Kingdom; and (2) Business Linkages Challenge Fund, a GBP 18 million fund designed to stimulate business linkages between enterprises that generate employment and other benefits for the poor. In 2002, Challenge Funds guidelines were revised and business environment window was created in both funds specifically to encourage more applications from the private sector in this area (Deloitte Emerging Markets Group, 2004).

173. In Southern Africa, DFID has established the FinMark Trust to help develop the financial sector.[27] The FinMark Trust contributes to co-ordination of financial market development activities by working with a wide range of organisations active in promoting access to retail financial services – from government departments and regulators to banks, non-bank finance companies, NGOs and donors (FinMark Trust, 2004).

5) Supporting African institutions

174. Investment-oriented ODA is frequently designed to support African institutions in an effort to ensure donor efforts are strategic and well co-ordinated, as well as to build the capacity of agencies that are ultimately required to initiate and sustain reform efforts. The World Bank, for example, has undertaken to support NEPAD is all its thematic clusters, as well as regional economic communities such as ECOWAS, SADC and COMESA. The Bank's policy on NEPAD is to "avoid compromising African ownership of NEPAD and to work entirely according to its requests and with the institutions it designates" (World Bank Group, 2002). Among the areas of specific support that are relevant to this study are:

- Support for the implementation of a range of regional infrastructure projects (e.g., power generation, pooling and transmission, gas flaring, air and road transport, and the management of shared water resources) under the leadership of the African Development Bank and in association with the European Union.

- Support for accelerated growth in productivity, improved food security, better management of natural resources, and heightened access to markets – guided by the NEPAD Secretariat in partnership with the Food and Agriculture Organization and the Forum for Agricultural Research in Africa.

- Work with Africa's regional economic communities, to ensure that their programs dovetail with NEPAD's priorities, including support to help strengthen the capacity of the ECOWAS secretariat to perform as a NEPAD focal point.

26. More details on the Challenge Funds can be found at: www.challengefunds.com

27. FinMark Trust: http://www.finmarktrust.org.za

- Work with the UNECA on the development of appropriate codes and standards for the management of public resources.

- Facilitate NEPAD's dialogue with development partners, in particular the Strategic Partnership with Africa, which is chaired by the World Bank and is developing an action agenda aimed at supporting the new partnership framework emerging from the NEPAD and PRSP processes.

175. A number of other donor agencies have formed development partnerships with NEPAD on investment-oriented programmes (e.g., DFID, Commonwealth Business Council, Netherlands).

176. The Global Coalition for Africa (GCA) was established to bring together African policy makers and their partners to deepen dialogue and build consensus on Africa's priority development.[28] The World Bank and other "African development partners" fund the GCA, which aims to ensure that Africa remains high on the international agenda, to facilitate greater understanding of the development challenges faced by the continent, and to promote agreement on necessary actions to be taken by both African governments and their international partners. The GCA's agenda is focused on the broad themes of a) peace and security; b) governance and transition to democracy; and c) sustainable growth and integration into the global economy. In 2003, the GCA's main activities included a meeting on fair trade and market access held immediately prior to the WTO Ministerial Conference in Cancun; a review of regional integration and regional integration institutions conducted by groups of eminent persons; and the production of its Annual Report assessing political and economic trends in Africa (World Bank Group, 2004a).

6) Supporting private sector involvement in investment-oriented reforms

177. As described earlier in this annex, the involvement of the private sector in investment-oriented reforms is critical for success and sustainability. Thus, a number of donor agencies have developed programmes that build the capacity of private sector partners and facilitate their involvement in decision-making and consultative structures.

178. In Tanzania the World Bank provided credit to support the creation of a "government private dialogue mechanism". This led to the creation of the National Business Council in 2002. As a result of various meetings between government and the private sector, a matrix of actions has been drawn up by government (Small Business Project, 2003).

179. The Commonwealth Business Council (CBC) works closely with governments to ensure the views of the private sector on key trade and investment issues are presented and taken into account at the highest levels. Through presentations, proposals and public-private dialogues, CBC advances private sector views (particularly in relation to investment and trade matters) to: the biennial Commonwealth Heads of Governments Meetings; the Commonwealth Finance Ministers Meetings; ministers responsible for trade, commerce, infrastructure development and information technology; and national governments.

180. Views of the private sector are collected via worldwide opinion surveys and the views of the CBC corporate membership. Policy recommendations are developed through the CBC's working groups and disseminated through policy papers, research documents. Further inputs are provided by drawing on

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28. The GCA Co-Chairpersons are President Festus Mogae of Botswana; Prime Minister Meles Zenawi of Ethiopia; Chairperson of the Commission of the African Union, Alpha Oumar Konaré; Frene Ginwala, former Speaker of the South African National Assembly; Minister Hilde Johnson of Norway; and President of JICA, Sadako Ogata. Former President Sir Ketumile Masire of Botswana, former Minister Jan Pronk of the Netherlands, and former World Bank President Robert McNamara are Co-Chairpersons Emeritus. Mr. Hage Geingob, former Prime Minister of Namibia, is the GCA Executive Secretary.

the expertise of advisors, consultants and experts in CBC core areas. Policy advice has been provided on investment, the liberalisation of financial services, international trade, electronic commerce, and business-government interaction.

181. Agencies such as CBC have promoted the role of governments and businesses in improving the business environment both separately and in collaboration. The most recent manifestation of this is the Abuja Manifesto on Business – Government Partnerships for Removing Practical Obstacles to Wealth and Job Creation (see Annex 2).

182. CBC also has supported the establishment the NEPAD Business Group in liaison with leading organisations including the African Business Round Table, the International Chamber of Commerce, the Canadian Council on Africa, the Corporate Council for Africa (USA), and the *Conseil Francais des Investisseurs en Afrique*.

183. In Kenya, CBC in association with the Eastern Africa Association hosted the Kenya Business Round Table. The Round Table will examine the opportunities available in the key sectors of the Kenyan economy – the largest and most sophisticated in the Eastern Africa region.

c) Effectiveness of investment-oriented ODA

184. Donors require evidence of effectiveness for achieving the MDGs if they are to focus more directly and explicitly on supporting reforms that lead to a better investment climate in African countries. In this section the evidence of effectiveness of investment-oriented ODA is considered.

185. Assessing the impact of reform programmes on the investment climate is difficult. White (2004) has found three major problems donor agencies experience in their efforts to measure the impact of reform programmes. This first is that it is extremely difficult to isolate the impact of specific reform measures from other changes and programmes that occur. This is especially so when donors embed their reform initiatives within programmes that contain other elements (e.g., a private sector development programme may contain a reform component along with other components dealing with promotion of the private sector). Thus, attributing change in national investment or growth to a single reform intervention creates difficulties when measuring impact. Would this change not occur without the intervention? Or did the intervention improve or lessen the amount of change?

186. The second problem in measuring the impact of donor-support reforms is the time over which reforms occur. Investment-oriented ODA reforms take a long time. While individual interventions can create short-term outcomes, the impact of these outcomes takes a longer period of time to eventuate, making it difficult to measure.

187. The challenge for donors trying to measure the impact of their interventions is to find appropriate indicators to measure and draw causal links with their specific programmes. In many cases, donors and evaluators look for expedient means of dealing with this challenge. Many donors find is easier, and in some cases more relevant (in terms of their own accountability requirements) to measure the performance of ODA programmes (i.e., programme outputs and outcomes), rather than the final impact these may lead to in terms of increases in investment and economic growth. The World Bank has found, for example, that the outcomes of its investment climate reform programmes "are positively correlated with indicators of macroeconomic and financial sector performance – although there is no evidence to indicate causality from operations to economic performance" (World Bank Group, 2004b).

Box 4: Highlights from DFID African case studies

The **Kenya** deregulation programme's support for removing import and export licensing requirements, dismantling price and exchange rate controls, and introducing a convertible Kenyan shilling led to the following estimated annual savings: £22m due to the Registration of Business Names Act; £38m due to the Trade Licensing Act (i.e., around one per cent of GDP at the time); and £4m due to the implementation of the Singe Business Permit. In the 32 local authorities that were using the single business permit, business transaction costs had reduced by up to 70 per cent.

The **Uganda** "Streamlined Business Registration Pilot" resulted in: 75 per cent lower compliance costs (reduction of registration time to 30 minutes); 43 per cent higher compliance levels (four times more businesses registered than in the previous year); 40 per cent higher revenue collection and a more steady revenue flow; 25 per cent savings in staff time; and a ten per cent saving in financial resources (DFID, 2004b) (also see Gamser, 2003; Scott & Darroll, 2003).

The FinMark Trust in **South Africa** has performed a significant role in establishing the Banking Charter, while FinScope has improved banking practices and the policies of the South African Reserve Bank.

Source: DFID, White, *et al.* (2004).

188. Most donor agencies undertake some type of monitoring and evaluation procedure. For example, most donor agencies record program inputs and activities; this kind of information is commonly used by donor agencies, but is of little use in the search for objective impact assessment (White & Chacaltana, 2002).

189. Some donor agencies record outputs based on donor interventions (e.g., drafting and adoption of a policy or law, removal of unnecessary regulations), while others undertake regular stakeholder perception surveys before and after donor intervention (e.g., GTZ). While anecdotal information is a poor substitute for "hard" monitoring and evaluation data, many donor agencies have indicated that good anecdotal information on the contribution of donor efforts to reform and the benefits these reforms have wrought upon the target group is very useful. In some cases, this kind of information meets the evaluation demands of taxpayers and other constituents very well (White, 2004).

190. Onyango and Tomecko (1995) relied on a description of the continuation of the programmes and projects supported by the small enterprise policy in Kenya as an indicator of the success of this policy, rather than improvements in the number, growth or productivity of small enterprises.

191. The corporate governance programme EITI, referred to earlier, is currently attempting to identify indicators for success in its work. EITI expect this will include technical indicators as well as indicators demonstrating a political will for reform. In addition, these indicators would need to cover corporations that meet EITI requirements, as well as indicators of government acceptance of EITI standards.

192. DFID is one donor agency that is very active in investment-oriented ODA that has taken a concerted approach to measuring the outcome and impact of reform. Along with a series programme monitoring instruments, DFID has produced several in-depth case studies (see Box 4). It also established the Enterprise Development Impact Assessment and Information Service (EDIAIS) several years ago.

193. As in other areas supported by donors, much more needs to be done to objectively assess the effectiveness of investment-oriented ODA. While the underlying problems referred to earlier limit the extent to which donors can claim success in single-handedly supporting reform that improved the levels of investment and growth in an African country, there are ways where the contribution a reform programme has made to this process can be determined.

194. The causal links between investment-oriented ODA outcomes and increasing levels of investment and growth need to be identified. There have been some interesting developments in this field of work, as reported in Section I. Following this, there is a need to better measure the nature and quality of these outcomes and the ways ODA can influence these outcomes.

195. A recent evaluation report on the World Bank Group's support for investment climate reforms found that success in the reforms supported by the WBG were affected by the following (World Bank Group, 2004b):

- The Bank has been successful in supporting reforms that grew out of crisis (macroeconomic, financial, political) or opportunity (the prospect of joining regional agreements, taking advantage of new technologies).

- The Bank's loan conditionality has played an important role in the political economy of reform in several case study countries by strengthening the position of reform-minded policymakers and other stakeholders against those opposed to reform.

- The Bank has been successful in working with a broad range of actors; while it is important to have the backing of key politicians to spur reform, other stakeholders such as professional civil servants, business groups, and the general public have also been critical to sustaining reforms.

- Changing incentives among senior civil servants has been the key to the Bank's success in reform efforts; senior civil servants need to understand, support and assume ownership of reforms.

- In some cases, the Bank's support was too modest, too piecemeal, and too inconsistent to get the job done; comprehensive reform programs that are meaningful, co-ordinated and sustained are more likely to be successful.

196. The International Monetary Fund (2004) argues that the positive impact of aid flows into Africa is limited by microeconomic and macroeconomic capacity constraints. "Understanding and monitoring these constraints will be important for ensuring that aid flows play an effective role in reaching the MDGs. These constraints can be partly addressed by increasing harmonisation and co-ordination in aid practices and delivery among donors and with the recipient countries, using vehicles such as the PRSP as a platform. Appropriate targeting and sequencing of aid to remove bottlenecks and build on previous reforms and investments can also increase absorption capacity and enable productive use of rising aid flows".

197. Andrei Mikhnev (2004) of the World Bank's SME Department in Washington claims that a major lesson from ODA in enterprise development is the need to focus on sustainability. A lot has been done, but reforms have not been sustained in the long term. For instance, in Ghana and Kenya the Bank had micro, small and medium-sized enterprise (MSME) development projects in the beginning of 1990s, but now under the new MSME projects the same problems addressed ten years ago still need to be addressed.

Box 5. World Bank support for investment climate reforms in Mozambique

The World Bank Group's strategy increasingly focused on institutional issues, including administrative and regulatory reforms, simplification of licensing procedures and labour regulations, and revisions to the commercial code. Enterprise surveys were prepared under the Regional Program for Enterprise Development. Investment climate reforms were supported through a series of Economic Recovery Credits as well as financial sector and enterprise development projects. IFC supported the establishment of a foreign bank and investment banking affiliate, and provided TAAS on financial sector issues and corporate governance. Despite progress in improving some aspects of the investment climate, the investment response has been less robust than expected. Investment has increased, but this was mainly due to several foreign "mega" projects (including an IFC investment in the MOZAL aluminium smelter). Institutional weaknesses and inadequate infrastructure continue to impede private sector activity.

Source: World Bank Group (2004b).

198. The process of reform involves dealing with moving targets. Achievement in one quarter can simply open up the need for more work elsewhere. Donors can't work in isolation from one another or from the key players in African countries. By understanding the processes of reform better, it will be more possible to measure the impact of programmes that aim to support reforms.

V. Lessons learnt and conclusions

199. This study has presented a broad range of donor activity in Africa, which could be considered investment-oriented. It has shown that investment-oriented ODA is more than simply the provision of support to certain development themes (i.e., *where* ODA is directed); it is also about the instruments and mechanisms used to promote sustainable investment-oriented reforms of policies and institutions (i.e., *how* ODA is provided). Finally, the study has examined the impact of investment-oriented ODA and found that the most decisive indicator of successful impact (the reduction of poverty) or even some other indicator close to this (increasing investment and a growing economy) are difficult to ascribe to a single donor intervention.

200. A critical examination of the practice of investment-oriented ODA is in place, in order to identify lessons for policy makers. The tentative list of lessons proposed below summarises the key features of donor assistance in this field and highlights those that are most strategically aligned to increasing investment and economic (pro-poor) growth. The lessons come from an observation of practice. They are not based on rigorous evaluations, although some of the lessons cited by other authors have indeed come from careful studies of donor effectiveness.

- **Investment-oriented ODA should build a demand for reform.** After years of frustration and programme failures, donors have learnt that they can't force African countries to reform. The motivation for reform must come from within. In most cases, it is governments that must come to see the need for change and to take measures themselves to improve their capacity to mobilise investment and stimulate economic growth . However, private sector organisations, civil society and even the local media also have a role to play in making demands on government for change. Collier and Dollar (1999) have found that the promise of donor finance is not enough incentive for host governments to undertake reforms. They need to see the longer-term value in undertaking these initiatives. Thus, donors are more aware of the need to stimulate debate around reform issues in an effort to build a stronger and broader demand for reform.

- **Investment-oriented ODA requires political commitment.** While this issue is related to the need for a broader demand for reform, there is another lesson here. Even with a broader and stronger demand for reform within African countries, it is important that donors don't impose plans for reform from outside. Donor driven reforms often do not last or are compromised by government-induced obstacles to investment and growth found in other fields. Sustainable reforms only work when they are driven, owned and managed by domestic agents. The principal agent in most cases is government. Governments should exhibit a commitment to reform from the highest level. Donors and African governments should form mutually agreed reform agendas.

- **Investment-oriented ODA should build the analytical capacity of host governments.** This issue is linked to the building of a demand for reform. Donor agencies are paying greater attention to the capacity of partner governments to undertake their own analysis and to monitor the progress of reforms. Tsikata (2001) argues that experience in Ghana and Tanzania shows that governments should be supported in their efforts to assess the investment climate.[29] This implies the need for capacity building programmes for government as well as private sector organisations.

- **Investment-oriented ODA should be sequenced.** Moving from analysis to reform, finding appropriate starting points for reform, and establishing a mutually agreed upon sequence of reform interventions is a major challenge for investment-oriented ODA in Africa.[30] Donor agencies are clear that reform is a multilayered interdisciplinary process that spans a substantial period of time. Beginning with achievable changes and building on success is critical. This view is supported by the findings of the World Bank Operations Evaluation Department's evaluation of investment climate reforms in which it was found that reform programmes that were "meaningful, co-ordinated, and sustained were more likely to be successful" (World Bank Group, 2004b).

- **Investment-oriented ODA should involve collaborative monitoring and adjustments.** Tsikata (2001) suggests that donors have come to see the value in building good relations between donors and government, especially through the use of a well-established and strategically focussed institutional frameworks for managing aid. She adds that strong institutional mechanisms for accountability build mutual trust between donor agencies and host governments. Such mechanisms allow both parties to monitor progress in reform efforts. Tsikata argues that this also "buys the recipient country some implementation space" and discourages donors from micro-managing projects by introducing parallel management units with expatriate staff.

- **Investment-oriented ODA should be co-ordinated.** The need for donor co-ordination has been endorsed by donors from experience in a wide range of development themes, not only those related to investment. However, investment-oriented ODA has some specific needs for good co-ordination. Mikhnev of the World Bank's SME Department in Washington describes how many donors pump funds into projects in Africa that endeavour to address poverty leading to situations where there is donor crowding in specific areas. "This is one of the reasons why donor co-ordination is by far the top priority in the effective use of donor resources" (Mikhnev, 2004).

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29. In a comparative study of the factors that have lead to the ownership of economic reforms in Ghana and Tanzania, Tsikata (2001, pp. 15-16) cites six interrelated lessons from improving reform in Africa.

30. The World Bank recently hosted an Internet discussion on 'Moving from Analysis to Action on Investment Climate Reform' (4-24 January 2005): http://rru.worldbank.org/Discussions/topics/topic58.aspx

Sound co-ordination increases credibility with the host country and improves efficiency and effectiveness of donor efforts. From a reform point of view, co-ordination contributes to consistency. Disch (1999) describes a number of ways for improving donor co-ordination, which recognise that donors often find it easier to agree on policies and priorities, but harder to agree on implementation. However, once a track record of success has been achieved, donors seem to become more willing to modify their own procedures in the name of successful co-ordination and collaboration. He also argues for less information meetings, and more formal contracts between donors and with host governments. Drawing from experience in Kenya, Mbugua, Ronge *et al*. (2004) suggest that a sector-wide approach to donor coordination should be encouraged.

- **Investment-oriented ODA should build strong domestic institutions.** It has been clear for sometime now that institutions have a strong role to play in the sustainability of reforms that lead to greater levels of investment in African countries. As a result, many donor agencies are paying more attention to how they can build stronger domestic institutions. However, it is also acknowledged that this is not an easy task. A recent evaluation report on the World Bank Group's support for investment climate reforms found that not enough is known about good practice in institutional design, or about the dynamics of changing institutions (World Bank Group, 2004b).

- **Investment-oriented ODA should focus on the local private sector.** There is a danger that strategies for greater investment and growth will be entirely based on a search for outside solutions. Similar to the "smoke stack chasing" of the 70s and 80s, national governments will try to entice outside investors with the lure of attractive government subsidies. Recent donor experiences in improving investment climates have shown that the competitiveness of the domestic private sector is an important ingredient promoting economic growth and attracting FDI. Thus, creating a positive business environment for business operations in-country should take priority over special incentives for foreign investors (Investment Competition and Business Development Services Team & Bannock Consulting Ltd, 2004).

- **Investment-oriented ODA should focus at sub-national levels of reform.** While many donor efforts are directed to helping national government agencies manage reform processes, attention is also paid to the role of sub-national levels of government, in particular local government. While on the one hand this involves support for reforms that enhance the decentralisation of government services, it can also address the roles of local and provincial governments in improving sub-national investment climates. With the breaking down of national trade barriers, local and provincial economies are becoming more directly engaged in world markets. Indeed, it is at the local level that many private investors may have direct contact with government agencies. Thus, donor support for investment-oriented reforms should include support for reforms at the local level.

- **Investment-oriented ODA should recognise the importance of perceptions.** Reform is a political process, which is influenced by the choices people make. A number of studies have highlighted the negative perceptions investors have of Africa and the impact this has on poor investment levels (Vickers, 2003). Some donors, such as the Commonwealth Business Council, have developed interventions to address this. However, reviews of past reform experiences have shown that helping local actors deal with change, building on success, and helping local actors keep their eye on the big picture of reform is important.

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ANNEX 1
ECONOMIC CHARACTERISTICS OF AFRICAN ECONOMIES

Country	Region	Income Category	GNI per Capita	Informal Economy (% GNI, 2003)	Population (millions)
	East Asia & Pacific		5,464	24.3	139.5
	Europe & Central Asia		3,047	37.7	17.8
	Latin America & Caribbean		2,976	41.5	24.9
	Middle East & North Africa		6,096	27.4	20.8
	OECD: High income		25,773	16.8	41.5
	South Asia		538	35.7	232.5
	Sub-Saharan Africa		562	42.3	19.5
Algeria	Middle East & North Africa	Lower middle income	1,890	33.4	31.8
Angola	Sub-Saharan Africa	Low income (LDC)	740	..	13.5
Benin	Sub-Saharan Africa	Low income (LDC)	440	45.2	6.7
Botswana	Sub-Saharan Africa	Upper middle income	3,430	33.4	1.7
Burkina Faso	Sub-Saharan Africa	Low income (LDC)	300	38.4	12.1
Burundi	Sub-Saharan Africa	Low income (LDC)	100	..	7.2
Cameroon	Sub-Saharan Africa	Low income	640	32.8	16.1
Central African Republic	Sub-Saharan Africa	Low income (LDC)	260	..	3.9
Chad	Sub-Saharan Africa	Low income (LDC)	250	..	8.6
Congo, Dem. Rep.	Sub-Saharan Africa	Low income (LDC)	100	..	53.2
Congo, Rep.	Sub-Saharan Africa	Low income (LDC)	640	..	3.8
Cote d'Ivoire	Sub-Saharan Africa	Low income	660	39.9	16.8
Egypt, Arab Rep.	Middle East & North Africa	Lower middle income	1,390	35.1	67.6
Ethiopia	Sub-Saharan Africa	Low income	90	40.3	68.6
Ghana	Sub-Saharan Africa	Low income	320	38.4	20.4
Guinea	Sub-Saharan Africa	Low income (LDC)	430	..	7.9
Kenya	Sub-Saharan Africa	Low income	390	34.3	31.9
Madagascar	Sub-Saharan Africa	Low income	290	39.6	16.9
Malawi	Sub-Saharan Africa	Low income	170	40.3	11
Mali	Sub-Saharan Africa	Low income	290	41	11.7
Mauritania	Sub-Saharan Africa	Low income	430	..	2.7
Morocco	Middle East & North Africa	Lower middle income	1,320	36.4	30.1
Mozambique	Sub-Saharan Africa	Low income	210	40.3	18.8
Namibia	Sub-Saharan Africa	Lower middle income	1,870	..	2
Niger	Sub-Saharan Africa	Low income (LDC)	200	41.9	11.8
Nigeria	Sub-Saharan Africa	Low income	320	57.9	135.7
Rwanda	Sub-Saharan Africa	Low income (LDC)	220	..	8.3
Senegal	Sub-Saharan Africa	Low income (LDC)	550	43.2	10.1
Sierra Leone	Sub-Saharan Africa	Low income (LDC)	150	..	5.3
South Africa	Sub-Saharan Africa	Lower middle income	2,780	28.4	45.3
Tanzania	Sub-Saharan Africa	Low income	290	58.3	34.9
Togo	Sub-Saharan Africa	Low income (LDC)	310	..	4.9
Tunisia	Middle East & North Africa	Lower middle income	2,240	38.4	9.9
Uganda	Sub-Saharan Africa	Low income	240	43.1	25.3
Venezuela	Latin America & Caribbean	Upper middle income	3,490	33.6	25.6
Yemen, Rep.	Middle East & North Africa	Low income (LDC)	520	27.4	19.2
Zambia	Sub-Saharan Africa	Low income (LDC)	380	48.9	10.4
Zimbabwe	Sub-Saharan Africa	Low income	480	59.4	13.1

Source: World Bank and IFC: http://rru.worldbank.org/DoingBusiness/ExploreEconomies/EconomyCharacteristics.aspx
List of LDC (Least Developed Countries): http://www.un.org/special-rep/ohrlls/ldc/list.htm

ANNEX 2
ABUJA MANIFESTO

Governments will:

- Set clear targets and realistic plans for investment in and provision of essential services such as infrastructure, education, health and water
- Ensure a legal framework with timely enforceability of all contracts
- Create a good business climate focused on predictability and simplicity of regulations rather than offering elaborate incentives to investors
- Offer transparency of public fiscal affairs
- Implement a continual program to lighten the regulatory burden on business, for example by making it faster and more affordable to start a company, employ staff, register assets or clear customs
- Address constraints on competitiveness in national economies in order that domestic business can compete internationally and benefit from trade liberalisation measures
- Improve public access to government services and the efficiency of these services by embracing an e-government strategy
- Set mechanisms for regular consultation between the public and private sector at the highest levels

Business will:

- Implement best practices for Corporate Governance and citizenship to meet high standards for each company and ensure widespread adherence
- Integrate into the business model a work plan for investment in the workforce, local communities, and the supply chain
- Ensure that business activities are sustainable and avoid undue external costs on stakeholders or on society as a whole
- Pay taxes and other revenues to the public treasury in accordance with the provisions of the law
- Invest in ICTs to improve productivity and make increased use of e-commerce
- Organise itself for constructive and cohesive dialogue with government in business policy formulation and assessing priorities

Together governments and businesses should:

- Explore best practice on private sector participation in the provision of infrastructure and other public services
- Implement common standards on Codes of Ethics and systems to eliminate corrupt practices in public and private organisations

Source: Commonwealth Business Council (2003).

LIST OF ACRONYMS USED

AGOA	African Growth and Opportunity Act (USA)
APDF	African Project Development Facility (IFC)
AusAID	Australian Agency for International Development
BEST	Business Environment Strengthening for Tanzania
CBC	Commonwealth Business Council
COMESA	Common Market for Eastern and Southern African States
DANIDA	Danish Ministry of Foreign Affairs
DFID	UK Department for International Development
EAIF	Emerging Africa Infrastructure Fund
ECOWAS	Economic Community for West African States
EITI	Extractive Industries Transparency Initiative (UK)
EPOPA	Export Promotion of Organic Products from Africa
FIRST	Financial Sector Reform and Strengthening
GFA	Global Coalition for Africa
GFC	Global Forum on Competition
GTZ	*Gesellschaft für Technische Zusammenarbeit* (Germany)
IBRD/IDA	International Bank for Reconstruction and Development International Development Association
IFC	International Finance Corporation
ILO	International Labour Organization
ISO	International Standards Organization
ITC	International Trade Centre
FIAS	Foreign Investment Advisory Service
FDI	Foreign direct investment
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Country
ICA	Investment Climate Assessment (World Bank)
ICS	Investment Climate Survey (World Bank)
IF	Integrated Framework
IMF	International Monetary Fund
IPR	Investment Policy Review (UNCTAD)
JICA	Japan International Cooperation Agency
LDC	Least developed country
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
NEPAD	New Partnership for Africa’s Development
NGO	Non-government organization

NORAD	Norwegian Agency for Development Cooperation
MSME	Micro, small and medium enterprise
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OECD/DAC	OECD Donor Assistance Committee
PDF	Project Development Facility (IFC)
PIDG	Private Infrastructure Development Group
PPIAF	Public Private Infrastructure Advisory Facility
PRSP	Poverty Reduction Strategy Papers
SADC	Southern Africa Development Community
Sida	Swedish International Development Cooperation Agency
SME	Small- and medium-sized enterprise
SSATP	Sub-Saharan Africa Transport Policy Program
TRTA/CB	Trade-related technical assistance and capacity building
UNCTAD	United Nations Conference on Trade and Development
UNDP	United National Development Programme
UNECA	United Nations Economic Commission for Africa
UNIDO	United National Industrial Development Organization
USAID	United States Agency for International Development
WBG	World Bank Group
WB	World Bank
WTO	World Trade Organization