Policy Brief

Africa's economic integration and prospects for UK investors

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Briefing

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Key messages

Africa's journey towards deeper regional integration through the African Continental Free Trade Area (AfCFTA) will make Africa more attractive for foreign direct investment (FDI), from within and outside Africa, including from the UK.

The positive effects of AfCFTA for FDI are expected to come from (i) increased incomes; (ii) stronger trade provisions creating a less fragmented market; and (iii) stronger investment protection and facilitation provisions providing a stronger and more transparent investment framework. These effects can lead to both commercial opportunities, increased employment and government revenues, and opportunities to transform African economies through technology and skills upgrading, as well as better integration into international value chains.

The UK was responsible for a stock of £47.9 billion of FDI in Africa in 2020 (ONS). According to UNCTAD, the UK was the top investor in Africa in 2020. However, while the stock of UK FDI was 10.5% of all FDI in Africa in 1992, this share declined to 6.3% in 2019.

We estimate that a deeply integrated and effectively implemented AfCFTA could over time lead to a boost of £12.5 billion, or around a 25% increase, in the stock of UK FDI in Africa. In this way, AfCFTA has the potential to increase FDI that supports Africa's productive, digital and green transformation.

However, UK (and other) investors have indicated that such an uptick in (UK) FDI may only emerge if AfCFTA rules on market access, trade facilitation and investment are implemented effectively and lead to complementary actions around trade and investment and improved public-private dialogue. This is a strong message to AfCFTA implementers and the organisations that support them. Case studies from Ethiopia and Kenya show that much remains to be done.

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Contents

Acronyms

AfCFTA	African Continental Free Trade Area
AU	African Union
COP	Conference of Parties
FDI	Foreign Direct Investment
IPR	Intellectual Property Rights
KNCCI	Kenya National Chamber of Commerce & Industry
LDCs	Least Developed Countries
MFN	Most Favoured Nation
ONS	Office for National Statistics
PAIC	Pan-African Investment Code
SEZ	Special Economic Zones
SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
UNCTAD	UN Conference on Trade and Development
UNFCCC	UN Framework Convention on Climate Change
WDI	World Development Indicators
WTO	World Trade Organization

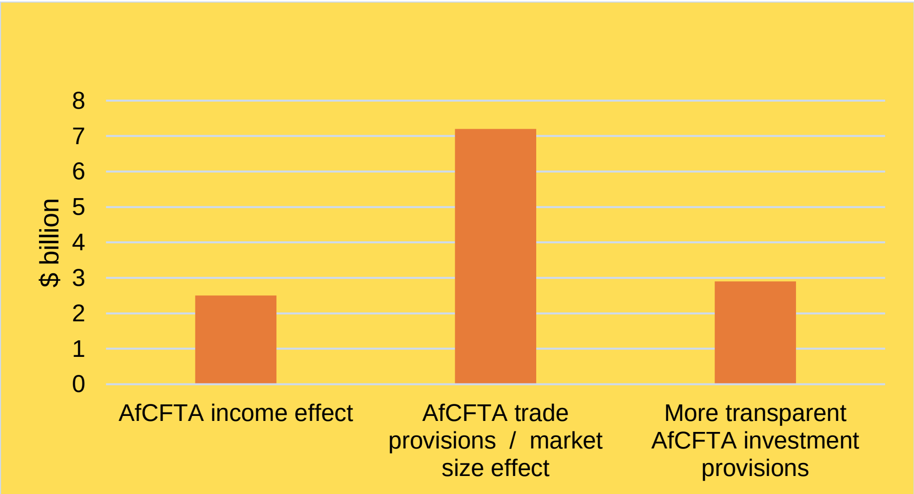
Executive summary

An integrated Africa creates opportunities for increased domestic and foreign investment, which benefit Africa's transformation. The UK was the largest investor in Africa in 2020. However, while the stock of UK FDI was 10.5% of total FDI in Africa in 1992, this share had declined to 6.3% in 2020. Despite rates of return on investment in Africa consistently being twice as profitable as other investment, the stock of FDI in Africa has not grown much over most of the 2010s.

By 2050, a quarter of the world's consumers will live in Africa. African transformation will, over time, make these consumers richer and economies more productive. Trade and investment integration can support this transition, which provides direct and indirect incentives for UK investors. While it will take time to fully negotiate and implement the AfCFTA, there are many positive long run effects.

Deeper regional integration through AfCFTA will make Africa more attractive for FDI, including for UK investors. Our initial estimations suggest that a deeply integrated and effectively implemented AfCFTA could lead to a boost of £12.5 billion, or a 25% increase, in the stock of UK FDI. These effects come from three areas (see Figure ES1): increased market size, the strengthening and implementation of trade provisions and the incorporation and implementation of investment provisions.

Figure ES1 Estimated long-term increase in the stock of UK FDI in Africa ($ billion) through a comprehensive AfCFTA



Source: This paper

The exact effects of AfCFTA will depend in part on the type of trade and investment measures agreed and how these interact with existing and potential investors. A shallow agreement that is not implemented may not provide additional incentives, but an agreement that is deeper (including reducing intra-African tariffs, non-tariff barriers, harmonizing standards, streamlining customs procedures, as well as investment protection and facilitation measures) and implemented effectively will provide incentives.

This briefing draws out direct policy implications for negotiators and implementers of the AfCFTA. Investors in Africa have expressed the following needs around AfCFTA rules:

- AfCFTA market access provisions for goods and services, including a fast reduction in tariffs for goods
- AfCFTA rules on trade facilitation
- AfCFTA rules on investment and investment facilitation
- AFCTA digital trade, IPR and competition rules

Business have further expressed that as African integration is a long term issue, the importance of AfCFTA is not just in the change in trade rules it would bring, but also how it interacts with complementary policies and actions, such as implementing the trade facilitation agreement or moving towards more co-ordinated investment facilitation measures. This is a key message not only for AfCFTA policy makers but also for those who support them.

Complementary analysis in Ethiopia and Kenya show how much still remains to be done at the country level, suggesting a range of activities which country officials can undertake. In the case of Ethiopia, there are some unresolved issues on (i) investment protection by aligning possible commitments under AfCFTA with national investment law, and (ii) progressing on investment facilitation issues and (iii) implementing a range of other FDI related policies. By focusing on these issues in the context of AfCFTA, Ethiopia could work towards a more welcoming investment climate.

In Kenya, a survey of more than 60 firms conducted by the ODI and the Kenya National Chamber of Commerce & Industry (KNCCI) suggested that 85% of respondents are aware of the AfCFTA, but only one-third are convinced of the overall readiness of Kenya’s private sector for AfCFTA implementation. Hence, more needs to be done to prepare firms in Kenya for the implementation of AfCFTA. More than 70% of respondents indicated that Kenya had a legal framework to protect investment, but less than half of these believe that the framework is effective in providing such protection for firms. There should be more and deeper discussions on protection in the context of AfCFTA. Only 30% think there are sufficient public–private sector consultations to facilitate investment and AfCFTA could help to support public–private dialogue.

1 Introduction

Continental integration aims to benefit African trade and investment, and it can also enhance African economic relations with the rest of the world, including through attracting more external investment. FDI can have important transformative effects (Te Velde, 2019) by having long-lasting productivity and knowledge spillovers, creating new opportunities for jobs and exports, or raising the quality and scope of products and services.

An integrating Africa provides additional incentives for investors to invest more in the continent. It could also help the UK find opportunities to benefit from Africa's transformation, as the UK is a key foreign investor on the continent. However, while the stock of FDI has been increasing over time, progress in the 2010s was slow, as the UK faced increasing competition from other foreign investors.

The UK's international policies are changing. The Integrated Review of Security, Defence, Development and Foreign Policy (March 2021) places emphasis on working with Africa. It suggests that the UK will partner with the African Union (AU) on issues including free trade and building on the success of the 2020 Africa Investment Summit, revitalising UK economic engagement with Africa, deepening and developing mutual partnerships and working together to build resilient and productive economies and open societies, with improved development, investment and financing offers. The UK will work in partnership with South Africa, Nigeria, Kenya, Ethiopia and Ghana, in particular, to further our shared prosperity goals. Since the release of the Integrated Review, the UK has hosted UNFCCC COP 26, which has further emphasised sustainable finance to accelerate a green transition including for African economies. The upcoming COP 27 in Africa will build up the previous successes, putting African priorities front and centre. The recent UK Strategy for International Development launched in May 2022 further emphasises opportunities for the UK to enhance British Investment Partnerships with Africa.

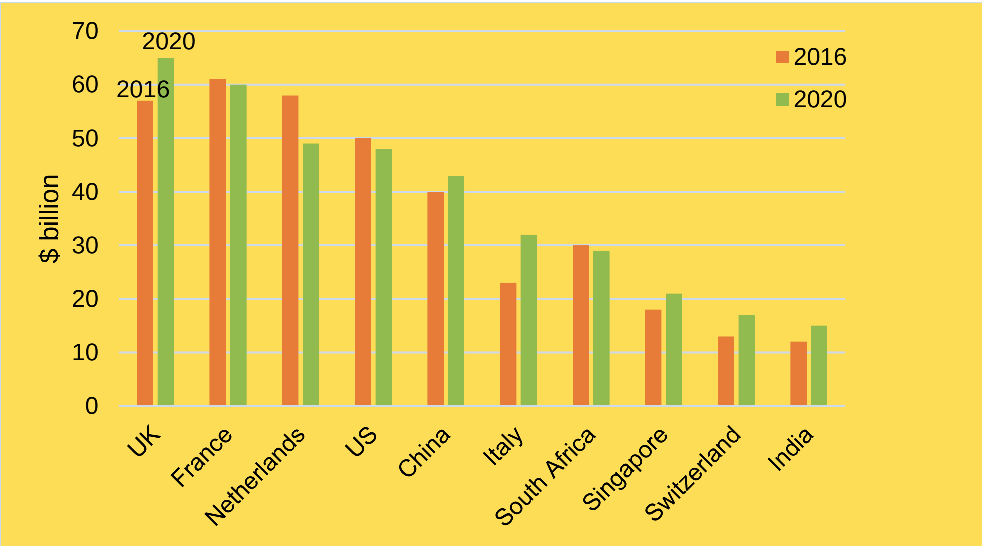
Within Africa, continental, regional and national policies are also changing. The adoption of the AU2063 agenda led to efforts to promote economic transformation and intra-regional trade and investment through the AfCFTA. Full implementation of the AfCFTA will make the continent more attractive to both African and external investors, including the UK. The UK signed an MoU with the AfCFTA Secretariat on issues related to trade and investment facilitation in September 2021.

This briefing reviews the history of UK FDI in Africa (Section 2) and maps out ways in which an integrating Africa can help to attract more FDI, with an emphasis on trade and investment provisions in the AfCFTA (Section 3). Section 4 provides information on the interests of UK and other investors in a well negotiated and implemented AfCFTA. It also discusses the examples of Ethiopia and Kenya, which shows how much still remains to be done to bring these countries in line with possible provisions of the Investment Protocol. Section 5 concludes.

2 UK foreign direct investment in Africa

The UK is a major investor in Africa not just through a relatively concentrated group of larger companies, but also through a significant African diaspora investing in small to medium size projects. The stock of UK FDI in Africa reached £47.9 billion in 2020.[1]The UK is the largest investor in Africa as measured by stocks (Figure 1).

Figure 1 The stock of FDI in Africa ($ billion), by country (2016, 2020)



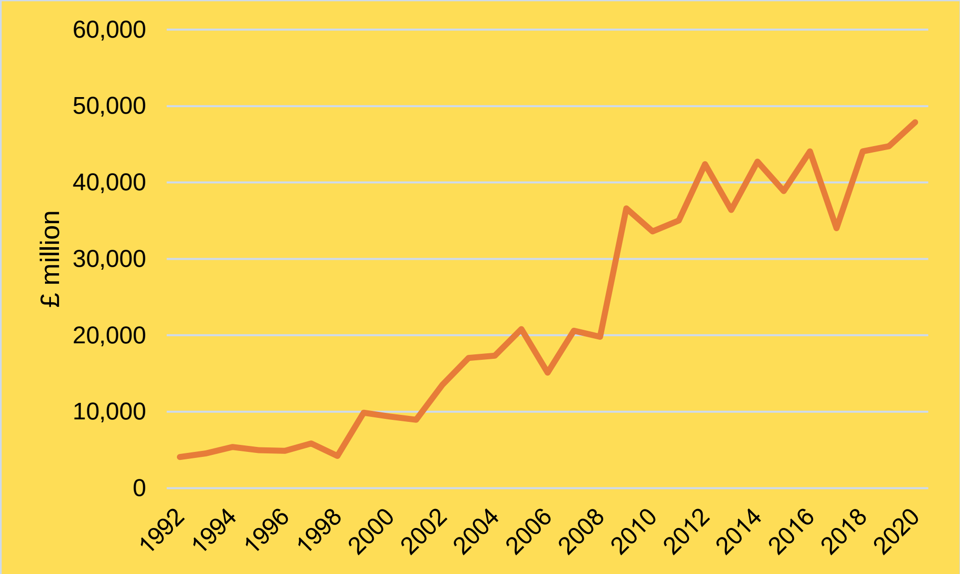
Source: UNCTAD World Investment Report, 2022

While the stock of UK FDI has increased since 1992, its growth in the 2010s has been small, only seeing a 7% increase in 2020 (Figure 2). As a percentage of GDP, the stock of total FDI increased by 15 percentage points, from 22.3% of GDP in 2008 to 37.8% in 2019; for UK FDI, this increased from 2.0% to 2.6%. While the UK was responsible for 10.5% of the stock of inward FDI in Africa in 1992 (the

[1] This amounts to 3.8% of African gross domestic product (GDP). As UK FDI flows has been very variable, we prefer to use stocks to discuss trends. US FDI in Africa increased by 10% to $47.5 billion in 2020, driven by a 47.6% increase to $8.4 billion in the manufacturing sector. Chinese FDI in Africa declined by 2.3% to $43.4 billion in 2020. Chinese FDI in most sectors fell, but was offset by the increase in Chinese FDI in construction (11.5% to $15.2 billion) and manufacturing (by 9.7%, to $8.9 billion).

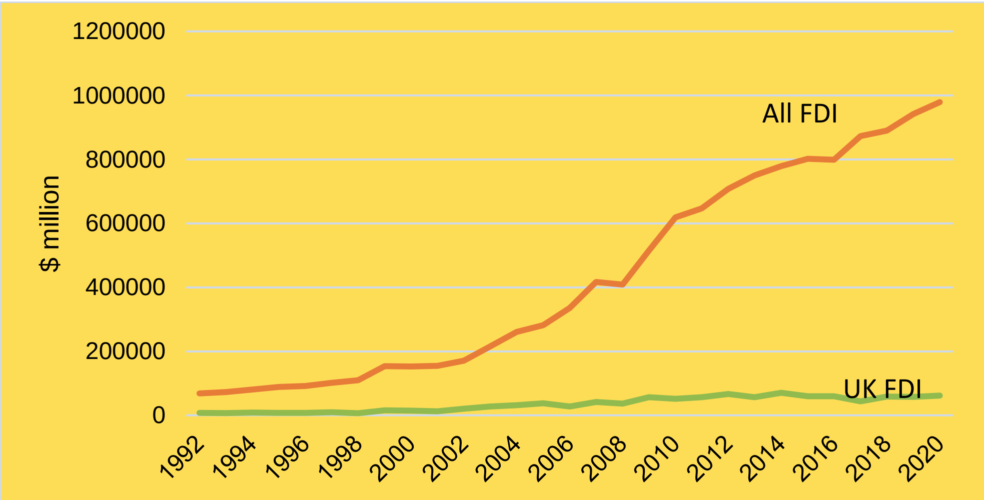
total FDI stock was $68.4 billion (£38.7 billion)), this was 6.3% of total FDI stock in 2020 ($979 billion). The combined stock of FDI from other countries in Africa has increased faster than FDI from the UK (Figure 3).

Figure 2 Stock of UK FDI in Africa (£ million), 1992–2020



Source: ONS

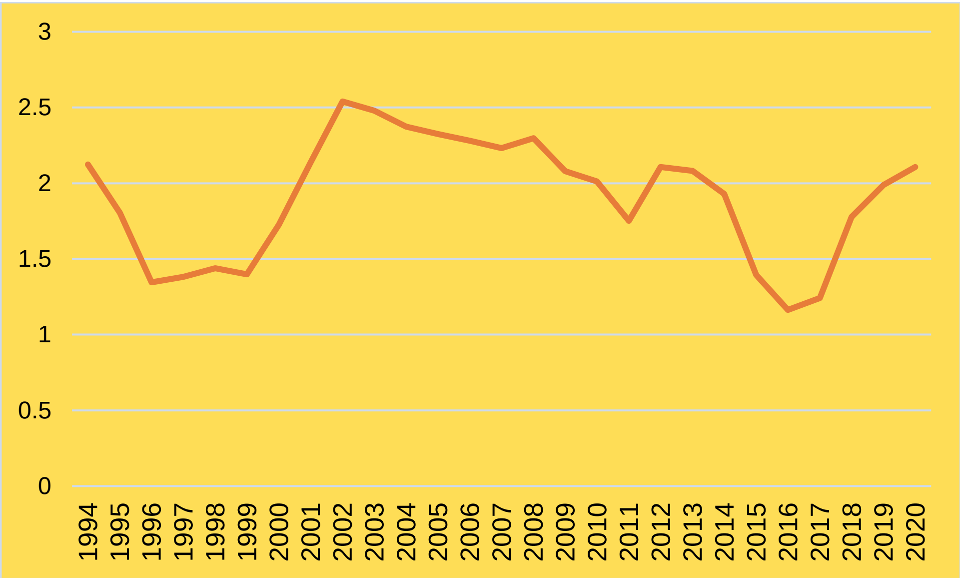
Figure 3 Stock of inward FDI ($ million) in Africa, all and UK



Source: ONS, UNCTAD, WDI

Strong commercial opportunities for UK FDI also exist in the form of returns on investment. Since 1992, returns (net earnings after tax) expressed as a percentage of the stock of UK FDI in Africa have been double that for the world as a whole (it was 13.8% and 5.4% in Africa in 2019 and 2020, and 6.2% and 3.1% for the world as a whole).

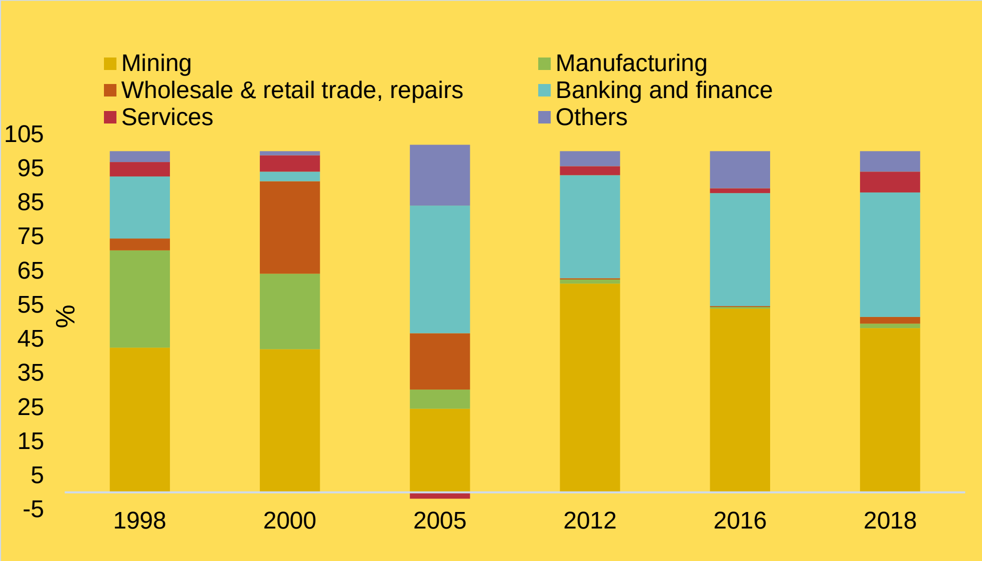
Figure 4 Rate of return on FDI in Africa as a multiple of the whole world, three-year average, 1994-2020



Source: ONS

Compared to some other foreign investors (including the US and China), a large share of UK FDI is concentrated more heavily in mining and oil and gas sectors in Africa (Figure 5) (Raga and Te Velde, 2021). It could perhaps take advantage of the emphasis on economic transformation through agri-business, manufacturing, digitalisation and renewable energy (as emphasised in Africa-wide policies such the AU2063 agenda). There is however a strong emphasis on banking, finance and business services, which can help underpin Africa's transformation, including in the above areas. African integration through a well negotiated and implemented AfCFTA may positively affect incentives for UK investment in Africa.

Figure 5 Sectoral composition of UK FDI stock (%)



Source: ONS

3 An integrating Africa and UK investors

We first discuss Africa's integration agenda through AfCFTA (Section 3.1), and then how this might help to attract investment, including from the UK (Section 3.2).

3.1 Africa's integration agenda through AfCFTA

The AfCFTA has been signed by 54 out of 55 AU members and ratified by more than 40 countries. It covers 1.2 billion people with a market size of $2.5 trillion (WDI, 2019).

The AfCFTA has two main phases of negotiations. Phase 1 is organised around three protocols: the Protocol on Trade in Goods; the Protocol on Trade in Services; and the Protocol on Rules and Procedures on the Settlement of Disputes.

Phase 2 issues include investment, competition policy, Intellectual Property Rights (IPRs) and digital trade, including e-commerce. There are also plans to have a protocol on women and youth in trade. The protocols are scheduled to be concluded by September 2022. We discuss the respective protocols below.

3.1.1 Protocol on Trade in Goods

The Protocol on Trade in Goods involves General Provisions, a Schedule of Tariff Concessions, and separate annexes on Rules of Origin, Customs Cooperation and Mutual Administrative Assistance, Trade Facilitation, Non-Tariff Barriers, Technical Barriers to Trade (TBT), Sanitary and Phytosanitary Measures (SPS), Transit and Trade Remedies. In many cases, the Annexes to the Protocol on Trade in Goods incorporate or refer to substantial elements/ approaches within existing multilateral conventions or WTO agreements, for example those on SPS, TBT, Customs and Trade Facilitation.

AfCFTA requires state parties to eliminate tariffs on 90% of tariff lines. Least Developed Countries (LDCs) are expected to undertake this over a 10-year period, while non-LDCs are expected to do so over five years. A further 7% of tariff lines of products that are deemed sensitive according to the thresholds and modalities for liberalisation defined in the AfCFTA (e.g. wheat flour, sugar, edible oils and leather) will be liberalised over 13 years for LDCs and 10 years for non-LDCs. This leaves 3% of tariff lines excluded from liberalisation, mostly covering agricultural products, textiles and vehicles.

The operationalisation of the AfCFTA involves five instruments:

- Rules of Origin, which regulate whether products covered by the agreement originate from African countries and are therefore subject to lower tariffs.
- An online portal for tariff negotiations.
- An online mechanism for monitoring, reporting and elimination of non-tariff barriers.
- A pan-African payment and settlement system (launched officially in January 2022).
- The African Trade Observatory, with up-to-date and reliable trade data.

Rules of Origin have been agreed for 87.7% of tariff lines (excluding some products such as sugar, tobacco, automobiles, clothing and textiles), which means that tariff schedules can now be gazetted for most trade and practical trading under AfCFTA can commence.

3.1.2 Protocol on Trade in Services

The Protocol on Trade in Services includes a schedule of specific commitments, Most Favoured Nation (MFN) exceptions, Air Transport Services, a list of priority sectors and a framework document on regulatory cooperation.

Under the services protocol, each member must provide a schedule of specific commitments for services liberalisation in five sectors: business services, communication services, financial services, tourism, travel and transport. There is discussion on whether energy services should be added to the list.

According to the guidelines and modalities of the negotiations, a positive General Agreement on Trades in Services (GATS)-plus approach will be adopted. This implies that, for each sector and subsector, every member will list any derogation from market access and national treatment for each individual mode of supply. The deadline for Services Negotiations was set as June 2022, however discussions are not yet finalised. In general terms, the prevailing view is that whilst the AfCFTA is unlikely to generate much wholly new commitments on services liberalisation and market opening from member states, it will still have a beneficial effect through consolidation and implementation of commitments already made by African countries through the WTO GATS framework.

3.1.3 Dispute Settlement Mechanism

Article 20 of the AfCFTA establishes a Dispute Settlement Mechanism to settle disputes between member states. This follows the institutional structure of the WTO (Trade Law Centre (TRALAC), 2020) and, according to the protocol on Rules and Procedures on the Settlement on Disputes, covers Working Procedures of the Panel, Expert Review, and Code of Conduct for Arbitrators and Panellists.

3.1.4 Investment Protocol

The Protocol on Investment is expected to facilitate and protect intra-Africa investments with a view to foster sustainable development of the continent, while preserving the regulatory autonomy of the States. The Protocol will establish a continental legal framework for investment, building on the regimes in the State Parties and Regional Economic Communities (RECs). The protocol is expected to be informed by the Pan-African Investment Code (PAIC).[2] Text-based negotiations have started in 2021 and are continuing into 2022 with expected completion by September 2022. Whilst the Protocol on Investment is unlikely to attract new investments in its own right through market access in the same way that the AfCFTA's tariff reduction commitments can, for example, raise trade through better market access, it is expected to make an important contribution through speeding up approvals and clearances necessary for large-scale new investments to go ahead, and providing greater comfort to investors through stronger investment protection provisions. There is likely to be much emphasis on maintaining regulatory space and balancing rights between states and investors. There will also be more debates and emphasis on African forms of dispute settlement mechanisms and centralised approaches towards investment facilitation.

3.1.5 Intellectual Property Rights

The IPR protocol is expected to develop a unifying approach, bringing together the different treatments that IPRs receive in Regional Economic Communities and individual member states. The protocol is expected to cover instruments to address counterfeited and pirated goods as well as help with the registration of trademarks

[2] The African Union Member State Experts recommended in their report on their Meeting on the Consideration of the Pan-African Investment Code (PAIC) and the African Inclusive Market Excellence Center (AIMEC) in November 2016 that the PAIC be used as a "reference framework document in the negotiation of the AfCFTA investment chapter (ECA, 2021).

across multiple geographies in Africa (for example, through facilitating greater membership of African IP organisations such as ARIPO and OAPI, which offer protection of registered industrial IP rights in all member countries through a single application). It is also expected to cover technical assistance in relation to compliance with major global IPR agreements (such as the WTO TRIPS Agreement and WIPO conventions) and the registration and protection of geographic indicators and denomination of origin.

3.1.6 Competition policy

The competition policy protocol aims to build on existing arrangements within RECs. It could cover the main substantive competition issues such as cartels, merger control, abuse of dominance, anti-competitive agreements and consumer protection (ECA, 2021). This involves interpretations and harmonisation of a wide range of agreements involving different levels of depth. Negotiations are affected by a wide range of preparedness of state members and RECs in relation to the existence of domestic competition laws and authorities that are based on different civil law systems. Five of the AU RECs have enacted competition laws which are at different stages of implementation (ECA, 2021). At the national level, 24 countries[3] have both competition laws in force and competition authorities to enforce them, 10 have laws but no authority, 3 have competition legislation at an advanced stage of preparation and 17 have no competition law or are still in the early stages of preparing one.

3.1.7 Digital trade

Negotiations on the digital trade protocol will include market access, rules and regulations (e.g. personal protection), facilitation (e.g. electronic authentication) and enabling clauses. It will also include topics centred on the treatment of data, such as localisation and transfer. Such negotiations are complicated, given that these issues are currently treated differently across Africa and even within the same REC (see Banga et al., 2021). Moreover, in many member countries, there are no strategies, policies or institutions to deal with these issues. While the AfCFTA handles negotiations, significant parts of continental digital trade policy remain within the AU Commission (AUC).

3.2 How does the AfCFTA increase UK FDI?

African integration and the provisions in the AfCFTA will make Africa more attractive for outside foreign investors. There is an established

[3] Nigeria's Competition and Consumer Protection Act was signed into law in February 2019

literature on the impact of regional membership on attracting inward FDI. For example, Levy Yeyati et al (2002), in a study covering 60 countries, suggest that membership can double inward FDI stocks. Such studies provide general reassurance that regional integration is likely to attract more FDI. However, whilst they assess whether membership of a region raises investment, they do not discuss *how* membership of a region matters for investment and what measures are important and should be prioritised (the assessments in effect take regional integration as a black box).

In general, FDI is attracted by factors including:

1. General and specific host country economic conditions, including market size and growth; good-quality and appropriate infrastructure and skills; and natural resources.
2. General and specific host country policies, institutions, administrative procedures and governance (e.g. the ease of doing business).
3. International rules and activities (multilateral, bilateral and regional) and home country policies (e.g. directed credit and investment guarantees).

As African countries integrate, AfCFTA will affect such factors, which will in turn affect the prospects for FDI. Trade and investment provisions within regional agreements can support FDI and productivity change (see te Velde, 2006; te Velde and Bezemer, 2006; te Velde, 2011; te Velde and Munakula, 2015). Theory suggests that regional trade agreements lead to increased extra-regional FDI, especially because of the ‘market-size’ effects owing to increased market size following regional integration and reduction of trade barriers within a region.

Evidence also suggests that the scope of regional provisions is crucial. Dee and Gali (2003) suggest that FDI responds significantly to the non-trade provisions of regional trade agreements such as investment provisions. Te Velde and Bezemer (2006) find that membership of a region as such is not significantly related to inward FDI, but, crucially, when a country is a member of a region with a sufficient number and level of trade and investment provisions (e.g., describing the treatment of foreign firms, or significant trade preferences), which will help attract more inward FDI. The stricter the rules and the more protection for foreign firms, the more comfortable they are and the more likely it is that investment rules will help them (though the effect is unlikely to be as strong as the effect of market size or skills and infrastructure). Of course, this would lead to less space for host countries to promote sustainable development, so there is a balance to consider

3.2.1 Income effect of regional integration

An important effect from regional integration comes from the growth or income effect that follows integration. This is because (regional) integration raises GDP, and increased GDP has a strong correlation with FDI. Studies suggest that AfCFTA will increase African incomes by between 1% and 7%, depending on complementary measures. The World Bank (2020) estimates that AfCFTA can raise African incomes by between 0.2% (through tariff liberalisation only), 2.4% (through tariff and non-tariff barrier liberalisation) and 7% (when trade facilitation is included).

Deep integration would raise incomes by 7%, which would increase the stock of UK FDI by 7% times 0.7, or 5%, with 0.7 being the elasticity[4] of UK FDI with respect to GDP (te Velde and Bezemer, 2006). The income effect would raise the stock of UK FDI in Africa by £2.5 billion.

3.2.2 Market size effect through reducing trade barriers and trade facilitation

Eliminating trade barriers will help attract inward FDI by increasing effective market demand. For example, it becomes cheaper to invest in a location inside a region to serve another country in the region. MFN tariff rates average 13% for Africa as a whole (much higher than say 7.5% in South-East Asia). This is often called the market-size effect.

There are also significant non-tariff barriers, e.g. differences in standards and cumbersome, lengthy customs procedures at borders. These tend to hamper African countries more than tariffs, as they increase costs, time and paperwork for importing/exporting goods. Lack of harmonisation and mutual recognition for product certification standards between African countries can be particularly problematic. For example, an agro-input investor in Ghana needed two years to obtain regulatory certification to sell in the domestic market, but without mutual recognition arrangements with neighbouring countries, the investor must repeat this process from scratch in each African country before he can export.

In parallel to the negotiation and implementation of provisions on trade facilitation in the AfCFTA, many African countries, together with their development partners, are already making complementary associated investments to tackle these trade barriers. For example, in East Africa in the last 10 years, there has been significant digitisation of customs procedures and establishment of One-Stop-Border Posts along key transport corridors from the ports of Mombasa and Dar es Salaam. These reforms can be important not

[4] Research based on past trends suggest that when incomes in a country increases by 10%, FDI increases by 7%. This the elasticity of FDI with respect to income is 0.7 (7% / 10%)

just directly for traders and logistics operators, but also indirectly in terms of reducing insurance premiums and costs of trade finance.

Te Velde and Bezemer (2006) find that FDI has an elasticity of trade provisions (with the score measured from 0 to 3) of 0.43. African RECs already have some trade provisions, so AfCFTA may increase the score by one point (an increase of a third), which means a 0.33*43% increase in the stock of FDI, or an increase of £7.2 billion.

3.2.3 A more transparent FDI framework and FDI facilitation

A more transparent framework governing intra-African FDI would also make Africa attractive for outside investors. International commitments often signal a willingness to engage positively with foreign investors. Investment agreements can include provisions with respect to, for example, national treatment, market access, dispute settlement or investment facilitation.

AfCFTA may also simplify the existing regulatory regime which is currently characterised by different and overlapping regions. The African investment policy landscape is fragmented, marked by 854 bilateral investment treaties (512 in force), of which 169 are intra-African (44 in force) (ECA et al., 2019)

Te Velde and Bezemer (2016) find that the depth of investment provisions (measured on a scale from 0 to 3) has an elasticity to FDI of 0.17. African RECs already have some investment provisions, so AfCFTA may increase the score by a third which means a 0.33*17% increase in the stock of FDI, or an increase of £2.9 billion.

Interviews suggest that private sector investors take a long view of African integration. They understand that many provisions will take time to negotiate and implement, just as it took time in other regions. Yet, these are steps in the right direction.

In conclusion, deeper regional integration through AfCFTA is likely to make Africa more attractive for FDI. A very rough and initial estimate is that a deeply integrated and effectively implemented AfCFTA could lead to a boost of £12.5 billion[5], or a 25% increase, in the stock of UK FDI. We should emphasise the tentative nature of such estimates and attach more value to insights on the type of effects than the actual quantitative estimate. The estimated effects depend on three major factors: the market size effects, trade provisions and investment provisions. In future work we will examine which type of investors are incentivised by which type of provisions and measures in AfCFTA.

[5] This is the sum of the impact of FDI discussed previously through increased income growth and trade and investment provisions.

The estimates in this paper on the impact of AfCFTA on FDI compare well with the range of estimates provided in other, recent studies, e.g. Echanti et al (2022). Echanti et al (2022)
argue that trade liberalisation in Africa should boost FDI through lowering entry barriers and regulatory risks and encouraging competition, thereby improving the environment for FDI (Echanti et al., 2022). Gravity-based estimates suggest that, as a result of the AfCFTA, Africa may see an increase of 111% in FDI assuming the AfCFTA covers all African countries with preferential trade commitments equivalent to an average African preferential trade agreement; this is the AfCFTA FDI broad scenario. Echanti et al.'s AfCFTA deep scenario estimates an increase in FDI of 159% when assuming implementation of protocols on investment, competition, and intellectual property rights. Lastly, besides FDI from other continents, African countries are expected to increase their own cross-border (bilateral) FDI by between 54% (given the AfCFTA FDI broad scenario) and 68% (given the AfCFTA FDI deep scenario).

4 What AfCFTA provisions are desirable for (UK) investors and how to get there

The impact of different AfCFTA provisions is likely to vary by sector and type of investor. Some investors respond to increased internal market size and enhanced trade provisions. Previous consultations suggested this may affect market seeking investors such as Unilever. Diageo also mentioned this as being important during the 2022 Africa Investment Conference. Other investors depend on predictable investment rules (investment provision). UK tech investment might respond to enabling provisions in a digital trade protocol (e.g. digital signature, free flow of data). Sustainable FDI might respond to sustainable development provisions, e.g. in the investment protocol. Harmonised standards and mutual recognition of conformity assessment and regulatory approvals help development of (and investment in) agriculture, agri-business, food, and pharmaceutical regional value chains.

AfCFTA is likely to provide a positive influence on the types of investment that also have an important transformative, digital and green impact on Africa’s economies, taking FDI to areas outside natural resources.

During January–March 2022, we examined what different (UK) investors seek in an AfCFTA and its implementation. We conducted dialogues and interviews with representatives from investor companies in UK headquarters and in Africa, with UK-Africa business platform organisations such as Invest Africa and UK Chambers of Commerce in Ghana, Kenya, Nigeria and South Africa. We also conducted desk research on coverage of the AfCFTA in surveys of African business leaders, investors and industry trends by global professional services companies such as PwC, Deloitte and EY.

We found that there was significant interest from firms and investors in the potential of the AfCFTA, both for new entrant investors and for those firms who are already invested in one or more location but would see the opportunity for scaling-up to take advantage of new opportunities. Firms reported strong levels of existing awareness and interest in the opportunities from greater intra-African trade and market expansion, but that previously, high trade barriers had been perceived to make these opportunities impossible to realise. Interest in the AfCFTA was concentrated in the hope or expectation that it would be able to reduce or remove these high barriers and therefore enable firms to unlock the market opportunities on the continent (particularly, but not exclusively, in neighbouring or regional markets) that were perceived as already present and likely to grow over time.

The investigations and desk research revealed that UK firms and investors rated AfCFTA provisions/dimensions in the following order of importance:

1. AfCFTA market access provisions for goods and services (e.g. a UK based drinks company with new subsidiaries in Nigeria, Kenya and South Africa wanted to see a reduction in tariffs across Africa as soon as possible)
2. AfCFTA rules on trade facilitation and linked investments in Africa (e.g. boxes 1 and 2 below provide examples of how trade facilitation through harmonisation in regulation could help to expand markets and hence investment)
3. AfCFTA rules on investment and investment facilitation (box 3 suggests how a UK company investing in Africa would like to see more attention to investor protection)
4. AfCFTA digital trade, IPR and competition rules

As well as UK investors (or their African subsidiaries) who may benefit directly from these AfCFTA provisions, we have found that there was significant interest from UK-based firms benefiting indirectly from the expected growth in the volume of trade in Africa through the AfCFTA, such as City of London-based banks and providers of project finance, trade finance and insurance services, or logistics providers such as DHL. One leading UK-based financial institution serving Africa reported that the economists' adage that "trade follows investment" was playing out now with the AfCFTA, as the bank was seeing a surge in demand for project finance (to build new production facilities and infrastructure, for example) and expects demand to subsequently increase for trade finance as volumes of intra-Africa imports/exports grew.

In addition to the AfCFTA provisions themselves, it was also clear from our investigations that investors and firms will place high-emphasis on complementary investments in trade information, investment promotion and trade facilitation improvements, taking a holistic approach to unlocking trade barriers (related to border measures, customs procedures, standards and regulatory approvals) that presently confront exports from an investor's base location in one country in Africa to its neighbouring markets along a transport corridor, for example. One sector that was already seeing fast-increasing investment levels was digital and fin-tech, as these barriers do not affect the sector in the same way as for trade in manufactured and agricultural products. One online monitor of digital sector investment in Africa found that nearly $400m has been newly invested into African B2B e-commerce firms in Kenya, Nigeria, Morocco and Egypt just in the period July 2021 to March 2022.

Table 1 summarises how investors view the various AfCFTA trade and investment rules, based on interviews and expert assessment. Different investors have different interests in the various rules. Some clearly need market access through reduction in tariffs and better trade facilitation measures, and others would like to access investor protection or dispute settlement mechanisms.

Table 1 Possible impact of AfCFTA trade and investment rules on UK investment in Africa

	Tariffs	Standards harmonisation / Customs procedures streamlining / reduction of NTBs	Investment / Services market access	Investment rules and Dispute Settlement	Investment facilitation / Environment related	Digital trade / IPR / competition provisions
Manufacturing	***	***		**	**	*
Financial services		*	***	***		*
Legal and other business services			***	*	*	*
Agriculture / agri-business value chains	**	***		*	***	*
Digital investment		*	**	**		***
Green investment		**	**		***	

Source: current and past discussions with UK investors *** means strong interest, ** medium level interest, * some or little interest ; blank means no established link or no interest.

Box 1: Unlocking Barriers & Diffusing New Agricultural Technologies in Neighbouring West African Markets: Case Study of an Organic Fertilizer Plant in Ghana

The company has already invested $10m in an organic fertilizer plant and plantation in Ghana. The product is only sold in Ghana at the present time, but encouraged by the potential opportunities from the AfCFTA, the company is now actively looking at making further investments to expand factory capacity and sell its products into francophone neighbouring countries such as Ivory coast and Burkina Faso. In fact, the company sees these markets as larger and more lucrative for its products than Ghana in the medium term as there is larger scale agriculture and considerable interest in organic agro-inputs.

The organic fertilizer produced by the company has impressive performance in improved yields and incomes for farmers, and sells for a fraction of the cost of imported synthetic fertilizers, which have increased in price dramatically since 2019. The production of the organic fertilizer also has environmental benefits, as it generates a far smaller carbon footprint than production of synthetic fertilizer. Although the company's production plant is in Ghana, exporting its product to neighbouring countries would enable much wider technology diffusion from the original investment.

The company reported that a key trade barrier for expanding its sales to neighbouring countries was securing regulatory approvals and certification for its production plant and product. It had taken two years for the company to obtain the necessary certificates from regulatory agencies in Ghana to allow the products to be distributed and sold domestically. If mutual recognition of relevant technical regulations for its products between Ghana, Cote d'Ivoire and Burkina Faso could be operationalised through the framework of the AfCFTA, this could dramatically accelerate the timetable for expanding investment in its existing plant, building further plants, and exporting to neighbouring markets.

Source: interviews

Box 2: Going Continental: Case Study of a Commercial Fruit Plantation in Ghana

The company, which is owned by a European parent company, has existing fruit plantations in Ghana and exports globally. But attracted by the potential opportunities from the AfCFTA, the company has already invested over €20m in expanding its plantations, packhouses and supporting infrastructure by 30% to supply markets in West and Southern Africa. The parent company has provided the finance for the new investment in expanded plantations in Ghana, as well as technical, marketing and distribution support services.

In West Africa, the company is already exporting to Senegal, Mali, Benin, Niger/Nigeria and Burkina Faso. The company supplies supermarkets in Senegal via sea freight to the Port of Dakar, and supplies wholesalers in other countries by road freight. With carefully arranged picking and delivery times, the transport journey times for the company's shipments are useful in ripening the fruit for end market consumers. The company has found that with European markets now being over-supplied, it is sometimes achieving better prices in African markets than in Europe, particularly in peak periods.

The company is now looking beyond the regional West African market to countries in Southern Africa, which again will be supplied by sea freight. The company has been approached by a private importer in a Southern African country, where traditional supplies of the fruit products from Mozambique have been heavily constrained due to crop disease. Given the nature of the produce, a key issue for the company in expanding to new markets will be demonstrating conformity with SPS measures in the importing country. The company hopes that the implementation of AfCFTA rules on SPS measures amongst African countries will make the compliance process much more transparent and reduce risks of its fresh produce shipments being held up at the point of entry and therefore spoilt.

At the same time, the company noted that as it looks to capitalise on these potential market-expanding opportunities from the AfCFTA, it will now need to invest more time and effort to access and study export market information and SPS requirements for new export destinations. In the past, the company had discounted these destinations on the Continent as they were regarded as very challenging for a business based in Ghana to access due to protectionist non-tariff barriers. However, the onset of the AfCFTA has changed that company's perceptions, causing it to look afresh at exporting to these markets and moving away from its traditional heavy sales concentration in Europe.

Source: interviews

Box 3: Can AfCFTA help shift the debate on investor protection?

A UK based leather maker company is has been making products such as shoes and gloves for almost 200 years and has had a long association with Ethiopia, buying raw materials and making products in Ethiopia since the 1990s. It has close to 1000 employees in Ethiopia and 200 in the UK. The company has developed value chains between the UK and Ethiopia by investing in Ethiopia. However, there are severe challenges as e.g. the probability of delivering on an order on time from Ethiopia is often small and currency devaluation and shortages reduce the profitability.

In addition to these challenges to do doing business, it has also encountered challenges around investor protection. Part of its infrastructure and stocks was lost during times of national unrest, but there was no access to courts in Ethiopia or under UK-Ethiopia provisions to address these losses. Th insurance company in Ethiopia said the policy does not cover unrest damage, the government of Ethiopia could not help, whilst the bilateral investor protection agreements with Ethiopia had not been ratified.

The company argued that an arbitration mechanism that works to resolve disputes would provide positive signals and enhance the credibility of government in the eyes of investors. The AfCFTA could address concerns investor protection concerns by putting emphasis on African debates on Dispute Settlement Mechanisms that form part of discussions under the AfCFTA Investment Protocol. The company was also interested in ensuring trade barriers are reduced inside Africa and trade facilitation measures would be enhanced, given that it would like to source more materials or inputs (e.g. boxes) in the region and serve other African markets, using local branding. AfCFTA could also help to address these issues.

Source: interviews and ODI SITA publication on investment

Whilst investors expressed clear views about what African countries should focus on in the AfCFTA to make their economies attractive to investment, two recent ODI studies highlight the challenges at country level to implement possible provisions of the Investment Protocol. Raga et al (2022) examined investment in Kenya in the context of AfCFTA by discussing the views of more than 60 respondents from Kenya's private sector. Most respondents (85%) of this KNCCI-ODI survey are aware of AfCFTA but only a third are convinced of the overall readiness of Kenya's private sector for AfCFTA implementation. Hence, more needs to be done to prepare firms in Kenya for the implementation of AfCFTA. More than 70% of respondents indicated that Kenya had a legal framework to protect investment, but less than half of these believe that the framework is effective in providing such protection for firms. There should be more and deeper discussions on protection in the context of AfCFTA. More than half of respondents feel that the government aims to anchor its investment promotion strategy towards industrial and economic transformation. However, only a small share of respondents (18%) are convinced that the government has a comprehensive legal and policy framework to promote investment. AfCFTA could set standards for investment promotion. More than half of respondents believe that Kenya has an attractive overall business environment. However, only a third are convinced of the effectiveness of investment facilitation agencies. Only 30% think there are sufficient public–private sector consultations to facilitate investment. AfCFTA is expected to support public–private dialogue.

Geda et al (2022) examine the challenges and opportunities for Ethiopia in implementing the AfCFTA Investment Protocol. The table below summarises the policy implications, both for the Government of Ethiopia and for support agencies.

Table 2 Summary of possible actions for the Government of Ethiopia and others around AfCFTA in the context of the Investment Protocol

Investment (Protocol) issue	Link to AfCFTA	Possible action/options for government in relation to investment (short run)	Further complementary actions/support needed (medium run)
Aligning existing laws and AfCFTA Investment Protocol	Provisions on investment protection in AfCFTA	Examine Pan-African Investment Code (PAIC) and emerging AfCFTA Investment Protocol issues and align them with Ethiopian law	Deeper studies and/or capacity-building on strategy and scenarios for negotiation
Implementation of laws, especially by regional governments, that includes disputes with land access and use issues	Investment facilitation in AfCFTA Investment Protocol	(1) Speedy setup of the new investment council stated in the new Investment Proclamation; (2) Quick resolution of disputes on land issues by a joint Ethiopia Investment Commission (EIC) and regional authorities committee until the council begins functioning; and (3) effective and efficient communication with foreign investors	(1) Capacity-building on investment facilitation; (2) A study to identify major challenges (as a priority); (3) establishing an accountable and transparent system both in the EIC and in regional investment authorities
Stable political and macroeconomic environment	AfCFTA to lead to better public–private dialogue that can help address these issues	Inclusive politics and peaceful resolution of conflicts	Capacity-building on macroeconomic management

Foreign exchange shortage and rationing	Not explicitly related to AfCFTA (a national problem)	A special focus on investment facilitation and enhanced incentives, including extended access to foreign exchange, for investors engaged in exporting and import-substituting industries	Attracting investment from the Africa region, including limited offering of equities in profitable public firms
The use of industrial parks / special economic zones (SEZs)	Possible issues around harmonisation of investment protocol and SEZ policies	Developing a negotiation position about their further use in the context of the Investment Protocol will help Ethiopia prepare ahead of time	
Implications of investment financing from emerging economies for FDI	Upcoming negotiations on the Investment Protocol of the AfCFTA	Deliberating on this issue during the negotiations on the Investment Protocol	A deeper study on implications for attracting FDI and how to handle both types of investment in the future

Source: Geda et al (2022)

5 Conclusions

The AfCFTA can be expected to have a significant effect in attracting additional FDI both from within and outside Africa, including from the UK. This investment will be a leading indicator for the success of the AfCFTA and supports further intra-African trade in goods and services which the AfCFTA is intended to generate.

For some firms, investments in additional production capacity are already moving ahead now in anticipation of the full implementation of the AfCFTA and the opportunities this should present. Others are attracted by the potential, but are adopting a more cautious wait-and-see approach, looking to see credible signs of reforms driven by AfCFTA implementation.

As African countries make detailed plans and commit resources for AfCFTA implementation, policymakers should be mindful that investors are looking to see clear evidence of trade policy and trade facilitation reforms taking place and adopt strategies to maximise benefits accordingly. In the short term, the highest priority quick win for African countries and their business partners will be implementing tariff reduction commitments followed by implementing stronger provisions on investment. Having a more articulate African voice on dispute settlement or investment facilitation is likely to have important spillover effects on the overall climate for investors. This is a strong message for trade negotiators. In addition, more action is needed to capitalise on the political momentum behind AfCFTA by improving public-private dialogue on the back of this attention.

Each AfCFTA member country and its neighbours should establish clear plans and timetables for streamlining and speeding up border procedures, and harmonisation/mutual recognition of product standards, conformity assessment and regulatory approvals for controlled products and processes in key target sectors. Development partners such as the UK have an important role to play here in providing technical assistance and support to African countries to design and implement these reforms, thereby improving the investment climate for businesses looking to enter or scale-up operations to serve one or more African markets.

Beyond trade rules, investors are also likely to benefit from the actions from the debate that would follow the AfCFTA Investment Protocol on dispute settlement or on more co-ordinated and centralised approaches towards investment facilitation. In this sense, the strength of AfCFTA, including through phase 2 negotiations on investment, lies in the complementary actions. We discussed a number of practical issues that countries such as Ethiopia and Kenya face when approaching and implement the issues contained in the Investment Protocol.

As important as undertaking specific reforms from AfCFTA implementation will be a concerted public communications effort from African governments aimed at the national private sector and overseas investor communities. The AfCFTA Secretariat, Regional Economic Communities and development partners can support these efforts, and there is a particularly important role for objective, independent assessments of AfCFTA implementation and benchmarking – at national level and in high-interest sub-regional economic spaces – published by reputable think-tanks and research organisations in Africa and in overseas investor locations – such as the ODI for the UK investor community.

Targeted investment promotion services for UK investors about the African market opportunity, such as the HM Trade Commissioner, Growth Gateway and UK-African Investment Conferences and Summits (the next one planned for mid-2023) will remain very important direct instruments for promoting more UK FDI into Africa. As it enters a more mature phase, the expansion of the UK-Africa Investment Conference or Summit to take place on the African continent (rotating from East, to Southern, to West African locations) would be well worth considering.

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