

BLUE BOOKS

AWARD-WINNING APPROACH TO PROMOTING INVESTMENT

The Blue Books were launched in 2004 as a new initiative to help developing countries attract investment. The Blue Books for Kenya, Tanzania and Uganda were 'highly commended' in the smart regulation category of Africa Investor Annual Awards for 2005, for their contributions to improving the investment climate in Africa. A key feature is that the Governments involved commit themselves (at the highest level) to implementing within 12 months a number of concrete measures to improve the investment climate.

What makes the Blue Books special?

The Blue Books are targeted mainly at countries that attract investment at a level below their potential. Many initiatives have been launched with a view to facilitating more foreign direct investment (FDI) into developing countries. The Blue Book project is not just another initiative with a long list of recommendations to the government. Rather, it intends to trigger *quick implementation* of measures that can help improve the investment environment of a country.

The key feature of the project is the identification of a small number of concrete measures that a country can take without major financial implications to strengthen its investment environment. Moreover, the Government in the country in question commits itself to implementing these 6-10 "SMART" measures – Specific, Measurable, Achievable, Relevant and Time-bound – within 12 months (see table 1 for examples of measures).

The measures are identified in detailed consultation with the private sector and emphasize high-impact, low-cost, short-term changes. The investment promotion agency (IPA) is expected to monitor implementation. This is a task very much in keeping with the advocacy function of IPAs, the function most likely to lead to greater flows of investment when effectively performed.

The examples of Kenya and Uganda

Consider a measure recommended by both the Kenya and Uganda Blue Books: Establish a business linkages project to create linkages

between foreign affiliates and local suppliers, comprising at least 10 leading TNCs. The project would seek to upgrade the capabilities of the suppliers in order for them to meet the requirements of the foreign affiliates. Such linkages can help large corporations in these countries to reduce expensive and cumbersome dependence on imported inputs, which could in principle be provided by local companies. In turn, such linkages benefit local firms in the form of expanded sales and upgraded capabilities. As with other measures, this one offers an example of best practice close by, in this case the Private Sector Initiative Tanzania, which has 17 large corporate members who spent \$51 million on local sourcing in the first two years of PSI Tanzania. The measure is also accompanied by an action plan, key performance indicators and financial implications (in this case \$35,000, in many other cases none).

JBIC supports the Blue Books

The Blue Book project is supported by the Japanese Bank for International Cooperation (JBIC). In 2003, the Japanese Prime Minister, Junichiro Koizumi, announced that his Government would promote investment in Africa by Japanese companies, among other things through JBIC's overseas investment loans, targeting \$300 million over 5 years.

Japanese investment in Africa remains low, currently accounting for only 0.6% of the country's outward stock of FDI. Investment by other Asian countries in the continent is also low, although the percentage shares are higher. In 2002, the outward FDI stocks of both China and India stood at just under \$10

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billion, of which 5% in China's case and 18% in India's was in Africa.

There are many reasons for low inflows of FDI into Africa, including the small size of most African markets and poor infrastructure. However, part of the answer is related to weaknesses in the investment climate that can be addressed in the short term. These are the problems that the **Blue Book** initiative is intended to remedy.

Blue Books relevant for many countries

The challenges observed are mostly not peculiar to the African continent but widely shared among developing countries. The first **Blue Books** produced by UNCTAD were for 2 Asian LDCs in 2004: Cambodia and Lao PDR. These were followed in 2005 by **Blue Books** for the 3 member States of the East African Community (EAC): Kenya, Tanzania and Uganda. The next **Blue Book**, planned to appear in early 2006, will be for Ghana.

Award-winning project

UNCTAD's **Blue Books** for Kenya, Tanzania and Uganda were recently '*highly commended*' in the smart regulation category of the Africa Investor Annual Awards for 2005. The awards, judged by an international panel of experts, offer public recognition to organizations that help promote economic growth in Africa. The smart regulation category, in particular, recognizes concrete contributions to improving the investment climate in African countries.

The **Blue Books** are only one UNCTAD initiative among others intended to promote FDI in developing countries. For example, UNCTAD also provides assistance in the form of investment policy reviews, training in investment promotion, linkage promotion, production of investment guides and development of statistics and data.

Source: UNCTAD.

Table 1. Selected SMART measures proposed in **Blue Books for East African countries**

<i>Type of SMART measure</i>	<i>Blue book for:</i>
Introduce flexibility in the FDI entry provisions in the Investment Promotion Act.	Kenya
Introduce deadlines and penalties for late payment of VAT refunds by the Kenya Revenue Authority.	Kenya
Develop performance charters for Executive Agencies that administer business regulations and inspections.	Tanzania
Strengthen the monitoring system for tracking measures agreed upon by the Tanzania National Business Council.	Tanzania
Introduce the Investment and Free Zones Bill.	Uganda
Zero-rate VAT on all generators.	Uganda
Bring into force the East African Community double taxation treaty.	all EAC countries
Jointly issue East African Community member state business visas.	all EAC countries

Source: UNCTAD.

Governments interested in the **Blue Book** and other UNCTAD technical assistance projects in the area of investment should contact Mr. **Khalil Hamdani**, Officer-in-Charge, Division on Investment, Technology and Enterprise Development, at khalil.hamdani@unctad.org OR fax 41-22-907-0498.