How African Countries can Leverage AfCFTA for Positive FDI

Insight Report

> The African Continental Free Trade Agreement (AfCFTA) launched in 2019 has the potential to spur much needed, increased investment across the continent. To translate this opportunity into real transformative change in the lives and wellbeing of its citizens, African countries need to be proactive in taking steps to ensure that investment flows and economic activities translate to the creation of sustainable jobs, knowledge and innovation spill overs, poverty reduction, and inclusive and sustainable economic growth.

Leveraging AfCFTA for Positive FDI in Africa

In the lead up to Dakar 2: Feed Africa Summit and the 2nd Dakar Financing Summit taking place this January in Senegal, in this Insight Report, we explore how African countries can leverage AfCFTA for positive FDI that contributes to sustainable and inclusive economic growth.

The African Continental Free Trade Agreement (AfCFTA) was launched in 2019 and aims to create a single market serving 1.3 billion people with a combined GDP of $3.4 trillion. And provides an opportunity for increased investment across the continent. But this will not happen because it should.

African countries need to be proactive in taking steps to ensure that investment flows and economic activities translate to the creation of sustainable jobs, knowledge and innovation spill overs, poverty reduction, and inclusive and sustainable economic growth.

While Africa's share of global foreign direct investment (FDI) has historically been low, FDI flows to the continent reached a high of $83 billion in 2021. Despite still being just some 5.2% of global FDI, this represents a doubling of global interest in African investments in less than a decade and has been the upshoot of an upward trajectory over the last twenty years.

With increased momentum from the ratification of AfCFTA in 54 African countries, there is reasonable cause for optimism across the continent. This optimism has recently been boosted by the commitment of $30 billion from development partners this month to food production in Africa. And includes $10 billion that the African Development Bank has committed to invest in infrastructure, energy, roads, storage facilities, and agro-allied industries required to enhance value addition in Africa's agro-processing industry.

To take advantage of these opportunities across multiple sectors with the potential for attracting FDI, governments must reform their investment policies to maximise the advantages from investment in host economies. Currently, most nations lack comprehensive, synergized, and coordinated investment strategies for strategic growth sectors such as agro-processing, clothing and textiles, mining, services, and the digital economy (particularly in the areas of their competitive advantage) that stimulate inclusive economic growth, industrialization, the creation of sustainable jobs, and the development of 21st-century economies in the host countries.

Key recommendations

- The extent to which the AfCFTA will attract investment relies on the implementation of AfCFTA pledges and legislative instruments, as well as the design and implementation of the AfCFTA Protocol on Investment. Hence, State members must harmonise their home policies to reflect AfCFTA pledges.
- Improving investment governance and establishing a clear, transparent, and predictable continental legal framework for investment are essential for attracting international investment.
- Domestic investment policies should, among other things, unify institutional and legal frameworks for investment and improve ties between international and domestic investors.
- In addition to the political will and domestic policy synergy required by the AfCFTA investment protocol, nations must have the capability to stand out in their ability to reap the benefits of investment by yielding policies and business environments that attract investment and boost investor confidence.

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