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Item 4 of the provisional agenda \*

**Progress in the implementation of the regional  
integration and trade programme: (f) sharing best  
practices: boosting intra-African investment**

## **How African countries are boosting intra-African investment, with a view to sharing best practices among member States**

### **I. Introduction**

1. At the eighth Ordinary Session of the Conference of African Ministers of Trade of the African Union Commission, held in 2013, member States expressed their desire to promote a dialogue on investment issues<sup>1</sup> and mandated the Economic Commission for Africa (ECA) to conduct a study on investment policies and bilateral investment treaties in Africa, which was presented at the ninth session of the Committee on Trade, Regional Cooperation and Integration (see E/ECA/CRCI/9/5), in December 2015, and subsequently at the second Meeting of the African Union Ministers of Trade, in November 2016.

2. In the spirit of advancing the dialogue on investment at the continental level, ECA therefore initiated policy research on the drivers of intra-African investment as part of its programmed work on investment for the biennium 2016-2017. In this context, ECA has undertaken a study on appropriate drivers for boosting intra-African investment flows towards Africa's transformation, which builds on the previous ECA study on investment policies and bilateral investment treaties, and takes into account the outcomes of the investment dialogue initiated at the ministerial level, including a request to the African Union Commission and ECA to undertake further research on intra-African investment flows and mechanisms to promote intra-African investment.<sup>2</sup>

3. The main objective of the study is to analyse the drivers of boosting intra-African investment flows. Its purpose is to provide a solid theoretical and empirical framework and thereby strengthen the basis for investment policy aimed at attracting intra-African investment. It is aimed at providing empirical evidence of the impact of investment flows on economic transformation and formulating evidence-based policy recommendations to boost intra-African investment flows. Among other things, the study also provides context for its

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\* E/ECA/CRCI/10/1

<sup>1</sup> African Union, *Report of the Meeting of Trade Senior Officials*, eighth Ordinary Session of the Conference of Ministers of Trade, Addis Ababa, 21-25 October 2013 (AU/TD/DF/RPT/REV/FINAL).

<sup>2</sup> African Union, *Report of the second Meeting of the African Union Ministers of Trade*, Addis Ababa, 29 and 30 November 2016 (AU/TI/MIN/2/REPORT/FINAL, sect. D, para. V).

findings with the progress being made in negotiating the Continental Free Trade Area (CFTA) and highlights the relevance of investment in the context of such negotiations.

4. The study also provides an opportunity for African policymakers to debate the main determinants of intra-African investment flows, which may support Africa's efforts to promote economic growth and structural transformation. Accordingly, it highlights some of the key drivers of intra-African investment flows and provides evidence at the national and regional levels. Its emphasis is on policies aimed at boosting intra-African investment flows both at the continental and regional levels and includes evidence-based policy recommendations to complement efforts in negotiating an envisaged investment chapter of the CFTA.

5. The study is intended to inform discussions by the Committee on Regional Cooperation and Integration at its current session on intra-African investment and on how the CFTA may be harnessed to promote greater coherence and coordination on investment regulation that may help to level the playing field for attracting greater investment from within the continent and beyond. The present report provides a summary of the key elements of the study, which has been peer-reviewed at an ad hoc Expert Group Meeting, in advance of the meeting of the Committee, and of complementary research and activities conducted under the subprogramme on regional integration and trade.

## **II. Continental initiatives promoting coherence in investment regulation and supporting investment for Africa's transformation**

6. There is a growing interest among both African and foreign investors in harnessing investment opportunities in Africa. Africa's macroeconomic policies, improved governance and regulatory environment continue to play a positive role in attracting investment, even after the end of the commodities supercycle. Notwithstanding these improved prospects, the continent often continues to be perceived as a risky and uncertain investment destination. This perception has impinged on its ability to harness its full investment potential.

7. The need to continue to support investment inflows, including foreign direct investment (FDI) and intra-African investment, is evidenced by recent continental efforts undertaken to improve international trade and investment prospects. The key objective is to collectively establish a continental market, which will support Africa's efforts to enhance productive capacities and boost structural transformation for sustained economic growth and development. One key initiative in this respect is the CFTA, which is expected to be established by the end of 2017. The CFTA will be instrumental in creating a single continental market for goods and services, with the free movement of business persons and, in particular, investment, thus paving the way for accelerating the establishment of a continental customs union and the attainment of an African economic community. In this regard, it is expected that the CFTA regulatory framework will contain rules on investment within the region.

8. To date, bilateral investment treaties and double taxation treaties concluded at the national level have been an integral part of African policymakers' strategy to counter the perception of risk and promote more inward FDI. As a result, the regulatory environment is, in general, biased in favour of foreign investors over African and domestic counterparts and at the expense of countries' ability to formulate and pursue autonomous development policies. Questions also linger regarding its impact on attracting more investment in the continent. An important contribution of the CFTA would be to level the playing field for intra-African investors, while increasing Africa's attractiveness as a global investment destination and ensuring that African countries can safeguard their policy space for development. Indeed, the CFTA may contribute to the harmonization of the existing regulatory environment, and

a prospective African investment agreement or chapter is being considered in that regard and envisaged as part of the CFTA negotiations.

9. Among the efforts being made at the continental level to support such inflows is the design of a pan-African investment code aimed at harmonizing existing investment regulation in member States.<sup>3</sup> The overarching objective of the code is to attain more inclusive growth through the promotion and protection of investment, leading not only to equality of treatment for investors irrespective of their nationality, but also to the reduction of investment barriers in support of greater investment attraction. The code is a powerful guiding instrument that could be used in CFTA negotiations, with a view to designing more coherent investment regulation at the continental level. To date, the negotiations on the code and the CFTA have been held in parallel. Consequently, African ministers of trade, during their second meeting, held in Addis Ababa on 29 and 30 November 2016, recommended that “The Pan-African Investment Code be presented to the CFTA-NF [Negotiating Forum] to ensure alignment to the investment chapter under the CFTA, as well as other synergies”.<sup>4</sup> In response to this request, ECA organized a panel discussion on 30 November 2017 during Africa Trade Week, which ran concurrently with the African ministers of trade meeting, entitled “CFTA and foreign investments regulation for Africa”. The panel included various member States delegates, including the South African Minister of Trade, academics, and civil society representatives, who considered and discussed the potential contribution of the CFTA and how the envisaged investment agreement under the CFTA and proposed code could realize its full potential in the area of investment.

10. In addition, ECA, in partnership with the African Union Commission, organized a side event during the tenth Joint Annual Meetings of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration and the ECA Conference of African Ministers of Finance, Planning and Economic Development, entitled “Aligning the pan-African investment code with the investment chapter of the CFTA”, held in Dakar on 26 March 2017. During the meeting, opportunities for alignment between the two instruments were discussed by delegates from African member States, central banks, the United Nations, the World Trade Organization (WTO), academia, the private sector and civil society.

11. In Africa, other ongoing initiatives on behalf of regional economic communities currently include the development of regulation that may support their member States in attracting greater investment to their subregional markets by offering uniform or harmonized investment protection and regulation. This is the case of the Protocol on Finance and Investment of the Southern African Development Community (SADC), the Investment Agreement for the COMESA Common Investment Area, the East African Community Model Investment Code and the Supplementary Act A/SA.3/12/08 Adopting Community Rules on Investment and the Modalities for their Implementation with ECOWAS. Moving forward, greater coherency and consistency at the African level will also require coordination and consistency between such instruments and those being developed at the continental level.

12. Against this backdrop of developing investment regulations at the subregional and pan-African levels, Africa has made ambitious commitments to achieving structural transformation. For such ambitions to materialize, investment needs to play a crucial role. While the current reality is that many

<sup>3</sup> Work on the code was initiated by the African Union Commission at the behest of ministers during the third Conference of African Ministers in Charge of Integration, held in Abidjan, Côte d’Ivoire on 22 and 23 May 2008. At the ninth Joint Annual Meetings of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration and the ECA Conference of African Ministers of Finance, Planning and Economic Development, the Commission was requested to conduct further consultations with member States to finalize the code. Subsequently, an experts meeting was held in Nairobi from 21 to 23 November 2016 to finalize the code for submission to the ministers for adoption.

<sup>4</sup> African Union, *Report of the second Meeting of the African Union Ministers of Trade*, Addis Ababa, 29 and 30 November 2016, (AU/TI/MIN/2/REPORT/FINAL, sect. D, para. li).

African countries are heavily dependent on FDI to implement their development plans, there is a need for African countries to expand existing sources of finance for investment. In this context, intra-African investment could play a crucial role. It is therefore important to understand why some countries and sectors attract more intra-African FDI than others, and consequently, which investment policies are most suitable to attract such investment.

### III. Overview of foreign direct investment trends in Africa

13. The African continent remains one of the fastest-growing economic regions, which provides incentives for foreign companies to consider Africa as a destination of their investment. Contributing factors to this increasing growth in investment include government actions to end armed conflicts, improved macroeconomic conditions for investment and reforms to create a better business climate during the past decades.

14. Africa's economies grew healthier as Governments reduced inflation, debt and budget deficits during the past decade. In addition, Governments increasingly adopted policies to improve market conditions. Although the policies of many Governments still have a long way to go, these important measures have enabled a private business sector to emerge. Such structural changes have helped to fuel African productivity by supporting companies attaining greater economies of scale, increase investment and become more competitive.

15. Challenges remain, however, including highly volatile prices of export commodities, political instability in some countries, weak infrastructure, some persisting governance issues and macroeconomic uncertainty.

16. Global investment flows have increased rapidly, from approximately \$200 billion at the beginning of the 1990s to \$1.75 trillion in 2016. The United Nations Conference on Trade and Development (UNCTAD) projects them to increase by 5 per cent, to \$1.8 trillion, in 2017.<sup>5</sup> Investment has become a leading source of external finance for many developing countries, including those in Africa.

17. Notwithstanding efforts to attract greater investment by African countries, FDI flows to the continent continued to decline in 2016, falling to \$59.4 billion from \$61 billion in 2015 amid low commodity prices.<sup>6</sup> African countries therefore accounted for 3.4 per cent of global FDI compared with approximately 5 per cent between 2012 and 2014.

18. In the case of the African continent, FDI inflows remain unequally distributed throughout the continent, with only five countries (Angola, Egypt, Ethiopia, Ghana and Nigeria) receiving nearly 57 per cent of the continent's total inflows in 2016 (see figure I).

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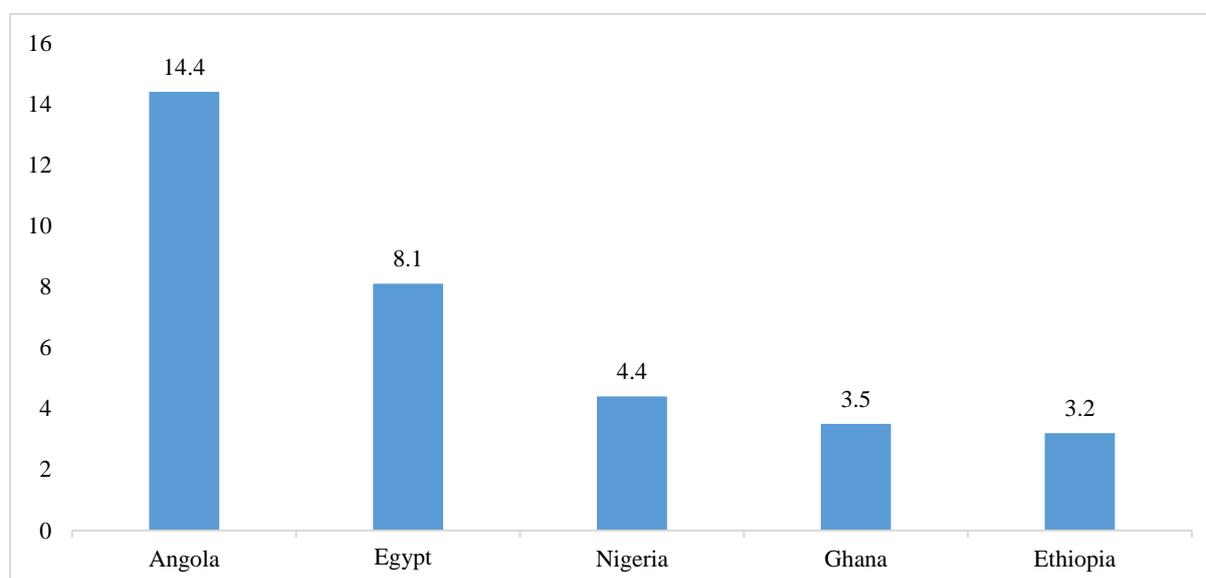
<sup>5</sup> See United Nations Conference on Trade and Development, "Global FDI flows slip in 2016, modest recovery expected in 2017", No. 25 (Geneva, 2017). Available at [http://unctad.org/en/PublicationsLibrary/webdiaeia2017d1\\_en.pdf](http://unctad.org/en/PublicationsLibrary/webdiaeia2017d1_en.pdf).

<sup>6</sup> Data used in this report are taken from the United Nations Conference on Trade and Development (UNCTAD) *World Investment Report 2017*. Because of periodic revisions by UNCTAD, there may be discrepancies in relation to the earlier editions of the *World Investment Report* and UNCTADstat.

**Figure I**

Top five host economies in Africa in 2016

(Billions of United States dollars)



Source: United Nations Conference on Trade and Development, *World Investment Report 2017*.

19. The geographical distribution of FDI in Africa in 2016 at the subregional and country levels is also relatively heterogeneous. For example, North Africa's inward foreign direct investment, driven by investors' rising interest in the Egyptian economy, amounted to \$14 billion in inward FDI in 2016, representing an 11 per cent year-on-year increase, while Algeria also registered an increase in inward foreign direct investment. On the other hand, Morocco saw a significant drop, of 29 per cent.

20. East Africa registered the best relative improvement among all African regions, with \$7.1 billion in inward FDI, a 13 per cent jump compared with 2015. FDI flows to Ethiopia, the fastest-growing country in the region, surged by nearly 46 per cent, to \$3.2 billion, with significant investment in infrastructure and manufacturing.<sup>7</sup> On the other hand, the United Republic of Tanzania and Kenya struggled, registering 15 and 36 per cent drops in FDI inflows, respectively, in 2016.

21. West Africa registered growth in FDI of 12 per cent, to \$11.4 billion, in 2016, owing in large part to an increase in investment flows to Nigeria. Ghana recorded a 9 per cent improvement in FDI inflows, up to \$3.5 billion. Conversely, FDI flows to Côte d'Ivoire, Liberia and Senegal shrank slightly during the same period.

22. Southern Africa maintained its status of the most sought-after FDI destination on the continent, but suffered an 18 per cent drop, to \$21 billion, in 2016. Although FDI flows to Malawi and South Africa strengthened somewhat, Angola and Mozambique were among the countries that saw their inward investment flows dwindle.

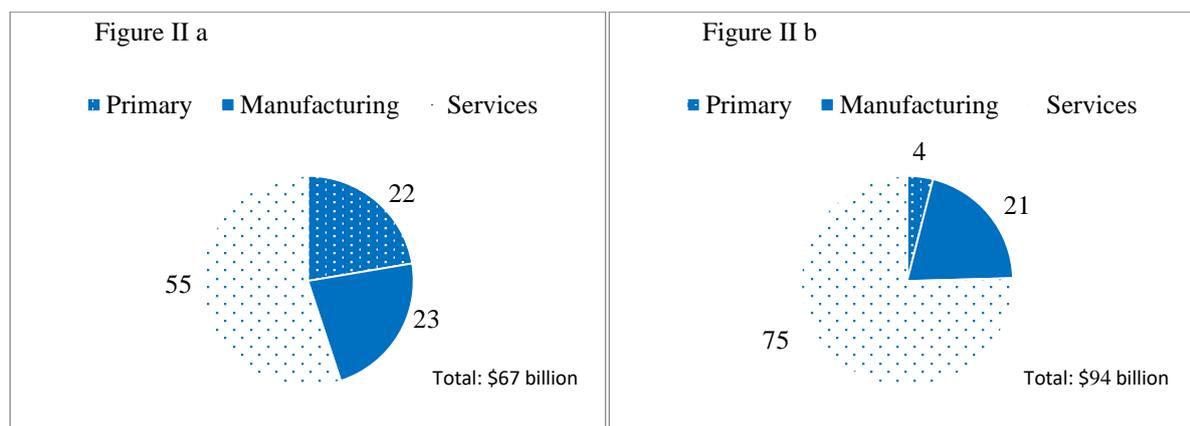
23. Weakened by political uncertainty and unrest, FDI to Central Africa dropped by 15 per cent, to \$5.2 billion, in 2016. While investment flows to Gabon and the Republic of the Congo increased, the Democratic Republic of the Congo registered a decrease.

<sup>7</sup> United Nations Conference on Trade and Development, *World Investment Report 2017* (Geneva, 2017).

24. In the area of greenfield projects, the continent registered an increase in the value of such newly announced projects, from \$67 billion in 2015 to \$94 billion in 2016. In addition to a noticeable sectoral shift away from the primary sector in favour of services (see figure II), the importance of non-Western investors increased significantly. African investors accounted for only \$5 billion in 2016, compared with \$12 billion in 2015.

**Figure II**

Announced greenfield projects in Africa in 2015 and in 2016 (relative weight)  
(Per cent)



Source: United Nations Conference on Trade and Development, *World Investment Report 2017*.

25. Sectors such as agriculture, energy, construction, natural resources and water continue to attract FDI in Africa. Significant progress is being made in the agriculture sector, in which there is huge potential for investment. A damper on investment has been the region's agricultural productivity growth, which lags behind the rest of the world, growing at roughly half the average rate for developing countries. Likewise, growth in land and labour productivity has been modest.

26. In the light of the demographic changes and rising middle class population, energy and services emerge as sectors with significant investment potential. Services have also attracted the attention of African investors. Financial services alone accounted for approximately 50 per cent of intra-African greenfield investment projects during the period 2003-2014. This suggests that openness in services and services trade could help Africa to attract the much-needed investment to finance its structural transformation and development.

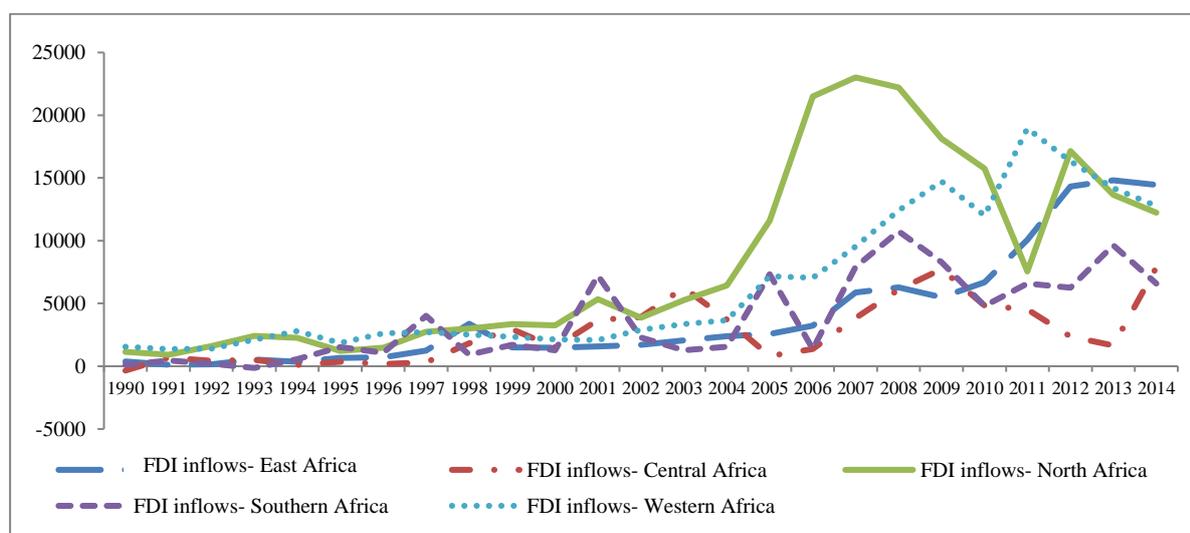
27. Large-scale natural resource investment in Africa can potentially help to transform the continent's economies and bring the much-needed economic growth if the revenue is managed properly and effectively. Some countries are experiencing huge investment in natural resources, in particular oil, minerals and gas, as discussed in this section. Africa, which is home to some of the biggest oil and gas reserves in the world, possesses geological resources that remain largely underexplored and untapped.

## IV. Drivers of intra-African investment: an empirical investigation

28. The ECA study contains a review and analysis of the drivers of investment in Africa and reconciles the regional and continental perspectives. Disparities in trends in FDI inflows exist throughout African regions, as shown in figure III. The study is intended to provide empirical evidence at the continental level on how FDI has an impact on economic transformation and regional integration. To date, this dimension has not been addressed in existing research on investment in Africa.

**Figure III**

Recent FDI trends in Africa: the existence of national and regional disparities  
(Millions of United States dollars)



Source: United Nations Conference on Trade and Development bilateral FDI statistics.

29. The study covers 40 African countries and is based on available investment data provided by UNCTAD during the period 2002-2014. Given the recent trends of FDI within Africa, which underscore the heterogeneity of investment among African countries and regional economic communities, the study has a theoretical and empirical framework that captures specific regional disparities to better assess and measure the dynamics of the determinants of investment in Africa.<sup>8</sup>

### A. Determinants of intra-African investment in Africa: a continental analysis

30. Existing literature reveals that openness to FDI, especially infrastructure-related FDI facilitates participation in global value chains.<sup>9</sup> Linking FDI to these chains can be instrumental for developing countries in achieving greater participation and insertion into the world economy and can play an important

<sup>8</sup> Regional heterogeneity is assumed throughout five African subregions (i.e., Central, East, North, Southern and West Africa) in the model, and therefore each region has its own variables and explanatory parameters.

<sup>9</sup> See International Monetary Fund, *Cluster Report: Trade Integration in Latin America and the Caribbean* (Washington, D.C., 2017); Organization for Economic Cooperation and Development, World Trade Organization and United Nations Conference on Trade and Development, *Implications of Global Value Chains for Trade, Investment, Development and Jobs*, Prepared for the G-20 Leaders Summit, Saint Petersburg (Russian Federation) (2013); and United Nations Conference on Trade and Development, *World Investment Report 2013: Global Value Chains-investment and trade for development* (Geneva, 2013).

role in supporting African economic growth and structural transformation.<sup>10</sup> Trade facilitation gains, coupled with the likely effects of full implementation of the CFTA, could have important benefits in terms of insertion into regional and global value chains.<sup>11</sup>

31. Increasing investment within Africa during the period 2002-2014 has required the presence of both soft and hard infrastructure. Exposure to regional and international trade also appears to have positive effects on such investment flows. From a policy perspective, these results necessitate carefully designed industrial and trade policies.

32. Results indicate that trade openness, infrastructure and the performance of the logistics and business environment influence the attraction of investment in Africa. The positive impact of trade openness is consistent with prior ECA research showing that the benefits brought by enhanced intra-African trade through the CFTA can offer better opportunities for industrialization.<sup>12</sup> Improvements in logistics, the business environment and trade cost could all enhance the intra-African investment.

33. As indicated by WTO,<sup>13</sup> countries with more inefficient trade procedures receive less FDI. This is explained by the fact that trade regulations increase the probability of a firm exporting rather than investing. It also underscores the potentially synergic relationship between investment and trade in Africa, if efforts are made to ensure that trade and investment are facilitated through relevant policies and regulation. CFTA tariff liberalization, coupled with trade facilitation measures, would also boost intra-African investment promoting vertical production and economic diversification.

34. Estimates suggest that, for Africa, imports of manufactured goods and the share of industrial labour force have negative effects on intra-African investment. African economies should therefore promote their manufacturing and industrial capacities to boost intra-African investment through industrialization and better inclusion into regional value chains. Industrialization is also a key channel for structural transformation, as envisaged in Agenda 2063 of the African Union. Furthermore, the importance of industrialization is recognized in various continental initiatives, such as the Action Plan for Boosting Intra-African Trade and the Programme for Infrastructure Development in Africa.

35. As stated earlier, infrastructure development is key to explaining FDI. One must, however, recognize the crowding-out effects of FDI on domestic investment. This implies a need to facilitate investment introducing new technologies and know-how with significant positive spill-over effects and strengthening public-private partnerships targeting the development of transboundary technology and innovation projects and programmes. This implies that putting in place conditions for the spread of new technology can lead to spill-over benefits from those African countries that are ahead of the innovation curve.

36. The study shows that education policy has a positive and dynamic effect on intra-African investment. In particular, investing in girls' education also plays a role in driving investment. The powerful corollary of this result is that inclusive social policies promoting gender parity in access to education could

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<sup>10</sup> Structural transformation is conceived as a shifting of gears from lower value-added activities to higher value-added activities within and across economic sectors. This is best demonstrated when countries are able to move from the lower end of global value chains, in which activities are characteristically extractive and in which there is little value addition, to activities that are more advanced and sophisticated in the production process, implying a greater adding of value into the final good or services being produced.

<sup>11</sup> See Economic Commission for Africa, *Economic Report on Africa 2015: Industrializing through Trade* (Addis Ababa, 2015), and *Economic Report on Africa: Greening Africa's Industrialization* (Addis Ababa, 2016).

<sup>12</sup> See *Economic Report on Africa: Greening Africa's Industrialization* (Addis Ababa, 2016).

<sup>13</sup> See World Trade Organization, *World Trade Report 2015: Speeding Up Trade—Benefits and Challenges of Implementing the WTO Trade Facilitation Agreement* (Geneva, 2015).

enhance the ability of African countries to attract more intra-African investment. Taking into account that cross-border trade in Africa is characterized by women traders, the CFTA could put in place concrete measures to facilitate such trade and thereby make it more inclusive. Lastly, major gains of the CFTA are forecast to be in the industrial sector, which, as has been demonstrated in the *Economic Report on Africa* series, has historically been the channel to sustained, inclusive and job-rich growth, and is consistent with Africa's aspirations to structurally transform its economy and achieve sustainable development.

37. The continental analysis also indicates that previous levels of intra-African investment have a negative effect on its current level. This would indicate that investment within Africa is unstable and possibly explained by the political instability in some regions, such as North Africa (e.g., Libya and the Sudan) and Central Africa.

38. Lastly, Africa's vulnerability to changes in the global economy highlighted in the study by the delayed effects of the financial crisis reinforces the need for export diversification as a necessary condition to raising Africa's resilience to external shocks.

## **B. Determinants of intra-African investment: a regional perspective**

39. In addition to the results observed at the continental level, the study also takes account of regional dimensions to capture the key determinants of intra-African investment and identifies the channels through which intra-African flows have a positive impact on economic development and transformation.

40. From the regional analysis at the level of regional economic communities, the results reveal that trade facilitation, market size, a higher industrial employment rate, quality education and education policies increase intra-African investment flows. The estimations suggest that the relationship between trade facilitation and investment is conditioned by market size. This is because reducing trade costs provides more incentives to invest when the market reaches a critical size, which is likely to increase the probability of vertical investment. In addition, larger economies attract more market-seeking investment, and boosting intra-African investment therefore has a positive and dynamic effect on regional integration, hence the importance of having a regional/continental market.

41. The study also demonstrates that a sound investment climate and transparent legal framework appears to be critical in explaining intra-African investment at the regional level, while official development assistance (ODA) has a positive and significant effect on the flow of investment in specific subregions. Among other drivers explaining investment at the regional level are trade openness, gender parity in secondary education and electricity per capita.

42. For Western Africa/Economic Community of West African States (ECOWAS), an active and inclusive educational policy and the size of the market increase intraregional investment. For the Southern African Development Community (SADC) region, it was found that the drivers of the volume of investment flows to African countries are information and communications technology (ICT) infrastructure and gender parity in secondary education. For the Common Market for Eastern and Southern Africa, the main driver acting as a booster to intraregional investment flows appears to be ICT infrastructure and economic growth. In the case of the Intergovernmental Authority on Development (IGAD), economic growth, trade facilitation and ODA influence intraregional investment flows. With regard to the Arab Maghreb Union, the study identifies industrial value added and ODA as the main drivers of intra-African investment. For the Community of Sahelo-Saharan States region, the drivers of the volume of investment inflows to African countries have been identified as the industrial value added and gender parity in secondary education. The openness to international and regional trade

and gross domestic product growth and ODA are the main drivers of intra-African inflows to IGAD.

43. A number of factors are also identified that constrain intra-African investment, including the small size of the regional economy, which was a relatively important variable for ECOWAS, persistent macroeconomic uncertainty in some economies (in the North Africa region), high administrative barriers and non-tariff measures, as well as inadequate physical infrastructure. Indeed, all regional estimates show that macroeconomic stability is an important driver for intra-African investment, in line with existing research for the region.

## **V. Conclusion and policy recommendations**

44. Given the evidence presented on the complementarities between trade and investment in Africa, and given the trade potential of the CFTA and its likely implications on boosting intra-African trade and investment, there is a need for African countries to harness the CFTA as a platform to also boost intra-investment flows. Boosting intra-African trade through the CFTA is instrumental in increasing productivity, enhancing competitiveness and supporting economic growth, but it needs to be accompanied by investment regulation and policies that unlock the associated joint benefits of trade and investment growth. It therefore makes sense at the continental level to also develop common rules on investment in the context of the CFTA, such as the proposed investment chapter, to lock in the expected dynamic and static effects of trade and investment flows throughout the continent.

45. Agenda 2063 recognizes the need to double intra-African trade among African countries by 2022 and rightfully recognizes the CFTA as a means to achieve that aspiration. From that perspective, the CFTA is expected to reduce the demand-side constraints to intra-African trade, trade in services and investment and remove associated tariff, regulatory and legal barriers for the greater benefit of the African people. The CFTA can be expected to give a serious boost to Africa's industrial sector, with intra-African trade in industrial products expected to rise by \$60 billion annually owing to a CFTA in goods and trade facilitation alone.

46. Moreover, there is strong evidence supporting the notion that greater industrial trade within the continent may further attract investment, thereby promoting opportunities for vertical integration and value addition, which, in turn, may address the binding supply side constraints, which are impeding Africa's efforts to better integrate into regional and global value chains. In this regard, efforts must also be made to implement the Action Plan for Boosting Intra-African Trade, given that it is also strategic to achieving Africa's global insertion into the world economy, while maximizing the expected gains from the CFTA.

47. The study corroborates the notion established in academic literature that FDI openness promotes backward and forward integration. Countries may also need to consider that boosting intra-African investment could also bolster the regional integration agenda at the regional economic community level and provide opportunities for alignment with the continental integration agenda. In this context, the CFTA could resolve the challenges of multiple and overlapping regional economic community memberships and resulting trade regimes, and hence accelerate the dynamism of intra-African trade and investment as conduits for common regional integration priorities.

48. The findings of the study discussed also point to the importance of a conducive business environment and trade logistics to attract greater intra-African investment. In addition, the study also confirms that boosting intra-African investment, especially in the industrial sector, could promote economic transformation and diversification. African countries wishing to scale up their economic growth by raising their total factor productivity therefore need to

pursue policies that improve the business environment and enhance logistics performance.

49. Given the positive relationship between education and FDI inflows observed in the study, African countries are encouraged to target specific training and vocational programmes to increase labour skills and scale up the know-how of their labour force. Increasing the quality of education and vocational training and aligning them with the needs of African enterprises will be essential to raising productivity in all sectors of the economy and provide opportunities for those who are marginalized from the job market.

50. Equally important will be improving the quality of and access to education, given that this will contribute to increasing the attractiveness of African economies, boost intra-African investment flows and promote associated technology and knowledge transfers. In this regard, it is critical to encourage the participation of women and men in the formal labour market to maximize the expected effects of intra-African investment through targeted and comprehensive strategies for young people and employment, including at the regional level. In the context of the CFTA, this would also allow for greater flexibility and better planning of factor market mobility, an element that could also be incorporated into the ongoing negotiations on the movement of business persons to ensure that Africa generates the jobs necessary for the growing population of young people.

51. African Governments must further ensure that their investment laws are designed to spur domestic and regional investment. For example, investment laws should list priority investment sectors, including manufacturing, and offer incentives to regional investors. These sectors, rather than commodities, offer greater opportunities for regional integration and more strategic entry points at the higher levels of regional and global value chains. Under conducive investment codes and regulations, imports of goods and services used for investment projects could be exempted from duties and value-added taxes. African companies could also enjoy exemptions from profit taxes and waivers from property taxes for a number of years. Governments should also be financially involved in infrastructure development costs associated with investment projects.

52. These reforms could pave the way for, but crucially need to be reinforced by, deeper regional integration. The continent should try to take advantage of transboundary investment opportunities, which benefit the subregions and regional economic communities. For example, if regulatory reforms are complemented by policies for public-private partnerships that target investment for technology and innovation at the transboundary level, African countries could have much to gain from the spill-over effects of intra-African investment. In this regard, the CFTA could also be explored to serve as a platform to promote continental policies and regulation on investment that cater to this dimension, including existing initiatives such as the pan-African investment code.

53. African investors have been encouraged by Africa's improved business environment and regulation, relative macroeconomic stability and strong economic growth. Intra-African investment should better integrate the continent's regional value chains by relocating labour-intensive activities to Africa, including in manufacturing. This study stressed the importance of continuing to develop transport infrastructure to eliminate existing binding constraints. These objectives are compatible and mutually reinforcing, given that they would ease African investors' entry and allow them to tap a larger goods, services and factor market, while contributing to industrial transformation. Further integration, trade openness and regulatory predictability would send a powerful message to the African business community.

54. Lastly, promoting the private sector is also a key challenge to sustaining and enhancing the attractiveness and competitiveness of African markets, and its contribution to economic growth remains crucial. The financial sector

therefore has a key role to play in financing the private sector contribution to inclusive growth. In the same vein, there is a need to upgrade the financial sector architecture in terms of both the policy and institutional framework so that proactive financial sector policies can contribute to boosting intra-African investment. Channelling investment flows to the development of small and medium-sized enterprises, a key driver of Africa's transformation, could yield positive effects in terms of growth and employment creation. The CFTA should constitute a vehicle for investment and capital through common rules and regulations that target the development of these enterprises.

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