



AGCI COMPONENT I BRIEF – January 2009

IMPROVING THE POLICY, REGULATORY, AND ENFORCEMENT ENVIRONMENT FOR PRIVATE SECTOR-LED TRADE AND INVESTMENT

The target of this African Global Competitiveness Initiative (AGCI) component is to improve the business environment in 15 countries in the following areas: reduced time and cost to establish a business and comply with business regulations; enforcement of intellectual property rights; and better capacity to manage international sanitary and phyto-sanitary systems (SPS) and food safety standards.

DEVELOPMENT CHALLENGE

Companies that can compete successfully in the global marketplace tend to grow more quickly than others, increasing direct and indirect employment and earnings, while very often improving the service, capacity, and application of quality standards and technology of domestic suppliers. Yet in many countries, the policies, legal and regulatory regimes, and management capacity required to foster trade competitiveness are lacking, creating obstacles to increased trade and growth. At the same time, the business environment and administrative systems regulating and supporting trade are often deficient, leading to such constraints as excessive bureaucratic requirements, inefficient customs clearance, insufficient application of SPS controls and other quality standards, and a lack of support for enterprises seeking to export.

Historically, sub-Saharan Africa (SSA) has performed poorly in attracting foreign direct investment (FDI), in large measure due to the

This KSA-AGCI Brief was produced for review by the United States Agency for International Development. It was prepared by SEGURA IP3 Partners, LLC.

AGCI IMPLEMENTATION

AGCI's trade development and policy reform component objectives will be achieved using the most effective tools available, tailored to suit country-specific challenges. In all cases, AGCI seeks to engage local partners, including African government agencies, the private sector, other donors, and regional institutions to ensure sufficient "buy in" and support for component initiatives.

Some tools to be considered include:

1. Leveraging new or existing USAID contracts to achieve component results.
2. Drawing on USAID and other U.S. Government (USG) staff and technical expertise, where appropriate.
3. Cooperating with other bi- and multilateral donor agencies to leverage impact, including in accordance with the Paris Declaration.
4. Coordinating with other stakeholders, including national and regional business associations and research institutions, to broaden support for component activities.

perception of risk associated with the region and the comparatively high costs associated with investment. While this risk is sometimes associated with macroeconomic conditions and political stability, more often it arises from the poorly formulated policies, inappropriate regulations, and

onerous bureaucratic requirements that continue to frustrate business startup and operations in SSA.

Many African states are faced with a legacy of command-and-control economic policies that structured regulatory systems to favor up-front licensing and checks on private sector-led growth while underemphasizing appropriate monitoring and inspections. As a result, in many African countries business startup and operations are complicated while at the same time the capacity to safeguard legitimate public interests, such as health, safety, and environmental standards, is lacking.

Such measures of business environment quality as the World Bank's *Doing Business* indicators have begun to benchmark the cost of bureaucratic inefficiencies across countries. USAID's *Investor Roadmaps* and the Foreign Investment Advisory Service's *Administrative Barriers Diagnostics* have gone further at the country level by analyzing the procedural, administrative, and regulatory constraints facing the private sector, identifying the root causes of barriers, and offering corresponding recommendations for reform.

Most African countries have embraced the benefits of private sector-led growth and witnessed the benefits of increasing trade. However, challenges remain. Some countries have yet to see the gains from trade spread as widely throughout the economy as hoped. Others have been over-reliant on a limited number of primary export products, remaining highly vulnerable to swings in commodity prices and global market downturns and limiting the value-added of exports. Still others have seen gains from earlier policy reforms eroded due to domestic policy disputes, political instability, and threats like war and natural disasters.

DEVELOPMENT HYPOTHESIS AND PROPOSED PROGRAM

The African Global Competitiveness Initiative (AGCI), implemented by the USAID Africa Bureau, is designed to support programs, policies, and stakeholders that can have a beneficial impact on Africa's trade competitiveness. AGCI seeks to

consolidate previous gains in trade development and related areas of economic performance by leveraging new resources to support successful interventions that can improve trade competitiveness.

The AGCI Trade Development and Policy Reform Component is designed to help improve Africa's trade competitiveness by identifying and removing obstacles to free trade and investment while building the capacity of trade and investment-related institutions. Included in AGCI's mandate is support for programs that reduce barriers to trade and investment—improving the enabling environment for private sector-led growth—while advancing policies that foster open trade and develop the capacity of African institutions tasked with regulating and promoting trade.

AGCI also recognizes the link between a country's openness to trade and its ability to attract private investment, whether local or foreign. For many companies considering investment abroad, market access and the cost of bringing goods to the market are important factors in reaching an investment location decision. Therefore, countries with preferential access to large markets and a low level of administrative and regulatory barriers, as well as efficient and inexpensive transport and logistics systems, are more favorably viewed by potential investors.

The challenge for AGCI is to build on previous efforts to improve African trade competitiveness by evaluating past successes and failures, deepening collaboration with African development partners, and supporting successful initiatives. Improving trade competitiveness in Africa will depend on achieving two parallel goals:

First, AGCI supports programs and initiatives that can pinpoint the root causes of barriers to investment and trade and implement practical solutions, ultimately leading to a more competitive environment for investment and trade.

Second, AGCI strengthens the institutions tasked with regulating and promoting trade so that they

can more effectively analyze and implement appropriate policies, administer efficient regulatory systems, and provide value-added services to enterprises. AGCI provides African institutions with analytic support, training, and specialized advisory services, as well as knowledge sharing of best practices in trade development and policy reform in Africa through the Knowledge Sharing and Analysis (KSA) project.

The Trade Development and Policy Reform Component of AGCI will achieve these objectives through the following illustrative activities:

Reduce the cost of doing business in SSA

- Where it has not already been done, evaluate the policy, regulatory, and administrative regime in SSA countries.
- Create and support action plans to reduce barriers to trade and investment.
- Identify tariff and non-tariff barriers, including those arising from poorly formulated policies and burdensome administrative and regulatory requirements, and create actionable recommendations for change.

Improve the capacity of African institutions regulating and promoting trade and investment

- Evaluate the capacity of trade and investment-related institutions in SSA to pinpoint major

deficits and program appropriate capacity building interventions.

- Using field assessments when needed, evaluate the impact of improvements in capacity in institutions receiving AGCI support.
- Assess the capacity constraints in African institutions tasked with regulating and promoting trade and investment and develop appropriate capacity building programs.

SUSTAINABILITY OF IMPACT

It is envisioned that the Trade Development and Policy Reform Component of AGCI will have an impact in all SSA countries where USAID is supporting improvements in trade and investment. However, rather than seeking to have a broad but diffuse impact, AGCI instead focuses its resources on programs and countries in which it can have the most substantial and sustained impact, while disseminating best practices and lessons learned throughout the initiative.

The countries and activities AGCI focuses on will ensure that in each case, sufficient resources are leveraged to achieve significant and sustainable results. At the same time, through the KSA project, best practices, lessons learned, and replicable program models will be widely disseminated in order to provide a foundation for reforms not directly supported by AGCI. ❖