OECD-Africa Investment Roundtable

19 November 2003

Johannesburg

In partnership with NEPAD, African Development Bank and World Bank

Hosted by the Government of South Africa

BIAC Contribution

"Making Africa Competitive for Foreign Investors"

Africa is not attractive to foreign investors because the investment framework is not competitive.

Already marginalised from international investment flows in the past, Africa in 2002 suffered a further dramatic decline in foreign direct investment (FDI) inflows - to $ 11 billion from $ 19 billion the previous year. Flows to 23 of the continent's 53 countries declined, and just five countries (Angola, Algeria, Chad, Nigeria and Tunisia) accounted for more than half of the 2002 inflows.

In contrast to attitudes in the 1980s, today's common wisdom holds that economic development requires private sector investment. Total annual FDI globally dwarves the amount of public money made available for investment in developing countries by a factor of ten.

Unlike public funds, private investment has to be attracted. States and administrations must establish some basic conditions in order to be attractive to foreign investors, since they make comparisons and are not ready to take excessive risks. We want to clarify from the outset that "making Africa competitive" should not be misunderstood: It is not meant in the sense of "dumping" (taxes, wages), but rather in the sense of offering to investors a level playing field where competition operates in a fair, predictable and transparent way.

Investment is about taking informed professional, market and business risks– committing money today for an expected return tomorrow–but not political or fiscal risks. The challenge for governments is to reduce unnecessary investment risks. Any investor, especially foreign, integrates two sets of information before making an investment decision:

- Market information, including information about potential competitors;

- An analysis of the operating environment, which may include:

- The transparency of regulatory procedures;
- Rules about national treatment;
- Whether the rule of law is really implemented or simply on paper;
- The level of corruption in the country;
- The efficiency , accountability and predictability of the judicial system;
- How bureaucratic conflicts are resolved;
- Fiscal predictability;
- The expediency of customs procedures; and
- Intellectual property regulation.

In order to adapt to worldwide competition, governments in Africa must put in place a governance system that makes their countries attractive destinations for FDI.

From the point of view of OECD businesses, that concretely implies:

- Strengthened transparency and good governance as essential elements for guaranteeing a reliable business environment for investors. BIAC recognises the fundamental importance of reform in the areas of public (both state and local level) and corporate governance as well as of regulatory reform.
- In connection with the implementation of the rule of law, fighting corruption and other illicit activities.
- Providing the necessary high-quality basic infrastructure (such as in transport, water, power, sewage, telecommunications and health), which are critical to attract private investment.
- Setting up the legislative and regulatory framework necessary to encourage public-private partnerships (PPPs) and to foster more collaboration between public and private sectors.
- International and national efforts to liberalise the movement of goods, services, persons and capital in the regions of Africa. This can be achieved through regional co-operation and implementation of international agreements, including bilateral, regional and multilateral free trade agreements, with a view to developing regional markets in Africa.
- Removal of measures specifically discriminating against international investors. Providing high standards of protection for investors from direct expropriation or measures paramount to expropriation.
- Fostering independent business associations that can serve as a qualified interlocutor for governments and the international donor community as well as providing services for their member companies.
- Granting support for SMEs.
- Improved domestic banking systems as the underpinning for export and investment finance.
- The creation of an available skilled labour force through public investment into education, among other measures.

The very small size of most of the individual national markets in Africa remains a challenge for attracting investment. Investors seek a critical mass to increase the chances of an investment yielding a significant return. Therefore, regionalisation through the establishment of free trade areas in Africa should be pursued.