



# **NEPAD**

**International Trade and Investment Conference**

## **The role and functioning of IPAs in Africa**

**Mr. Gaba Tabane  
CEO – Invest North West**

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# Introduction



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- The importance of FDI in African countries cannot be over-emphasised;
- Macroeconomic policy changes and incentives have been used to complement existence of IPAs;
- Has this led to increases in FDI in African countries?
- We need to interrogate:
  - The role of IPAs in Africa for attracting FDI ;
  - IPAs current impact on FDI inflows; and
  - How far IPAs effectiveness can be improved to attract more FDI to Africa.



# FDI in Africa and the world



Albeit increases of FDI in the world economy, Africa's share is still significantly lower than that of other developing economies

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**FDI INFLOWS BY HOST REGION AND MAJOR HOST ECONOMY 2001 TO 2004**  
(Billions of US Dollars)

Host Region/Economy	2001	2002*	2003*	2004**
<b>World</b>	<b>818</b>	<b>681</b>	<b>580</b>	<b>612</b>
Developed Countries	571	490	380	321
EU	357	374	308	165
Japan	6	9	6	7
US	159	63	30	121
Developing Economies	220	159	173	255
Africa	20	12	15	20
LAC	88	53	51	69
Asia and Pacific	112	94	107	166
CE Europe***	26	31	27	36

Source: UNCTAD Investment Brief No.1 of 2005

\* Revised Data

\*\* Preliminary Estimates

\*\*\* This includes the 8 CEE countries that acceded to the EU in 2004

- The US\$20bn FDI inflow in 2004 is still skewed towards natural resource-rich countries;
- Is concentration of value-added activities a possible solution?
- Can an improved intra-Africa trade help Africa improve its comparatively low levels of FDI in future?



# FDI determinants in Africa



Macro-economic policy reform and good governance institutions that implement good policies anchor higher FDI inflows in Africa

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- Good policies:
  - Economic - Macro and micro economic stability;
  - Political – Democracy, security, peace and stability;
- Good governance institutions:
  - Rule of Law;
  - Elimination of corruption; and
  - Institutional support
- Infrastructure development;
- Market size cost effectiveness and support for investors:
  - Market expansion prospects;
  - Labour costs; and
  - IPA pro-activeness



# FDI determinants in Africa



Geography is factor influencing FDI inflows, but not a major determinant – UGANDA, is a case in point

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Inward FDI in landlocked countries of Africa  
(US\$millions)

Country	2000	2001	2002
Botswana	57.2	25.6	36.8
Burkina Faso	23.2	8.8	8.2
Burundi	11.7	0	0
Central AR	0.9	5.2	4.3
Ethiopia	134.6	19.6	74.7
Lesotho	119.1	28.2	24.4
Malawi	45	-20.1	0
Mali	82.6	122.4	102.2
Swaziland	-18.5	78.4	107.3
<b>Uganda</b>	<b>254.4</b>	<b>229.2</b>	<b>274.8</b>
Zambia	122	71.7	197
Zimbabwe	23.2	3.8	25.9

Source: UNCTAD:

*"FDI in landlocked developing countries at a glance"*  
New York and Geneva 2003

- FDI inflows in Uganda were still increasing phenomenally, albeit it being an African landlocked country, because of:
  - President Museveni's macro-economic reforms; and
  - The role played by its IPA, the UIA



# The role of IPAs in Africa



Challenges to African countries and their IPAs are around policy reforms, infrastructure development and institutional capacity.

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- IPAs are a third generation strategy to address FDI increases:
  - 1<sup>st</sup> generation – Macroeconomic stability;
  - 2<sup>nd</sup> generation – Infrastructure development; and
  - 3<sup>rd</sup> generation – FDI focused institutions (IPAs)
- Observance of international IPA best practices by African IPAs cannot be over-emphasized:
  - Investment facilitation;
  - Investment promotion; and
  - Aftercare
- What about:
  - IPAs' contributions to the promises made by a developmental state in Africa? Is rolling out the above enough?;
  - The role of an African IPA as an agent for proactive policy advocacy?
  - Leveraging on the multilateral agreements and recommending possible bi-lateral agreements to African governments?



# The role of IPAs in Africa



African governments have to take a more serious look at their funding and support to IPAs to enhance their role in attracting FDI

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## UIA

Sources of Funding for UIA - 1996 to 2003					
Year	Amount of Contribution (in '000 US\$)			% of Funding	
	GOU	Donor	Total	GOU	Donor
1996	587	765	1352	43%	57%
1997	1002	968	1970	51%	49%
1998	2123	1045	3168	67%	33%
1999	1603	307	1910	84%	16%
2000	1303	124	1427	91%	9%
2001	1394	654	2048	68%	32%
2002	1925	0	1925	100%	0%
2003	2197	0	2197	100%	0%

Note: GOU abbreviates Government of Uganda  
 Source: MIGA: Competing for FDI: Investing in Development Series (2005)

## Invest North West

Annual Govt Funding for INW - 2001 to 2005				
Year	Amount of Contribution (in '000 US\$)			
	NWPG	Investment	Jobs	
01 - '02	1000.0	0.00	0	
02 - '03	1200.0	22.88	563	
03 - '04	923.1	40.52	1898	
04 - '05	1458.8	95.87	941	

The figures are based on an exchange rate of ZAR1=\$US6.5  
 Note: NWPG abbreviates North West Provincial Govt.  
 Source: INW annual reports

- Uganda's success in attracting FDI was bolstered by the Uganda government taking a more active part in its IPAs funding;
- In the case of Invest North West, there is a clear correlation between funding and IPA performance



# Bridging the gap



There is undoubtedly a gap in what African IPAs can do better to increase Africa's share of the global FDI pie

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- African IPAs and their Governments:
  - The responsiveness of African governments to the financial needs of IPAs;
  - A Better relationship between IPAs and their governments, especially on the strategic imperatives guiding economic success;
  - Meaningful platform offered to IPAs by African Governments to influence FDI related policies, and IPAs proactiveness in discharging this responsibility;
- African IPAs together:
  - Cooperation and collaboration between IPAs, particularly in same economic regions or communities;
  - African IPAs need to collaborate continentally to approach challenges facing them as African; and
  - Learning from each other's cases, e.g. the UIA case and the Invest North West case



# Next Step



The role of NEPAD is central to assisting African IPAs bridge the gap towards improving IPAs' share of the global FDI pie

- The Peer Review Mechanism may be used to ensure basic macroeconomic reform and IPAs' implementation of these;
- Development of a continental code of good practice by IPAs in their quest to attract FDI into the continent;
- Establishment of a continental body or forum for African IPAs to exchange views and benefit from a wider pool of experience and FDI attraction strategies:

IT IS NOT TOO EARLY TO DISCUSS THE ESTABLISHMENT CONTINENTAL AFRICAN IPA ASSOCIATION (CAIPAA)

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