DRAFT ROADMAP TOWARDS EFFECTIVE PROMOTION OF INVESTMENTS IN EAC

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1.0. Introduction

Governments of developing countries are aware that investment plays a crucial role in economic development of their economies. Investment is an integral part of the national income. As countries endeavor to achieve the United Nations Millennium Development Goals (MDGs) so as to significantly reduce poverty, it becomes imperative that investment levels be raised to at least a ratio of 25% of GDP. This is critical if the economies are to achieve the desired minimum of 7% growth rate which is the MDG benchmark for sustainable development.

According to NEPAD, the current average savings rate of many countries in Sub-Saharan Africa is 15% savings, well below the 25% benchmark expected to make serious impact on poverty reduction. This shortfall may be plugged by an injection of gross domestic capital formation and/or foreign investment as official ODA to these countries has been declining over a long period of time. The East African Community (EAC) Partner States find themselves in this situation as well.

Additionally, and as a result of globalization in trade and investment, the Partner States need to take more proactive measures in improving the region’s investment climate if they are going to catalyze higher inflows of FDI and domestic capital function.

2.0. Investment Promotion

Investment Promotion is the act of marketing a country or a region in an effort to attract and retain investors, both local and foreign. According to the EAC model investment code, Investment is defined as ‘the contribution of local or foreign capital by an investor including the creation or acquisition of business assets by or for a business enterprise’.
The Partner States need to pursue open, liberal and transparent investment policies that significantly contribute to their economic progress principally through the private sector led development including policies that provide for amongst others:

a) openness to foreign investment;
b) right to private ownership and establishment;
c) full protection of property rights;
d) liberalized foreign exchange markets;
e) conducive earnings repatriation conditions;
f) stable, transparent and predictable regulatory framework;
g) simplification of investment establishment procedures thereby replacing the regulatory role of investment screening and approvals with promotional assistance and facilitation;
h) national treatment status; and
i) right to national and international impartial arbitration in the event of a dispute with government:

The attainment and implementation of the above objectives is underpinned by a clear approach and development of a coherent investment promotion strategy. The vision for regional integration and development in the EAC is to strengthen the regional market, create wealth in the region, and enhance competitiveness through increased production, value addition, trade and investment in the region.

The above scenario makes a case for focused and intensive investment promotion campaigns for EAC Partner States at national and EAC-wide supranational levels. Furthermore, competition for investment resources is highly intense as there are over 170 Investment Promotion Agencies (IPAs) worldwide going for the same resources while Africa only receives about 2% of all Foreign Direct Investment (FDI) inflows. Competition among sub-Saharan African countries to attract FDI in manufacturing and services has degenerated into incentive based rivalries that have not been well calibrated. Hence, in many cases unwieldy competition has resulted in the attraction of investments whose impact on the economies has at best been marginal. The case of mining contracts in Tanzania is a point of reference.
Therefore, the Partner States, need to harmonize their investment laws and policies as a systematic way of charting out actions towards achieving the goals of regional integration and development.
3.0. The Roadmap

This road map presents a tentative programme to synergize the efforts currently being made by the Investment Promotion Agencies of the Partner States so as to attract and retain investors in the region.

The strategies suggested in the immediate and medium term include a mix of both proactive and passive approaches as follows:

3.1 Image Building

This activity will involve re-branding the image of EAC so as to leverage the region globally and build a perception of an ideal business location.

The image building technique will include intensive and focused advertising in both electronic and print media. The “Malaysian Truly Asia” and South Africa “Alive With Possibilities” adverts in the international media immediately come to mind. This will be combined with active participation in exhibitions, inward and outward investment missions. During international or EAC annual regional trade fairs (proposed) or business forums in the region, the EAC should erect a stand within which it will sensitise the visitors on the achievements and opportunities in the region and basically showcase the organization as a pro-investment organization. The fairs would enable the Partner States and others the opportunity to engage stakeholders and capture their concerns and probably correct misperceptions.

EAC communications strategy should entrench investment promotion as part of the EAC’s core activities. The branding exercise to give the EAC an identity and image necessary for investment promotion should be stepped up and incorporate investment promotion. The production of investment promotion materials such as the guide to investors, DVD, brochures, gift bags and a compendium of investment opportunities will be done and distributed to the EAC missions abroad and the foreign missions...
accredited in the region. A dedicated website complete with a portal and links to the regional IPAs should be designed in the Secretariat for purposes of investment promotion. Creating a positive engagement with the media so as to generate favorable news stories by journalists is a priority. These publicity campaigns will create awareness among potential investors.

The Secretariat acknowledges the central role played by the national IPAs in investment promotion efforts. Already these bodies have received acknowledgements and recognition for good performance from development partners like World Bank, UNIDO and UNCTAD. Rather than duplicate their functions, the EAC shall ensure synergy through joint promotion initiatives and value addition to existing programmes.

3.2 Policy Advocacy

The activities under this bloc will include reforms/ initiatives in institutional, legal and regulatory frameworks that create and improve an enabling environment for investment. Identifying the views of the private sector is one such activity. A good investment climate is central to growth and poverty reduction. A vibrant private sector creates jobs, provides the goods and services needed to improve living standards and contributes taxes necessary for public investments in health education and other services. Developing a common investment area agreement that encapsulates transparency and one stop shop for investment facilitation is desirable; and

3.3 Investment Generation/Creation.

This is a focused approach on identified sectors of the regional economy that act as selected growth pillars. These pillars will guide investors on areas of investment potential. The immediate challenge to be overcome is the preparation of well packaged and sellable investment proposals, particularly focusing on regional
projects. Some sectors that should be prioritized and packaged into investment proposals include:

i. Agriculture and agribusiness i.e. large scale farming, horticulture, dairying, livestock ranches, agro-processing for value addition;

ii. Tourism including cruise tourism and eco-tourism;

iii. Services e.g. banking, transport, health care, education, and Information Communication and Technology- ICT;

iv. Infrastructure provision- road and rail concessioning, civil aviation, power/energy generation;

v. Manufacturing for the regional/common market;

vi. Mining;

vii. Lake Victoria Economic development Zone with opportunities in environmental protection conservation projects such as carbon market, solid/liquid waste, fisheries, lake transport and ports development

viii. Environment projects such as carbon market, solid/liquid waste management; and

ix. Information, Communications, Technology (ICT).

The key challenges here obviously will be mobilization of financial resources for packaging the projects and securing of the consensus of the Partner States on determining the priority sectors of a regional character for which investment promotion will be focused upon.
4.0 Common Investment Area Agreement (CIAA) Framework

A model Investment Code exists in the Community. Efforts should, therefore, be made to transform it into a Common Investment Area Agreement (CIAA) following approval by the Partner States. Eventually, the Agreement should be passed into law. This Agreement and law should reduce tacit and often destructive competition among the Partner States and thereby promoting the EAC as one investment region in which to do business. In fact, an effective Common Market should have this kind of Agreement in place. Fortunately, with the Sixth Extraordinary Summit directive for the EAC to develop investments and industrial development strategy, it should be easier to arrive at this kind of Agreement.

4.1 Specifically, the one CIAA framework will achieve the following:

a) provision of transparent, streamlined and simplified investment policies, rules, procedures and administrative processes;

b) elimination of investment barriers;

c) liberalization of investment rules and policies;

d) greater access to investments in industries and economic sectors;

e) creation of competitive investment regimes; and

f) harmonization of monetary and macro economic policies relating to investment.

4.2. The expected outcomes from the CIAA for the region:

The key outcomes of the Agreement will hinge on the realization of regional projects with economic impacts on development. These include:

a) attracting greater and sustainable levels of investment in the Partner States;

b) creation of a larger investment area which is competitive;

c) strengthening the bonds of integration;
d) enhanced socio-economic development in the region leading to poverty reduction, wealth creation and broader achievement of MDGs;

e) increased benefits from globalization;

f) complementing support to national investment promotion initiatives;

g) higher outturn of products and services of competitive character

h) greater market deepening

i) attraction to EAC to act as a catalyst for investment/business in the region,

j) involvement and participation of the private sector in the development and integration process, and

k) promotion of free flow of critical factors of production among the Partner States yielding accelerated cross border investments.

4.3 Efforts by EAC to Create an Enabling Environment for Investments in the Region

Apart from the development of the Model Investment Code, the EAC has made appreciable efforts to create a favorable climate for inward investment. Some of these include:

a. Enactment of EAC Competition Policy and Law with the objectives of consumer protection; enhancement of the competitiveness of Community enterprises in world markets by exposing them to competition within the Community; creation of an environment which is conducive to investment in the Community; bringing the Community’s competition policy and practice in line with international best practices; and strengthening the Partner States’ role in relevant international organizations. Article 75 of the Treaty establishing the EAC underpins this provision;

b. Progress towards the establishment of the EAC Common Market which is a positive move in creating an enabling and conducive environment for business in the Community. The EAC Customs Union in place has ushered in this environment.
c. Reduction of non tariff barriers to trade (NTBs) through the setting up of National Committees in the Partner States that monitor progress.

d. Plans that are underway to set up a regional securities and capital markets authority whose role will principally be to regulate the operation of a robust and vibrant regional capital markets. Recent trends in cross listing of shares in the EAC National Stock Exchanges and the vibrancy of the Initial Public offers (IPOs) indicate the potential that exist in the channeling peoples savings towards financing of regional and national investment projects;

e. The planned formulation of a policy and enactment of law to curb piracy and counterfeit of goods should spur greater confidence in investors to view the East African market as profitable.

f. Lake Victoria Basin Commission (LVBC) has already compiled a comprehensive project profiling for the basin. These opportunities are to be packaged for promotion. The larger EAC will take a cue from the LVBC and prepare a compendium of regional projects for joint promotion efforts among the Partner States. The next stage would be to have the Partner States to agree to this kind of arrangement.

4.4 Proposed immediate activities to be undertaken include the following:

a) Organizing roundtable meeting with IPAs to chart out and implement a coordinated approach towards investment promotion and create synergies for the proposed EAC Common Investment Area Agreement Framework by mid November 2007. During this time arrangements for the EAC-USA investment forum in Washington DC scheduled for April 2008 will be formally launched. Funds from RISP could be used to finance this roundtable;

b) Production and dissemination of investment promotion materials;
c) Sourcing of funding to promote awareness creation and packaging of regional investment proposals and businesses;

d) Launching of an Annual EAC Investment Conference in one of the Partner States and rotate it every year amongst them;

e) Launching of an EAC Business Summit in 2008;

f) Organization of two investment conferences abroad every year for joint promotion of business opportunities in the Partner States and at the EAC level;

g) Establishment of a Committee (of the Council) comprising membership drawn from the EAC Partner States to spearhead investment promotion with national IPAs taking the lead;

h) Urgent development of a policy framework for combating corruption at the regional level. According to the latest foreign investor survey conducted by UNIDO, investor perception on corruption is quite high in the region and this has a negative effect on investment promotion efforts by the Partner States. This is further evidenced by the reports of international organizations such as Transparency International.

i) There is also the need for continuous follow up on any missions mounted to ensure generation of projects such as those missions to Africa Development Bank (AfDB) and India. For EAC, the emphasis should be on projects with a regional dimension.
5.0 The Core Partners in Investment Promotion in the Region

The core partners in investment promotion would include the following:

5.1 Successful investors (both local and foreign) in the region who will act as champions for purposes of confidence building among the potential investors. They would be approached to give unbiased testimonies about doing business in the region at specially organized investment forums;

5.2 The EAC embassies abroad will provide the first link for the Community with potential foreign investors. They will be facilitated with promotional materials for dissemination and would be used as economic ambassadors for the Community. It is proposed that a biannual EAC Ambassadors briefing meeting be organized at the Community level;

5.3 The Investment Promotion Agencies (IPAs) and the Capital Markets Authorities are the main partners in the exercise. They should be encouraged and empowered through necessary legislation to undertake joint promotion initiatives in promoting the Community as one common investment area. When the EAC model investment Code is upgraded into an EAC Common Investment Area Agreement as proposed, it is hoped that joint promotion efforts will have a more effective and visible mode of operation for the region;

5.4 EABC will be the key contact point for the private sector organizations with interest in investment issues such as policy advocacy and recruitment of their members during the EAC promotional activities;

5.5 Sub-regional Secretariats including SADC, NEPAD, COMESA, AU, and ECOWAS would provide reference points and benchmarks as well as synergies for promoting Africa as a desirable business destination. It is worth noting that COMESA has set up a Regional Investment Agency (RIA) whose aim is to coordinate investment promotion activities in the
region and implement a common investment area agreement framework that was negotiated by the Member States;

5.6 Investment Climate Facility (ICF) has already shown tremendous willingness to partner with the EAC on matters regarding improving investment climate in the region. This organization would be approached for necessary collaboration in particular in the area of short term consultancies aimed at developing sellable investment proposals for the priority sectors;

5.7 Special consideration be given to the emerging economies in Asia whose experience is quite relevant for the African case in general. These countries include Singapore, Malaysia, Thailand, India, Indonesia and China. The renowned annual investment promotion workshop in Malaysia has been marked for capacity building for the Secretariat in the coming year;

5.8 Special collaboration with the UN bodies should be forged to facilitate establishment of best practice standards in investment promotion. These include UNIDO, UNCTAD, and UNDP. Other multilateral agencies include Foreign Investment Advisory Services (FIAS) of the World Bank, World Association of Investment Promotion Agencies (WAIPA), World Trade Organization (WTO), and International Trade Centre (ITC);

5.9 Bilateral agencies such as USAID, FINNIDA, DFID, CIDA, SIDA, and GTZ would be sought for collaboration; and

5.10 A special forum with legislators from the region should be held to synergize and forge dialogue in order to enhance private-public partnership. The legislators should include East African Legislative Assembly members of the Committee on Communications, Trade, Industry and Investment.
6.0. Constraints/Challenges

Some of the most prominent constraints/challenges that may contribute to inhibiting the smooth implementation of the roadmap once considered and approved are presented here below:

6.1 Putting together and rolling out a programme for investment promotion and identifying priority cooperation sectors for joint promotion. As at present, there are no well structured sectoral proposals for joint promotion. A lot of what is happening currently is preparatory work such as in energy, roads, tourism, and Lake Victoria basin amongst others;

6.2 Fundraising: Investment promotion is an expensive exercise. Availability of funds is critical for the implementation of this roadmap and it is suggested that RISP, Partnership, GTZ and other resources be committed upon preparation of the programme budget which awaits consideration of this proposal;

6.3 Collaboration with EABC needs to be entrenched to enable the business council play a more effective part in deepening and implementation of the EAC Private Sector Development Strategy (PSDS). Furthermore, its membership structure should be expanded in order for it to be representative enough in the private sector circles; and

6.4 An additional daunting challenge would be to have the Partner States to agree expeditiously on the proposed Common Investment Area Agreement (CIAA). With the 6th Summit Directive on the development of an industrial and investment strategy, it is hoped that Partner States will seize the momentum to agree quickly on a CIAA as basis for joint investment promotion to underpin a conducive environment for doing business in the region.
7.0. **Way Forward**

7.1 Consideration and approval of this roadmap as the backbone upon which effective joint investment promotion could be undertaken;

7.2 The Secretariat should ensure that investment promotion aspects are mainstreamed in all its relevant activities and programmes as all sectors have an investment component. This should be underscored particularly for those sectors identified as priorities for regional development.

7.3 Adequate funding for investment promotion activities should be sourced as this is a very expensive exercise. The promotion initiatives should employ both proactive and passive approaches to market the region;

7.4 A joint promotion framework for priority sectors should be developed and nurtured for meaningful investment projects to be attracted and retained in the region. Successful local and foreign investors should be used to attract others to the region;

7.5 The upgrading of the current EAC Model Investment Code into a Common Investment Area Agreement (CIAA) to provide a framework for joint investment promotion initiatives should be accelerated to augment the Common Market implementation as this will also facilitate free movement of critical factors of production across the borders which are in line with the principles of EAC integration agenda.

7.6 Undertake immediate profiling of selected and prioritised sectors and projects for regional promotion in a more focused way. Targeted priority sectors should include tourism, agriculture, infrastructure, energy, ICT services, and Lake Victoria Basin investment opportunities amongst others.
7.7 Establishment of a Committee under the Sectoral Council on Trade, Finance, Industry and Investment headed by the Chief Executives of the Investment Promotion Agencies/Authorities to spearhead the implementation of this Road Map when approved.

EAC Secretariat

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