



United Nations  
Economic Commission for Africa

## 25th annual session of the Intergovernmental Committee of Senior Officials and Experts

Strengthening resilience for strong recovery and attracting investments to  
foster economic diversification and long-term growth in Eastern Africa

26 – 28 October 2021



Burundi

Comoros

D.R Congo

Djibouti

Eritrea

Ethiopia

Kenya

Madagascar

Rwanda

Seychelles

Somalia

South Sudan

Tanzania

Uganda





United Nations  
Economic Commission for Africa

# INVESTING IN EASTERN AFRICA: opportunities and challenges

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## PREAMBLE

- Investment is one of the main drivers of economic growth and development
- Attracting quality investments is key to boost economic growth and development in East African countries through industrialization and economic diversification
- This background study focuses on investment opportunities and challenges in Eastern Africa
- In the context of AfCFTA investment protocol discussion, this would help to arm regional policymakers with tools for informed decision-making

**01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES**

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**02 INVESTMENT OPPORTUNITIES AND CHALLENGES IN EAST AFRICA**

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**03 REVIEW OF INVESTMENT APPROACHES**

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**04 REGIONAL INTEGRATION AND INVESTMENT**

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**05 RECOMMENDATIONS AND ACTION PLAN**



## 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

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## 02 INVESTMENTS OPPORTUNITIES AND CHALLENGES IN EAST AFRICA

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## 03 REVIEW OF INVESTMENT APPROACHES

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## 04 REGIONAL INTEGRATION AND INVESTMENT

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## 05 RECOMMENDATIONS AND ACTION PLAN

# 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

- East Africa, the fastest economic growing region on the continent

Table 1: Real GDP growth (2000 to 2022)

	Average 2000-2009	Average 2010-2015	Average 2015-2017	2018	2019	2020 - estimates	Projected 2021	Projected 2022
Burundi	3.4	4.6	2.2	4.2	4.1	-3.3	3.0	3.2
RDC	3.2	7.8	4.3	5.8	4.4	-2.2	3.5	4.0
Comoros	2.6	3.5	2.7	3.8	2.0	0.2	2.9	3.0
Djibouti	3.2	5.7	6.6	8.4	6.6	1.2	4.5	5.0
Eritrea	-0.6	11.8	3.1	4.2	3.8	-2.5	4.1	3.0
Ethiopia	8.6	10.2	9.5	7.7	9.0	6.1	2.3	4.2
Kenya	3.4	6.1	5.5	6.3	5.4	-0.4	3.0	4.0
Madagascar	3.2	2.2	3.7	3.2	4.4	-2.6	3.0	2.8
Rwanda	8.3	7.0	6.3	8.6	9.5	-3.4	4.5	6.0
Somalia	NA	1.8	3.3	3.1	2.9	-3.7	2.7	3.1
South Sudan	NA	-6.7	1.0	3.4	11.3	-7.2	2.0	2.2
Seychelles	2.0	5.1	4.6	1.3	1.9	-13.4	1.8	4.3
Tanzania	6.4	6.6	6.6	7.0	7.0	1.5	3.0	4.0
Uganda	7.5	5.4	4.6	6.2	6.8	2.9	4.1	4.8
<b>Eastern Africa</b>	<b>6.3</b>	<b>5.8</b>	<b>5.8</b>	<b>6.7</b>	<b>6.5</b>	<b>-0.7</b>	<b>3.0</b>	<b>4.1</b>
<b>Africa</b>	5.8	5.5	2.6	3.4	2.9	-3.4	3.4	3.6
<b>World</b>	5.2	4.2	2.8	3.1	2.5	-4.3	4.7	3.4

# 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

- East African economies, largely driven by internal demand

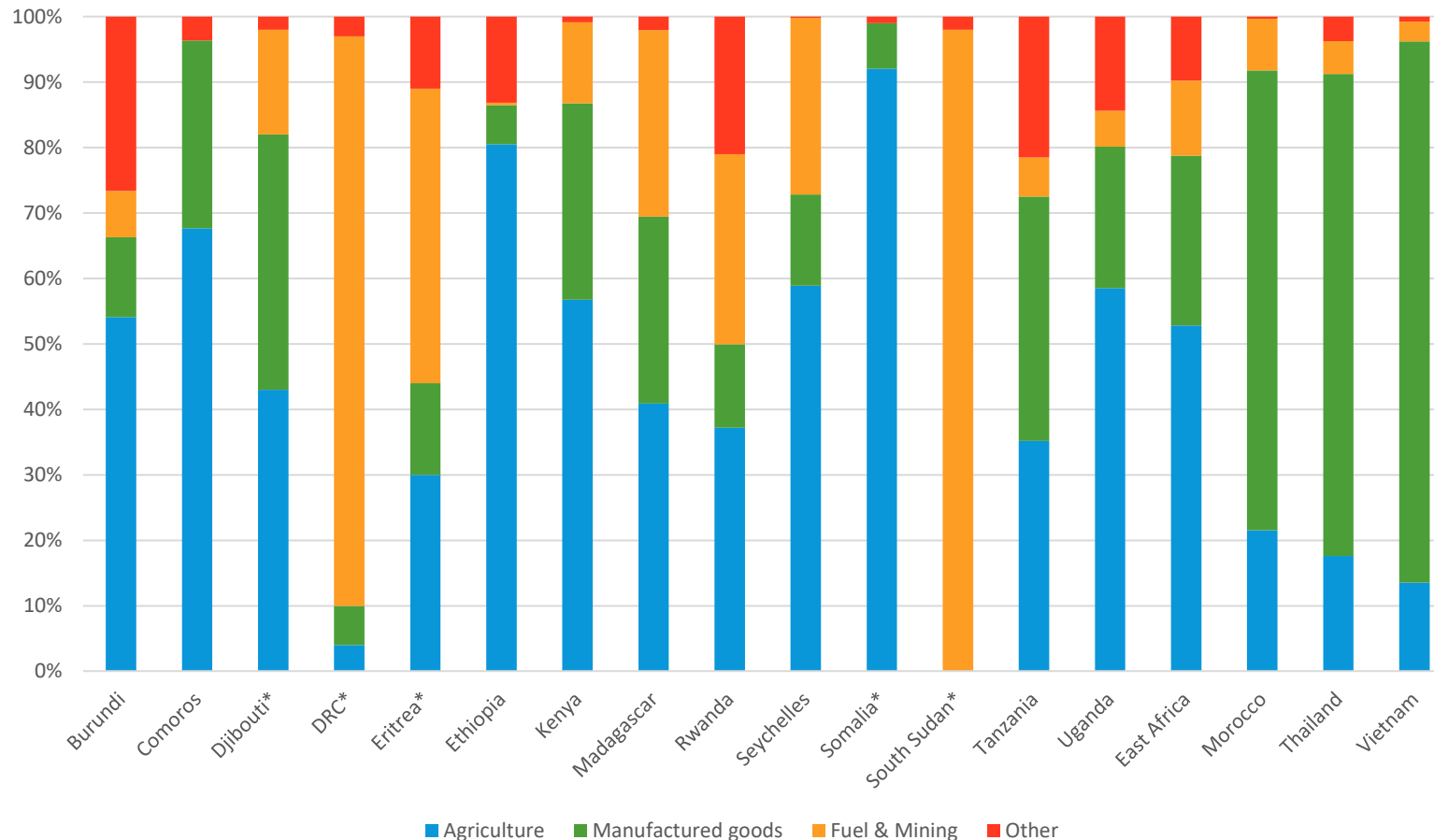
Table 2: GDP structure (average 2015-2019)

	Exports to GDP (%)	Final Consumption expenditures to GDP (%)	Gross Capital Formation to GDP (%)	Imports to GDP (%)
Burundi	7.4	106.9	16.6	-29.5
Comoros	11.8	102.5	14.1	-28.3
Djibouti	138.3	82.2	36.5	-157.0
Eritrea	29.7	89.8	6.6	-26.1
Ethiopia	8.2	77.4	37.0	-24.9
Kenya	13.9	94.1	18.8	-23.9
Madagascar	29.7	86.8	18.3	-33.9
Rwanda	18.4	90.9	24.7	-34.0
Seychelles	86.5	78.7	35.5	-96.8
Somalia	0.3	81.4	20.0	-1.7
South Sudan	59.7	159.5	15.8	-135.1
Tanzania	15.9	69.2	35.4	-18.9
Uganda	18.2	84.8	24.7	-27.8
DRC	30.3	83.6	20.8	-34.7
Total Eastern Africa	18.1	84.2	27.0	-28.9
Africa	23.1	81.9	23.7	-28.7
Europe	44.5	74.9	21.4	-40.8

# 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

- Exports driven by agriculture products and natural resources

Figure 1: Total export structure by product group (average 2015-2019)

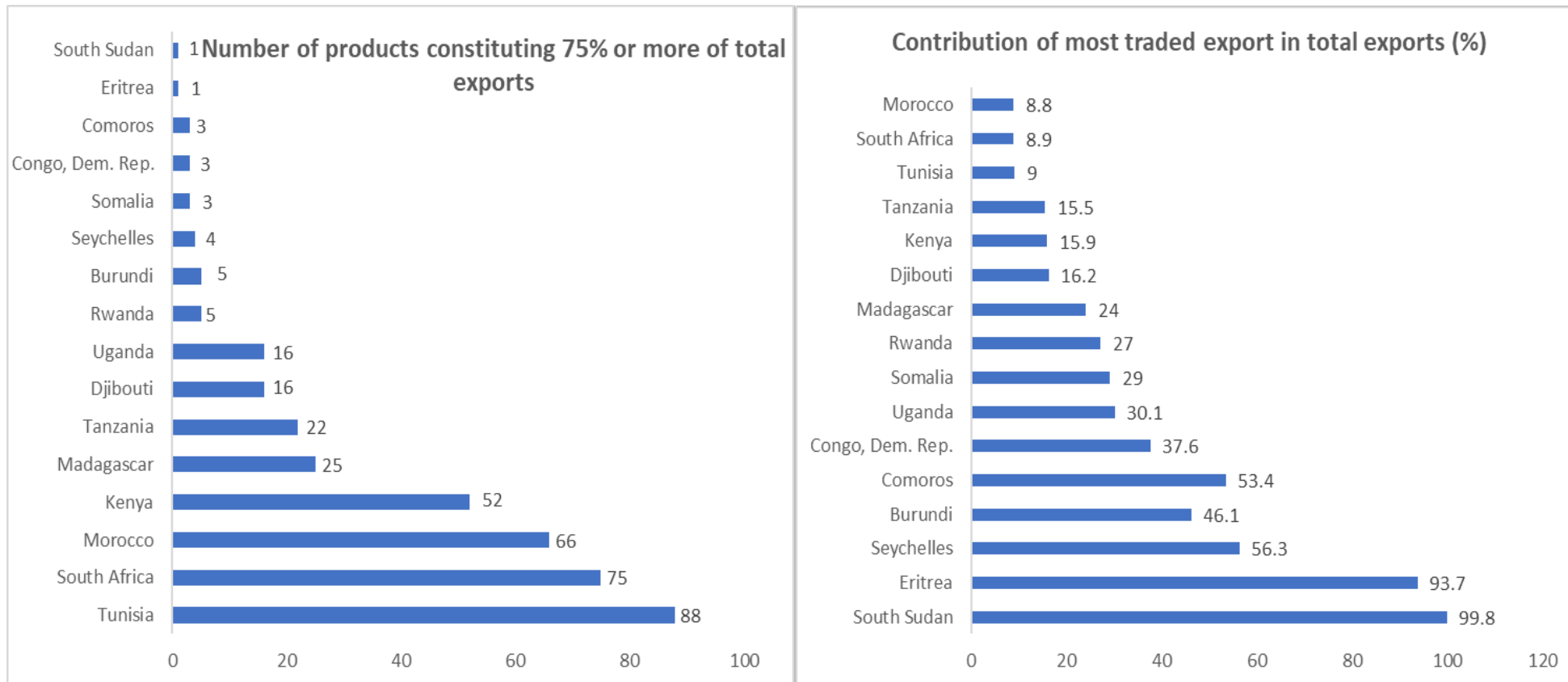




# 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

- Among least diversified economies on the continent (horizontal)

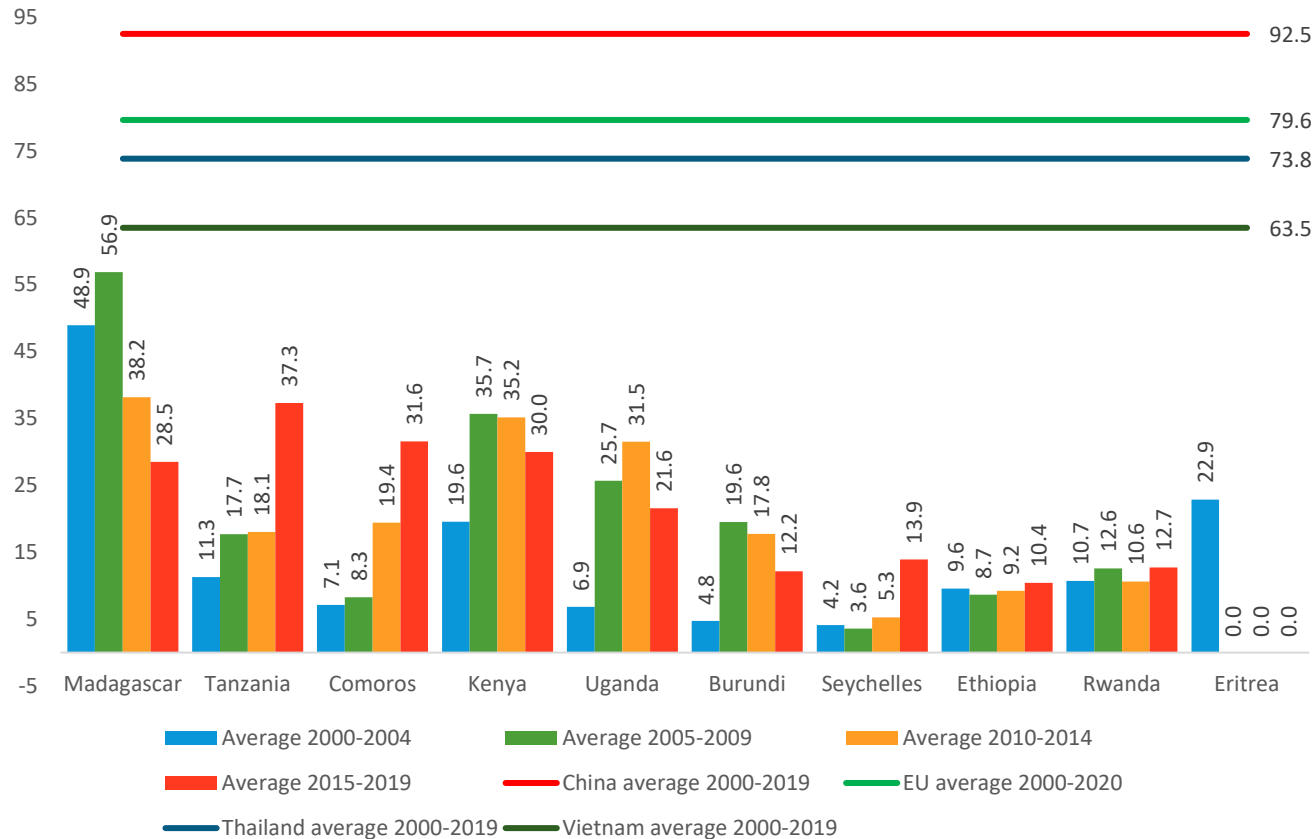
Figure 2: Number of products constituting 75% or more of total exports and contribution of most traded export in total exports (2014)



# 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

- Among least industrialized regions on the continent and pace of industrialization is slowing

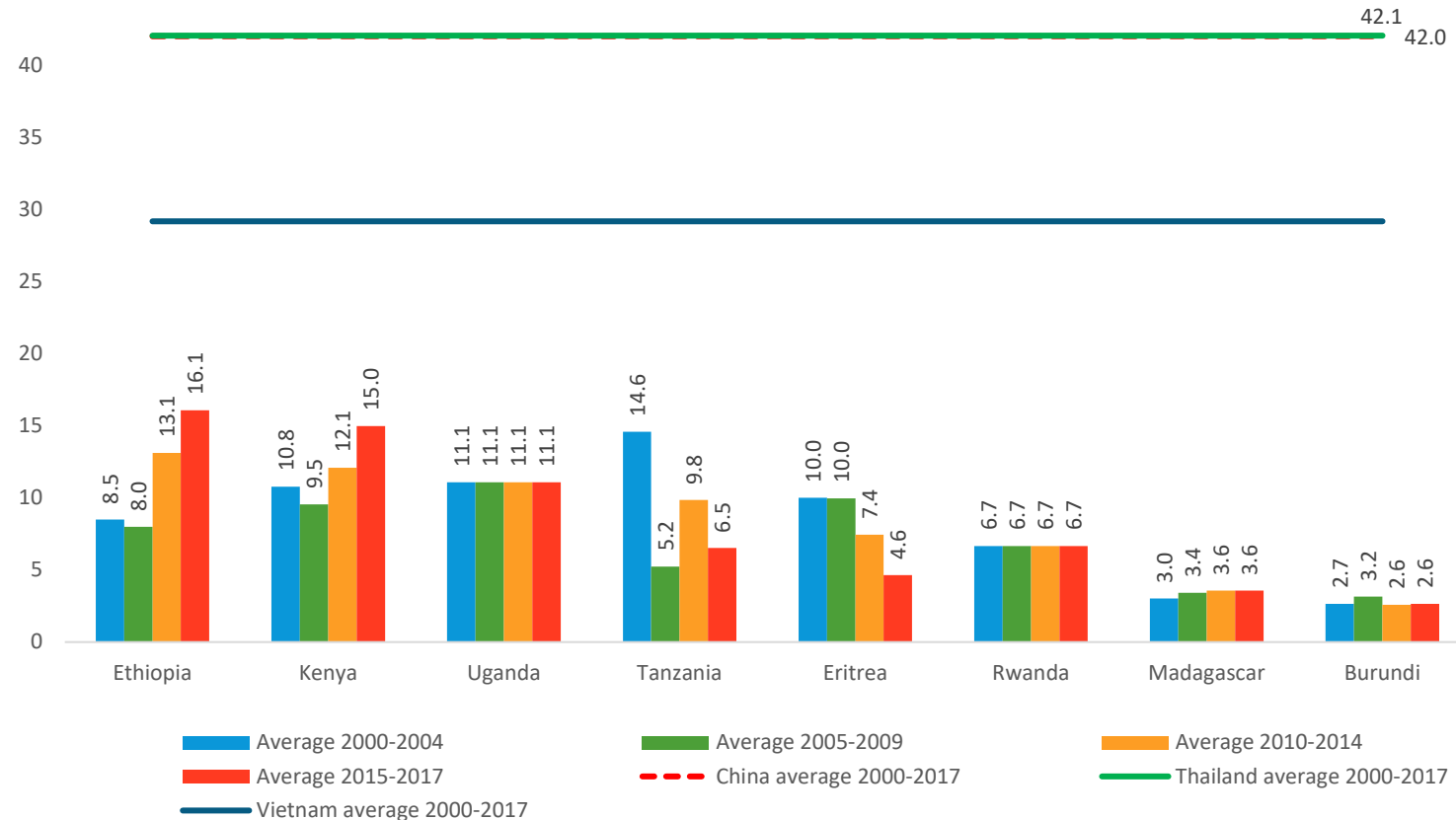
Figure 3: Trend of share of manufactured products to total export from 2000 to 2019



# 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

- Among least industrialized regions on the continent and pace of industrialization is slowing

Figure 4: Trend of medium and high-tech in manufacturing value-added (% total MVA) from 2009 to 2017





# 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

- Shift to service is slowly happening in Eastern African economies

Table 3: Service, value added (% of GDP) from 1995 to 2019

	Annual average 1995-1999 (%)	Annual average 2000-2009 (%)	Annual average 2010-2019 (%)
Burundi	31.7	35.6	43.2
DRC	29.7	40.8	33.5
Comoros	54.5	54.5	53.8
Ethiopia	32.5	39.4	38.8
Kenya	n.a.	50.0	45.9
Madagascar	46.5	51.5	54.1
Rwanda	37.6	45.3	49.1
South Sudan	n.a.	36.1	46.8
Seychelles	60.5	59.5	69.0
Tanzania	40.4	46.1	40.6
Uganda	35.9	45.8	42.2
Eastern Africa	<b>41.0</b>	<b>45.9</b>	<b>47.0</b>
Africa	35.5	39.3	43.8
European Union	61.0	63.3	65.4
United States	72.3	74.3	76.5

# 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

- Shift to service is slowly happening in Eastern African economies

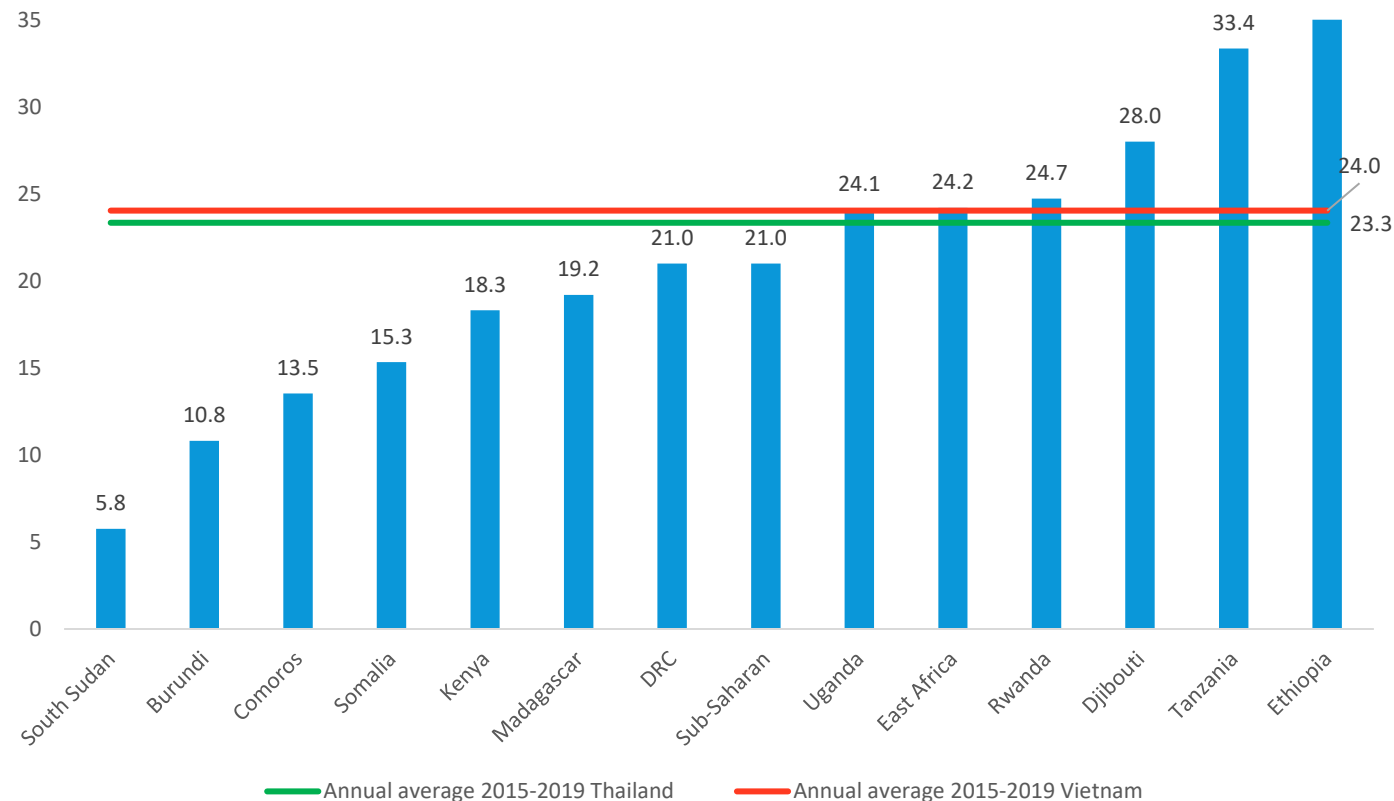
Table 4: Service export to total export of goods and services (%) from 2000 to 2019

	Average 2000-2004	Average 2005-2009	Average 2010-2014	Average 2015-2019 (%)
Burundi	15.5	42.5	45.7	29.5
DRC	n.a.	11.2	3.9	1.1
Comoros	63.4	76.6	62.6	71.7
Kenya	35.2	39.5	45.4	45.3
Madagascar	45.8	41.4	45.8	35.4
Rwanda	n.a.	n.a.	57.6	52.5
Seychelles	56.4	48.7	59.4	78.5
Tanzania	44.3	40.0	33.8	44.5
Uganda	33.8	31.0	44.8	41.6
Eastern Africa*	<b>42.1</b>	<b>41.4</b>	<b>44.4</b>	<b>44.5</b>
Africa	18.5	15.6	13.9	19.5
European Union	22.9	23.7	24.6	27.8
United States	28.3	30.0	31.4	34.6

# 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

- For most countries in the region, investment rate is below the 25% threshold identified by UN Growth Commission to have sustainable impact on economic transformation and development

Figure 5: Annual average of GFCF-to-GDP (%) from 2015 to 2019



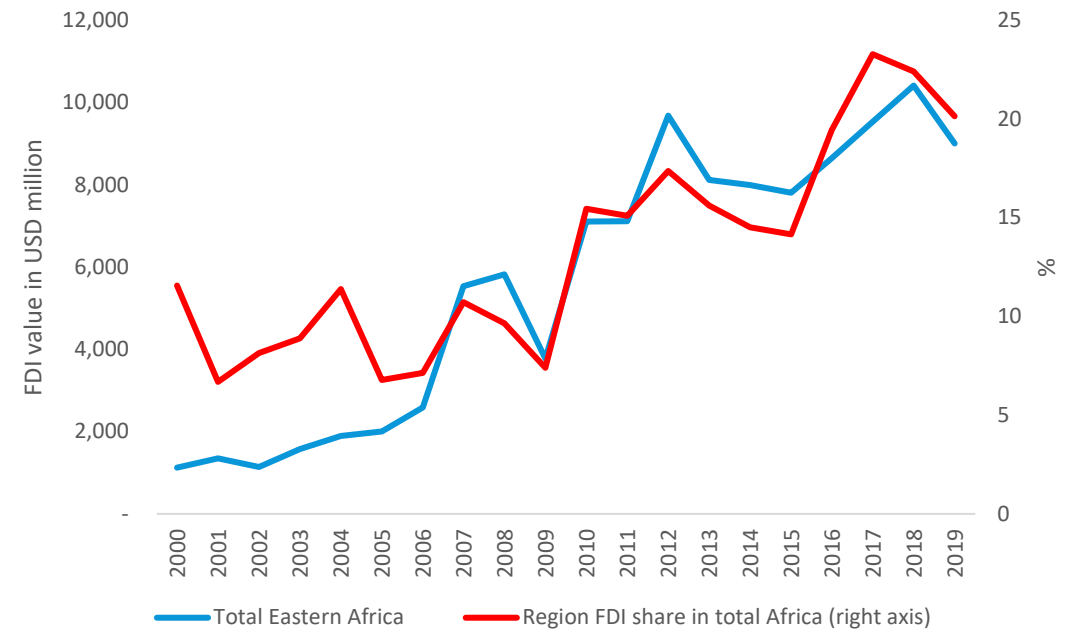
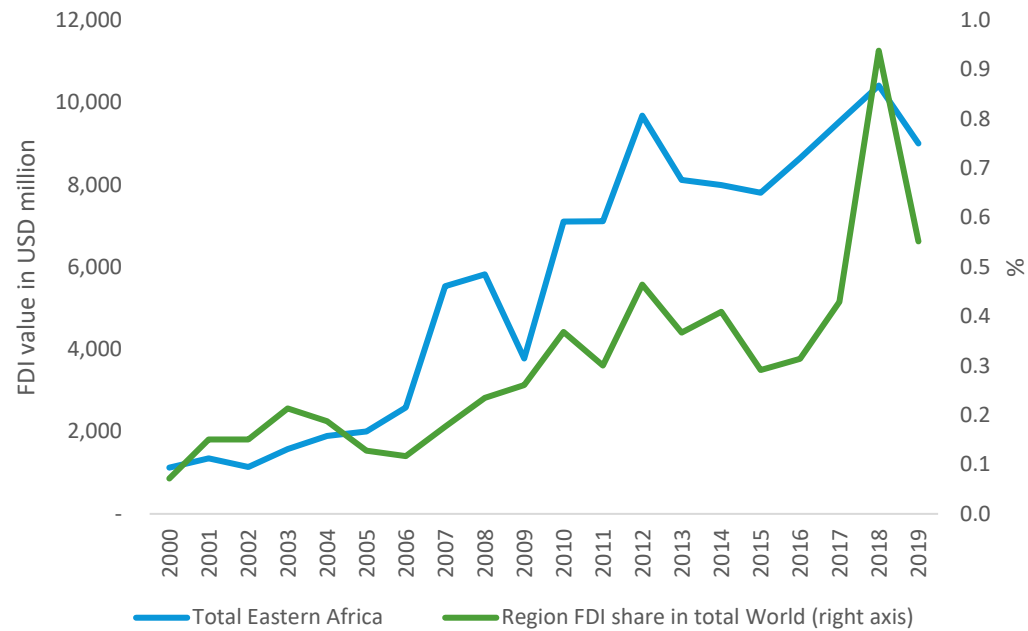
— Annual average 2015-2019 Thailand — Annual average 2015-2019 Vietnam



# 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

- East Africa faces important challenges to attract sufficient and quality FDI inflows

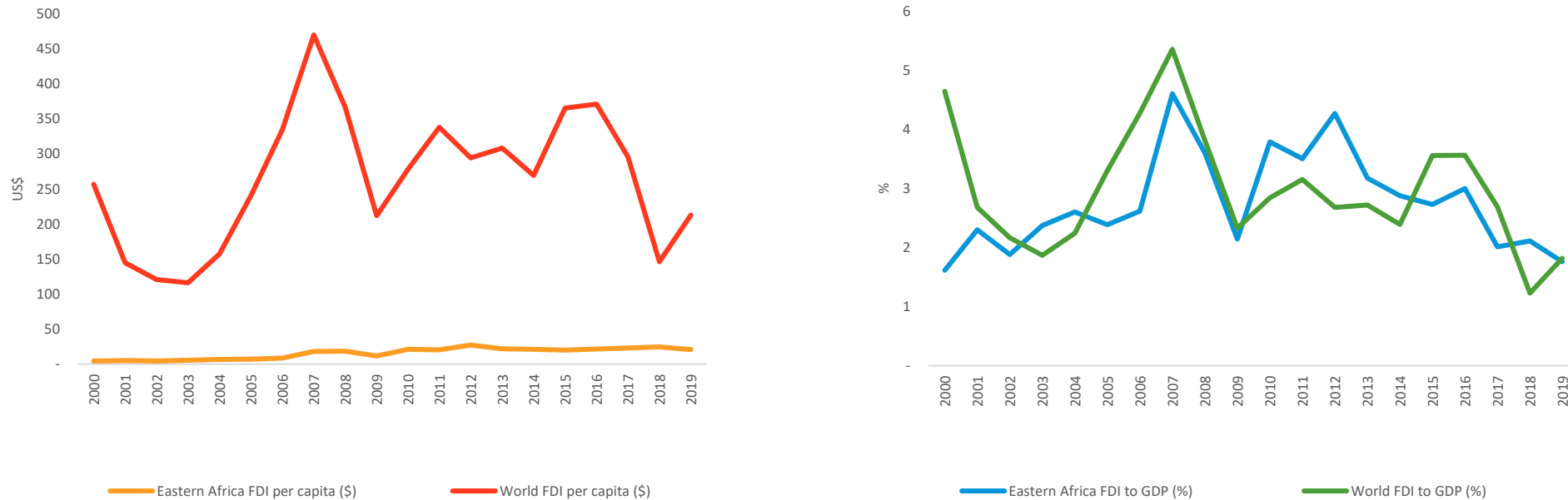
Figure 5: Evolution of FDI inflows into East Africa (amount and share) from 2000 to 2019



# 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

- East Africa faces important challenges to attract sufficient and quality FDI inflows

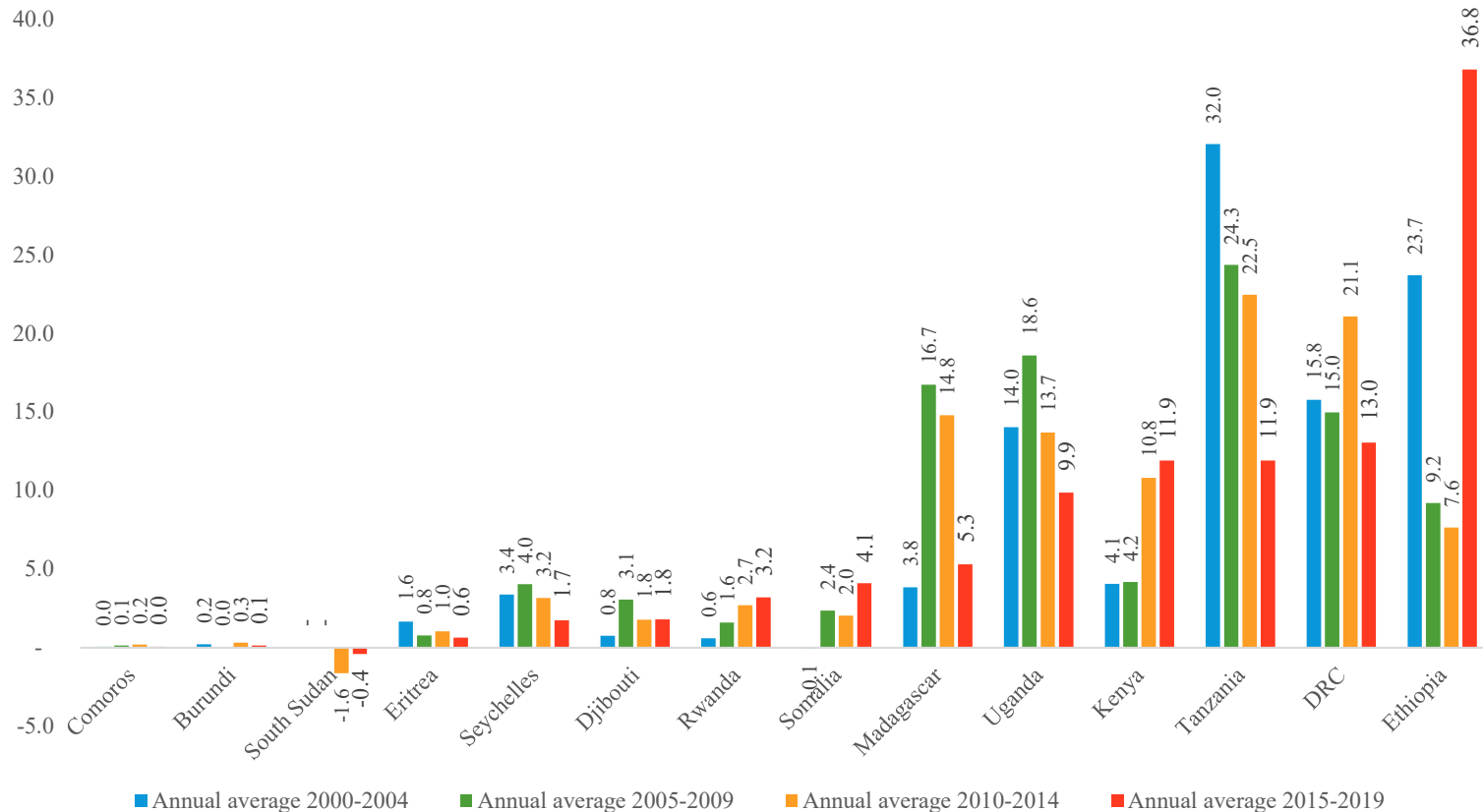
Figure 6: FDI inflows into Eastern Africa per capita and FDI-to-GDP (%) from 2000-2019



# 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

- Ethiopia, DRC, Tanzania and Kenya are the most performing countries in the region in terms of attracting FDI

Figure 6: Countries FDI inflows shares (%) in total of Eastern Africa from 2000 to 2019

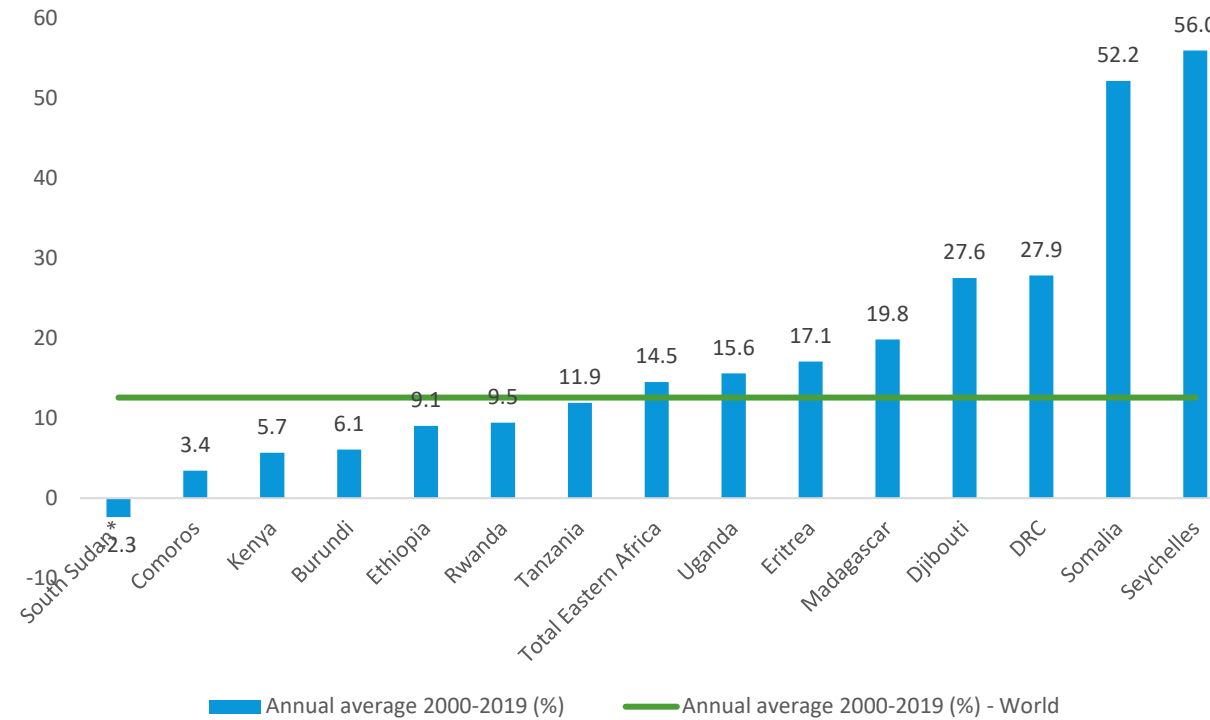




# 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

- Investment in the region largely driven by domestic investment

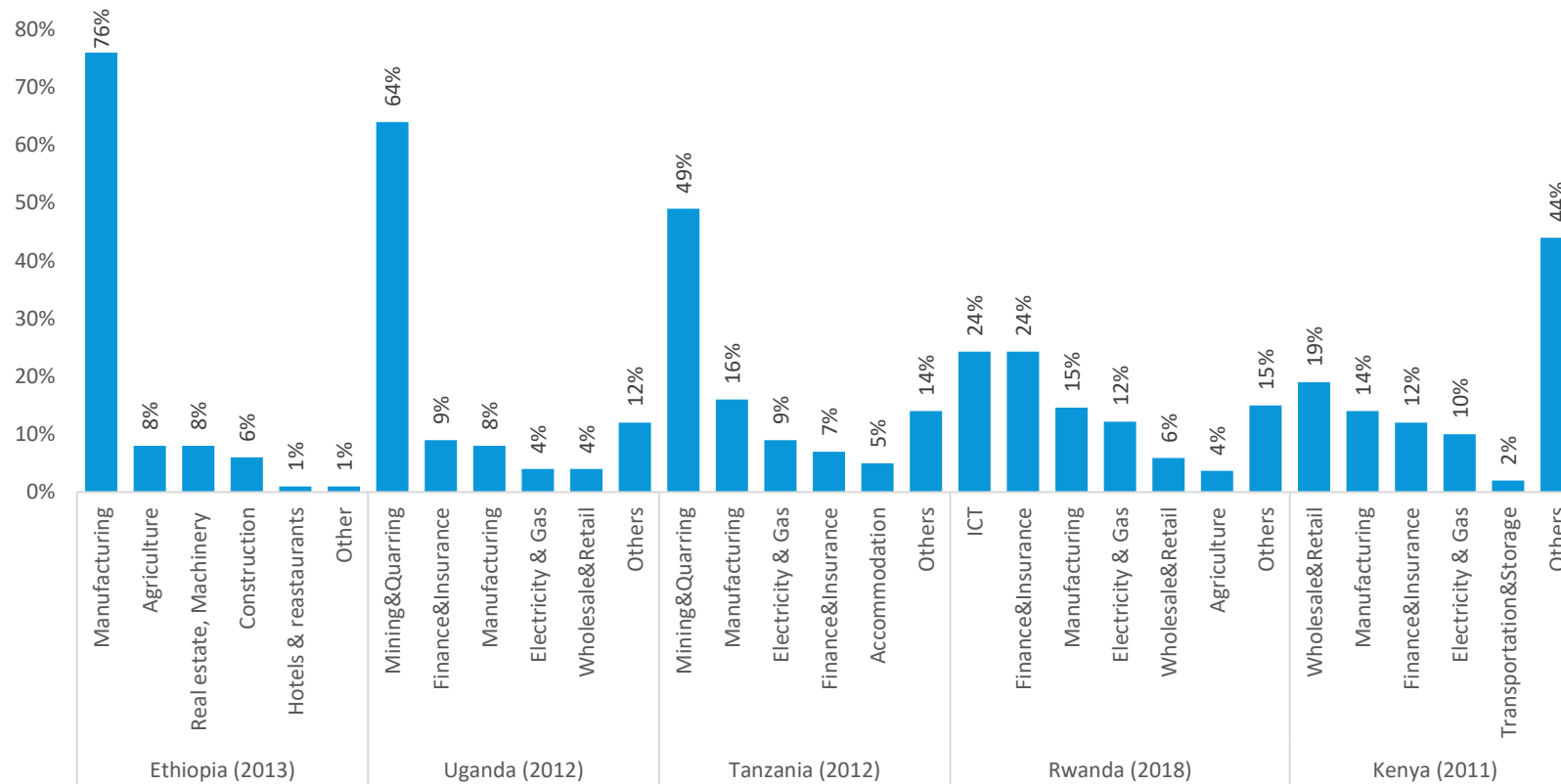
Figure 7: FDI inflow as percentage of Gross Fixed Capital Formation (%)



# 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

- Ethiopia mostly captures manufacturing oriented FDI whereas Uganda and Tanzania capture resources-seeking FDI

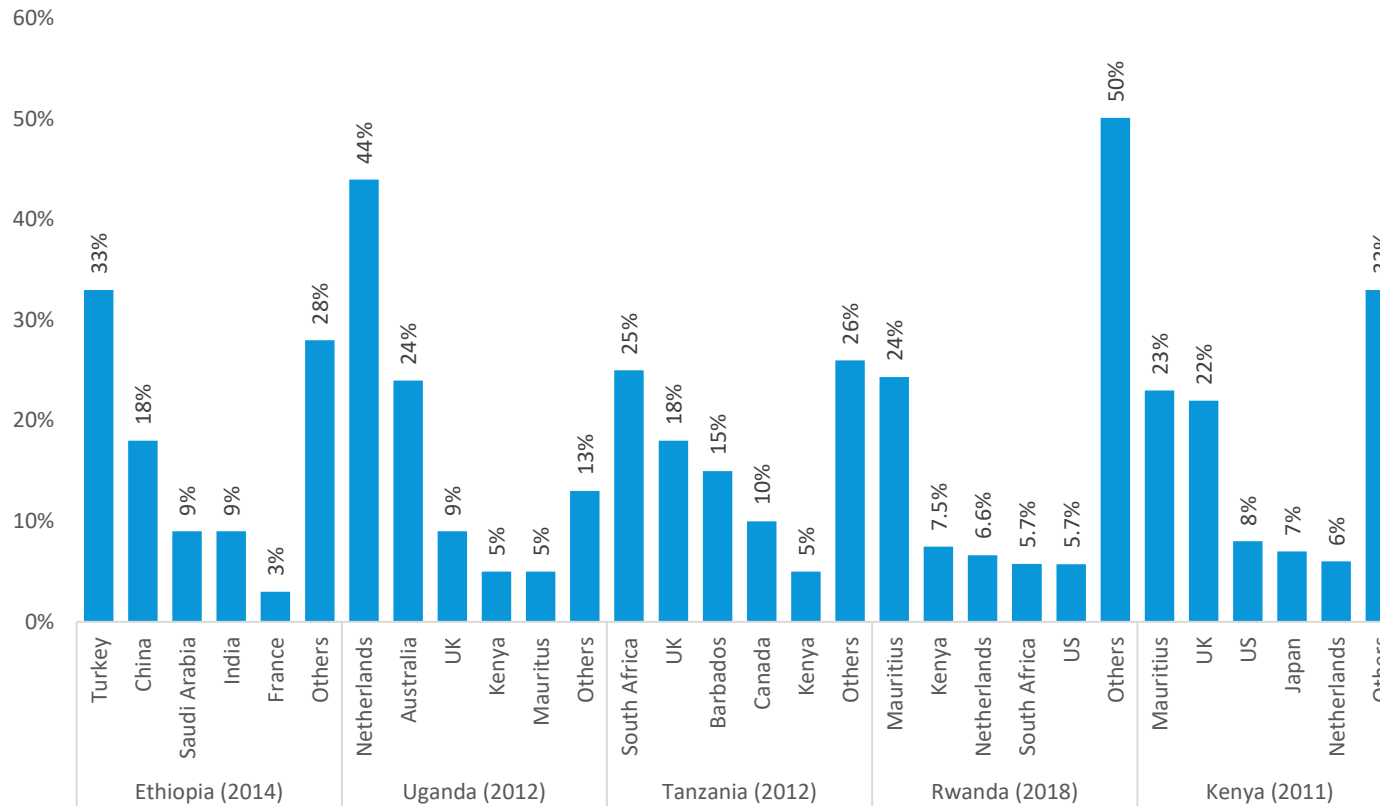
Figure 8: Main sectors of FDI inflows in selected countries by FDI stocks, % of total value



# 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

- Intra-African FDI is still representing small share of total FDI inflows

Figure 9: Top countries of FDI investors in selected countries by FDI stocks, % of total value





# 01 QUICK OVERVIEW OF EASTERN AFRICA ECONOMIES

- **Empirical evidence through panel regression highlighted the following as FDI's main determinants in Eastern Africa:**
  - Level of the country income
  - Degree of openness to trade
  - Quality of infrastructure development
- **This calls to increase countries' openness to trade and quality of infrastructure development in order to attract sizable FDI**

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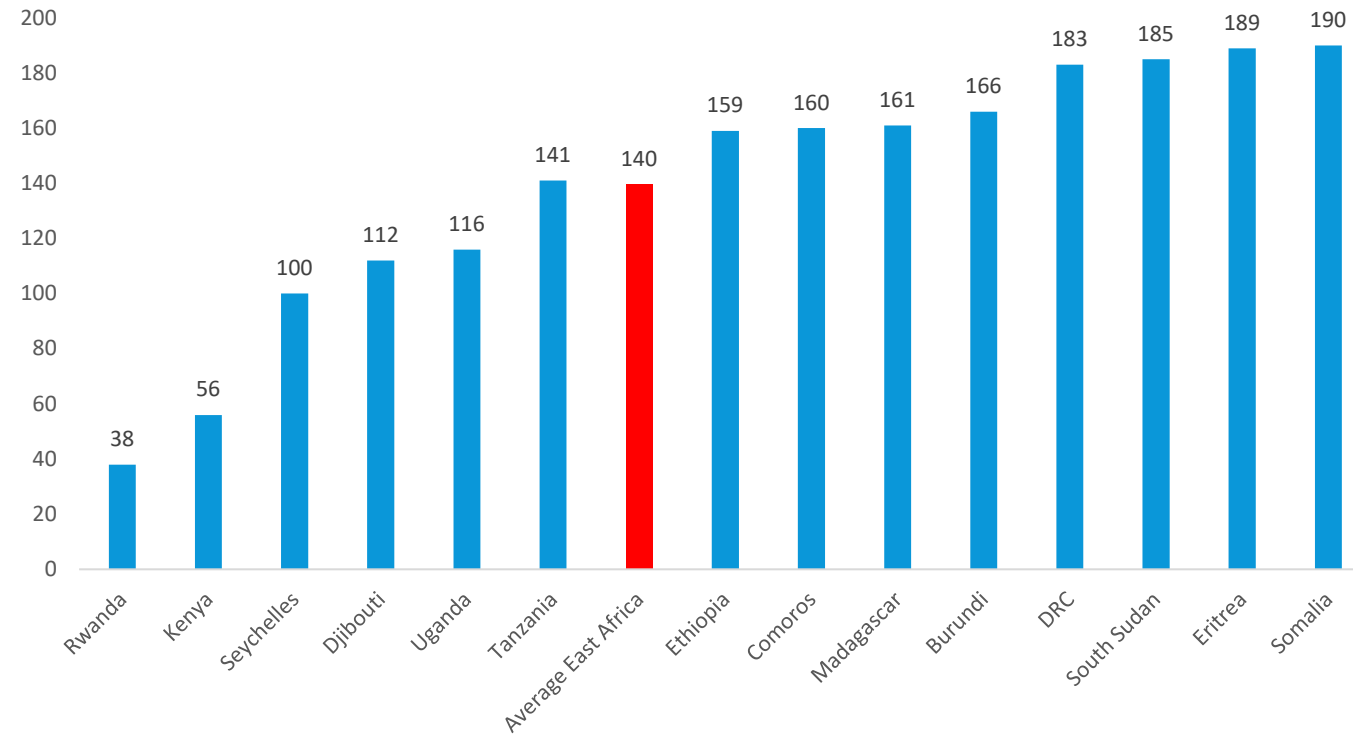
- **Opportunities**

- Large internal market made of 437 millions potential consumers
- Fastest economic growth region on the continent with relatively high resilience
- Region offers soil and climate ideal for agribusiness development
- Some of the countries in the region are rich in natural resources
- Region has natural assets for substantial investment in tourism
- Region offers huge investment opportunities in manufacturing, infrastructures and services
- Investment codes offers interesting investment conditions

# 02 INVESTMENT OPPORTUNITIES AND CHALLENGES IN EAST AFRICA

- **Challenges: Poor business environment**

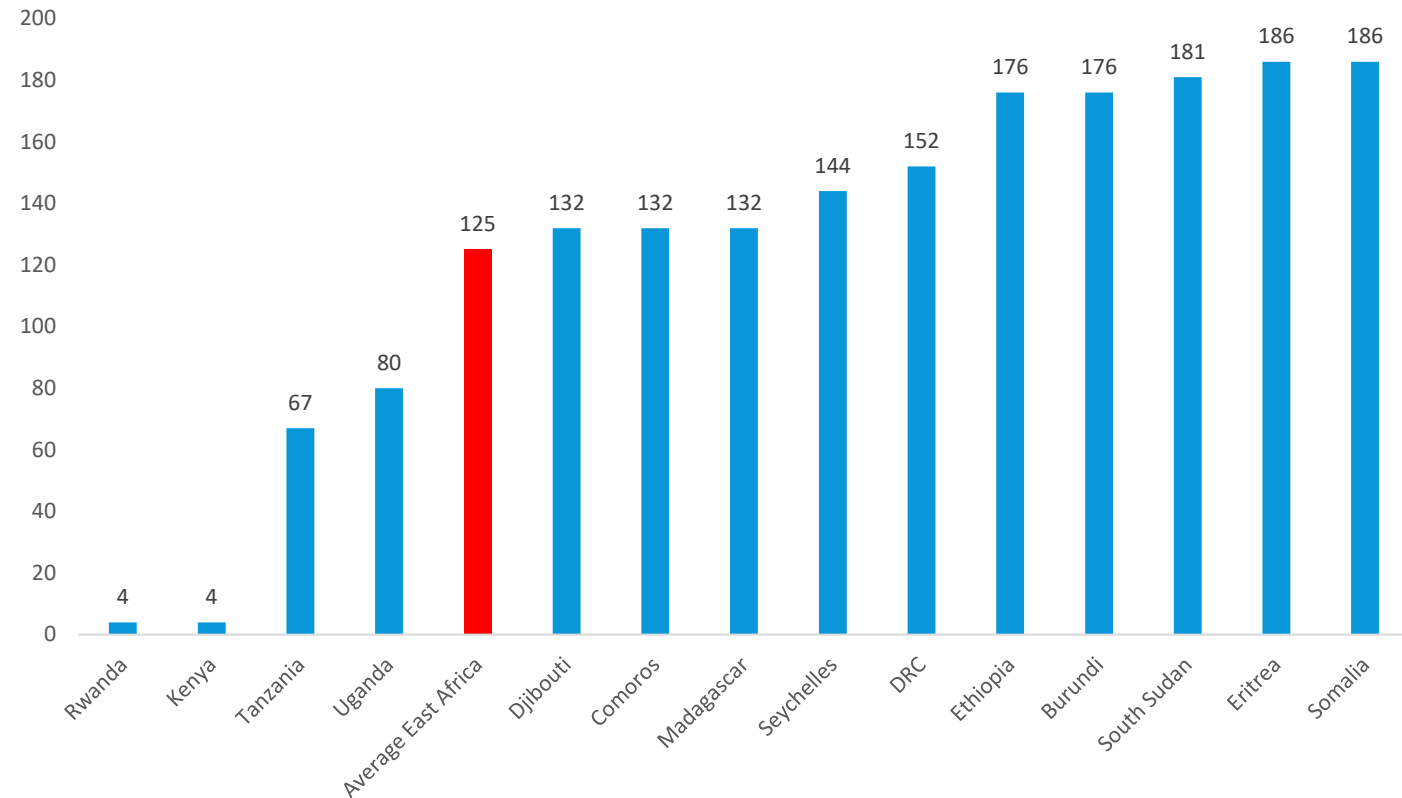
Figure 10: 2020 Doing Business ranking of Eastern Africa countries



## 02 INVESTMENT OPPORTUNITIES AND CHALLENGES IN EAST AFRICA

- **Challenges: Poor access to finance/credit in the region**

Figure 11: 2020 ranking of Doing Business's Getting Credit factor of Eastern Africa countries

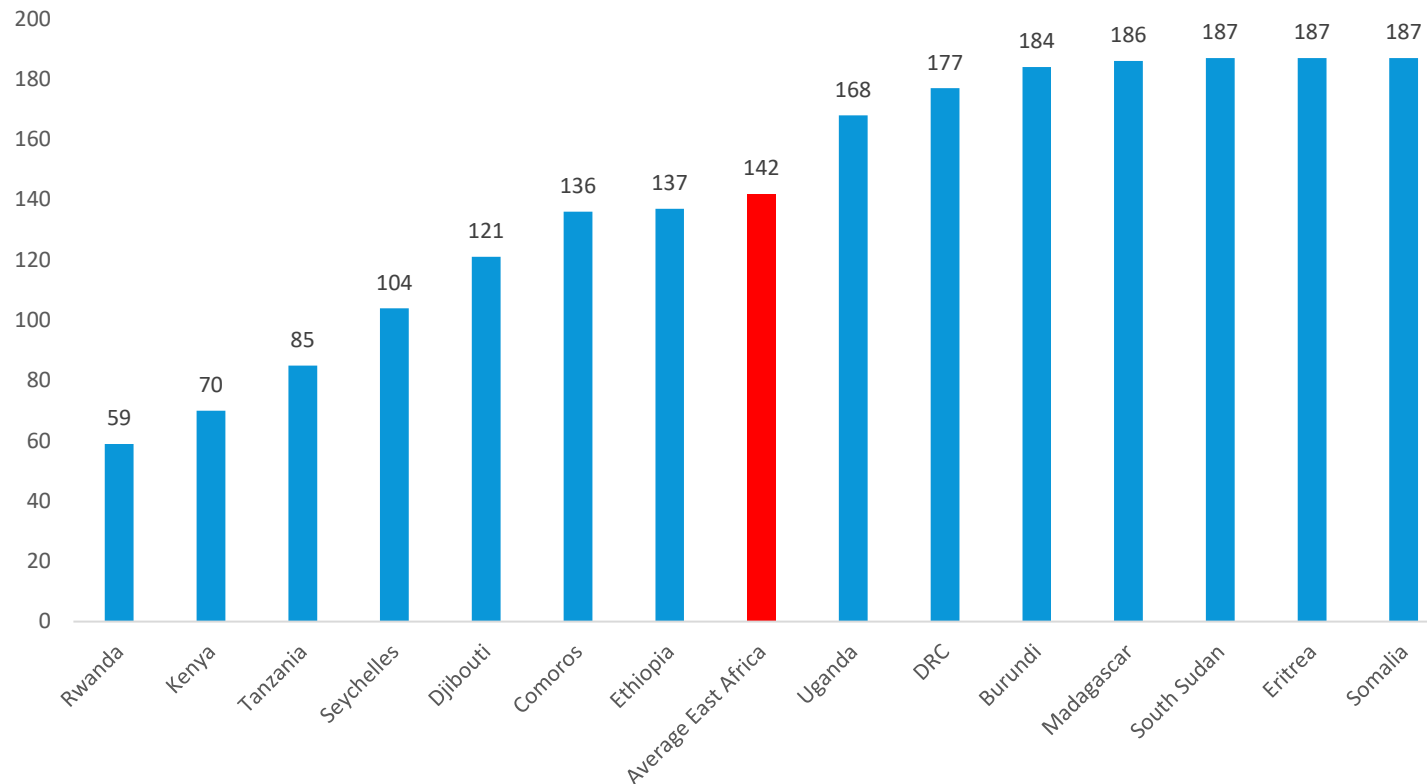




## 02 INVESTMENT OPPORTUNITIES AND CHALLENGES IN EAST AFRICA

- **Challenges: Weak and limited infrastructure development in the region**

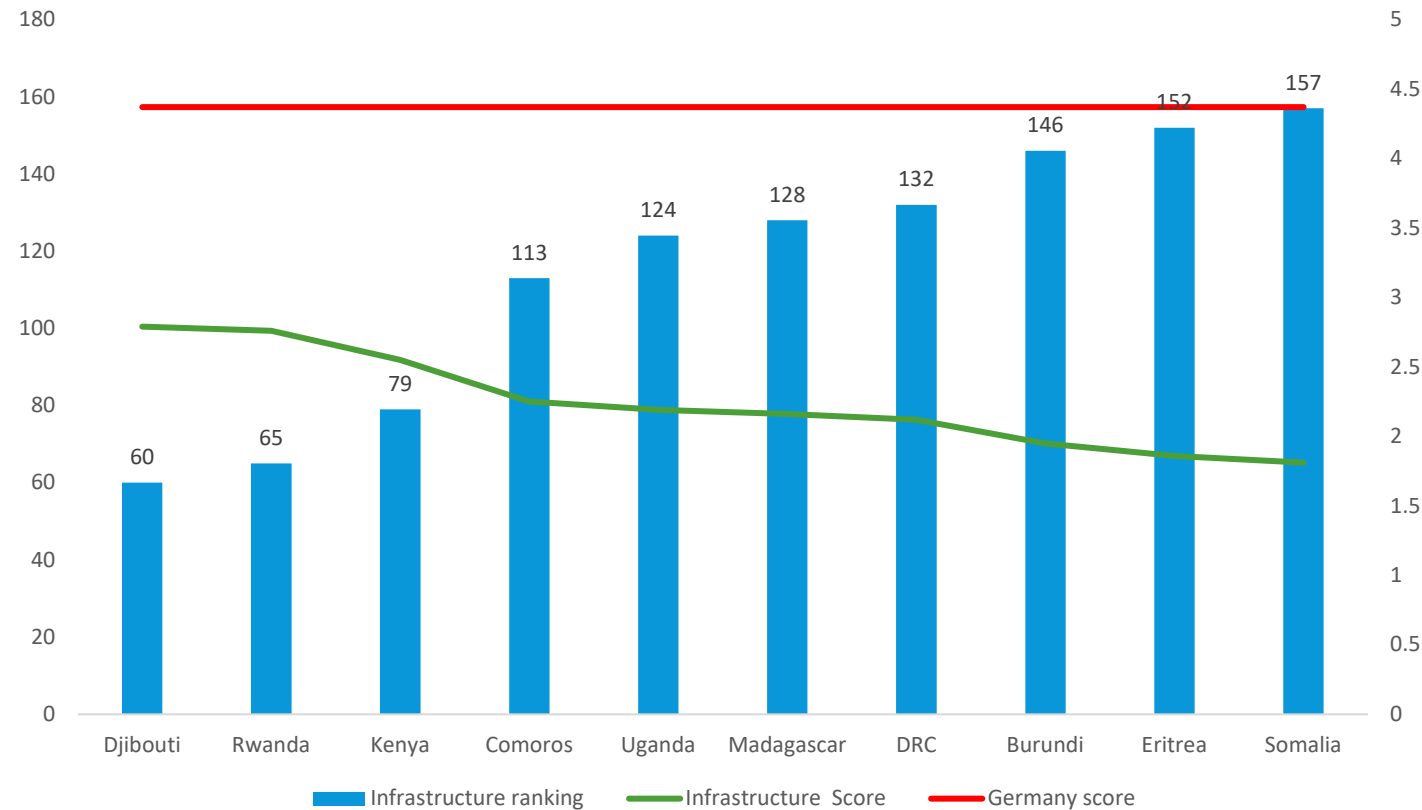
Figure 12: 2020 ranking of Doing Business's Getting Electricity factor of Eastern Africa countries



# 02 INVESTMENT OPPORTUNITIES AND CHALLENGES IN EAST AFRICA

- **Challenges: Weak and limited infrastructure development in the region**

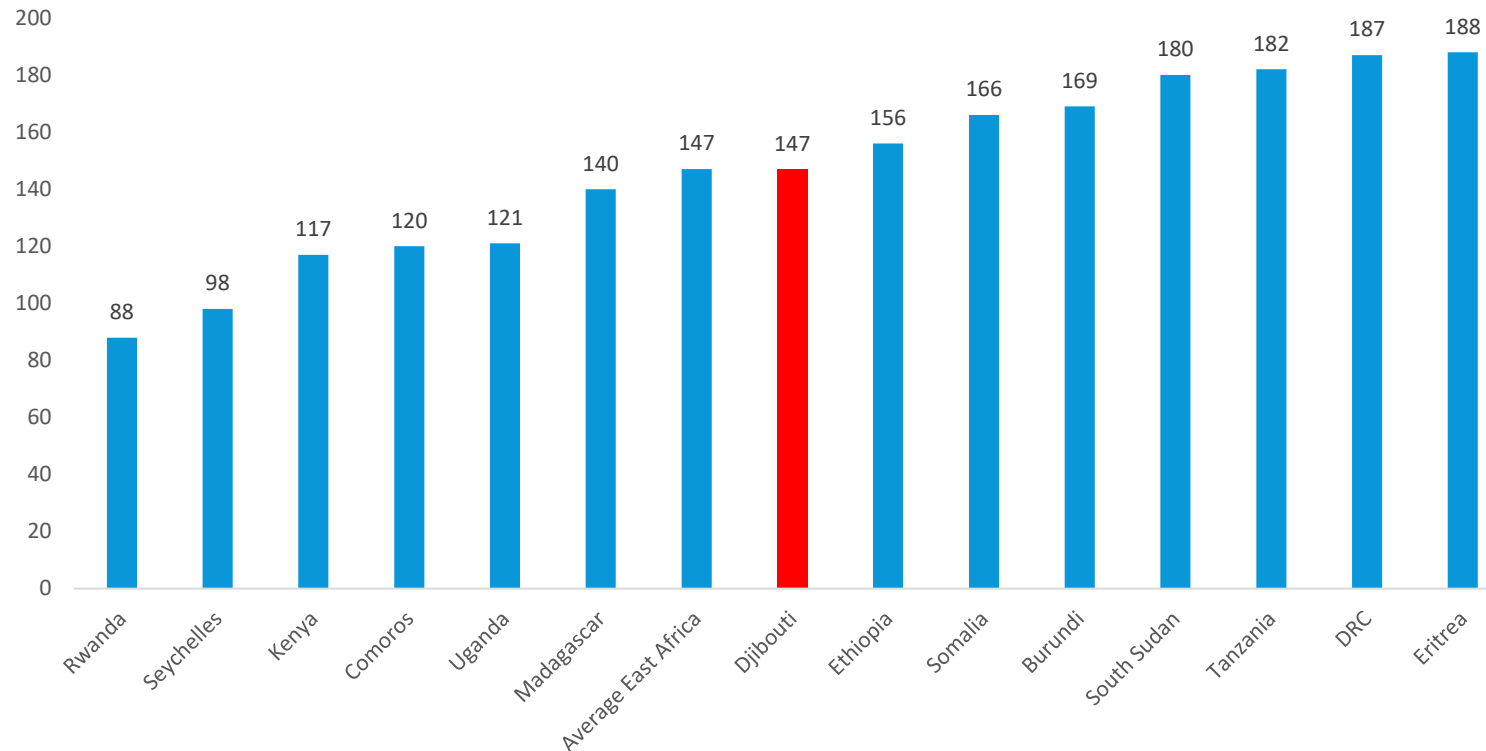
Figure 13: 2018 ranking of and score of Infrastructure factor from LPI in selected countries of the region



# 02 INVESTMENT OPPORTUNITIES AND CHALLENGES IN EAST AFRICA

- **Challenges: Weak economic openness in the region**

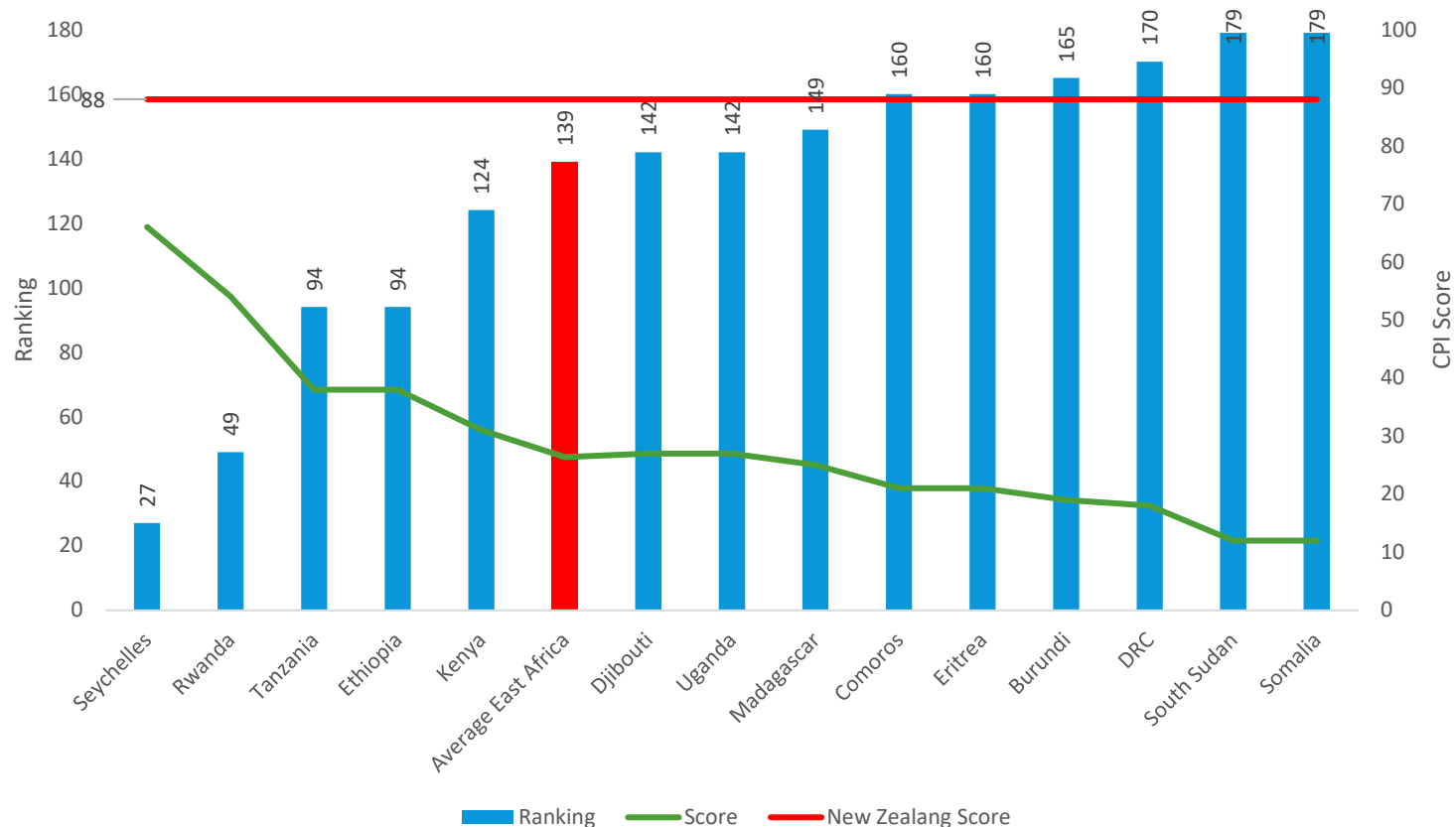
Figure 14: 2020 ranking of Trading across Borders factor of Eastern Africa countries



# 02 INVESTMENT OPPORTUNITIES AND CHALLENGES IN EAST AFRICA

- **Challenges: Most of the countries in the region suffer from corruption**

Figure 15: 2020 World Bank Corruption Perception Index – CPI, score



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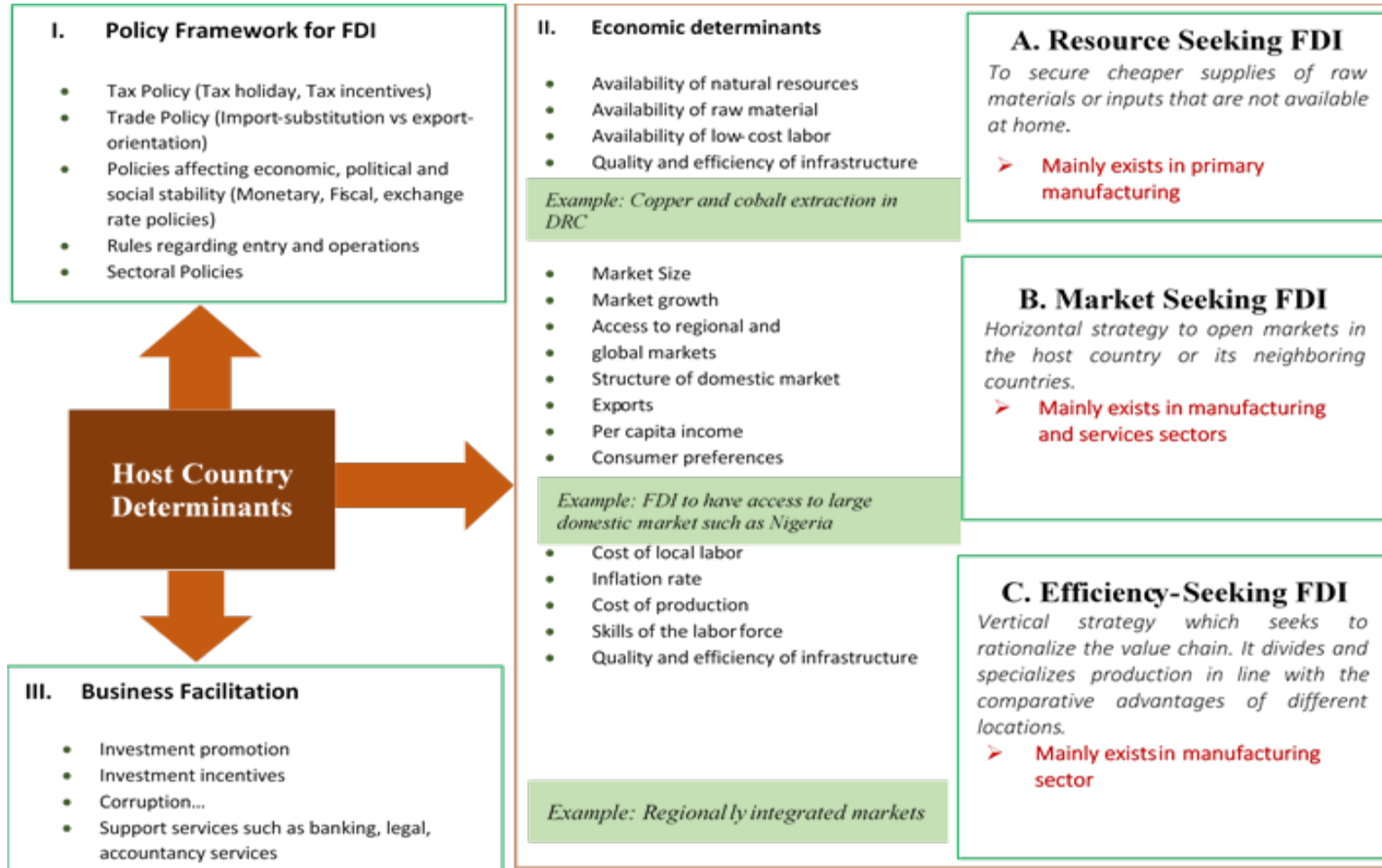
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05 RECOMMENDATIONS AND ACTION PLAN



# 03 REVIEW OF INVESTMENT APPROACHES

## • Traditional investment approaches –Theoretical framework of FDI



- **Market-seeking and efficiency-seeking FDI seem to have more sustainable impact on economic development**
- **Unfortunately, the region seems to attract few of these types of FDI**

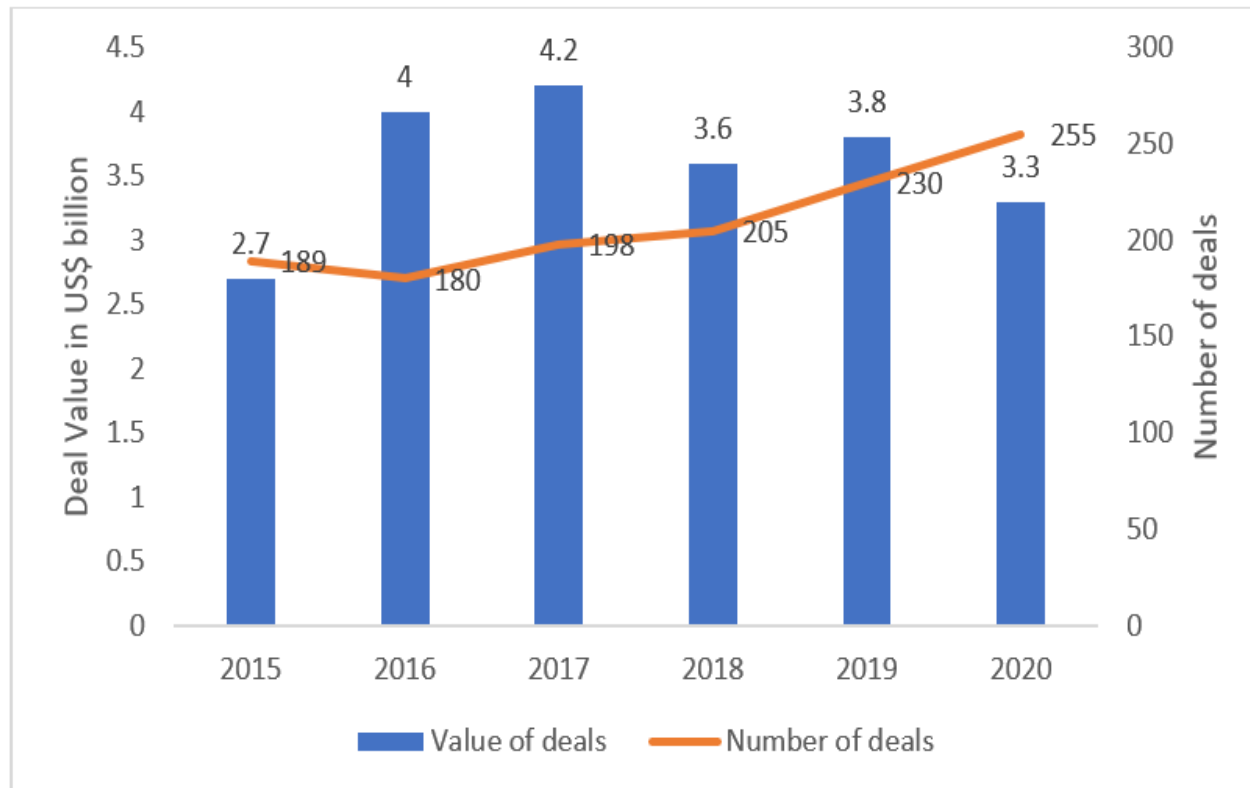
## 03 REVIEW OF INVESTMENT APPROACHES

- **Traditional investment approaches – FDI**
- **Main FDI determinants from literature review:**
  - Business environment (tax policy, trade facility, rules regarding entry and operations, corruption, banking)
  - Political stability
  - Infrastructure Development
- **In 2020, worldwide FDI flows decreased to US\$999 billion from US\$1.6 trillion in 2019, representing 34.7% decrease due to Covid-19**
- **The region shows resilience in terms of FDI attraction in 2020. Indeed, the region captured US\$8 billion FDI inflows (0.5% of the global FDI and 20% of Africa total FDI); this represents only 9.5% decrease compared to 34.7% globally**

## 03 REVIEW OF INVESTMENT APPROACHES

- **Traditional investment approaches – Equity funds, alternative to banking and market financing is increasing on the continent**

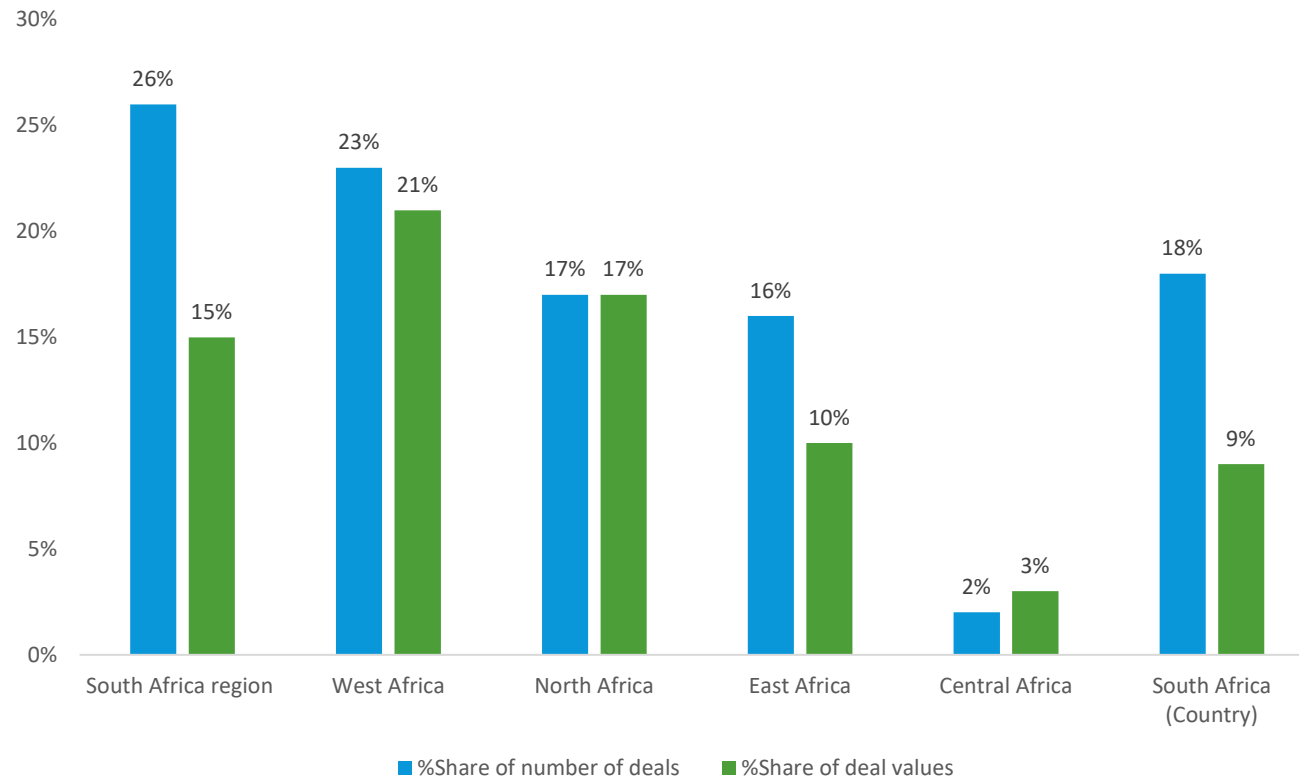
Figure 16: Trend of Private Equity deals in Africa (2015-2020)



## 03 REVIEW OF INVESTMENT APPROACHES

- **Traditional investment approaches – Equity funds** : The region captures only **16% of private equity transactions on the continent compared to 23% for West Africa**

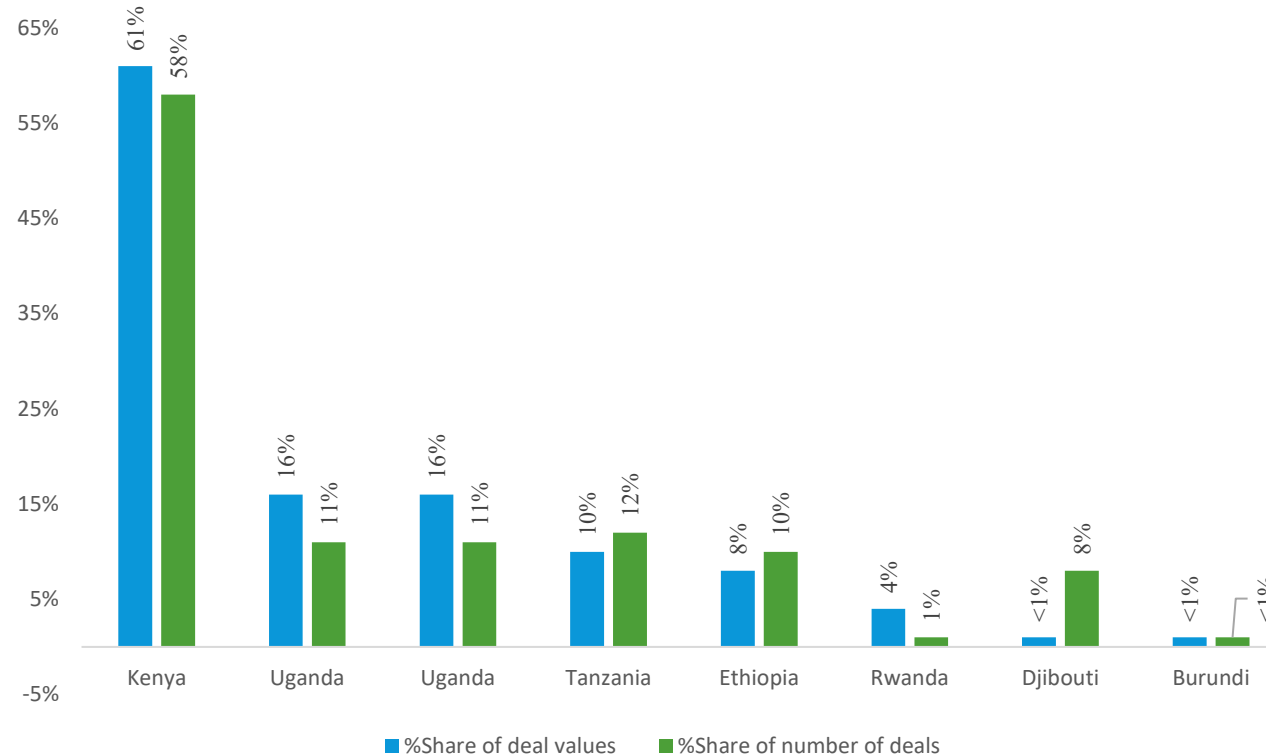
Figure 17: Share of African sub-regions in total Private Equity deals in Africa (2015-2020)



# 03 REVIEW OF INVESTMENT APPROACHES

- **Traditional investment approaches – Equity funds : Bulk part of private equity transaction in the region is captured by Kenya**

Figure 18: East Africa Private Equity Investment shared by country (2015-2020)





## 03 REVIEW OF INVESTMENT APPROACHES

- **Traditional investment approaches – Assets on the institutional investors balance sheet represent huge investment financing capacity**

Table 4: African Institutional Investors Assets (US\$ billion)

Type of investors	2017	2020f
Pension funds	676	1,100
Insurance companies	329	445
Sovereign wealth funds	243	300
<b>Total</b>	<b>1,248</b>	<b>1,845</b>

- **Institutional investors target infrastructure and low risk investments**

## 03 REVIEW OF INVESTMENT APPROACHES

- **Traditional investment approaches – A Joint Venture is another investment approach that could be leveraged to attract quality investment in East Africa.**
- This investment strategy can be used locally or internationally. International JV are major vehicles for FDI.
- **Eastern Africa countries should design policies to promote strong domestic entrepreneurs, national champions in their respective sectors by training them to improve their management, governance, and negotiation capabilities.**
- **This will help the region to have in place domestic strong partners who can enter into JV relationships with foreign partners who want to invest in the region.**

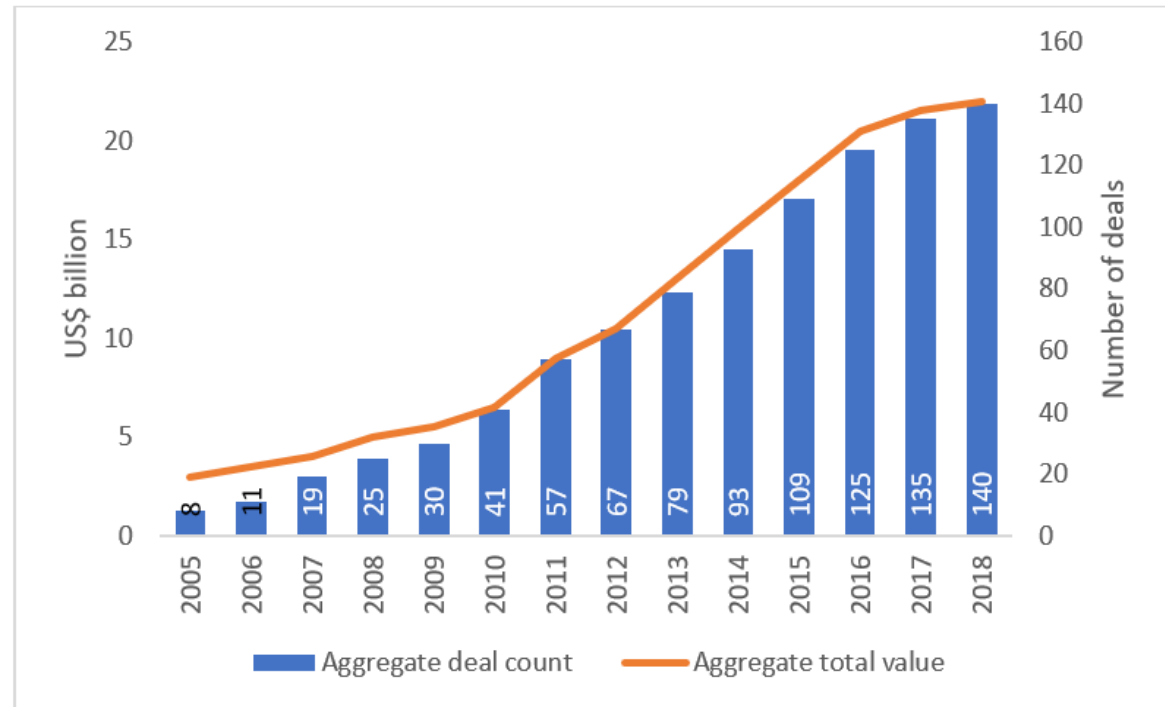
## 03 REVIEW OF INVESTMENT APPROACHES

- **Innovative investment – ESG investment**
- **Three main types:**
  - Sustainable or Green Investments: investments that seek to combat or to factor in their objective fight against climate change and environmental destruction
  - Socially Responsible Investments (SRI): This category of investments considers the impact on social within the investment objective
  - Impact Investments: Investments that aim to generate, on top of the financial return, specific and positive social or environmental impact.
- **These types of investments are on increasing trend. In 2016, these amounted to US\$22.89 trillion worldwide**
- **In 2013, only 4% of the global ESG investment were invested in sub-Saharan Africa**

# 03 REVIEW OF INVESTMENT APPROACHES

- **Innovative investment – Blended finance**
- **Defined as investment strategy that uses development finance and philanthropic funds to mobilize private capital flows into emerging markets in order to generate positive outcomes for investors and affected communities**
- **This is on increasing trend**

**Figure 18: Cumulative blended finance targeting least developed countries**



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## 04 REGIONAL INTEGRATION AND INVESTMENT

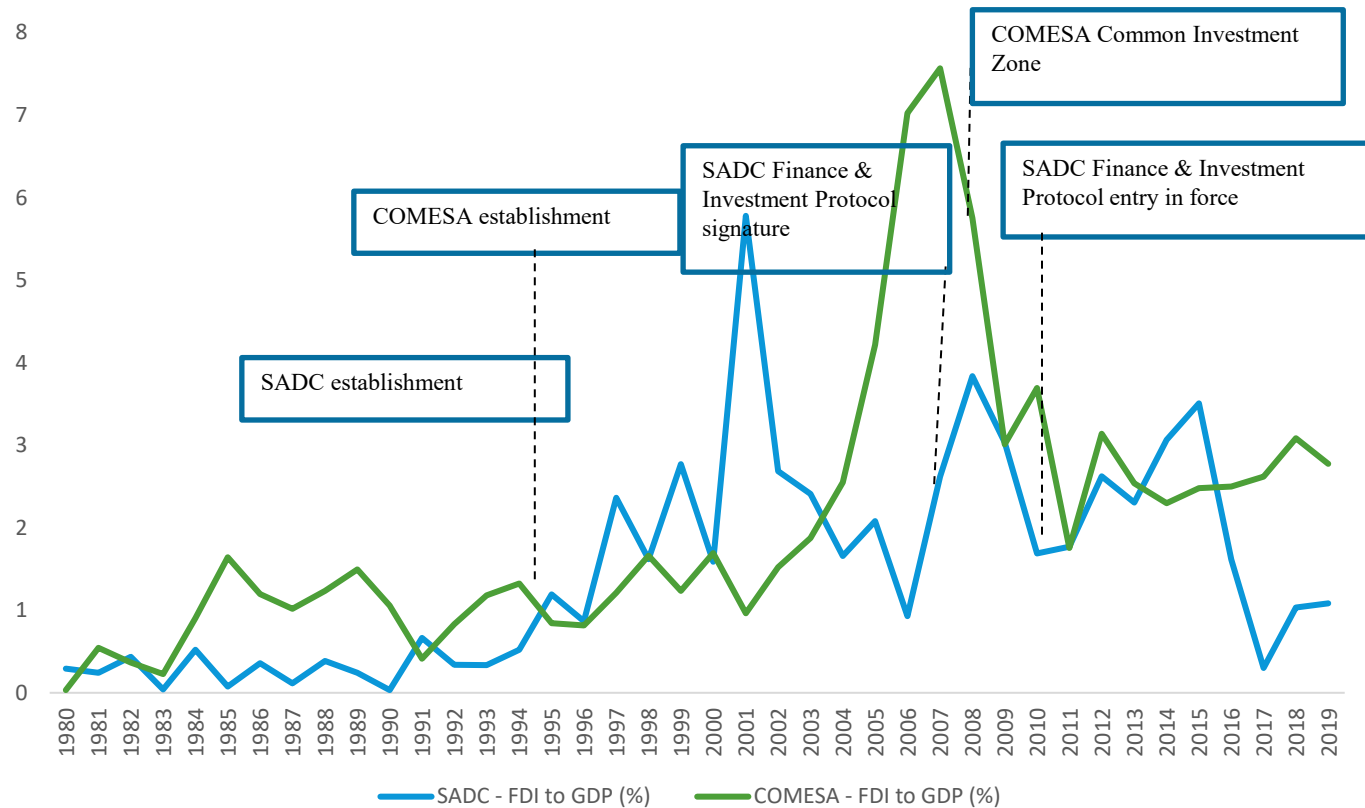
- In the context of AfCFTA investment protocol discussion, it is key to understand the link between integration and investment
- Conceptually, regional integration might end-up with increase in investment
- According to UNCTAD (2012), to have impact on investment, regional integration agreement should include:
  - Provision relating to the liberalization or protection of investment covered by the agreement
  - Provision on trade and market integration
  - Harmonization relating to the implementation of the integration agreement
  - Provision on common pan-regional larger investment projects
  - Investment codes and protocol should include Intellectual Property Rights - IPRs



# 04 REGIONAL INTEGRATION AND INVESTMENT

- Case of SADC and COMESA

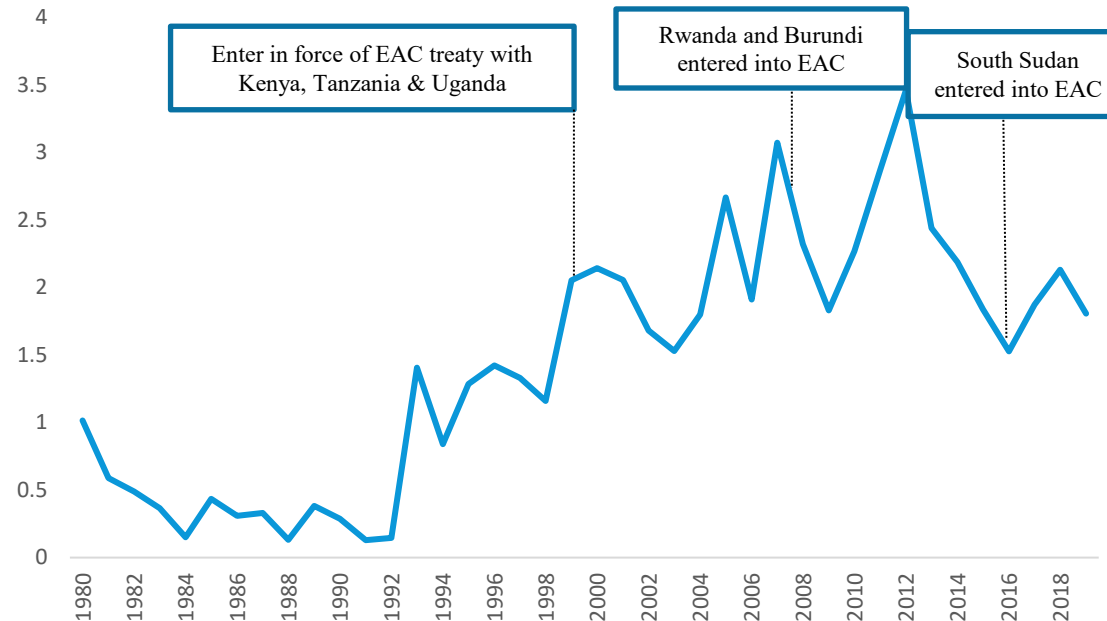
Figure 19: Evolution of the FDI-to-GDP (%) for SADC and COMESA (1980-2019)



# 04 REGIONAL INTEGRATION AND INVESTMENT

- **Concrete examples: East African Community - EAC**

Figure 20: Evolution of the FDI-to-GDP (%) for EAC (1980-2019)

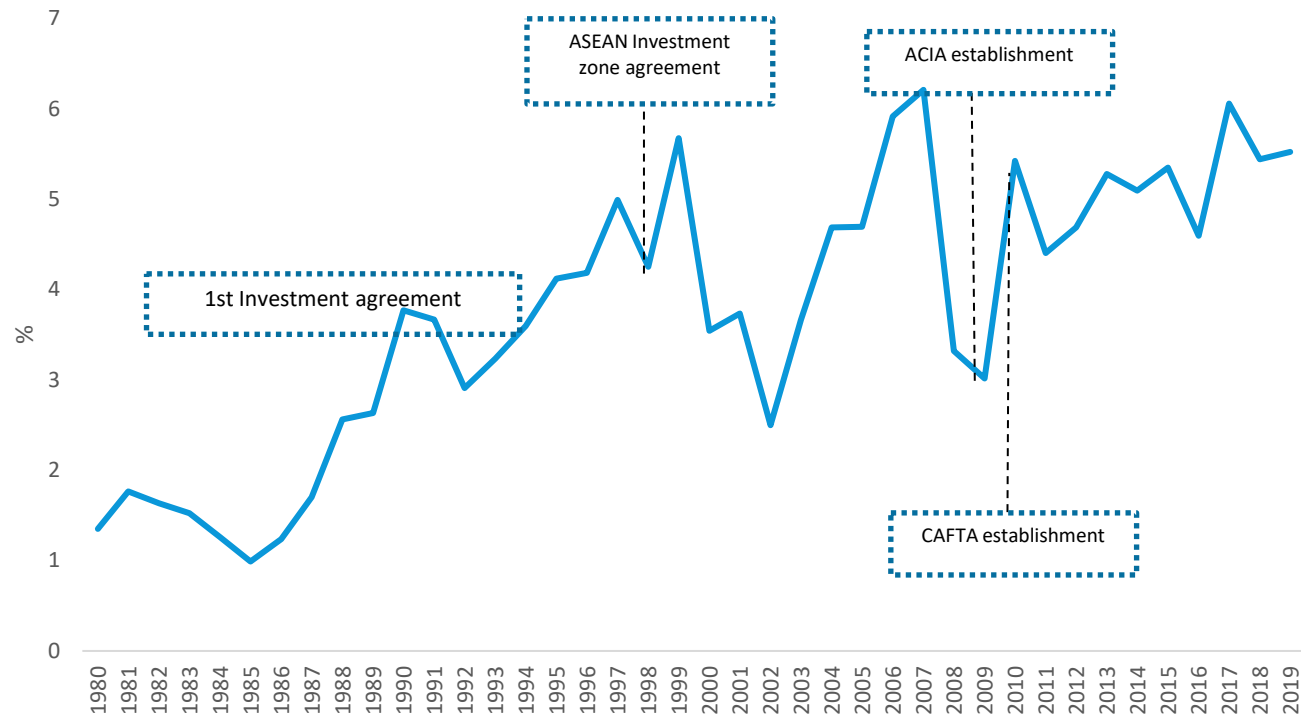


- **EAC treaty seems to have positive impact on FDI within EAC region**

# 04 REGIONAL INTEGRATION AND INVESTMENT

- **Concrete examples: Association of Southeast Asian Nations - ASEAN**

Figure 21: Evolution of the FDI-to-GDP (%) for ASEAN (1980-2019)



- **Successful example with positive impact of regional integration on FDI**

## 04 REGIONAL INTEGRATION AND INVESTMENT

- **Within AfCFTA investment protocol, there are some prerequisites that need to be handled in order to boost investment**
- **Main levers to be handled at country level :**
  - a) Improvement of the country's political stability
  - b) Reinforcement of the macroeconomic fundamentals
  - c) Improvement of the global business environment
  - d) Reinforcement of the country's economic infrastructures
  - e) Identification of the country's comparative advantages, particularly with regards to the economic sectors
  - f) Design of attractive sectorial policies, particularly for sectors identified as part of the country's comparative advantages
  - g) Reinforcement of financing mechanisms to boost domestic investment

## 04 REGIONAL INTEGRATION AND INVESTMENT

- **Main levers to be handled at regional level :**
  - a) Inclusion of provisions related to the liberalization of investment within the region
  - b) Inclusion of investment protection, particularly with provision on Intellectual Property Rights protection. This should include a specific provision for technology transfer
  - c) Harmonization of investment codes within all the countries in the region
  - d) Provision on granting national treatment to all regional investors
  - e) Establishment of tariff and non-tariff barriers at the region borders to protect the market for some specific sectors
  - f) Establishment of mechanisms for conflict resolution within the region
  - g) Harmonization of investment and free trade protocol among all sub-regional economic communities to avoid inconsistencies and difficulties in the implementation of the rules

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05 RECOMMENDATIONS AND ACTION PLAN



# 05 RECOMMENDATIONS AND ACTION PLAN

Recommendations	Comments	Actions	Actors
<b>1. Reinforce overall political and economic governance to ensure security and political stability</b>	Political stability and non-violence environment are prerequisites for any business development	<ul style="list-style-type: none"> <li>-Reinforce democracy with strong and independent institutions</li> <li>-Address social inequalities with equitable distribution of resources</li> <li>-Ensure government accountability</li> <li>-Encourage social and community discussions to address issues</li> </ul>	Government Civil society Development partners
<b>2. Improve business and legal environment in the region</b>	Business and legal environment is a key determinant of investment, particularly for attracting FDI	<ul style="list-style-type: none"> <li>-Reinforce justice independency</li> <li>-Fight corruption</li> <li>-Streamline processes to facilitate business creation and compliance/operation</li> </ul>	Government Private sector (chambers of commerce; industry and professional associations) Development partners
<b>3. Improve and reinforce economic infrastructure in the region</b>	Economic infrastructures are key drivers of domestic private investment and FDI inflows attraction	<ul style="list-style-type: none"> <li>-Design global infrastructure programs in the region</li> <li>-Design new project finance (PPP, BOT) frameworks and ESG policies for infrastructure projects</li> </ul>	Regional and national policymakers Private sector Development partners

# 05 RECOMMENDATIONS AND ACTION PLAN

Recommendations	Comments	Actions	Actors
<b>4. Identify each country's comparative advantages and design policies to support their development and attractiveness</b>	AfCFTA and its investment protocol implementation on the continent will lead strong economic competition among countries, particularly among countries in the same region	<ul style="list-style-type: none"> <li>-Identify and analyze economic sectors with strong competitive advantages</li> <li>-Implement strategic measures and policies to develop these economic sectors and support private entrepreneurs in these sectors</li> <li>-Include specific provisions in investment codes to grant facilities to invest in these sectors</li> </ul>	<ul style="list-style-type: none"> <li>Regional and national policymakers</li> <li>Private sector</li> <li>Development partners</li> </ul>
<b>5. Strengthen management and governance capabilities of the domestic enterprises for developing national business champions in key sectors</b>	Domestic firms are important channels for attracting international investments, particularly through joint venture and private equity investment	<ul style="list-style-type: none"> <li>-Design strategies and policies to ensure development of businesses/companies with strong potential (domestic champions)</li> <li>-Support the financing of these businesses through tailored-made guarantee programs</li> <li>-Include local content in public procurements to grant public contracts to these domestic firms</li> <li>-Develop training programs (in management, negotiation skill) for domestic champions</li> </ul>	<ul style="list-style-type: none"> <li>Government</li> <li>Private sector (chambers of commerce; industry and small business associations)</li> <li>Development partners</li> </ul>

# 05 RECOMMENDATIONS AND ACTION PLAN

Recommendations	Comments	Actions	Actors
<p><b>6. Improve, reinforce and harmonize investment codes within the region</b></p>	<p>Competition should be fair among countries in the context of AfCFTA investment protocol implementation. Therefore, within the negotiation of the AfCFTA protocol on investment, it is critical to negotiate the harmonization of investment codes within all African countries.</p>	<p>Review and harmonize investment codes to:</p> <ul style="list-style-type: none"> <li>-Include provisions related to the liberalization of investment within the region</li> <li>-Grant national treatment and access to industrial sectors to all regional investors</li> <li>-Include provision on investment protection</li> <li>-Include provision on intellectual property rights protection and technology transfer mechanisms</li> <li>-Establish strategic (tariff and non-tariff) barriers at the region’s borders to protect the domestic regional market for some specific sectors</li> <li>-Include specific provision for domestic primary transformation for investment in natural resources extraction</li> <li>-Establish mechanisms to resolve conflicts among countries of the region</li> </ul>	<p>Regional and national policymakers Private sector actors Development partners</p>

# 05 RECOMMENDATIONS AND ACTION PLAN

Recommendations	Comments	Actions	Actors
<b>7. Strengthen regional and national financial and banking sectors</b>	Strong domestic and regional financial and banking sectors are key to finance domestic and regional investments	<ul style="list-style-type: none"> <li>-Create sectoral guarantee funds institutions to support bank lending to priority sectors or reinforce the existing ones</li> <li>-Create sector-oriented and dedicated strong regional and national development banks</li> <li>-Create a common financial market</li> </ul>	<ul style="list-style-type: none"> <li>Regional and national policymakers</li> <li>Private sector (financial sector)</li> <li>Development partners</li> </ul>
<b>8. Seek for negotiating bilateral investment treaties</b>	The bilateral treaties should carefully be negotiated and designed by countries in the region to cover areas and sectors that are not covered by the AfCFTA investment protocol to avoid duplications and inefficiencies	<ul style="list-style-type: none"> <li>-Identify origins (country/region) where there are trade and investment flows opportunities</li> <li>-Negotiate bilateral investment treaties with these countries and regions</li> </ul>	<ul style="list-style-type: none"> <li>Regional and national policymakers</li> <li>Private sector</li> <li>Bilateral partners</li> <li>Development partners</li> </ul>

# 05 RECOMMENDATIONS AND ACTION PLAN

Recommendations	Comments	Actions	Actors
<b>9. Create innovation hubs and sandboxes to attract investment in technology-intensive sectors</b>	Given the particularities of modern technology-intensive sectors heavily dependent on new ICT, investment strategies need to be designed to create an enabling environment for the development of these cutting-edge technological sectors	-Create innovation hubs and sandboxes	Regional and national policymakers Private sector Development partners



# THANK YOU!

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Ideas  
to  
Action