1 Overview

This chapter provides an overview of recent foreign direct investment (FDI) trends in ECOWAS, including a preliminary assessment of its contribution to sustainable development. It then summarises key messages and main considerations that emerge from the substantive chapters of the report.

Introduction

West Africa offers a large and diverse market of over 400 million people and natural resource wealth, yet it is not currently living up to its potential as a destination for international investment. Inflows of foreign direct investment (FDI) in the region have stagnated, whether in absolute terms or as a share of total FDI to Africa, in spite of some modest improvement in 2021. Furthermore, the investment the region has received has not always fulfilled its promise in terms of promoting sustainable development. No single factor alone can explain this trend but it strongly suggests that the region does not sufficiently provide a conducive investment climate for multinational enterprises (MNEs) to invest and create positive spillovers. Beyond political instability and strife, elements commonly cited within the region include fragmented investment and trade legal, regulatory and institutional frameworks, small market size in most countries in the region, and insufficient infrastructure and skilled labour (ECOWAS, 2018[1]).

The recent African Continental Free Trade Agreement (AfCFTA) will offer both greater opportunities for ECOWAS Members within an integrated continental market as well as increased competition for footloose investment. This will imply an even greater need to focus on raising the competitiveness of the region for investment.

In recognition of the challenge of attracting FDI to create jobs and promote sustainable development, the Member States of the Economic Community of West African States (ECOWAS) have taken steps to improve policies and governance in the region. This includes the ECOWAS Investment Policy (ECOWAS, 2018[1]), based in part on the OECD Policy Framework for Investment, whose primary purpose was to establish harmonised regional investment-climate policies. This framework is complemented by the ECOWAS Supplementary Investment Act and the ECOWAS Investment Code (ECOWAS, 2018[2]; 2008[3]). These regional initiatives are intended to provide guidance for implementing country-level reforms.

To provide greater impetus for reform and to showcase results, ECOWAS Member States also collaborated with the World Bank in an EU-funded project to develop an Investment Climate Scorecard, with six Member States involved in an initial pilot study. The competing demands on the scarce resources of governments involved in this work have made this project difficult to sustain half a decade after its inception.

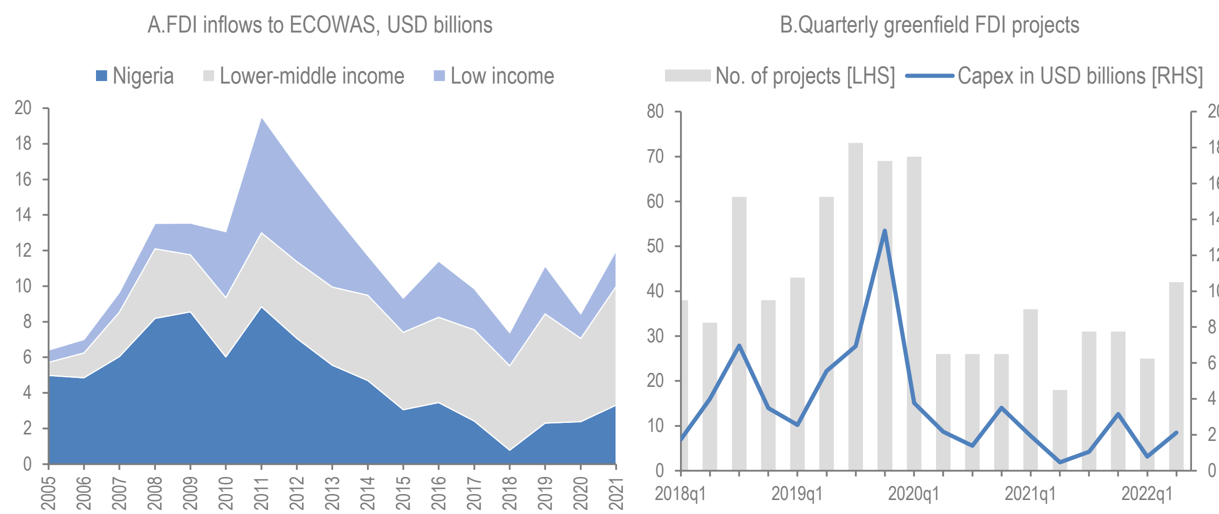
This report is designed as a baseline diagnostic to explore ways to reinvigorate the reform of the ECOWAS investment climate while also providing a greater focus on how to improve sustainable outcomes from investment. The work is intended to point to areas where further collaboration between ECOWAS and the OECD could contribute to improved investment climates throughout the region.

The policy areas covered in this study include the national regulatory framework encapsulated in national investment laws and how this compares with initiatives at a regional level, investment promotion and facilitation in ECOWAS, investment incentives, investment for green growth and, lastly, responsible business conduct. The selection of areas builds on OECD work in these areas to highlight essential elements of a conducive investment climate which promotes not only FDI but also sustainable outcomes.

Recent trends in FDI in ECOWAS and estimates of its impact

The inflow of FDI to ECOWAS has been modest over the past 15 years. After a surge in inflows until 2008, FDI subsided during the global financial crisis and followed a downward trend until 2018 when FDI inflows reached 2006 levels (Figure 1.1, Panel A). Nigeria, the largest economy in ECOWAS, has seen an especially large decline in FDI inflows since 2011, when the security situation deteriorated in several parts of the country due to the rise of terrorist groups, cases of banditry and kidnappings, and separatist agitations (World Bank, 2023[4]). Other lower-middle income countries in the region (i.e. Benin, Cabo Verde, Côte d'Ivoire, Ghana and Senegal) have instead experienced increasing FDI inflows, at least until the onset of the COVID-19 pandemic. Zooming in on the number and size of cross-border investments in new physical projects or expansion of existing investments (i.e. greenfield FDI projects), shows that a resurgence of FDI inflows to ECOWAS in 2018 was abruptly interrupted by the outbreak of the Covid-19 pandemic and has not recovered thus far (Figure 1.1, Panel B).

Figure 1.1. FDI flows are on a declining trend since 2011

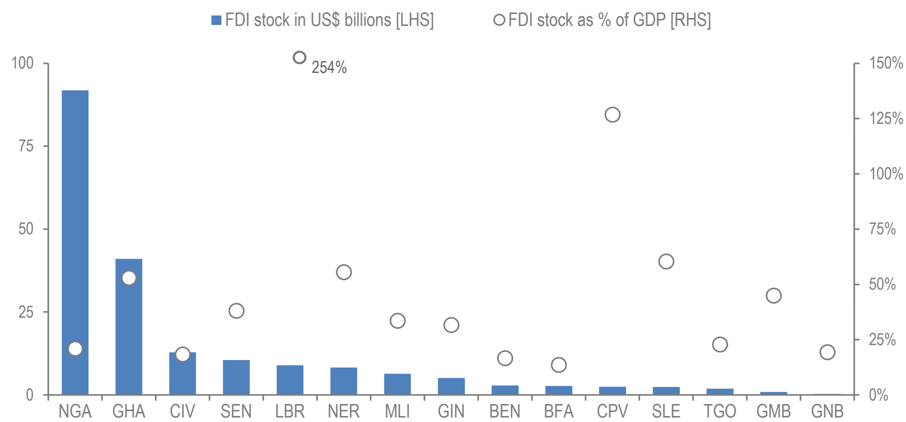


Note: Countries are grouped following the 2022 World Bank classification: Low income = Burkina Faso, Gambia, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Sierra Leone, and Togo; lower-middle income = Benin, Cabo Verde, Côte d'Ivoire, Ghana, and Senegal. Panel B shows all opened and announced greenfield FDI projects between 2018 and 2022q2.
Source: OECD based on IMF Balance of Payments Statistics (2023[5]) and Financial Times fDi Markets Financial Times (2023[6])

The stock of FDI in West Africa is highly concentrated in Nigeria and is largely correlated with the economic size of countries in the region. At around US$ 91 billion, Nigeria hosts close to half of the region's FDI stock, followed by Ghana (21%), Côte d'Ivoire (6%), and Senegal (5%), which jointly account for one third of the FDI stock (Figure 1.2). A further 15% is accounted for by Liberia (5%), Niger (4%), Mali (3%), and Guinea (3%) while the remaining countries jointly account for around 7%. Although Liberia accounts for a relatively small share of the region's GDP of 0.5%, it hosts 5% of the region’s FDI stock, driven by investments in its forest resources since the mid-2000s.

In terms of origin, FDI stocks in the region are also concentrated in few source countries. The Netherlands and France are the largest investors in the region, jointly accounting for 37% of the region’s FDI stock in 2021, while the EU as a whole account for 43% (Figure 1.3). The United States, Canada and the UK jointly hold 18% of the stock of West Africa’s FDI stocks, while China accounts for 16%, closely followed by Mauritius and South Africa which together account for 14%. The concentration of investments from the major source economies varies across different markets. The EU as well as the United States, Canada and the United Kingdom held about 65% of their ECOWAS FDI stocks in Nigeria. China, on the other hand, held only about 17% of its ECOWAS FDI stocks in Nigeria while holding 48% in Liberia.

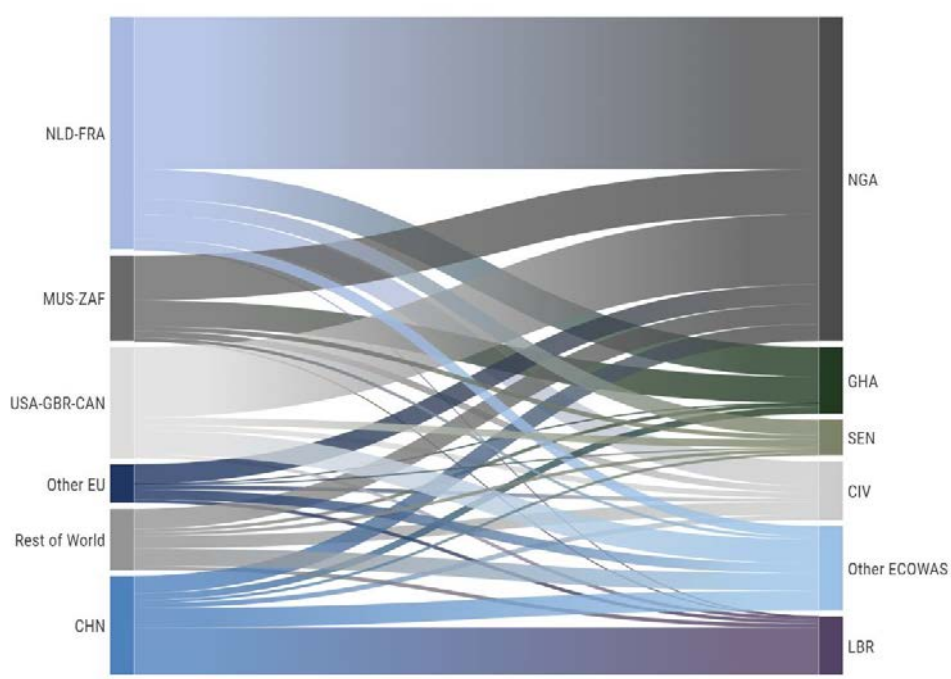
Figure 1.2. FDI stocks are concentrated in Nigeria, Ghana, Côte d'Ivoire and Liberia



Source: OECD based on UNCTAD (2023[7]) World Bank (2023[8]).

Figure 1.3. The EU represents the largest source of FDI in the ECOWAS region

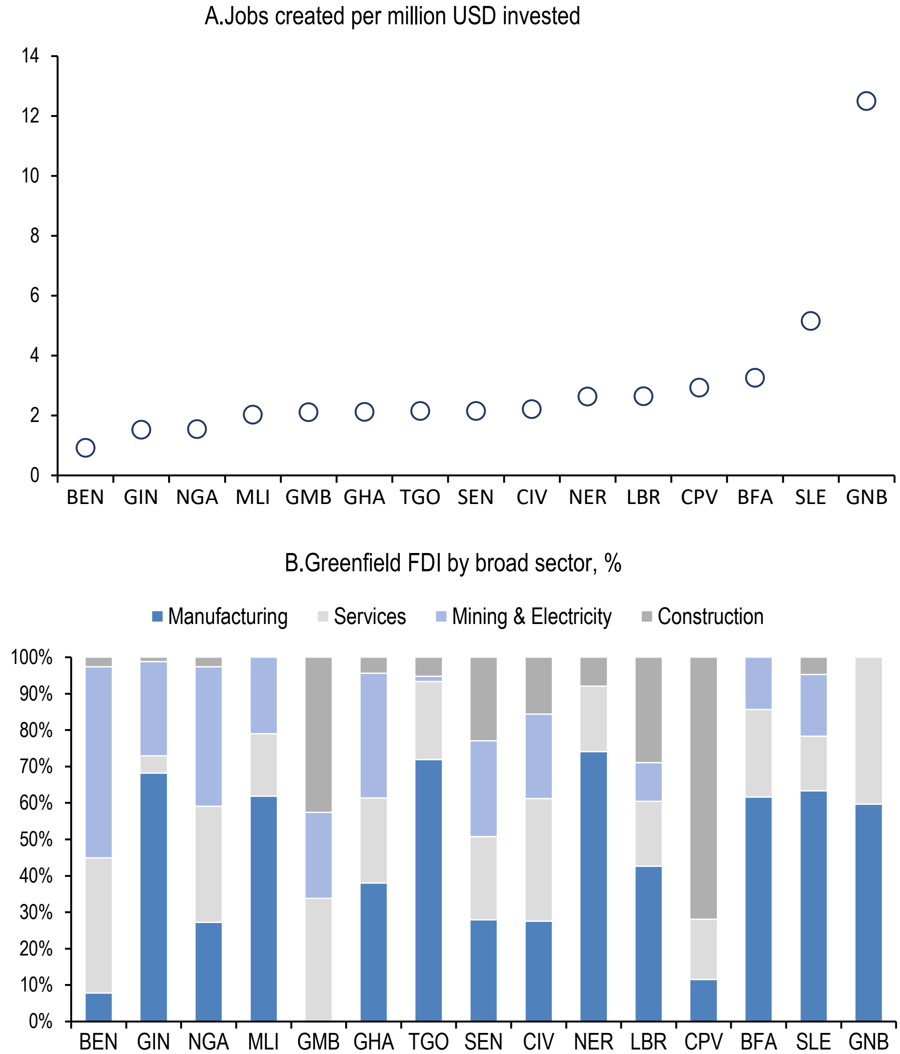
FDI stock by source and host economy in 2021



Note: The figure is constructed using outward FDI stocks reported by selected source economies in ECOWAS countries in 2021.
Source: OECD based on IMF CDIS (2022[9]).

A core motivation behind efforts to attract FDI is the hope of creating jobs. Greenfield FDI projects in the ECOWAS region created on average three jobs per million USD invested, in line with the world average (Figure 1.4, Panel A). Countries with abundant fossil fuel or metal resources, like Nigeria and Ghana, or low-income countries, like Benin, tend to attract a considerable share of their greenfield FDI in mining and electricity with a relatively few direct jobs created (Figure 1.4, Panel B). Burkina Faso, Guinea-Bissau, and Sierra Leone attracted FDI projects in relatively more labour-intensive service activities, such as customer contact centres, and show above average job creation per million US$ invested.

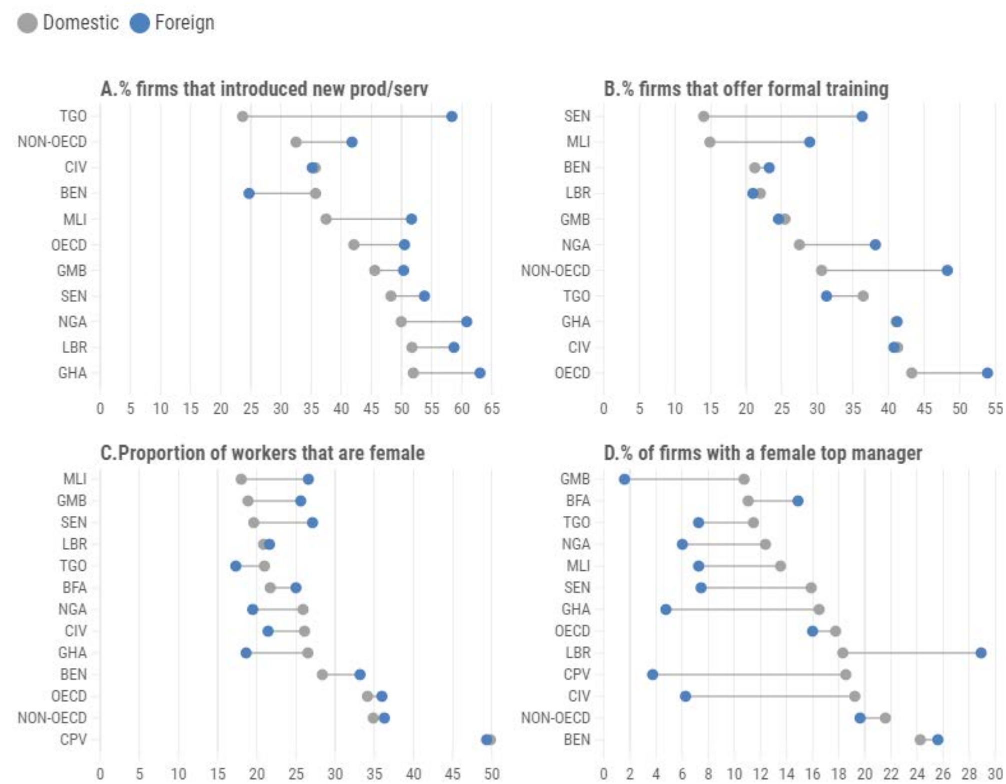
Figure 1.4. Job intensity of FDI depends on economic structure and stage of development



Note: This figure shows the number of direct jobs (Panel A) created by all opened and announced greenfield FDI projects between 2011 and 2022q2 as well as the sectoral split of these FDI flows (Panel B).
Source: OECD based on Financial Times fDi Markets (2023[6]).

Beyond capital and jobs, FDI has the potential to contribute to sustainable development, for instance by introducing new knowledge and technologies. Across ECOWAS members, a significantly larger share of foreign companies claimed to have introduced a new product or service compared to their domestic competitors (Figure 1.5, Panel A). This pattern suggests a greater innovation capacity of foreign firms and thus offers the opportunity of knowledge and technology spillovers to domestic firms. Moreover, by providing more training opportunities for their employees, foreign firms disproportionately contribute to on-the-job skill development within the ECOWAS region, suggesting that FDI plays an important role in raising living standards (Figure 1.5, Panel B). In most ECOWAS countries, foreign firms also employ higher shares of women in their workforce while the share of women in top management positions tends to be higher in domestic companies (Figure 1.5, Panel C-D). The role of FDI in the improvement of gender equality in working life is thus not clear cut as, on the one hand, foreign firms create more employment opportunities for women, whereas, on the other hand, foreign firms do not necessarily offer better career advancement opportunities.

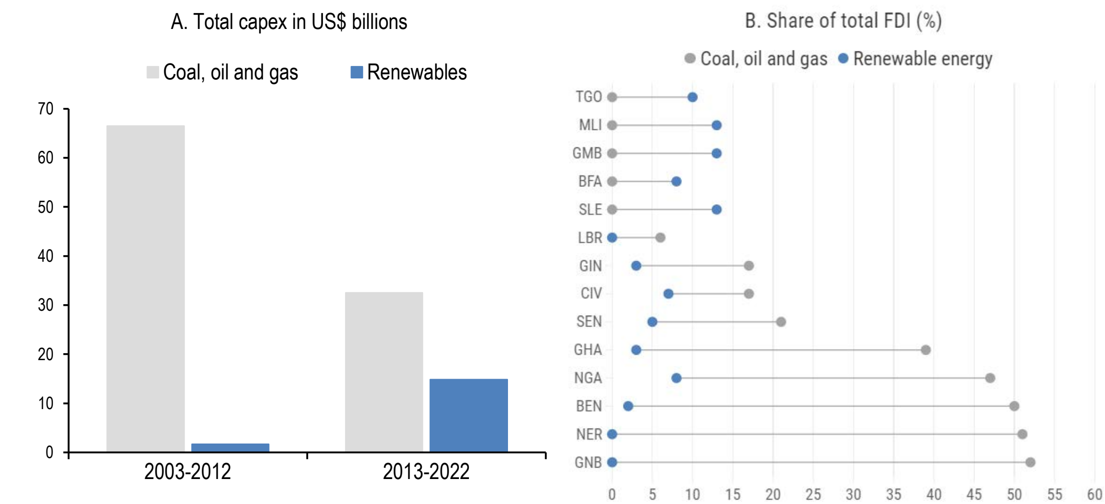
Figure 1.5. FDI is an important driver of productivity and innovation



Source: OECD based on World Bank Enterprise Surveys (2023[10]).

FDI in renewables has significantly gained in importance within the energy sector. While FDI in renewables accounted for only 1% of total FDI between 2003 and 2012, it not only increased in absolute terms between 2013 and 2022 but also in proportion to investments in fossil fuels (Figure 1.6, Panel A). Comparing FDI in renewables between 2003 and 2012 to FDI between 2013 and 2022, investments in renewables have increased more than eightfold and accounted for about 10% of total FDI and almost one third of total energy FDI. Although at a lower scale in absolute terms, the proportion of investments in renewables in the ECOWAS region corresponds to the proportion of renewables in other African regions such as SADC. For many ECOWAS countries, FDI in fossil fuels dominate investments in the energy sector while investments in renewable energies only make up a small part (Figure 1.6, Panel B). Although large economies such as Nigeria, or Ghana attract FDI mostly in fossil fuels, they have also received the majority of FDI in renewables within ECOWAS.

Figure 1.6. FDI in renewables has gained in importance in recent years



Note: Figure B is calculated using greenfield FDI flows accumulated over 2003-2022.
Source: OECD based on Financial Times (2023[6]) FDI Markets Database.

Key messages and considerations

Sustainable investment has been defined as "commercially viable investment that makes a maximum contribution to the economic, social and environmental development of host countries and takes place in the framework of fair governance mechanisms" (Sauvant and Mann, 2017[11]). A broader definition would consider that sustainable investment should contribute towards achieving the Sustainable Development Goals (SDGs). While an investment project can contribute to several SDGs, trade-offs might also arise when an investment moves the host country closer to some SDGs but farther away from others.

As mentioned at the beginning of this report, the challenge for governments is not just to attract foreign investors at a time of diminishing global FDI flows, but also to ensure that the investment confers sustainable benefits on the host economy. Attracting investment and reaping the maximum benefit in terms of sustainability depend first and foremost on the overall policy framework in which investment occurs. Policymakers need to maintain a sound, transparent and open investment climate, and adopt policies that ensure the benefits of FDI are maximised and their potential harm on the local economy, society and environment are minimised. Furthermore, targeted promotion tools and measures to enable responsible business conduct (RBC) are equally important for a sustainable investment framework. This requires whole-of-government efforts, evidence-based policy-making and meaningful stakeholder consultations.

This report looks primarily at what host governments can do to attract sustainable investment and promote the benefits of investment for social and environmental objectives, including how to facilitate and enable RBC. It provides an analysis to support the ECOWAS Vision 2050, to make ECOWAS a preferred destination for national and foreign investment that is reinforced by effective governance that promotes sustainable and inclusive regional economic development. It is based on the OECD tools, including the Policy Framework for Investment and the FDI Qualities Policy Toolkit and Indicators. Key messages and main considerations that emerge from different chapters are summarised below.

Designing investment frameworks and strategies to promote sustainable investment

- *Increase coherence between national legislation and regional and continental treaties.* The analysis suggests that national investment laws do not yet fully reflect innovations at a regional or continental level, although newer investment laws seem to be closer to regional practice.

Furthermore, there is still considerable diversity in individual laws across the ECOWAS region. Greater coherence in approaches within and across regions in Africa at all levels could contribute to improved clarity and predictability for both governments and investors, although sufficient room should be left for further experimentation at national level.

- *Consider further integrating SDG considerations into investment promotion strategies of ECOWAS Member States.* IPAs in the region should increase focus on attracting FDI that contributes to the SDGs, including by going beyond promoting FDI in renewable energy and integrating other sustainable development sectors and activities. IPAs should consider prioritising investors with good sustainability track-records.
- *Further develop IPAs' value propositions for sustainable investment opportunities*. Several agencies in the region put a particular emphasis on promoting sustainable investment, especially through the promotion of specific sectors such as renewable energy. But only a few provide detailed information on investment opportunities in these sectors and related incentives and legal background. IPAs in the region should enhance their value propositions for sustainable investment opportunities by providing prospective investors with detailed and comprehensive legal and industry information, potentially also bankable projects, and improving their marketing.
- *Put in place adequate key performance indicators (KPIs) to ensure effective prioritisation and sound monitoring and evaluation (M&E) by IPAs*. While it is key to prioritise certain investments over others to respond to sustainability objectives, it is equally important to understand and track their contribution to the desired outcomes. Integrating sustainability indicators in IPA M&E systems is necessary to measure the results of the agency and the effective contribution of companies assisted by the IPA to sustainable development, including the decarbonisation of the economy. ECOWAS IPAs should also ensure that the KPIs used to select priority investments and measure their outcomes are aligned with national development objectives and the agencies' overarching investment promotion priorities. Consider diversifying them to reflect all areas of the SDGs and include sustainable and inclusiveness considerations (e.g. low-carbon transition, gender equality, regional development).
- *Use the SDGs to guide investment facilitation and aftercare services of IPAs to existing investors looking to expand or reinvest.* IPAs should not only focus on promoting sustainable investment through new investments, but also use the SDGs to guide them in the way they deliver investment facilitation and aftercare services to existing investors who wish to expand or reinvest. IPAs in ECOWAS could, for example, consider focusing aftercare activities on those investors with the highest sustainability impacts. They could also take advantage of these services to better promote responsible business conduct within the existing business community and encourage investors to comply with sustainability-related laws more systematically, as well as to embrace responsible practices in their business operations.

Assessing use and design of investment incentives

- *Assess whether investment tax incentives are aligned with investment promotion strategies and SDGs, and consider whether they are the best policy instrument to achieve these goals*. Incentives are not effective as a replacement for other policies to improve the investment climate, including efficient tax administration, quality infrastructure, open and transparent regulatory framework, and good governance. Tax incentives are not always effective to attract investors, while tax revenues are crucial for delivering public goods and services, including those that affect the investment climate. Economic, social and environmental goals might be better supported by other policies, and tax incentives should be used in complement with wider development strategies.
- *Ensure that incentives are designed to generate investments and related outcomes that would not materialise otherwise.* CIT holidays account for more than a third of all incentives offered in the region, and are in some cases permanent, are potentially very costly in terms of foregone revenues.

By eliminating taxes on profit, these incentives heavily favour firms with high profits, which may have invested also in the absence of the incentive. This risk particularly high for tax holidays for extractive activities. Governments should consider phasing out costly profit-based incentives and introducing more targeted types of incentives, that reduce the cost of specific activities that can improve social and environmental outcomes. Improving incentive design, by promoting desired outcomes through tax relief on qualifying expenditure, can help limit redundancies and encourage positive spillovers.

- *Improve monitoring and evaluation of the costs, benefits and uptake of tax incentives*. Better understanding whether incentives contribute to policy goals, and at what costs, requires monitoring and evaluation. Some countries in ECOWAS have started to report on tax expenditure, and several have put in place dedicated teams to conduct fiscal evaluation. However, most countries face administrative, fiscal, data and human resource constraints in administering, monitoring and evaluating incentives. The ECOWAS Commission could play an important role in advocating for improved monitoring and evaluation, as well as transparency and good governance in incentive policies.

Promoting investment for green growth

- *Strengthen NDC targets and develop long-term low-emission development strategies.* Collectively ECOWAS NDCs are not yet aligned with the objectives of the Paris Agreement. Three countries have committed to achieving net-zero GHG emissions by 2050, and another three have submitted long-term strategy documents in addition to their NDCs. Ambitious long-term strategies are vital since current near-term NDCs are only sufficient to limit warming to 2.7-3.7°C. Moreover, long-term strategies provide a pathway to a whole-of-society transformation and a vital link between shorter-term NDCs and the long-term objectives of the Paris Agreement. Given the 30-year time horizon, these strategies offer many other benefits, including guiding countries to avoid costly investments in high-emissions technologies, supporting just and equitable transitions, promoting technological innovation, planning for new sustainable infrastructure in light of future climate risks, and sending early and predictable signals to investors about envisaged long-term societal changes.
- *Use ECOWAS as a platform to promote strategic environmental assessments (SEA) and transboundary environmental impact assessment (EIA).* West African countries made great strides in formalising EIA into their legal frameworks, with most providing for the three critical procedural rights of access to information, public participation, and access to remedies. However, only and four countries in the region have established frameworks for SEAs to examine the environmental and social impact of proposed plans, policies and programmes. Moreover, only two countries have developed a legal framework for application of EIA principles to the assessment of the transboundary impacts of investment, including consultation of the authorities of affected countries. Recognition of transboundary SEA and EIA at the ECOWAS level could encourage other ECOWAS governments to adopt these tools in their national EIA systems.
- *Consider scaling down or phasing out investment incentives for non-green activities.* Seven ECOWAS countries offer corporate income tax holidays to promote investments in coal, oil and gas, and two of these countries offer similar incentives for renewable energy generation. The length of these tax holidays ranges from four years to permanent exemptions and therefore very costly in terms of foregone revenue, while also reducing the ultimate effectiveness of efforts to promote clean energy investment. These countries would benefit from classifying green and nongreen activities in targeted sectors using emerging taxonomies and scaling down or phasing out investment incentives for non-green activities.
- *Consider developing frameworks for voluntary disclosure of environmental and climate impacts.* Frameworks for climate-related disclosure help to reveal how companies are preparing for a lower-carbon economy and support investors to better assess financial exposure to climate-related risks.

To date, climate-related reporting is very limited in West Africa, with only Ghana having developed Sustainable Banking Principles to underpin effective Environmental and Social Risk Management policy frameworks for banks, including reporting requirements for five sectors that are critically sensitive to the environmental and social standards. As of 2020, 24 commercial banks in Ghana agreed to measure and report their progress in implementing the principles. Other countries in the region could follow suit and develop similar frameworks for environmental and climate-related disclosure.

Promoting and enabling responsible business conduct

- *Raise awareness about the relevance and key elements of RBC.* The general awareness about RBC including international standards and due diligence expectations has increased but remains limited in the region. ECOWAS and its Member States could strategically raise awareness and foster the understanding about the relevance of RBC in relation to trade and investment. This could involve learning activities and workshops on international RBC instruments and risk-based due diligence.
- *Create an enabling environment to implement and enforce policies promoting RBC.* ECOWAS Member States have set out concrete policies to promote RBC, as laid out in the ECOWAS Investment Code and in national policies, particularly in the minerals and agricultural sector. Uptake and concrete action to implement these has so far been unclear. National governments could lead the way by developing and implementing National Action Plans on RBC as well as sector or issue-specific reforms.
- *Ensure policy coherence and harmonisation on RBC in line with international standards.* ECOWAS represents a policy forum to foster coherence and harmonisation of RBC policies in line with the most important international RBC standards, such as the OECD MNE Guidelines and the OECD due diligence guidance. ECOWAS could take the next step to create strong alignment and coordination of policies on RBC among Member States to ensure a common approach and level-playing field at the regional level.
- *Build the capacity of companies to carry out due diligence.* ECOWAS and its Member States could promote the use of the OECD due diligence framework by enterprises in ECOWAS and actively support the uptake of due diligence by companies, investors, and other stakeholders.

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