Business Statement to Ministers

NEPAD-OECD Africa Investment Initiative

Ministerial Conference and High-Level Forum

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Preamble

African countries hold enormous potential to become more prosperous, globally-competitive economies. However, this growth potential will not and cannot be realised simply through inflows of foreign aid or domestic public spending alone. While foreign aid will remain important, the required gearshift for Africa's development and sustainable economic growth will happen as a result of mobilising sustainable private sector investment. Yet in order for that shift to take place, and for the African continent to become one of the world's next major emerging markets, the key lies in creating a predictable and attractive enabling policy framework for long-term investment, built on market economies backed by sound, stable democratic institutions and rule of law.

The OECD business community, represented by the Business and Industry Advisory Committee to the OECD (BIAC), and in co-operation with the European Business Council for Africa and the Mediterranean (EBCAM) and BUSINESSEUROPE, therefore presents the following joint statement to Ministers.

I. Improving Africa's Investment Climate

Foreign private sector investment into Africa constitutes a major form of capital inflow for many Sub-Saharan African countries. Foreign investment helps to sustain current account imbalances in certain countries, while also contributing to economic growth more broadly. In addition, foreign investment leads to knowledge and technology spillovers, connects industries to regional and global value chains and stimulates competition.

Foreign investors welcome steps by many African countries over recent years to improve their investment climates. However, in order to boost market confidence and attract investment, while also diversifying African economies, there is much room for improvement in many African countries to carry out further structural reforms that would reduce perceived risks and enhance the overall African investment climate for private investors.

<u>Recommendations:</u>

- **ENSURE clear, predictable, objective and transparent legislative frameworks,** together with independent, impartial and competent judicial and arbitration procedures, as well as well-functioning law enforcement agencies. Greater transparency, accountability and predictability will help to reduce the risk perception of the region.

- **FOSTER intra-regional and inter-regional economic and trade integration** between African countries, and between Africa and other regions, in order to maximise these countries' economic potential. There should be a strong focus on reducing tariffs and quotas, developing policies for export promotion, and creating trade facilitation measures (particularly for smaller companies with fewer disposable resources).

- **REDUCE barriers (technical and non-technical) to trade and investment,** and hence improve the business environment by ensuring greater openness and non-discrimination. Any government restrictions to foreign investment should be based only on narrowly defined national security criteria.

- **ENSURE that potential investors have access to financing and risk mitigation instruments.** In this context, the business community notes that proposed Basel III regulations are expected to make financing of investments with a pay-back time of more than 6-8 years so expensive that it will prohibit investments.

- **IMPROVE the overall business environment,** including administrative simplification, predictable policy-making, human resources development, effective competition law, high quality intellectual property rights, effective anti-corruption measures, and fair and transparent tax policies.

- **CONSULT with the business community.** A strong on-going dialogue with the private sector will allow the government to identify and carry out the reforms with the biggest potential for improving the business environment. Dialogue with the business community also helps in the promotion and adoption of best practices.

- **REDUCE risks associated with public-private partnerships (PPPs)** by applying international best practices for effective PPPs. They should be based on realistic timelines, clear objectives, trust and transparency, and the understanding of shared reward.

- **ADOPT the *OECD Declaration and Decisions on International Investment and Multinational Enterprises* and the *OECD Policy Framework for Investment* as key policy tools** for developing the investment climate, which would also encourage responsible business conduct in the region.

II. Investing in Infrastructure

A recent study[1] carried out in 24 African countries indicates that the poor state of power, water, roads, and information and communication technology reduces national economic growth by 2% every year and reduces business productivity by as much as 40%. It is estimated that Africa still requires up to $31 billion in additional investments annually to transform the continent's infrastructure, mainly in the power sector.

[1] World Bank and Agence Francaise de Développement (2010) "Africa's Infrastructure: A time for transformation". (Phase 1 of the Africa Infrastructure Country Diagnostic (AICD) project, implemented by the World Bank under the guidance of a steering committee that includes NEPAD, as a response to the G8 Gleneagles Summit.)

Africa's infrastructure development and maintenance thus lags behind that of other developing countries. Infrastructure services are expensive, reflecting problems of scale in production and lack of competition. In most countries, the central government budget is the main driver of infrastructure investment, yet it alone often cannot meet the needs of the entire population.

This means that private sector involvement is crucial. Private sector participation enables a more efficient provision of services than that provided by public enterprises due to strong incentives to reduce costs and increase returns on capital. Improved efficiency has in turn led to the expansion of service provision to remote areas as well as substantial gains in welfare, while also stimulating further investment towards other parts of the economy and better connecting urban and rural areas to the veins and arteries of the global economy.

Recommendations:

- **UNDERTAKE efforts to create a competitive environment,** including by subjecting activities to appropriate commercial pressures, dismantling unnecessary barriers to entry and implementing and enforcing adequate competition laws. In this context it should be stressed that access to investing in infrastructure must be market-driven and non-discriminatory.

- **FACILITATE market-based pricing regimes for infrastructures** (such as electricity, transport, telecommunications, and water and sanitation services) that ensure sustainable cost recovery in order to attract private investment.

- **ENSURE that procedures for obtaining licences and authorisations are timely and effective.**

- **DIRECT more public aid towards infrastructure and maintenance where deficits persist** (over recent years, infrastructure has been given too low priority by donors despite its importance for growth and development). This also involves overcoming institutional bureaucracy that often can inhibit the allocation of already-existing infrastructure funds from central budgets.

- **STREAMLINE and make more efficient state-owned enterprises (SOEs) which operate key infrastructure sectors,** particularly those operating power and water and sanitation. Inefficiencies caused by overstaffing and/or under-collection of revenues can lead to significant losses that can exceed the turnover of these SOEs. Addressing these inefficiencies could potentially yield up to $17 billion per year[2].

- **ENCOURAGE regional integration,** where possible, to capture economies of scale and therefore reduce infrastructure costs.

- **REFER to *OECD Principles for Private Sector Participation in Infrastructure*** in order to create attractive opportunities for public-private partnerships.

[2] Ibid, p14.

III. Investing in Agriculture

Agriculture has the potential to become a major catalyst for growth in Africa while at the same time increasing food security and basic incomes for the majority of Africans who depend on agriculture for their livelihoods. Improving investment in agriculture would have the potential to alleviate poverty and malnutrition, better manage the volatility of food prices, while also contributing to overall economic growth.

However, African agricultural productivity has barely increased over the last fifty years, while it has more than doubled in Europe and Southern Asia (according to FAO). Moreover, increased volatility and increasing prices in agricultural commodity markets risk undermining economic and social development. According to the World Bank, for example, while increased food prices have benefited some 24 million people in poor countries, some 68 million people have been pushed into dire poverty.

Investment is needed for improved agricultural production from existing land which will help meet the challenges of food security and development. Therefore, there is a need for increased public-private co-operation and policy reform in the area of agriculture.

<u>Recommendations:</u>

- **ENCOURAGE investment in deployment of, and access to, new and existing technologies,** integrated with local and traditional knowledge, for more sustainable production and supply. This could involve investing in and improving access to, for example, improved seeds, integrated pest management, agronomic biofortification, improved water management, enzyme applications, and so on, as well as better agricultural practices and farming techniques. Regulations should be science-based, with high quality intellectual property rights and strong human capital formation in place.

- **COMMIT to actively concluding the WTO Doha Development Round at an ambitious level.** In this context, policymakers in both OECD and non-OECD countries should adopt policies to progressively reduce and eventually eliminate trade-distorting agricultural price support mechanisms, all other forms of trade-distorting subsidies and non-tariff agricultural trade barriers.

- **REFRAIN from introducing price controls and/or export restrictions** in reaction to food price crises or other crises. These policy measures discourage the necessary additional investment required for agricultural production, impede access to agricultural raw materials, and threaten food security. Moreover, short-run emergency measures must not create long-term market distortions.

- **IMPROVE and expand education and capacity building.** This should include upgrading agricultural research, training and extension services, as well as access to finance. Training of farmers, including education for children who could become farmers, will be essential for the adoption and deployment of modern technologies and practices that will be required to raise productivity and address food security.

- **RECOGNISE and implement the Abuja declaration** from the Africa Fertilizer Summit in 2006, which above others advocated for the creation of the Africa Fertilizer Financing Mechanism.
- **ELIMINATE discrimination against women** in terms of access to land, input, credit and markets, which currently significantly limits agricultural development and modernisation. Any form of discrimination in the workplace, whether based on gender, ethnicity, or any other factor, should be abolished.
- **INVEST in infrastructure for agriculture.** Poor infrastructure (ports, storage, roads and so on) can significantly increase the cost of inputs for investing in agriculture.
- **ESTABLISH sufficient incentives for farmers and African companies to move into the formal economy.** Formalisation of farmers and companies will create access to a range of resources and services, making African farmers and companies more competitive and more attractive as partners for foreign investors.
- **HARNESS overseas development aid as a catalyst for promoting private investment in agriculture,** such as through PPPs.
- **INCREASE transparency about the levels and quality of food stocks.** Stocks are important in order to help populations manage during sudden crises (such as commodity price spikes or climatic shocks), but currently too little information is known about the quantity and quality of global stocks.
- **ENCOURAGE farmers to keep set-aside land in good agricultural condition** for rapid production during sudden crises to ensure enough supply.
- **INVEST in green growth for agriculture,** ensuring that scarce resources, such as arable land, water, biodiversity, and nutrients, are used sustainably in order that agricultural production continues to offer high yields over the long-term. Both market-based instruments (e.g. targeted taxes) and non-market-based instruments (e.g. voluntary approaches and standards) have important roles to play as part of the policy mix for more sustainable agricultural production, and the precise policy mix will differ from country to country.
- **REFER to the *OECD Policy Framework for Investment in Agriculture in Africa*** as a useful guide for introducing policy reforms in African countries' agricultural policies.

Business thanks the Government of Senegal for hosting the OECD-NEPAD Ministerial Conference. We hope that this conference will enable governments, business, and other stakeholders to effectively foster growing inflows of investment to generate development and growth in Africa.

Dakar, Senegal, 27 April 2011