DRAFT SUMMARY REPORT OF DISCUSSIONS AND CONCLUSIONS

THE FIRST ADVISORY BOARD MEETING OF THE OECD-AFRICA INVESTMENT INITIATIVE FOR GROWTH AND DEVELOPMENT

Overview

1. The inaugural meeting of the OECD-Africa Investment Advisory Board, created in response to the OECD 2003 Ministerial[1] and the subsequent discussions held at the Committee on International Investment and Multinational Enterprises (CIME) in April 2003, took place in Geneva on 8 September 2003. The meeting was hosted and sponsored by the Government of Switzerland. Documents presented to the meeting by participants can be consulted at www.oecd.org/daf/investment.

2. The meeting, initially planned as a " brainstorming" discussion among a dozen key stakeholders, was expanded into a Roundtable in view of the strong interest expressed in the event. Among the participating members of the Advisory Board were more than 40 senior representatives, engaged in investment, development and capacity building, from South Africa, Ghana, Tanzania, Uganda, Nigeria, Mozambique, Cameroon, Senegal; Switzerland, Sweden, United States, United Kingdom, Japan, Netherlands, France, Italy and Germany; World Bank, UNIDO, UNCTAD, WTO, European Commission, NEPAD, ECOWAS, African Development Bank; OECD Business and Industry Advisory Committee (BIAC) Africa Task Force, World Business Council on Sustainable Development, US Corporate Council on Africa, African Business Roundtable, NEPAD Business Group, West African Enterprise Network; OECD's Trade Union Advisory Committee (TUAC), Transparency International, Earth Institute. (See the full list of participants in attachment.) The Secretariat was represented by DAF, CCNM, DEV and GOV.

3. The level and diversity of participants and substance of the interactive discussions suggest that the conclusions truly represent African needs and priorities. Participants described the Initiative as "timely" and expressed support for the implementation of a result-oriented, inclusive and comprehensive

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1. OECD and NEPAD Ministers agreed during their meeting on 16 May 2002 to jointly seek ways in which OECD could contribute to best development practices, aid effectiveness, the promotion of trade and investment, good governance, and approaches to sustainable development in Africa. The 2003 OECD Ministerial meeting agreed to do more to assist developing countries, particularly in Africa, to gain from globalisation by focusing on capacity building and coherence of other policies necessary to encourage growth. There was wide support in that meeting for a proposal from the Government of Japan for work with non-Member partners on a strategy to promote investment in developing countries in general, and Africa in particular. Such strategy would include the development of an integrated, balanced and operational framework for investment policy, and an enhanced capacity building mechanism based on peer review and strengthening synergy between FDI and ODA. It will also build on the April 2003 Dakar conference.

work programme in Africa for a positive investment environment. The following key formulas were echoed throughout the meeting: an Investment Initiative: demand-driven, African-led and OECD-supported. However, participants failed to agree fully on the priority ranking of each action outlined below, and asked the Secretariat to forward the draft conclusions for final comments and suggestions. This will be done after the CIME meeting on 16 September 2003 and well before the OECD-Africa Investment Roundtable, scheduled for 18 November 2003 in Johannesburg, where the Initiative can be publicly launched if so decided.

4. The President of Mozambique sent a message to the meeting, expressing his appreciation for the OECD's quick response to Africa after the Ministerial meeting and his April 2003 visit to the OECD under the auspices of the Development Centre. Other participants also emphasised the importance of bringing together key actors on Africa's investment scene from the OECD, African governments, the private sector, multilateral organisations and civil society thanks to the OECD's convening power. This was considered to be an achievement in itself.

5. The Geneva meeting has in large measure fulfilled its objectives set at the outset. First, the meeting took stock of Africa's current challenges, priorities and initiatives on international investment, as well as of and ideas concerning the mobilisation of foreign direct investment as a vehicle for growth and development in Africa. Second, it allowed the OECD to elicit feedback on the design and implementation of this Initiative, as well as to achieve synergies with bilateral and multilateral initiatives already under way in Africa. Finally, modalities of co-operation, and funding, among other issues, were also discussed.

Highlights of Geneva Deliberations

6. A summary of the discussions and chairman's conclusions follows:

Stock-taking of Africa's current problems, needs and priorities on international investment

7. Africa, a vital region of the world, with more than 800 million people and vast natural resources, is frequently overshadowed by crises, conflicts and chronic poverty. As a result, it is not a primary destination for foreign investment except in certain extractive industries. It is also clearly recognised that Africa cannot solely rely on official development assistance (ODA) if it is going to achieve the sustained economic growth necessary to alleviate poverty and establish the institutions necessary for political stability. Africa needs dramatically increased volumes of private capital, especially foreign direct investment (FDI).

8. Discussants noted that the global economic slowdown was expected to have a negative impact on Africa's development prospects. The situation has been particularly difficult for non-oil commodity dependent countries such as copper-producing Zambia, or cotton-producing countries in West Africa. The tragic events of September 11, 2001, produced negative outcomes in some countries and could have medium to long term consequences for others. A cutback in tourist activity hit countries such as Kenya, Tanzania and South Africa. Three hundred million Africans, nearly half the region's population, still live in extreme poverty. The spread of HIV/AIDS threatens to wipe out important gains in life expectancy. Governance issues continue to plague some of the countries of the region. The lack of political and economic progress in some key countries is gradually eroding their potential and affecting investors' perceptions of the continent.

9. Overall, world foreign direct investment dropped to $651bn in 2002 compared to $1.4 trillion in 2000 and $840bn in 2001. Among developing countries, those in Africa were most affected by the fall-off in investment. Flows to Africa were down 41% from $19bn to $11bn, while Latin America – where the financial crisis hit hardest – saw investment drop by 33% to $56bn. Despite this difficult environment,

economic growth in Africa has averaged about 3.1 per cent in the last year. According to African Development Bank, fifteen countries, which implemented a solid reform agenda and have built a record of stability and good governance, had a growth in excess of five per cent. Still, this falls short of the seven per cent needed to reach the Millennium Development Goal of halving poverty by 2015.

10. A new dynamic has been injected into the continent through the New Partnership for Africa's Development (NEPAD) in which the Africans and their leaders increasingly take the reins of the development agenda. In fact, NEPAD reflects the recognition by African governments that they must improve governance, transparency, and stability to encourage donors, international businesses, and others to bridge the tremendous gap between Africa and the rest of the world. Participants also noted that there was a growing consensus, both within Africa and among donors, that a re-balancing of power and accountability was needed between government, the private sector, and civil society, as well as a re-balancing among countries in the region and the donor community.

11. Government representatives recognised the central challenge to improve the environment for growth and investment, particularly through improving public service delivery-including education and poverty relief; promoting conflict resolution and prevention; strengthening infrastructure; liberalizing trade, reversing Africa's declining share in world trade; and improving governance. Responsibility for such progress, of course, lies mainly with African governments themselves. Recent developments are encouraging in this regard, including the NEPAD Initiative, which emphasizes the principles of African ownership, leadership, and accountability in eliminating home-grown obstacles to sustained growth.

12. Risk – both real and perceived – was cited by several business executives as the primary reason for constrained capital flow into Africa. For most first-time investors, African countries are considered to be a high-risk environment. The return on FDI to Africa is higher than FDI to other regions – around 30 per cent for US investments to Africa, while 21 per cent for Asia-Pacific and 14 per cent for Latin America. However, it is also true that in a risky business/political environment higher returns may not induce increased investment given the possibility of low risk-adjusted returns. In response to a question concerning why investors were not grabbing this opportunity, an international business executive said that the risk of policy reversal might explain why higher returns do not translate into increased FDI in Africa, emphasising the importance of ensuring credibility of the reform process in order that investors will perceive reforms as credible and not subject to reversal.

13. Investors frequently question the overall political commitment of African governments to long-term policy reforms in order to improve their investment environments. In addition to the political uncertainties, private investors in Africa are constrained by several broad sets of issues, which raise the investment risks for private businesses or lower expected returns on investment. These include:

- unstable and uncertain macroeconomic and business environments;
- poor governance, including corruption, limited rule of law, lax enforcement of contracts and other shortfalls in transparency;
- inadequate legal and regulatory frameworks, including poor tax administration and a lack of public-private sector dialogue;
- weak infrastructure capacity and institutions;
- slow human capital development; and
- financial systems characterized by low levels of financial intermediation and sophistication.

14. African participants recognised the fact that the success of the continent's economic progress and political stability would depend primarily on their own actions to establish strong economic, legal, and political institutions and policies, but also on supportive steps taken by the OECD member countries, and other international partners. They stressed that OECD policy co-operation and assistance would pay major dividends in terms of advancing global development, humanitarian, foreign policy, and national security interests as Africa becomes a stronger trading and investment partner.

15. African participants highlighted the rich diversity of their countries, including the particular challenges that different countries face to further the investment agenda. The outlook for private investment, economic diversification, and longer-term growth is generally promising in countries that have pursued sound macroeconomic and structural policies. Reflecting this, the 2003 African Economic Outlook, produced by the OECD and the African Development Bank, forecasts that relatively strong growth (around five per cent and above) is expected to continue in Botswana, Cameroon, Senegal, Mozambique, Tanzania, and Uganda.

16. As individual companies in Africa achieve success with the help of foreign direct investment, many African nations are striving to achieve an investment grade credit rating for their sovereign debt. One discussant concluded that countries that can establish investment grade credit ratings will be far more appealing to international financial markets, and they will be able to finance reasonable public spending needs at competitive rates. Furthermore, the same steps required for a strong credit rating, such as transparency and accountability in public spending, will make those governments more effective in meeting the needs of their people. So far, only a few African countries (South Africa, Botswana, Senegal, Tunisia, Egypt and Morocco) have been assigned credit ratings. The UNDP has already teamed up with Standard & Poor's to help arrange credit ratings for sub-Saharan African countries. Ghana became the first country to be rated under the new programme, receiving a B+ rating.

17. An increasing number of African countries have recently improved their investment environments substantially in order to attract capital and FDI. These successful investments suggest that Africa provides many opportunities for external capital to generate attractive returns and for some African countries to emerge as examples – both political and economic – for the rest of the continent to follow. In this respect, a brief discussion took place about Botswana's economic success. Over forty per cent of the country's GDP stems from diamond revenues. In spite of its high dependence on mineral wealth, Botswana has managed to control corruption, exhibiting the best African score on the Transparency International Corruption Perception Index. Furthermore, the country has managed to avoid the resource "curse". Botswana has had the world's highest growth since 1965: per capita income in Botswana grew at 7.7 per cent annually between 1965 and 1998. The adoption of good policies was seen as a key contributor and these policies resulted from an underlying set of governance institutions that encouraged socially efficient exploitation of resource rents, investment and economic development.

18. Traditionally, most of the FDI in Africa originated in a few countries of Western Europe and in the United States. France, Germany, the United Kingdom and the United States accounted for the lion's share of total inflows from the OECD to Africa. Within the group of OECD countries, new investors include countries such as Canada, Italy and the Netherlands, and to some extent also Japan, Norway, Portugal and Spain. Investors from other developing-country regions, particularly South Africa and South-East Asia, have also emerged as new actors on the African FDI screen.

19. Another interesting discussion took place on the link between political governance and energy security. As global lines of energy supply get longer and pipelines cross more countries, it was important to be more alert to the potential for failing states to disrupt global energy supplies, which in turn, threatens both energy security and continuing economic development in consuming countries. The energy sector is crucial to Africa's economies; inefficiencies in oil production and trade (from well to consumer) have

widespread repercussions. Technological advances are making it possible to find and exploit oil reserves at previously impractical depths. Apart from providing a boost to countries like Angola and Nigeria, this is turning some countries, such as Equatorial Guinea and Sao Tomé, into new oil exporters. One participant highlighted the recent uncertainty surrounding the energy industry in the Middle East and the need to turn international attention to Africa as a source for new oil reserves and resources.

20. Several speakers elaborated on how important agricultural development is for most African development policy and strategies. In addition to feeding over 40 million people in Africa affected by famine, in most African economies agriculture (along with forestry and fisheries) is the prime vehicle for economic growth – 70 per cent of employment, 20 per cent of total export and 34 per cent of GDP. Despite good progress made over the last decade, agricultural productivity and production in Africa remain extremely low and uncompetitive on world markets. Discussions also briefly touched on agricultural subsidies in the context of the Cancun negotiations and their impact on private investment in agriculture.

OECD and Africa working together: What actions, by whom and how?

21. Translating the rhetoric into tangible and measurable action was the recurring theme in this session. Given that Africa is a diverse continent with heterogeneous legal systems, currencies, and rules governing investment, trade, and finance, there are no quick fixes. The reform process and implementation will take some time to bear fruit. African states understand that in order to attract foreign investment they must embark upon many of the reforms that investors (both foreign and domestic) seek, such as privatisation, tax reform, legal and administrative transparency, and good governance. In the process of attracting foreign investment, they must also take measures to improve the domestic environment in general and make it easier for Africa's own entrepreneurs to succeed. As investment flows to Africa, particularly in the manufacturing and assembly sectors, it will bring jobs and technological gains with it. Capital flows will be enhanced, and prospects for growth significantly improved.

22. The discussants pointed to the emergence of a multi-sided dynamic bargain. Clearly, the greatest responsibility for Africa's growth lies in its own hands. If economic prosperity is to be achieved, African governments will have to accelerate the reform process. They will need to liberalize their economies, reduce their debt, and regenerate their health and education systems. If African governments fail to tackle these challenges, then no amount of foreign capital will suffice. As an African government official remarked, "We are grateful for ODA flows but we want to decide on our priorities and our own framework and not those of the donors". By the same token, if African governments take further significant steps toward the fulfilment of these reforms, then there is a great deal that international partners can, and should, do to help. It was also noted that policies successful in other regions should not be blindly replicated in Africa since they may have a differential impact on this region.

23. In Africa there are many bilateral and multilateral donor organisations working on investment issues. As no single organisation or donor country can work alone to tackle the critical challenges faced in the continent, it is important to ensure cross fertilisation and effective co-ordination with bilateral OECD donor agencies, other multilateral institutions and the business community already active in the region. Asia-Africa and other cross-regional co-operation initiatives will also have to be considered.

24. In this context, the Commission on Capital Flows to Africa, created by the US Corporate Council on Africa, has devised a ten-year Strategy for Investing in Africa, including both ODA and private capital flows, especially FDI. This strategy, introduced during the meeting, is broad in its coverage, ranging from trade, tax, and investment policy to debt relief, peer review, and exchange programs. At the same time it includes specific steps that governments can take immediately to encourage increased capital flows and investment to Africa. In making these proposals, the strategy recognizes that one approach will not work everywhere in Africa. Greater attention needs to be paid to sub-regional initiatives recognizing that sub-

regions differ and that within each sub-region there are commercial and economic drivers in different sectors.

The Way Ahead towards the Positive Investment Policy Environment for African Development and Growth

25. In general there was appreciation and support among African and international partners for the OECD Initiative to be launched. One participant suggested that OECD should coordinate some of the investment-related work in Africa along the model it has been using in its regional centre for private sector development in Istanbul. The common view that prevailed at the conclusion of the meeting was that the Initiative should result in a dynamic process establishing a comprehensive, inclusive and result-oriented action, which should build on the existing initiatives and help mobilise OECD member countries and businesses for investment and growth in Africa. They stressed the importance of defining upfront what OECD could contribute best. Participants also expressed interest in knowing how OECD member countries intended to direct and support this Initiative.

26. Over the long-term, the Initiative could pursue a three-pronged approach: firstly, to help build the roadmap (i.e. key policy benchmarks) for reform, secondly, to assist its implementation and monitoring, and finally to contribute to building institutional and human resource capacities in partnership with major stakeholders. NEPAD representatives underlined that NEPAD marks an important step toward ensuring that Africans are no longer the object of development strategies originating elsewhere. Therefore, they said that the Initiative would imply a learning process on all sides and should contribute to mutual accountability as well.

27. For too long, too many individuals in African nations have lacked an environment where they could pursue their ideas. The meeting has shown that the region is beginning to see a change today, and change will spread across the continent, if all partners persist and work together. The Afro-pessimism, one speaker argued, was giving way to a measured Afro-optimism. The challenge now was to focus on specific and immediate, non-prescriptive actions that the OECD countries, private sector and other international partners could take to encourage further reform and effective implementation, and substantial additional private investment to Africa.

28. The set of possible actions that have emerged from the discussions under the broad goals of encouraging policies which are conducive to a favourable business environment, removing obstacles to investment and building capacities and partnerships in Africa include (but not limited to) the following:

I. Investment capacity building through policy review

29. “The main agents of implementation are national governments. Therefore, for Africa to progress individual countries must not only incorporate the objectives and principles of national institutions and development plans, they must above all prepare and execute appropriate action plans", said a representative from Tanzania. The African Peer Review Mechanism (APRM) is about monitoring that this actually happens. However, this is not the only role of the APRM. It is also about fostering mutual learning and promoting the adoption of the principles and standards of good governance and international best practice. It is envisaged that the mechanism will lead to the consolidation of democracy and sound economic management throughout the continent.

30. The review mechanism, it was suggested, could explore various dimensions of the domestic policy framework for FDI in Africa including general laws and regulations, public services, macro-economic policies, customs procedures, the regulation of FDI, incentives, trade-related investment measures, among others. The NEPAD representatives noted that the APRM would provide an important

opportunity to promote self-monitoring, peer learning, and the establishment of best practices. In the context of investment policy review, the Secretariat proposed that OECD's methodology and experience could be used for the development of a set of relevant "best practices" for African governments seeking to increase FDI. This was welcomed by African partners.

31. A key added value of OECD's proposal would be a mechanism to enhance implementing capacities. In this context, an OECD-Africa Working Session of Government Officials on "Investment capacity building: how and what for" could be organised in the first half of 2004, back-to-back with a CIME meeting. This working session could discuss: 1) the experiences of the OECD and others with investment peer reviews[2] (on the basis of various presentations and an OECD discussion paper); and 2) priority areas for peer review in light of African countries' needs. The event could be followed up by a pilot review of an African country volunteer, with OECD "logistical" assistance as required by African partners later in 2004.

II. Enhancing the African dimension of OECD's project on improving synergies between ODA and FDI

32. It was noted that there has been some progress in raising ODA levels since Monterrey. However, total aid commitments are still well below what is needed to reach the Millennium Development Goals. Given the declining levels of private investment to date globally and particularly in Africa, there is a need to improve the synergies between ODA and FDI flows. This applies to targeted approaches such as public-private partnerships as well as more broadly-based efforts at improving the enabling environment, building the necessary governance and human capacities. Reducing risk elements for investors is also mentioned as a possible area for ODA.

33. With economic and political liberalization, the number of developmental actors has skyrocketed. Many governments have decentralized; supra-national action has added regional economic associations. As a result, most issues today are beyond the reach of central governments. Developmental progress could thus be accelerated by a more systematic use of all modes of economic co-operation that takes account of complementarities among trade, private capital flows, migration and aid. One participant underlined that if development co-operation is to succeed, it must also go beyond the traditional government channels of operation and work with all developmental actors. It was noted that new "tripartite" development co-operation fora are needed to facilitate joint dialogue and action among governments, civil society and the private sector.

34. The Secretariat informed the participants of a new project it plans to launch aimed at exploiting FDI-ODA synergies. It was suggested that several African countries could be taken up as illustrative cases of how ODA can be used to leverage private investment. This issue can be further discussed and refined in the coming November 2003 event.

III. Transparency and public governance for investment.

35. There was a common understanding among participants that poor public governance and lack of adequate transparency have been for a long time a chief bottleneck to investment, both domestic and international, in African countries. The resulting poor economic development and increasing poverty has in turn further deteriorated public governance in many African countries. Breaking out of this circle is

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2. Peer review is an integral part of capacity building; it provides an opportunity to transfer knowledge and experience; contributes to institution building; promotes convergence of approaches; fosters dialogue and best practices; helps develop "best practices"; and assists compliance with rules and commitments.

therefore a precondition to using private sector investment to recover regional economies. This view was being echoed by multilateral organisations, business and Transparency International.

36. Transparency of legal and regulatory frameworks, implementation and anti-corruption measures are consistently cited as main concerns for international investors. Hence, overcoming these hurdles requires building a regulatory framework for investment, a committed public administration, appropriate ethical codes of conduct for civil servants and effective tools to manage conflicts of interest between the public and private sectors.

37. CIME has undertaken recent work in the area of transparency framework. This, along with the outcome of the coming GFII in November 2003 in Johannesburg (which will focus on the theme of transparency and governance for investment), could serve as a starting point for an Africa-specific project. Establishing steps to promote good governance and transparency should be the primary objective. In this context, it could be useful to compile a synthesis of selected investment-related regulatory, administrative and sectoral rules in Africa on the basis of existing sources, in close co-operation with, and with support from, other organisations, African partners and business. This subject matter would be needed to provide a clearer picture of the situation in the African region and could further serve as supporting material for other envisaged African activities.

38. The OECD work on anti-corruption could also be relevant to African countries. The OECD assists countries that have either formally applied for accession to the OECD Anti-Bribery Convention, that seek to improve anti-bribery standards in conformity with relevant international instruments, or that seek to gain general strategic anti-corruption knowledge. Since its entry into force in 1999, the OECD Convention has attracted increasing attention from non-Member partners, which have repeatedly demonstrated their interest in associating themselves with the OECD's fight against corruption. Current outreach activities cover the following regions: Asia-Pacific, Central and Eastern Europe/NIS, Latin America, and South Eastern Europe. The Transparency International expressed strong interest in being associated with the Initiative.

39. While discussing action for reform the following critical areas of intervention were also mentioned: regulatory management, prevention of corruption, public sector modernisation as well as the promotion of e-government in selected African countries. The Secretariat underlined the fact that the OECD has been developing a number of recommendations and principles in the area of public governance that have been used as reference points on a global level and can also serve as a general benchmark for Africa such as Policy Recommendations on Regulatory Reform (OECD 1997), Principles for Managing Ethics in the Public Service (OECD 1998), Guidelines for Managing Conflict of Interest in the Public Sector (2003c), and Guiding Principles for Successful E-Government (OECD 2003d).

IV. Corporate Social Responsibility and Development

40. In light of the OECD Guidelines for Multinational Enterprises (MNEs) and the substantial body of work on promoting corporate responsibility initiatives, it may be possible to explore the possibility of undertaking work on how corporate responsibility initiatives can promote investment and development in Africa. MNEs can play an important role in contributing positively to national and regional economic development. However, evidence suggests that MNEs are more likely to make a positive contribution (indeed, they are more likely to invest) in countries where governance is strong.

41. There was a request to consider carefully the areas and means by which national governments can improve their capacity to benefit from MNE activities, as well as the linkages between national business associations in Africa and MNEs. The Secretariat invited participants to a special session of the

GFII in South Africa on 19 November 2003, which will focus on the role of corporate responsibility in improving environmental performance.

42. TUAC also informed the participants that it was running a joint project with the Friedrich Ebert Foundation with the support of the European Commission to raise awareness of the OECD Guidelines as a tool for socially responsible investment through four regional workshops. One workshop had been held in Casablanca with representatives of trade unions, business, NGOs and governments from Morocco, Algeria, Egypt and Tunisia. There was considerable of interest in the Guidelines and how to use them to promote corporate responsibility. Governments also expressed concern over the competition to attract investment. Another workshop covering primarily Botswana, South Africa and Zambia will be held in Lusaka on 6-7 October.

43. BIAC announced that it would undertake a capacity building project in Africa in partnership with local business associations which could be considered under the OECD Initiative. It would develop an inventory of capacity-building instruments for governments and enterprises in Africa already conducted by the international donor community. BIAC is also helping the OECD in putting together a synthesis of investment-related regulatory, administrative rules in Africa. In addition, it is urging the OECD to develop a collective investment risk reduction strategy through organising a conference with the OECD's Development Centre on "Strengthening private sector representation in Africa – capacity building for entrepreneurs and impacting on policy reforms " in the first quarter of 2004.

V. Corporate Governance.

44. Participants viewed good corporate governance as part of a broader investment framework supportive of sustainable growth and development in Africa. Indeed, NEPAD Heads of State in their July 2002 "Declaration on Democracy, Political, Economic and Corporate Governance" suggested that all African countries should strive to comply with a set of eight standardized codes and practices related to economic and corporate governance, including the OECD Principles of Corporate Governance. The NEPAD African Peer Review process therefore includes corporate governance among the elements of governance to be reviewed and assessed. NEPAD has also called upon the African Development Bank to develop a framework for reviewing corporate governance practices in Africa, drawing upon the OECD Principles and other sources.

45. Since 2001, there have been a number of significant developments aimed at strengthening corporate governance in Africa. At the 2nd Pan African Consultative Forum on Corporate Governance held in Nairobi in July, 2003, it was noted that more than 20 countries, and regional agencies (covering an additional 12 countries), have initiated corporate governance programmes. Of these, 14 countries have now fully established key elements of corporate governance such as a national code, a national task force, formal standards, professional institutes, and director training courses, compared to less than half this number of countries at the time of the first Forum in 2001.

46. A range of other corporate governance-related initiatives (World Bank ROSC reviews, African Development Bank technical assessments, African-led initiatives, among others) are already under way. Recognising the importance of African ownership in corporate governance reform efforts and of building upon existing initiatives, the OECD will continue to play a supporting role to the Pan African Forum as a member of its Steering Committee, and by making available best practices and expertise gained in adapting the OECD Principles to a range of economic and political circumstances through its Roundtable experience in other regions. As the African Peer Review process gets under way, the OECD could intensify its efforts in sharing its experience with monitoring and assessing corporate governance developments.

VI. Enhancing FDI-SME Linkages

47. Small and medium-sized enterprises (SMEs) are viewed as a critical sector for growth, employment, and poverty alleviation in Africa. They account for a substantial amount of employment in many African countries, mostly in the informal sector. If these enterprises were to enter the formal economy – maintaining proper accounting standards and paying taxes – they would have far better access to markets and sources of finance. To bring these firms into the formal sector, however, requires sustained and coordinated action by African governments, donors, and the investment community. The OECD can play an important role in generating concerted action on this.

48. Stronger SME-FDI linkages have also emerged as an issue of great interest to most African participants. Preparing good environment for domestic enterprises corresponds also to necessary conditions for attracting foreign direct investment. SMEs have potentially major, but largely untapped, benefits to realise from expanding investment opportunities. In the African context, the lack of adequate domestic investment and market remains a major deterrent to FDI inflows. It was mentioned that OECD work could focus on how to make SMEs better local partners for foreign investors – to make African economies more attractive to FDI and to strengthen the benefits of foreign investment to the local economy. Equally important is how African SMEs could benefit from expanding regional and international trade opportunities and identify the role of the international community and stakeholders to facilitate this process.

49. The following actions were proposed in this regard:

- ODA funds should be made available for development of domestic capital markets for SMEs and the establishment of long-term, low-rate financing vehicles for small businesses.

- It would be desirable, where possible, to have national small business institutions be established as partnerships between the public and private sector. These institutions would provide streamlined access to: 1) assistance programs that address the technical and managerial weakness of SMEs; 2) financing programs including loan guarantees, equipment and export finance; 3) coordination of linkages to multinational corporations; 4) basic information on market and export opportunities; and 5) "one-stop-shopping" for licensing, taxation, and other regulatory matters.

VII. FDI and regional integration

50. Most African countries are not only poor but they are also small. Regional integration in Africa is therefore seen as critical to creating a larger economic space, with more opportunities for investors and entrepreneurs. Beyond doubt, there are considerable unexploited opportunities in Africa to promote growth through regional cooperation. Creating larger and more integrated markets, facilitating cross-border investment and allowing the free movement of people and exchange of ideas, carries economic, as well as political benefits. Existing initiatives, including ECOWAS (Economic Community of West African States), COMESA (Common Market for Eastern and Southern Africa), CAEC (Community of the States of Central Africa), SADC (Southern African Development Community), CEMAC (Central African Economic Community) and WAEMU (The West African Economic and Monetary Union), are all designed, *inter alia*, to gain from economies of scale and attract investment.

51. Unfortunately, most of the above-mentioned initiatives remain on paper. Effective regional co-operation and integration in Africa is constrained by many factors such as lack of infrastructure (for example, a cross-border transportation network is key in many African countries to achieving a regional

market that is sufficient to attract investors, both foreign or domestic), tariff and non-tariff barriers, lack of political commitment, weak harmonization of policies, overlapping and multiplicity of organisations.

52. From the point of view of promoting investment, African countries need to strengthen co-operation in mutual tariff reduction, harmonization of customs procedure at each border, effective use of their own resources for investment promotion and creating Free Trade Areas, including establishing regional investment frameworks, or examining options for the Multi-Facility Economic Zones. Regional ties should also be enhanced by strengthening air, land and rail transportation network. It is of foremost importance for African development to strengthen regional co-operation (through initiatives such as the Zambia-Malawi-Mozambique Growth Triangle). The World Bank is supporting regional efforts to create integrated markets and initiatives aimed at increasing co-operation to address common issues in a regional context, such as the Nile Basin Initiative and the WAEMU payments systems. Initiatives such as the EU-South Africa Free Trade Area (already in existence) and the US-SACU Free Trade Area (still under negotiation) promote regional integration and help expand intra-regional trade.

53. Current OECD research on FDI-related issues in preferential trade agreements and economic partnership agreements involving developing countries is focusing on Southern Africa. The role of cross-border infrastructure in regional integration could also be explored, and institutions such as the World Bank and the African Development Bank could be invited to contribute. An OECD Development Center study on "Regional Integration, FDI and Competitiveness: The Case of SADC" is being completed and could be used to develop a major regional integration activity in light of suggestions from African and other partners.

54. Also, the idea of using the South East Europe Investment Compact Regional Flagship Initiatives[3] as a possible model for encouraging regional co-operation was mentioned.

VIII. Other Capacity Building Actions

55. There was a common view that the international community should provide increased assistance for institution and capacity building so that African countries could realize such prerequisite conditions as good governance and political, economical and social stability. Support for implementation is the key to success in Africa's ongoing investment reform agenda. Building human capital and institutions on investment policy reforms, promotion strategies, implementation and monitoring is critical to the long-term growth and prosperity of Africa. In order to promote African development and investment encompassing diverse agendas, wide variety of stakeholders should be involved as partners.

56. A representative from WTO noted that the Doha Development Agenda called for capacity building if developing countries were to be able to fully take advantage of and benefit from the multilateral trading system. More specifically, a number of initiatives have been taken in order to help developing countries negotiate more effectively at the WTO. The need was highlighted for the OECD to work closely

3. The Regional Flagship Initiatives are agreed actions aimed at attracting investment and improving the climate for investment in SEE. They are demand-driven and reflect priorities identified by SEE countries and the private sector. The Flagship Initiatives combine policy dialogue with practical experience sharing and capacity building. They help to create an enabling environment for investment and sound infrastructure for private sector development. The RFIs seek to provide incremental and accelerated action on policy reform, complementing other bilateral and multilateral activities in the region. In line with the IC strategy agreed by donor countries in early 2002, the programme of Regional Flagship Initiatives has been streamlined to a select number of policy areas where the IC activity adds clear value and integrates with work conducted by the IFIs, the EC and bilateral donors.

with WTO, UNCTAD and World Bank, and other actors in the field of investment capacity building. Some of the suggestions which came up in this context during the discussions include:

- The OECD governments and private-sector entities might consider creating an African Investment Fellowship Exchange Program that would send professionals (with investment, private sector development, financial, capital markets, corporate finance, or economic policy experience) to African countries to work in public and private institutions for a certain period. In exchange, each participating African country could commit two individuals for training for up to two years at investment-related organisations in OECD countries.

- Because of the negative image of Africa as a whole, it may not be sufficient to improve the investment climate and have economic determinants in place to catch investors' attention, many African countries have established investment promotion agencies to change this image as well as to facilitate investment. Some African agencies (such as the Uganda Investment Authority and the Tanzania Investment Center) are widely respected as successful agencies that adopt state-of-the-art practices in all areas of investment promotion, well-coordinated with their national development plans and poverty reduction strategies. There was a strong emphasis for assistance in investment promotion capacity building, particularly in targeting strategic OECD investors, as well as enhancing the policy functions of the Investment Promotion Agencies (on the basis of the OECD Best Practices for Investment Promotion and ongoing work by other international partners).

- Financial sector development including banking reform

- It was also considered useful to share experiences and promote co-operation between Africa and other regions through such forums as the Asia Africa Business Forum, the China-Africa Partnership and the Africa-Latin America Co-operation.

Future Steps

57. Future steps for turning the proposed activities into a practical programme of work before the end of the year include:

- firstly, a discussion of the proposals and next steps at the CIME Advisory Group on Co-operation with Non-Members on 16 September 2003 and after;

- secondly, renewed comments and suggestions for the purpose of prioritising and promoting ownership with African governments and other partners including NEPAD, African Development Bank and UN Economic Commission for Africa;

- thirdly, secure funding and support from member countries, the private sector and other international partners, as well as build the necessary capacities within the Secretariat for an initial three-year programme; and

- finally, launch the initiative publicly at the OECD-Africa Investment Roundtable if so decided, scheduled for 18 November 2003 in Johannesburg that directly follows the OECD Global Forum on International Investment.

Resources

58. The Africa work programme focusing on the above priorities cannot be executed solely with the existing Secretariat resources. The Governments of Japan and Switzerland have provided grants to launch the process. They need to be supplemented adequately in order to be meaningfully engaged in investment/development co-operation and capacity building efforts with NEPAD and other partners in Africa. The Secretariat will develop detailed proposals and budgets for each of the proposed activities so that donors could consider sponsoring certain parts of the work programme befitting their bilateral priorities.

59. For **further details**, please contact Mehmet.Ogutcu@oecd.org

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