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Africa: The FDI Opportunities are Local

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Africa has traditionally not been on the radar screen of foreign direct investors. The reasons include the “Balkanization” of the continent and hence its small markets, its weak infrastructure and an image problem: in much of the world Africa’s image is dominated by pictures of civil war, sickness and famine.



© *Millennium Cities Initiative* The market in Mali’s capital, Bamako, is a hive of activity.

There is truth to these pictures, of course, for some parts of Africa. But, they obscure a number of positive developments throughout the continent that, typically, do not capture the headlines. During the past few years, a number of civil wars have ended and reconstruction has begun; Liberia, with the first democratically elected female president in Africa, Ellen Sirleaf-Johnson, is an example. Through the African Peer Review Mechanism, an increasing number of countries are submitting themselves to a rigorous process of evaluation; hopefully, those that perform well will be particularly rewarded, e.g. in the framework of the G-8 process. Economic growth during the past two years has been respectable, and quite strong in a number of countries. Partly, this is because more governments have recognized that the private sector has a central role to play when it comes to wealth creation and economic development. Presidents from across the continent would agree with what the President of Ghana had announced for his country, namely the arrival of a “golden age” for business.

All this has created a new environment for foreign direct investment (FDI). But it is more than that: the role of FDI in economic growth and development is now widely acknowledged, and all countries in Africa, without exception, are actively seeking to attract it. For that purpose, virtually all have liberalized their national regulatory framework for FDI, making it much more welcoming than it was, say, 15 years ago, by, e.g., opening sectors to such investment, reducing obstacles to the operation of foreign affiliates and offering a range of incentives. This is not to say, though, that the regulatory framework cannot be improved and, perhaps even more importantly, implemented more thoroughly; but, overall, it is certainly welcoming.

National improvements in the regulatory framework are complemented and made stronger by international investment agreements, especially bilateral investment treaties (BITs) that protect foreign investors. In fact, the BITs density for Africa (12 BITs per country) is the same as that of Latin America and the Caribbean. Most recent free trade agreements and/or association agreements with, especially, Europe and the US, also include investment chapters; the Cotonou agreement, in particular, contains strong provisions aimed at promoting FDI in Africa. Finally, the EU, Japan and the US provide preferential access to a wide range of goods and services produced in most African countries, making it attractive for foreign investors to set up shop there and export to the world's most important markets.

But there is more: virtually all African countries are actively seeking to attract FDI by setting up investment promotion agencies to attract foreign investors, beginning with image building and ending with after-investment services. Moreover, the rise of multinational corporations from emerging markets – especially China, India, and South Africa, but also Russia and Brazil – creates new sources of FDI. African countries benefit from competition among firms for profitable investment opportunities, a development already noticeable in the natural resource sector.

To be true, African IPAs vary widely in terms of the resources they have at their disposal, but they are making strides, often being helped by international organizations such as UNCTAD, UNIDO, FIAS and OECD.

These good-news stories need to get out to adjust the image of Africa to the new reality. In the specific area of FDI, moreover, African countries need to make stronger efforts if they wish to attract more FDI (especially outside the natural resources sectors) and, equally important, to benefit from it as much as possible. To do so, they need to go below the national level and identify concrete investment opportunities at the provincial and even city levels. This is all the more important as, traditionally, foreign investors concentrate in capitals, often leaving other towns outside the mainstream of economic development. This situation is aggravated by a trend in toward urbanization – typically because people flee rural poverty. Many of them end up in slums. The challenge, then, becomes to make cities viable – and that means they need to develop a vibrant enterprise sector that provides employment and hence helps people escape from poverty, thus promoting the MDGs. This is precisely where the Millennium Cities Initiative (MCI) comes in.

The Millennium Cities Initiative

The Millennium Cities Initiative is one of a number of practical initiatives launched to help implement the Millennium Development Goals (MDGs), for halving extreme poverty, as adopted by the Heads of State and Governments at a UN Summit in 2000 and re-affirmed in September 2005 at another such Summit. Anchored in the recommendations of the [Millennium Project](#), the independent advisory body to the UN Secretary-General which was led by Professor Jeffrey D. Sachs, the Earth-Institute based [Millennium Cities Initiative](#) assists seven cities in six African countries to become viable

economic units. The cities are: Akure, Nigeria; Bamako - Segou, Mali; Blantyre, Malawi; Kisumu, Kenya; Kumasi, Ghana; and Louga, Senegal. The MCI was launched in 2006 with the strong support of the Governments of the participating countries, and it benefits from the partnership of UNDP, including its MDG Support Team, which supports African countries to develop MDG-based national development strategies. The Millennium Cities Initiative also partners actively with the [Millennium Villages Project](#) to localize the MDGs and establish a practical framework for supporting the escape from extreme poverty in Africa.

In the broader context of City Development Strategies being prepared, the priority of the MCI is to help to create employment, stimulate enterprise development and foster economic growth in the Millennium Cities, especially by attracting FDI. The latter effort rests on three pillars:

1. Analyses to inform foreign investors.

- The regulatory framework of FDI at the city level, not only as far as it is “on the books”, but also as it is in reality and how it could be improved, so that investors know the framework within which they have to operate. These assessments are undertaken pro bono by teams of lawyers from Carter, Ledyard & Milburn LLP; Cravath, Swaine & Moore LLP and DLA Piper. They are dovetailed with the Policy Framework for Investment developed by the OECD, and it is hoped that this Organization will eventually partner with MCI to help the countries and towns involved to improve their regulatory framework.
- The infrastructure in each of the cities, a key FDI determinant.
- Perhaps most importantly, analyses of commercially viable business opportunities, i.e. sectors (and even concrete projects) in which the cities, together with the Millennium Villages, have a comparative advantage, be it in the provincial, country, or international market. This effort is being undertaken by UNIDO and carried forward, on a pro bono basis, by KPMG in a major undertaking to identify business opportunities. Products and sectors with potential identified so far include such agri- and aqua-cultural products as fruit juices, dried fruits and fishes and spiced groundnuts; chocolate, cocoa powder and soap, from cocoa, and starch from cassava; mineral products, such as glass and ceramics from silica; paint from kaolin, cement from lime stone and bitumen; as well as cultural and eco-tourism.

The value of these materials depends, of course, not only on their quality but also, and very much so, on reaching potential investors, including through a modest investment promotion capacity to be developed in each city. Accordingly, MCI’s second pillar involves:

2. Dissemination to potential investors.

Several avenues are being pursued or will be pursued:

- Investors' missions to the cities. So far, the Governments of Germany and Finland have promised to support such missions to bring investors to two of our towns in order to explore in situ investment opportunities and conditions. We hope, of course, that, eventually, we will also be able to cover all of the cities.
- Investors' Roundtables in each of the six countries. These events, which are organized together with the Economist Intelligence Unit and typically involve 100-200 participants, allow a larger group of investors to familiarize themselves with the country's regulatory and policy framework and the more specific issues involved in regional development and especially the Millennium Cities. They also involve field trips to the cities for those participants interested to do so. A Roundtable was already held in Nigeria and another one is scheduled for 17-18 July 2007 in Kenya, made possible in part thanks to the support of the Government of Finland.
- Millennium Cities Days in strategic locations in North America, Europe and Asia, to bring representatives of the countries and cities to meet investors on their home ground. At the moment, we are still in the process of identifying cities in these regions that may want to host a Millennium Cities Day.
- Millennium Cities Investors' Guides which, in a concise and easily accessible manner, can reach a much larger audience than can be reached through the activities described so far. In fact, these Guides can potentially reach the universe of actual and potential foreign investors. They are, therefore, a powerful tool to put the Millennium Cities on the investment map.

The key is of course whether actual investment projects will take place and contribute to economic growth and development. The efforts described so far can be expected to do that. However, MCI's third pillar approaches this challenge directly:

3. The development of products for export.

Thanks to the cooperation of International Trade Centre, teams of experts will work with the Millennium Cities and Villages to identify, for each of them, one or two products that can be developed immediately for the international market, thus meeting the toughest competitiveness test in a globalizing world economy. In due course, additional products will be identified, including by building especially on the efforts of UNIDO and KPMG.

In a parallel but related endeavor, the Business Alliance Against Chronic Hunger, led by the World Economic Forum and with the participation of major multinationals, seeks to develop business opportunities near Kisumu, building village-to-world market agriculture-based value chains for important products of the district.

All these activities are concrete, practical and result-oriented, and they build on the new reality in Africa. They involve a broad spectrum of supporters. Apart from those already mentioned, the Gates Foundation, the Rockefeller Foundation and private donors are involved. In many ways, the MCI team in New York and its representatives in each of the Millennium Cities is really a team of conceptualizers and connectors that helps the cities and various organizations to stimulate economic growth in an urban context. In that

spirit, the MCI will also develop a *Handbook* which, based on its experience, will provide a framework for other cities in the developing world so that this effort can be scaled up to contribute to the implementation of the MDGs.

Conclusions

So what does all of this add up to? In spite of all sorts of limitations, the climate for FDI in Africa, as well as its regulatory framework and institutional infrastructure, today are better than they have ever been. This is reflected in the growth of FDI flows to Africa which reached some \$35 billion in 2006 and they are expected to stay at this historically all-time high at least until 2010. To attract even more FDI, especially in manufacturing and services, countries will need to improve their infrastructure and identify and promote investment opportunities outside their capital cities.

In the end, all investment is local – hence local opportunities need to be brought to the attention of investors, and the local regulatory and business environment needs to be competitive. This also implies a broader lesson when it comes to Africa: investors need to differentiate and look for investment opportunities country by country, city by city, sector by sector – opportunities exist, and for all you know, your competitors are already taking advantage of them!

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¹ See Karl P. Sauvant, ed., *The Rise of Transnational Corporations from Emerging Markets: Threat or Opportunity?* (forthcoming).

² For a recent discussion of FDI promotion efforts in Africa, see Jeffrey D. Sachs, “The importance of investment promotion in the poorest countries,” in *Economist Intelligence Unit and Columbia Program on International Investment World Investment Prospects to 2010: Boom or Backlash?* (London, UK: The Economist Intelligence Unit Ltd., 2006), pp. 78-81.