Central and Eastern Europe and Sub-Saharan Africa
The Potential of Investment Partnerships for Mutual Benefit
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Summary

• There are growing economic links between the economies of Central and Eastern Europe and sub-Saharan Africa in terms of both trade and investment. However, while trade has picked up significantly from pre-EU accession levels, investment has not increased to the same extent.

• Contrary to common assumption, investment flows are not solely from Central and Eastern Europe to sub-Saharan Africa. In reality, the largest investment flow between the two blocs occurs in the opposite direction – from South Africa into Central and Eastern Europe.

• Sub-Saharan Africa can benefit from a greater commercial relationship focused on attracting sustainable investment from Central and Eastern Europe. For this to happen, commercial strategies towards Central and Eastern European countries need to be put in place before strategy can be reinforced by greater diplomatic and informational support.

• For many sub-Saharan African governments, there is no overall targeted approach to attracting Central and Eastern European investors. A notable exception is South Africa, where departments have been established at provincial government level to specifically target investment from Central and Eastern Europe.

• Sub-Saharan African governments expect Central and Eastern European private-sector investment to result not only in job creation, but also to bring spillover benefits such as the transfer of skills and knowledge to domestic industries.

• Each sub-Saharan African country, in accordance with its individual circumstances, will need to adopt a discrete mix of administrative reform (particularly aimed at cutting red tape), as well as infrastructural and other policies that improve the business environment and generate investor confidence.

• Much of the private sector in Central and Eastern Europe is somewhat hesitant to invest in sub-Saharan Africa on a greater scale. Many companies are most comfortable operating within their domestic environment; when they invest abroad, it tends to be in the ‘neighbourhood’ with which they are already familiar. Perceptions of risk are often compounded by popular misperceptions and generalizations about sub-Saharan Africa.

• Central and Eastern European countries stand to gain from a deeper investment relationship. While greater engagement with sub-Saharan Africa has already been pursued by some countries, most of them focus on trade. Institutional support to companies from Central and Eastern Europe (both public and private) has evolved to a degree, but is still not comprehensive. Information for companies interested in investing is either lacking or not shared in an efficient way. And the greatest challenge is ensuring top-level political engagement.

• EU membership offers clear opportunities for Central and Eastern European countries to invest sustainably and responsibly in sub-Saharan Africa. Not only is financial support forthcoming, through innovative EU financial instruments, but the availability of information relevant to business and the EU’s extensive diplomatic presence in Africa should help to alleviate some of the concerns of Central and Eastern European investors.
1. Introduction

There are growing economic links between the economies of Central and Eastern Europe (CEE) and sub-Saharan Africa (SSA) in terms of both trade and investment. In the scope of this paper, Central and Eastern Europe is defined as including eight of the 10 member states that joined the European Union (EU) in the 2004 accession wave, as well as the three member states that joined in the accession waves of 2007 and 2013.\(^1\) Trade between Central and Eastern Europe and sub-Saharan Africa has increased significantly in the last decade and a half. Total exports from Central and Eastern European countries to sub-Saharan Africa more than doubled in value from $2 billion in 2005, to exceed $4.5 billion in the early 2010s, before declining to just under $3.5 billion in 2016. The share of all imports to sub-Saharan Africa from Central and Eastern Europe rose from around 1.3 per cent to exceed 4 per cent over the same period.\(^2\)

Politically, too, Central and Eastern European countries have begun to increase their diplomatic representation and networks in sub-Saharan Africa. Precise figures are hard to gauge, but available data show that investment is on the rise for some Central and Eastern European countries. In the case of Poland, for instance, the total stock of Polish foreign direct investment (FDI) in sub-Saharan Africa had reached some $238 million by 2017. South Africa is the principal sub-Saharan African investor in Central and Eastern Europe, while, from the latter, Poland invests the most in sub-Saharan Africa. Interest among private-sector actors in deepening engagement is gradually increasing on both sides, but while political efforts to promote commercial relationships have certainly intensified after the steep drop-off that followed the transitions in Central and Eastern Europe in the 1990s, economic re-engagement remains tentative.

There is a strong case to be made for greater economic re-engagement, especially in terms of investment. During the 2017 summit meeting of the African Union (AU) and the EU, held in Abidjan, Côte d'Ivoire, the EU committed to greater investment to promote job creation in Africa. In Central and Eastern Europe, particularly for the Visegrád Four (V4) – the Czech Republic, Hungary, Poland and Slovakia – the political commitment is strongly linked to the migration agenda. The V4 countries are part of the EU’s ‘anti-migration bloc’ and want to demonstrate to their populations that they are doing something. There is a perception that investment can create jobs and thus deter economic migration.

Economic re-engagement between Central and Eastern Europe and sub-Saharan Africa has the potential to support inclusive growth in both regions. For the countries of sub-Saharan Africa, economic transformation that will lift citizens out of poverty and ensure quality jobs and secure livelihoods for a rapidly expanding youth population is contingent not only on greater intra-African and global trade, but also on industrialization and value-added production. Some Central and Eastern European countries are looking for new markets for their goods and services,

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\(^1\) The following are considered as the CEE for the purpose of this paper: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia (all of which joined the EU on 1 May 2004); Bulgaria and Romania (both of which joined on 1 January 2007); and Croatia, which became the 28th member state of the EU on 1 July 2013. Cyprus and Malta, which were part of the 2004 enlargement, are excluded from this study.

as well as investment destinations with cheaper labour costs to maintain strong growth rates in line with their economic development strategies. These countries can contribute technology and skills that will help countries in sub-Saharan Africa achieve their growth and development goals. As such, the private sector in both regions can provide a real impetus for development, provided the right sort of job-creating investments and policies are put in place.

Investors – whether from some more traditional investor environments such as the US or more recent sources such as China, India and other Asian economies, as well as investors in Central and Eastern Europe – are intensifying their focus in sub-Saharan Africa. A greater role for the private sector in development initiatives is the latest trend in the EU’s policy actions towards Africa, as evidenced by the EU’s External Investment Plan (EIP) or, more broadly, the Africa-Europe Alliance for Sustainable Investment and Jobs. This is partially a result of the assumption that development aid is more effective if complemented by inclusive private-sector growth.

Central and Eastern European countries are adept and flexible in terms of engaging with new markets. Unlike economic actors from traditional investment countries, particularly in Western Europe, they do not carry colonial or, in the case of the US, great power ‘baggage’, so may more easily be viewed as equal partners. Notably, too, their small and medium-sized enterprises (SMEs) and multinationals can offer genuine partnership opportunities in sub-Saharan Africa. Of course, cooperation with Central and Eastern Europe alone is not going to satisfy Africa’s development or job creation needs, but an increasing orientation towards the region promises dividends.

For Central and Eastern Europe, it is imperative to improve outward investment promotion strategies and adopt a more proactive role in encouraging sustainable investments in sub-Saharan Africa.

While continuing to promote policies aimed at fostering trade between the two regions, the countries of Central and Eastern Europe and sub-Saharan Africa could pay greater attention to strengthening their investment relationships, for both economic and political reasons. Incentivizing responsible private-sector investment is a complex endeavour with many variables. Adjustments in investment policy – both outward and inward – and greater political commitment will be needed on both sides if private-sector engagement is to increase. Policies in Central and Eastern European countries directed at boosting private-sector investment into sub-Saharan Africa will fail if investment destinations in the latter region do not play their part in enabling a predictable and stable business environment that can both attract and sustain investment in those countries.

For Central and Eastern Europe, it is imperative to improve outward investment promotion strategies (internationalization services) and adopt a more proactive role in encouraging sustainable investments in sub-Saharan Africa. This is an all-encompassing task that will require an overhaul of existing national development assistance policies together with greater state financial and non-financial support (the latter consisting largely in economic diplomacy and its ‘matchmaking’ services). First and foremost, however, governments will be required to rethink their approach in devising a comprehensive and coordinated strategy – that actively includes the private sector – towards sub-Saharan Africa.

At the same time, governments in sub-Saharan Africa should maintain a policy course aimed at improving the business climate (rule of law, transparency, infrastructure, a predictable regulatory environment) to accommodate foreign investors. Consideration should be given to signing bilateral...
investment treaties (BITs) and double taxation treaties (DTTs) to encourage greater investment protection and financial incentives. Critically, too, commercial strategies towards Central and Eastern European countries need to be put in place before a strategic and targeted presence can be pursued in certain markets in that region. As in the case of the Central and Eastern European countries themselves, resource constraints may make it more prudent to focus on establishing a diplomatic presence in a few select countries, rather than on attempting to open embassies in every country of the region.

Equally important to these endeavours will be the continued development of the EU investment framework, which has recently expanded to include ambitious initiatives such as the EIP and the Africa-Europe Alliance for Sustainable Investment and Jobs. Such initiatives aim to include the private sector in overseas development opportunities and to provide the same access point – provided the latter meets the development objective of the fund – to Central and Eastern European private-sector partners as to private entities in the more established member states.

Governments in Central and Eastern European countries can bring valuable insights to bear in terms of creating a favourable business environment. Having undertaken the necessary reforms to transform their economies from socialist to market-based models over the course of the past 30 years, albeit in very different contexts and with different types of support, Central and Eastern European countries are uniquely positioned to share their experience (upgraded as ‘transitional experience’ in official EU development documents) of attracting inward private investments to spur their economic growth.

Chapter 2 of this paper presents an overview of economic relations between Central and Eastern Europe and sub-Saharan Africa, with a particular focus on investment. In Central and Eastern Europe, greatest attention is placed on the countries of the Visegrád Four (V4) – the Czech Republic, Hungary, Poland and Slovakia – which are not only some of the most economically advanced countries of the region, but which were also very active in sub-Saharan Africa during the socialist period. However, references are also made to other Central and Eastern European states, including Romania and Bulgaria. Chapter 3 offers a rationale for greater investment links. It then reviews perceptions of the Central and Eastern European private sector regarding investment in Africa, thereby highlighting challenges and opportunities (Chapter 4), before examining sub-Saharan African countries’ policies to promote inward investment (Chapter 5). Chapter 6 identifies areas of cooperation and mutual learning for the regions, and Chapter 7 analyses policy measures to attract sustainable investment into Africa from both national governments and the EU. In conclusion, Chapter 8 sets out options for strengthening investment links to all relevant actors.

This paper is part of a series of publications produced by the Chatham House Africa Programme on the topic of re-engagement between Central and Eastern Europe and sub-Saharan Africa, with particular reference to the utility of transition experiences to capacity-building, inclusive growth and good governance. In 2017 Chatham House published a research paper titled *Central and Eastern Europe and Sub-Saharan Africa: Prospects for Sustained Re-engagement*. The current paper draws on roundtable discussions and semi-structured interviews, conducted between October 2018 and April 2019, with businesses, chambers of commerce (CCs), business associations, senior policymakers in Central and Eastern European and sub-Saharan African governments, and senior EU civil servants, as well as a number of ambassadors and embassy staff.3

3 Roundtables were held under the Chatham House Rule: ‘When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.’ Research interviews were confidential.
2. Overview of Emerging Economic Relations and Strategies

Over the period 2012–18, the annual volume of trade between Central and Eastern European and sub-Saharan African economies rose gradually, as shown in Figure 1. All Central and Eastern European countries have experienced growth in exports – in the case of Poland and the Czech Republic, by more than 500 per cent and 400 per cent respectively. Most of the trade undertaken by Central and Eastern European countries is overwhelmingly with other EU member states. (Slovakia, for instance, conducts 80 per cent of its trade within the EU.)

Figure 1: CEE exports to, and imports from, sub-Saharan Africa, 2012–18

Source: Compiled from Eurostat, EU trade since 1988 SITC.

Exports from sub-Saharan Africa to Central and Eastern Europe consist predominantly of raw materials such as cocoa, tobacco, aluminium, sugar, rubber, mineral ores, coffee, tea and spices. As a result, the value of total exports of sub-Saharan African goods to Central and Eastern Europe remains volatile from year to year. Key exports from Central and Eastern Europe to sub-Saharan Africa are, along with cereals, predominantly manufactures such as machinery, mechanical appliances, vehicles, and iron and steel goods.4

The strong growth in goods trade since 2004 is not mirrored in investment flows. Poland – reflecting the size of its economy – is the frontrunner in investment in sub-Saharan Africa.

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By 2017 the total stock of Polish FDI in sub-Saharan Africa stood at $238 million (see Table 1). The sector destinations for Central and Eastern European investment in sub-Saharan Africa range from agribusiness (e.g. the dairy sector and agricultural machinery), industrial equipment, and extractives (e.g. minerals, oil and gas) to software and information and communications technology (ICT) services (e.g. fintech and service provision software).  

Development gains can be substantial in specific contexts. A fair-trade macadamia and cashew nut processing facility in Kenya, for example, established with support from Slovakia’s Integra Foundation, generates 400 direct jobs and other employment indirectly through its supply chains (see Box 1). URSUS, a Polish tractor manufacturer, has set up an assembly plant in Ethiopia that created 200 jobs for Ethiopians – mostly women – and also buys in training (skills transfer) from Polish experts, and has helped lay the foundation for a move away from subsistence to commercial agriculture. PF Nonwovens (formerly Pegas Nonwovens), a Czech non-woven textile producer, completed the construction of a new production facility in Cape Town. South Africa, that provides employment and training opportunities for 200 people. Even when Central and Eastern European companies are only engaging in trade with Africa, transfer of knowledge is frequently included as part of the deal to maximize customer satisfaction: for example, the Czech tractor company Zetor Tractors agreed an export deal with a Zambian importer that was to employ Czech technicians in a support and training role for a two-year period. Compared with Poland, however, other Central and Eastern European countries invest on a smaller scale in sub-Saharan Africa. The statistics below do not include, for instance, possible investments of €172 million by Hungarian companies in Angola that were announced in early 2019.

In relation to the presence of other investors, however, the Central and Eastern European economies play a marginal role, with the US, UK, France and China dominating (see Figure 1). In addition, outward Central and Eastern European FDI still mostly flows to developed markets.

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**Box 1: Ten Senses Africa**

The Ten Senses Africa (TSA) project is an example of private investment from the Central and Eastern European region with wider development outcomes – in this case by Slovakia’s Integra foundation and social investment fund – into sub-Saharan Africa. TSA is engaged in the fair trade of organically produced macadamia and cashew nuts in East Africa. Currently, TSA buys macadamia nuts from 1,300 farmers and a processing facility provides 400 direct jobs in Kenya, as well as training in organic growing techniques. A fair-trade business model guarantees a fair price to farmers, and the company has established distribution lines in large supermarket chains across Europe and North America.

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1. Some Polish companies that have invested in sub-Saharan Africa include: Kulczyk Investments (gas and refineries), Asseco (IT), Polskie LNG (regasification plants), H. Cegielski-Poznań (turnkey power plants), Grupa Azoty (chemical fertilizers), Consus Carbon Engineering, Exalo Drilling and Krezus SA (bauxite in Guinea). In the agricultural sector, Grupa Azoty is a pioneer, along with the Polish tractor manufacturer URSUS.
Table 1: FDI positions of Central and Eastern European countries in sub-Saharan Africa 2013–17 ($ million)

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<td>260</td>
<td>239</td>
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Source: Data compiled from OECD and national development banks.\(^{12}\)
Note: FDI values for Bulgaria and Romania are listed by the OECD as ‘non-publishable and confidential’.

Figure 2: Top 10 investor economies in Africa by FDI stock, 2017 compared with 2013 ($ billion)

Contrary to common assumption, given the differences in economic development, investment flows are not unidirectional from Central and Eastern Europe to sub-Saharan Africa. In reality, the largest investment flow between the two blocs occurs in the opposite direction – from South Africa to Central and Eastern European countries. The sectors of the latter economies that are most appealing to South African capital are real estate – with the South African property developer NEPI Rockcastle being the largest real estate investor in Central and Eastern Europe\(^{14}\) – and, to a lesser extent, the brewing, retail and paper processing sectors.


Large South African multinational enterprises (MNEs) find that the Central and Eastern Europe region offers an overall stable and predictable business environment, wider EU market access and low-cost access to an educated labour force. However, the trend of South African capital movement abroad to Central and Eastern Europe has also been the result of ‘push factors’, or a specific set of domestic circumstances – i.e. the slow growth of the South African economy, coupled with political uncertainty – than of a targeted approach towards Central and Eastern Europe. Commercial investments in Central and Eastern Europe often circumvent government involvement, as large enterprises have the resources to venture abroad on their own terms.

Contrary to common assumption, investment flows are not unidirectional from Central and Eastern Europe to sub-Saharan Africa. In reality, the largest investment flow between the two blocs occurs in the opposite direction – from South Africa to Central and Eastern European countries.

While the development impact might not be felt in non-productive sectors such as real estate, other investment sectors do have clear benefits for local populations. For instance, the South African non-food retailer Pepkor, with a presence (as Pepco) in Poland, the Czech Republic, Romania, Hungary, Slovakia and Croatia, operates 1,300 stores across Europe, and employs more than 12,000 people. Mondi Group, a global paper and packaging group with its origins in South Africa, is the biggest private-sector employer in the Lower Liptov region of Slovakia, where it operates a manufacturing plant. The employment benefits were perhaps most clearly demonstrated by SABMiller’s engagement in Central and Eastern Europe (before its acquisition by Anheuser-Busch InBev in 2016, which resulted in the selling-off of its Eastern European assets later that year). In 2013, of all of SABMiller’s European production facilities its Polish brewery provided the greatest employment (3,261 jobs), followed by its breweries in the Czech Republic (2,045 jobs) and in Romania (1,415 jobs). Moreover, the number of agricultural jobs indirectly generated by SABMiller’s activities was estimated to be 24,400 in Poland, 5,800 in Romania and 3,500 in the Czech Republic. According to the Polish Ministry of Economy, over 3,000 jobs were created in Poland through investments from South Africa.

Certain Central and Eastern European governments have articulated and implemented commercial approaches to Africa since the early years of the decade. The Hungarian government was among the first to do so, announcing a new foreign policy strategy, termed ‘Opening to the South’, in 2015. This strategy placed a particular focus on expanding trade with Latin America and Africa, and used the opening of new embassies (in the case of sub-Saharan Africa, in Angola, Ethiopia and Ghana) and trading houses (in Angola, Ethiopia and Kenya) as tools for the achievement of its foreign policy goals. Meanwhile, in 2013, Poland initiated a ‘Go Africa’ strategy to intensify its trade relationship...
with a select group of African countries.\textsuperscript{20} Moreover, the current Polish Foreign Policy Strategy 2017–2021\textsuperscript{21} emphasizes the need to establish greater commercial links between countries that are not in Poland’s vicinity, including African countries. Several documents relate to Czech engagement in Africa: these include the current foreign policy as published by the Czech Ministry of Foreign Affairs;\textsuperscript{22} the commercial strategy for North African states,\textsuperscript{23} published in 2006 by the Ministry of Industry and Trade; and a strategy for sub-Saharan Africa\textsuperscript{24} that includes strengthened economic diplomacy as one of its dimensions.\textsuperscript{25} Bulgaria and Romania, despite their growing trade with sub-Saharan Africa, have not yet established commercial policies towards Africa.\textsuperscript{26} Likewise, in sub-Saharan Africa itself, there are as yet no national commercial strategies directed towards furthering relationships with Central and Eastern Europe. This is even so in the case of South Africa, whose regional investment promotion offices have, nonetheless, a pragmatic orientation towards Central and Eastern Europe.

It is important to keep in mind that Central and Eastern Europe forms part of a larger political and economic entity, in the form of the EU, which has put in place its own collective commercial strategies with sub-Saharan Africa. Taking a broader view, therefore, Central and Eastern European countries benefit from the wider framework of Africa–EU relations – a framework that is increasingly centred on investments rather than aid. This particularly relates to the EIP, an ambitious initiative launched in 2017 to spur private sector investment in the EU ‘Neighbourhood’ and Africa, as well as the Africa-Europe Alliance for Sustainable Investment and Jobs, announced in 2018.\textsuperscript{27}


\textsuperscript{24} Ženková Rudincová (2018), ‘Sub-Saharan Africa in the Czech Foreign Policy: Approaching Africa as a Partner’.

\textsuperscript{25} The strategy is a non-public document.

\textsuperscript{26} Marinov, E. (2017), ‘Bulgaria And Romania Trade with Sub-Saharan Africa: A Comparison’.

3. Why Investments Between Central and Eastern Europe and Sub-Saharan Africa Matter

As EU member states and signatories to the 2017 AU–EU Abidjan summit declarations, Central and Eastern European states have committed themselves to increase private-sector investment in those areas of the African economy that have the potential for sustainable job creation, in order to meet current and future demand for jobs, given that the continent’s population is expected to double by 2050.28 However, there are further shared interests in enhancing investment between the two regions. Central and Eastern European economies have, on the whole, recorded strong growth rates since the fundamental transformations of the early 1990s, giving rise to the use of labels such as ‘Tatra Tiger’ (in the case of Slovakia), ‘Baltic Tigers’ and ‘Eastern Tigers’ in the media and academic literature.29 But maintaining strong growth in increasingly saturated markets – both domestically and in the EU – is challenging. Aside from innovation policies, there is a need to pursue foreign expansion of both trade and investment.30

Reliance on too few sources of foreign investment might present an obstacle for developing countries in the event of external shocks.

Sub-Saharan African countries are in need of inward investment to transform their economies. The AU’s Agenda 2063 Framework Document emphasized the need for an economic development path focused on industrialization and value addition, to move away from dependence on the export of raw materials and vulnerability to commodity price fluctuations.31 This type of development will strongly depend on the region’s ability to attract capital, especially in sectors such as agriculture, where most of Africa’s employment opportunities lie, but also in sectors such as infrastructure, pharmaceuticals, energy and ICT. Not all types of investment will provide the desired growth and, especially, the desired levels and quality of job creation. Employment creation strategies should revolve around attracting market-seeking and efficiency-seeking FDI, especially greenfield investments. Aside from capital, skills and technology transfer are also of paramount importance. While trade – especially in its current arrangement, where the export of primary raw materials from Africa to Europe dominates – has helped to generate strong growth, it has not created shared prosperity or inclusive growth.

Moreover, both sub-Saharan Africa and Central and Eastern Europe need new partners. Central and Eastern European states need to ‘untie’ their economies from larger EU member states such as Germany, as too much of their economic growth is dependent on the economic performance of these states. Likewise, the benefit for sub-Saharan Africa of attracting Central and Eastern

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European companies as investment partners lies first in diversification. Reliance on too few sources of foreign investment might present an obstacle for developing countries in the event of external shocks. For African countries to reach their ambitious investment targets, a broader base of investors is required, and as such it is important to cater to non-traditional investors, including the countries of Central and Eastern Europe.

**Box 2: Factors influencing FDI decision-making**

Several factors present important considerations for companies making the ultimate decision to invest in a foreign country. There are different motivations at play. In theoretical literature, companies undertake outward FDI in markets abroad for the following reasons:

- Market-seeking FDI (tariff-jumping or export-substituting variant)
- Resource-seeking FDI
- Efficiency-seeking FDI
- Strategic asset-seeking

The destinations of investment are usually – but not exclusively – countries with a stable political and institutional environment, with a high degree of investor protection, tax incentives (such as concessions and exemptions), quality infrastructure (roads, electricity, communal services) and so on. The World Bank’s annual Ease of Doing Business rankings provide an insight into the desirability of a country as an investment destination in terms of business-related regulation. The cases of Nigeria and Angola provide notable exceptions: high returns on investment are prioritized over high political risk, security and other factors.

However, even after taking these factors into account, the decision-making process is not clear cut for a company considering investment in Africa. Any investment decision also depends on the institutional support in place within the investing company’s home country. A network of institutions ensures, collectively, that companies have access to all the necessary services to enable them to venture out abroad. Among these institutions are those providing information and matchmaking services (CCs, business councils, investment promotion agencies); financial support (national development financial institutions); and diplomatic support (embassies and consulates). The presence of diplomatic missions in the destination country is an important factor, since they usually facilitate the investment process by means of arranging first contacts, country visits, business missions, investor conferences, etc.

According to the *World Bank’s Global Investment Competitiveness Report 2017/2018*, developing countries benefit from FDI through acquiring technical know-how, enhancing the skills of the local workforce, increasing productivity, generating business for domestic firms, and creating better-paying jobs. Market-seeking and efficiency-seeking FDI are particularly important for developing countries, as these types of investment have been shown to create much-needed jobs and growth – provided the recipient country puts measures in place to reap the benefits.

Striking new partnerships with countries whose companies might have a greater chance of succeeding in the specific context of sub-Saharan Africa is imperative. Central and Eastern European enterprises might share some of the distinct advantages of other emerging market investors in Africa, while offering benefits that are usually found in enterprises in developed economies. Central and Eastern European enterprises might be adept – and more flexible – in their navigation of difficult markets. Their experience in the 1990s of developing not only their own domestic markets, but also the wider Central and Eastern European regional market (which includes Ukraine, Belarus, the Western Balkans, etc.), demonstrates that they are able to succeed in volatile business environments.

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characterized by rapidly changing regulations and legal frameworks, such as can feature in some sub-Saharan African economies. In addition, according to a 2015 World Bank study, there is some evidence that emerging market MNEs understand local contexts better than their counterparts in developed markets; they may be better equipped to mitigate economic and political risks; and they may have developed mechanisms allowing them to better navigate informality. The same study concluded that enterprises from emerging markets might be better at building South–South value chains. It became clear from the research for this paper, however, that Central and Eastern European companies would benefit from better data and information regarding sub-Saharan African markets, to develop a more nuanced understanding of the different contexts and opportunities.

After years of facing stiff competition in the European market, Central and Eastern European companies have built up the appropriate levels of transferable technology that sub-Saharan Africa needs. This especially pertains to sectors such as food processing, ICT and pharmaceuticals. In many cases, this competitive push and the associated need for constant innovation have resulted in products that match the quality and functionality of Western European products, but with a reduced price tag. Moreover, since private-sector enterprises in Central and Eastern Europe tend to be smaller in size than at least some of the MNEs in the traditional investment destinations (in other words, they are themselves SMEs rather than MNEs), they might offer certain advantages to developing markets. A 1998 study by UNCTAD found that SMEs were more likely to look for joint-venture partners, rather than establish wholly owned affiliates; have more flexible local arrangements; and contribute more to the local economy by making use of subcontracting.

Last but not least, in some sub-Saharan African countries, both political elites and business professionals have established ties to Central and Eastern Europe through the scholarship programmes of the socialist period. Hungary, for instance, concluded cultural agreements (which included education-related provisions) with some 18 sub-Saharan African countries between 1957 and 1993; between 1970 and 1978, 315 African students were enrolled in postgraduate education in Hungary. While some of the ‘social capital’ based on old relationships has been eroded, and while younger generations may lack an understanding of the previous relationships and positive role played by Central and Eastern Europe in sub-Saharan Africa’s development, individuals who are sympathetic to the Central and Eastern European region continue to hold key positions in both business and government in sub-Saharan Africa.

This is not to say that sub-Saharan African countries will necessarily abandon their efforts to attract investment from traditional partners with more highly developed economies; while investments should undoubtedly be pursued on all fronts, a more comprehensive and strategic orientation towards Central and Eastern European economies could enhance a wider inward-investment strategy.

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36 Research interviews (2019).
39 Research interviews (2019). The socialist governments of the now V4 countries played a positive role in the development of some African countries during the Cold War, and established numerous factories that provided the backbone of those countries’ development strategies. For instance, in the years following Ghana’s independence in 1957, some 30 companies from the former Czechoslovakia, Hungary and Poland set up production facilities in that country.
4. Barriers to Increased Investment

Many private-sector actors in Central and Eastern Europe believe that sub-Saharan Africa presents growth opportunities, and recognize that as economies develop an emerging middle class will drive consumption. Many business forums organized by CCs and other bodies to build new partnerships between Central and Eastern European and sub-Saharan African companies regularly draw large numbers of participants. Sectors considered to be the most promising for investment by Central and Eastern European private-sector actors are:

- Agriculture, agribusiness and food processing (e.g. fruits and juices, dairy, meat processing, agricultural machinery)
- ICT (e.g. digitization of services, fintech, mobile payment services)
- Transport (e.g. tramways, light railways and other public transport systems)
- Construction (e.g. low-cost residential housing)
- Water and waste management

Despite the acknowledged potential, several challenges impede Central and Eastern European investment ventures. One of the major challenges can be the mindset of the investor companies themselves. They are not solely disincentivized by what they perceive as a ‘tough’ business environment in Africa, but also by what some interlocutors in research interviews referred to as a ‘comfortable environment at home’. When domestic growth is strong and unemployment rates are low, it is hard to incentivize the private sector to try its chances abroad. Moreover, when the private sector is willing to venture into investment abroad, they prefer markets in close proximity and with cultural similarities, as found in the EU Neighbourhood.

There are a tremendous number of variables in the business climates of particular countries across sub-Saharan Africa, and access to quality information is imperative for newcomers to the continent.

Nuanced discussion, information and analysis of particular sub-Saharan African markets and sectors is often lacking. The V4 private sector frequently cites, as the most common obstacles to investment, unstable political environments, widespread corruption, a lack of credible partners, foreign exchange controls, regulation pertaining to the repatriation of profits, and what they regard as unfair competition practices, as well as overly bureaucratic governments. While these are real issues in some cases, and obstacles in their own right, in the absence of in-depth and current

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40 Research interviews (2019).
41 Research interviews (2019).
42 For instance, as of April 2019, the Czech Republic had the lowest unemployment rate among the EU-28 member states, while Poland was concurrently enjoying its 27th year of continuous real GDP growth.
43 Other barriers that were also mentioned in the research interviews include language barriers: not many business people in Hungary speak English, for instance.
44 Research interviews (2019). A number of CEE participants cited some commercial practices by state-owned or state-backed Chinese enterprises, especially in sectors such as construction and transportation, as making it hard for them to compete. Some businesses reported having regarded themselves as ‘closing in’ on a deal in a competitive tender, only to find that they had ultimately lost to Chinese companies that were able to bid for projects at lower cost.
45 Research interviews (2019).
Central and Eastern Europe and Sub-Saharan Africa: The Potential of Investment Partnerships for Mutual Benefit

political analysis, companies come to rely upon available information about the continent as a whole (which is often generalized and based on outdated anecdotal evidence) to inform their decisions and to help them draw conclusions. There are a tremendous number of variables in the business climates of particular countries across sub-Saharan Africa, and access to quality information is imperative for newcomers to the continent.

Diplomatic missions are often a contact point for these private-sector actors. They are relied upon to provide country-specific political and economic information and credible local partner contacts; they also serve as diplomatic ‘credibility boosters’. However, the reality of resource constraints is such that either Central and Eastern European countries have no national representation in most sub-Saharan African countries (nor do they host sub-Saharan African embassies in their home country), or they are forced to operate with staff constraints (for instance, having only one commercial officer within a mission).

Where a private-sector actor has overcome both the mental and information barriers to investment, and has identified a suitable local partner(s), access to either commercial or government financing and/or loans becomes the decisive step that either drives forward or puts a brake on its investment plans.46 For many commercial banks, Africa still presents too high a risk to justify affordable lending to businesses. Most national financial institutions of Central and Eastern European countries do not have financial instruments in place to support the private sector, or they provide too little in terms of funding – e.g. some business trips are sponsored in the early stage of contact by CCs in the investor nation, but resources are lacking to ensure follow-up once initial contact has been made.

The level of interest and engagement of African counterparts matters, too. The considerable commercial interest and attention that Africa draws from the rest of the world47 could place some sub-Saharan African countries in a position where they are able to be more strategic in choosing investment partners. Aside from the more traditional partners from Western Europe and North America, now China, India, Turkey, Japan, South Korea, Malaysia, and the Gulf states (particularly Saudi Arabia and Qatar) are among countries vying to complete favourable bilateral and commercial deals. Due to limited administrative resources and competing priorities within sub-Saharan African countries, Central and Eastern European investors may not occupy a position of priority in the competitive landscape.

46 Research interviews (2019).
5. Sub-Saharan Africa: A More Proactive Approach to Central and Eastern Europe

The picture is mixed in terms of African recognition of the potential for an invigorated relationship. Some sub-Saharan African governments have taken more interest than others in identifying the relative strengths of Central and Eastern European economies, on which such a relationship could be based, and have acted accordingly. For instance, South African President Cyril Ramaphosa has called on investors from Poland – as part of a group consisting mainly of more established investors from Western European countries – in his bid to attract $100 billion in investments to South Africa by 2023, and South African investment envoys have visited Poland to pitch their country as an investment destination.48 The Ghanaian agriculture minister issued an open invitation for Czech investors during his visit to the country in April 2018.49 Similarly, in July of that year the then Ethiopian president, Mulatu Teshome, called on a delegation of Czech investors visiting Addis Ababa to enter the Ethiopian marketplace.50 Those sub-Saharan African governments that recognize the potential benefits to be had from a relationship with private-sector investors in the V4 group see the following sectors as most promising: agri-processing, especially meat (poultry) and dairy products; ICT; transport; construction; and water and waste management.51

Other governments, however, are not as aware of the potential opportunities that such a partnership could entail. Unfamiliarity with Central and Eastern European economies and what they could bring to the table was a somewhat common theme identified during interviews. Furthermore, Turkey’s and Russia’s engagements in sub-Saharan Africa were often a starting point of discussions, reflecting misconceptions of precisely which countries constitute the Central and Eastern European bloc.

While investments from Central and Eastern Europe are certainly welcome in sub-Saharan Africa,52 no overall strategic approach is being employed to attract investors and intensify the trade relationship with Central and Eastern Europe. Although there is some evidence of selectivity when African governments are seeking potential partners in specific sectors, many of those governments will not exercise ‘discrimination’, opting instead for a more general approach to investor outreach.

In order to successfully attract investment, a tailored approach needs to be put in place. The World Bank recognizes that governments must have a nuanced understanding of investor motivations to best unlock the benefits of FDI for local economies.53 South Africa provides a notable case in this regard, where, as a complement to the efforts of the national investment agency SAInvest, offices have been set up within provincial investment and trade agencies to target relations with Central and Eastern Europe. For instance, the Cape Town and Western Cape Tourism, Trade and Investment Promotion Agency (WESGRO) has a ‘New Europe’ department in charge of Central and Eastern European affairs.

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51 Research interviews (2019).
Central and Eastern Europe and Sub-Saharan Africa: The Potential of Investment Partnerships for Mutual Benefit

Investment envoys appointed by President Ramaphosa to help accomplish South Africa’s $100 billion foreign investment target have been accompanied on their external missions by WESGRO staff. Similarly, the Gauteng Growth and Development Agency has assigned responsibility for relations with Central and Eastern Europe to its department for ‘Middle East, Eastern Europe and Asia’.

In many instances, sub-Saharan African governments have positive perceptions of their past ties with Central and Eastern Europe. They reminisce about Hungarian, Czech, Polish, and former Yugoslav state enterprises that helped in building up their countries’ economies, the goods that were introduced in their markets, and the political support provided by the Central and Eastern European countries for independence movements. However, relationships of this kind dropped away during Central and Eastern Europe’s transitional period.

Table 2: Sub-Saharan African diplomatic missions in Central and Eastern European countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Embassy</th>
<th>Consulates and honorary consulates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>South Africa, Nigeria</td>
<td>Ghana, Kenya, Mauritius, Seychelles, Uganda</td>
</tr>
<tr>
<td>Croatia</td>
<td>DRC, Ghana, Nigeria, South Africa, Sudan</td>
<td>Burkina Faso, Côte d’Ivoire, Namibia, South Africa, Sudan</td>
</tr>
<tr>
<td>Czech</td>
<td>Angola, Nigeria, South Africa, Sudan</td>
<td>Benin, Botswana, Cabo Verde, Mali, Mauritius, Niger</td>
</tr>
<tr>
<td>Estonia</td>
<td>Angola, Nigeria, South Africa, Sudan</td>
<td>Côte d’Ivoire, Eritrea, Ghana, Guinea, Lesotho, Madagascar, Mauritius, Namibia, Seychelles, Sierra Leone, Uganda, Zambia</td>
</tr>
<tr>
<td>Latvia</td>
<td></td>
<td>Benin</td>
</tr>
<tr>
<td>Lithuania</td>
<td></td>
<td>Mauritania</td>
</tr>
<tr>
<td>Poland</td>
<td>Angola, Ethiopia, Kenya, Nigeria, Senegal, South Africa</td>
<td>Ethiopia, Ghana, Malawi, Mauritius, Seychelles, South Africa, Zambia</td>
</tr>
<tr>
<td>Romania</td>
<td>Angola, Nigeria, South Africa</td>
<td>Ghana, Senegal, Central African Republic, Equatorial Guinea</td>
</tr>
<tr>
<td>Slovakia</td>
<td>DRC, Lesotho, Mali, Senegal, Seychelles, Sierra Leone, South Africa, Uganda</td>
<td></td>
</tr>
</tbody>
</table>

As a first step in their opening towards Central and Eastern Europe, sub-Saharan African states might consider adopting a general orientation strategy. This might be followed by a more intensified diplomatic presence in Central and Eastern Europe. Given the scarcity of resources, a more pragmatic approach would be to focus on countries where they see the most potential for an invigorated relationship. The political relationship needs to be elevated from a deputy ministerial level in order for concrete changes and sustainable engagements to take place.

Bearing in mind the vast diversity of sub-Saharan African economies, and the different structural problems that they face as a consequence, there can be no single approach to improving the domestic business environment. Each country will need to follow a separate path, adopting policies that generate investor confidence based on its own unique circumstances, but each programme will certainly include improvements in education (perhaps involving tailor-made programmes), and infrastructure development, among other things, as efficiency-seeking and market-seeking FDI.

54 Research interviews (2019).
55 Research interviews (2019).
rly on good human capital and quality infrastructure. Whatever the choice of investment policy, where a country’s constitution provides for a devolution of powers to the local level, the central government will need to ensure that it coordinates its investment-promotion efforts.

**Box 3: Bilateral investment treaties**

BITs are agreements concluded between the ‘host’ and ‘home’ state, to provide protection for investors from the latter when doing business in the host state. Since the Treaty of Lisbon came into effect in January 2009, investment has been an exclusive competence of the EU. However, the EU provides the option for member states to conduct and complete treaties with third countries.

While some studies find strong evidence that the conclusion of BITs promotes investment in a country, others find little or no relationship between the two. The dramatic increase in FDI to Eastern Europe following the transition period of the 1990s coincided with the signing of BITs, as did the Asian economic ascent in the 20th century. However, it is difficult to disentangle this effect from other factors.

Numerous factors will ultimately combine to determine whether an investor decides to venture into a new market. While some governments place the greatest attention on improving their ranking in the World Bank’s annual *Doing Business* reports, this measurement of the ease of doing business in a host country leaves out important considerations. The World Bank’s *Global Investment Competitiveness Report 2017/2018* found that while investment incentives may help when investors are wavering between similar locations as a new base for their exports, political stability and security, as well as the level of legal protection against political and regulatory risks, were of far greater importance to investors.

**Box 4: Examples of individual country investor obstacles**

To illustrate the difference in circumstances, most Central and Eastern European businesses that were trying to penetrate the Ethiopian market at the time of research conducted for this paper in 2019 pointed out that the right accorded since 2012 to foreign investors in the country to repatriate profits (and capital) has presented a considerable obstacle for firms willing to invest there. While technically possible, repatriation of monies to a foreign country is a lengthy process, primarily due to the strict foreign exchange controls in the country. On the other hand, in Ghana, where repatriation has not been an issue for businesses, the principal barriers to investment are rather the depreciation of the local currency (the cedi) and a lack of quality infrastructure, which raises the cost of transport. With regard to Kenya, the greatest obstacle identified by businesses was widespread corruption – both at local level and within higher political circles – which served to increase the degree of unpredictability and the cost of doing business. In the case of South Africa, the frequency and intensity of social protest (e.g. in the context of poor service delivery), together with the requirements of empowerment legislation, were cited as disincentives to investment.

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56 The ‘ease of doing business’ methodology does not take into consideration factors including macroeconomic conditions, corruption, levels of poverty, political stability, road infrastructure, and so on. For more information on the methodology used, see World Bank (2018), *Ease of Doing Business Score and Ease of Doing Business Ranking*, http://www.doingbusiness.org/content/dam/doingbusiness/media/Annual-Reports/English/DB19-Chapters/DB19-Score-and-DBRankings.pdf (accessed 21 Jun. 2019).


58 South Africa’s Broad-Based Black Economic Empowerment is a points-based certification scheme whereby points are awarded for the level of black ownership, skills transfers, employment and indirect empowerment through supporting socio-economic development.
A step in the right direction might be the signing of BITs that are designed to increase protection for investors, provided that they do not favour investor protection over the national government’s ability to legislate on important matters of development policy. In other words, they need to be mutually beneficial for both host governments and investors. BITs are no longer an option for South Africa, the government of which opted instead for the Investment Protection and Promotion Act, whereby foreign investors are protected through domestic, rather than international, law. The option of entering into BITs remains open for other sub-Saharan African governments.

Table 3 shows the number of BITs and DTTs that Central and Eastern European countries have in place with sub-Saharan African countries. Although on a cumulative basis relatively few BITs (i.e. treaties with an investment protection provision) had been signed by 2019, it can be seen that Romania has taken a notable lead in this regard. Among the V4 countries, the Czech Republic has prioritized the conclusion of a BIT in its relations with Ghana; the treaty was expected to be signed in late 2019. Other Central and Eastern European and sub-Saharan African countries could enter bilateral negotiations and conclude mutually beneficial investment treaties to the benefit of both foreign investors and the host country.

Furthermore, DTTs can also help incentivize companies to invest. A DTT is an agreement between two countries that determines which country has the right to tax in specified situations, thereby eliminating instances where income is taxed twice. However, only 12 DTTs have been signed to date between Central and Eastern European countries and sub-Saharan Africa, with Romania accounting for a third of these.

Table 3: Number of BITs and DTTs of Central and Eastern European countries with sub-Saharan African countries in 2019

<table>
<thead>
<tr>
<th></th>
<th>BITs</th>
<th>DTTs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Estonia</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Hungary</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Latvia</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Lithuania</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Poland</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Romania</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Slovakia</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Slovenia</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

As of late 2019, a Slovakia–Kenya BIT had been signed (in 2011) but was not yet in force.

Source: Data compiled from websites of the national ministries of finance.

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59 First generation BITs accorded greater protection to investors, narrowed the policy space for governments, and put in place a costly international dispute resolution settlement system.


61 Research interviews (2019).
In May 2019 the African Continental Free Trade Agreement (AfCFTA) entered formally into force; by the time its operational phase was launched, in early July, 27 AU member states had signed the accord.62 The agreement initially required signatories to remove tariffs from 90 per cent of goods. It is early days for AfCFTA, but it is intended to effectively increase the volume of intra-African trade. It represents the biggest free-trade area globally, as measured by the number of participating countries. AfCFTA presents a positive signal to investors who want to pursue African markets, as even investments in small markets can be expected to ultimately achieve a much broader reach.

The African Continental Free Trade Agreement presents a positive signal to investors who want to pursue African markets, as even investments in small markets can be expected to ultimately achieve a much broader reach.

AfCFTA will coexist with Regional Economic Communities (RECs) – sub-regional bodies that play a central role in terms of regional economic integration. While another stated goal of AfCFTA is to tackle overlapping memberships (Article 3), this appears to have been superseded by Article 5, on the preservation of the acquis and the role of the RECs as building blocks for AfCFTA.63 Around 80 per cent of all intra-African trade flows through RECs.64 With the exception of the Arab-Maghreb Union (AMU),65 there are seven sub-Saharan African RECs:

- Economic Community of West African States (ECOWAS)
- Economic Community of Central African States (ECCAS)
- Southern African Development Community (SADC)
- Common Market for Eastern and Southern Africa (COMESA)
- Intergovernmental Authority on Development (IGAD)
- Community of Sahel-Saharan States (CEN-SAD)
- East African Community (EAC)

Africa’s RECs are at different stages of trade liberalization and economic integration. For instance, the member states of the EAC (Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda) have established a common market and monetary union, while ECOWAS has established a customs union and is approaching a common market. SADC has formally established a free-trade area, but faces major implementation obstacles. While RECs have formally removed a significant number of tariffs between their respective members, implementation issues and non-tariff barriers remain. In line with the plan of continental integration, and from a pragmatic standpoint, it is important that RECs constitute the principal vessel of such integration, especially in the coordination of AfCFTA. Sub-Saharan African governments can pursue the same course of action to achieve regional economic integration and further lower tariffs and technical barriers between the states that make up the bloc.

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65 However, Mauritania – a member of the AMU – is generally classed as part of sub-Saharan Africa, rather than of North Africa.
For its part, the EU could continue to lower barriers, especially for imports bearing added value; remove internal subsidies (external subsidies having already been lifted); and remove non-tariff barriers to create a level playing field for those African countries that are still at an early stage of development. While the EU has significantly lowered tariffs on imports from Africa – principally through the conclusion of bilateral Economic Partnership Agreements (EPAs), the complete removal of tariffs (through the Everything But Arms programme) for states with least developed country status, and the granting of preferential access under the extended Generalized System of Preferences (GSP+) scheme – non-tariff barriers, such as extremely high quality and safety compliance standards, still remain the biggest obstacle to African goods entering the EU.

6. Mutual Learning and Sharing of Experiences

To enhance commercial relations and the achievement of broader development-oriented goals, Central and Eastern European countries could potentially provide technical expertise and advice in the realm of education policies, public-sector reform and market-economy transition measures, such as privatization. While such policies do not have a singular purpose of improving business, they do, on the whole, improve the business climate in a specific country. In the 1990s, Central and Eastern Europe experienced a significant surge of inward FDI that spurred its economic growth. Part of the reason for its success also lies in its highly qualified yet cheap labour force, and the reforms that have taken place in education systems and public administration.

Central and Eastern European development assistance programmes make explicit reference to ‘transitional experience’ as an added benefit to EU development assistance programmes, and they have done so in the context of the European Neighbourhood to a certain extent (in the context of non-EU economies within the Central and Eastern European region such as Ukraine, Moldova, Belarus and Georgia), but they have still not articulated in which areas they could add value in African contexts. There are some current examples that can be drawn on, however. For instance, Estonia is working with the AU on introducing e-governance systems in several African countries, as well as a regional academy in Mauritius, while Slovakia places emphasis on capacity-building in public financial management.

There must be caution, however, on applicability of circumstances, or rather transferability of experience. In some cases, it is rather hard to apply lessons learned, due to the differing circumstances and influences around Central and Eastern Europe and sub-Saharan Africa. Poland, for instance, was a middle-income country in the early 1990s, and its success was strongly related to the presence of a strong neighbouring German economy. In contrast, at the present time most sub-Saharan African countries are still developing economies, and largely lack a strong economic neighbour. Despite this, however, there are exceptions, such as South Africa. While South Africa never had a socialist legacy, it is a middle-income emerging economy, as was Poland in the 1990s, and is at the stage of needing to privatize some of its industries, just as Poland underwent extensive privatizations to transform its centrally planned economy to a market-based economy. Some interlocutors pointed out that, having undergone privatization on a large scale, several Central and Eastern European countries are well positioned to share this experience with African partners.

Likewise, some sub-Saharan African countries are also in a position to provide lessons learned to Central and Eastern Europe. The small sub-Saharan African countries of Mauritius and Rwanda outranked all (except the Baltic states) of Central and Eastern Europe in the World Bank’s Doing

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69 Research interviews (2019).
70 Research interviews (2019).
Business 2019 rankings, taking 20th and 27th position, respectively. Some reforms initiated in these economies might provide a good model for Central and Eastern Europe to follow. Likewise, and despite the generally more advanced ICT sector in Central and Eastern Europe, Kenya on the whole presents a case-study of entrepreneurial growth in its rapidly evolving ICT sector. For Central and Eastern European countries that need to bridge the income gap and achieve full convergence with the EU-15 member states, innovation is imperative. It was pointed out in research interviews that Kenya and Poland in particular together have a good mix of entrepreneurial and tech skills that could result in a synergetic partnership in ICT.

Perhaps more importantly, in light of what is widely viewed as a degree of democratic ‘backsliding’ since EU accession in certain Central and Eastern European countries, in terms of the independence of their media and judiciary, some sub-Saharan African states have other valuable institutional lessons to share. In the academic literature, a lack of judicial independence leads to decreasing investor confidence and declining FDI. Some African countries, such as Mauritius, Namibia, Rwanda and South Africa, are ranked more highly for judicial independence in the World Economic Forum’s Global Competitiveness Report 2017–2018 than certain Central and Eastern European countries.

72 Research interviews (2019).
7. Promoting Development-oriented Central and Eastern European Investment in Sub-Saharan Africa

Promotion of inward investment in sub-Saharan Africa requires a genuine two-way partnership approach and bilateral efforts. Central and Eastern European governments – especially those belonging to the V4 group – have a set of institutions in place to support the aspirations of their businesses (primarily SMEs) with operations in Africa, and can benefit from EU membership. A principal distinction needs to be made between MNEs and SMEs, as MNEs might have the resources to venture into a foreign market regardless of state support, while SMEs are not in a position to do so on their own.

Central and Eastern European governments could exploit the advantages of EU membership in order to provide their businesses with financial assistance. A step towards increasing financing support (in the form of investment guarantees) can be achieved through the cooperation of national development finance institutions in the framework of the EU’s ambitious new foreign investment programme, the EIP (see Box 5). The EIP is implemented through a decentralized plan whereby funds are dispersed to international financial intermediaries, such as the European Bank for Reconstruction and Development, the Netherlands Development Finance Company (FMO) or the German KfW, which then design a programme for final beneficiaries (principally local banks and entrepreneurs in Africa) together with other institutions. The Czech-Moravian Development Bank (CMZR) and the Polish Development Bank (BGK) are undergoing the process of pillar assessment in order to be able to onward-lend funds from the European Commission, while legislation to extend the mandate of Slovakia’s Eximbanka to include external lending was under consideration in 2019.

Provided these Central and Eastern European national financial institutions are successful in passing the pillar assessment, the Commission should ensure that they become partners in the EIP in the next disbursement – mindful of the overall objective of private investment in Africa – as this could ensure access to funds for Central and Eastern European companies wishing to undertake mutually beneficial projects in Africa with a development objective. It is also important to avoid replicating the scenario that characterizes Central and Eastern European countries’ role as regards the European Development Fund. While such countries have been net donors to the joint fund for development cooperation projects, their civil society organizations (CSOs) and contractor companies have not been able to access funds to any significant degree. At this point, taking into consideration that the EIP is not yet operational and that the European Commission acts on the invitation of CCs, there is a low level of awareness of the plan among Central and Eastern European business entities.

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76 Based on the EU Financial Regulations, the European Commission can decide to entrust government bodies and international organizations to carry out budget implementation tasks as a special form of cooperation under indirect management. To be eligible, entities must pass a pillar assessment of its internal control system, accounting system, independent external audit, provision of financing to third parties, exclusion from access to funding, publication of information on recipients, and protection of personal data.
77 Research interviews (2019).
Box 5: EU External Investment Plan

The EIP is formed of three pillars that aim to provide a comprehensive solution to a lack of investment in Africa: the European Fund for Sustainable Development (EFSD); technical assistance; investment climate. EFSD as the first pillar represents the financial arm of the programme, serving to incentivize companies to invest and to ‘de-risk’ potential investment in Africa through financial guarantees (commercial, political, etc.) and through ‘blending’. The latter is an overarching approach whereby different funding sources are used to achieve development objectives. The EIP is a push by the European Commission to include the private sector as recipients of official development assistance. Private-sector enterprises can apply for EU funds, so long their project ideas demonstrate a clear development impact. Any company, regardless of origin – be it European, African or otherwise – can apply for funds that aim to contribute to development goals. Priority areas for investment – also termed ‘investment windows’ under the EFSD have been determined as: sustainable energy and connectivity; micro-enterprises and SMEs; sustainable agriculture, rural entrepreneurs and agribusiness; sustainable cities; and ‘Digital4Development’, a key plank of EU development policy.

In late 2018, the entire guaranteed amount of €1.54 billion has been allocated to 28 financial institutions to disperse funds to businesses in both the European Neighbourhood and Africa. The first guarantee was signed with the Netherlands-based development bank FMO in December 2018.

Aside from EU funds, another way to put greater financial support at the disposal of the private sector is through the reform of bilateral development assistance programmes. In its latest round of peer reviews, the OECD issued recommendations to rethink the development assistance programme of the Central and Eastern European members of the OECD, particularly the tied aid dimension (where credits to developing countries are made conditional upon the purchase of goods or services from the credit providing nation). This type of aid benefits the companies from the donor country more than the developing country itself. These aid practices could be changed to provide investment guarantees and equity financing to companies interested in expanding into Africa. They could be modelled on existing EU-15 development assistance programmes that have already made the leap to encouraging private-sector development support – for instance, the programme introduced by the government of the Netherlands, which has set up a Dutch Good Growth Fund and a Dutch Trade and Investment Fund.

Lastly as regards finance, Central and Eastern European national financial institutions can provide financing directly by setting up funds for businesses interested in Africa. Overall, with some exceptions, these institutions provide more support to trade-oriented businesses (in the form of export credits, insurance, etc.) than to investment. The Hungarian Eximbank does not typically issue loans for investment projects in Africa due to high levels of risk, however, it was announced in March 2019 that Eximbank had set up a €40 million fund to provide support for investments in the spheres of production, and of research and development. In Poland, the BGK offers financing for the expansion of Polish companies abroad (ranging from the acquisition of companies and/or assets of companies abroad, to construction of production plants and the establishment of joint ventures abroad with a foreign partner) through the Polish International Development Fund, with individual loans mostly

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78 Excludes Romania, Bulgaria and Croatia.
79 Separate reports can be found on www.oecd.org for the Czech Republic, Estonia, Hungary, Poland, Slovakia and Slovenia.
80 DGGF – with a budget of EUR 700 million – supports Dutch SMEs that want do business in developing countries and emerging markets and whose activities lead to better developments results (economic growth, job creation, social improvements). In doing so, DGGF offers services to SMEs that either want to import from, export to or invest in these countries.
81 Research interviews (2019).
82 Research interviews (2019).
being in the region of €8 million–€10 million.84 The Slovak Eximbanka does not provide loans, while the Czech Export Guarantee and Insurance Corporation (EGAP) offers insurance for investments abroad. Where national development finance institutions do not provide financing, they help with advice and typically refer companies to multilateral financing institutions such as the World Bank, the European Investment Bank or European Commission instruments.

Provision of quality information needs to improve, in order to counteract both the negative perceptions of doing business in Africa and the widespread belief at company level that the African market is too hard to penetrate.

While institutional coverage of sub-Saharan Africa is not comprehensive, it has become more sophisticated and inclusive (covering more countries) over the years. As a first resort, businesses will usually turn to the respective committees in charge of Africa in their national CC, provided that they have membership thereof. CCs facilitate business-to-business meetings with potential partners in Africa, typically in collaboration with both the relevant Ministry of Foreign Affairs and with diplomatic offices (embassies and consulates) in the country concerned. In fact, the local infrastructure has evolved to include institutions other than diplomatic outposts which can offer business services and advice (business-to-business matchmaking, quality legal representation, and so on) to potential investor companies. In the past few years, Czech, Hungarian and Polish trade offices have been established to provide these services to private-sector actors based in their respective countries.

Aside from the official government structures, various bilateral business councils and CCs, as well as privately owned trade promotion institutions (such as the Hungarian Trade and Cultural Centre, the Czech–Ghanaian CC and the Polish-established Council of Investors in Africa) provide supplementary service options to companies. Most of these institutions are focused on trade rather than investment. The work of investment promotion agencies is also heavily oriented towards inward investment. Only the Polish Investment and Trade Agency (PAIH) has an explicit mandate to focus on both outward and inward investment, whereas the Slovak Investment and Trade Development Agency (SARIO), the Business and Investment Development Agency of the Czech Republic (CzechInvest) and the Hungarian Investment Promotion Agency (HIPA) are focused solely on inward investment.

To ensure better information support, a practical step would be to extend the mandate of investment promotion agencies to include outward investment. Bilateral investment cooperation, in terms of joint ventures in Africa, exists between Turkey and Hungary.85 More direct cooperation with African counterparts exists between the South African and Polish state institutions.86 Table 5 below lists the institutions in the V4 countries that are involved with Africa, and summarizes their roles. It can be seen that the types of support that businesses receive are not uniform across the V4.

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Provision of quality information needs to improve, in order to counteract both the negative perceptions of doing business in Africa and the widespread belief at company level that the African market is too hard to penetrate. One useful approach is for governments to increase the visibility of their efforts by publicizing success stories. Such steps might provide the required impetus for risk-averse enterprises to pursue their chances abroad.

Table 5: Government investment support to V4 businesses

<table>
<thead>
<tr>
<th>Investment promotion agencies (IPAs)</th>
<th>Poland</th>
<th>Czech Republic</th>
<th>Hungary</th>
<th>Slovakia</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAIH – both outward and inward FDI mandate and geographical focus on Africa</td>
<td>CzechInvest – focus on inward FDI</td>
<td>HIPA – Focus on inward FDI</td>
<td>SARIO – focus on inward FDI</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Foreign trade offices</th>
<th>Yes</th>
<th>No</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Côte d’Ivoire, Ethiopia, Kenya, Nigeria, Senegal</td>
<td></td>
<td>41 across the world, most of them in Africa and Asia</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Business-to-business matchmaking, business investment forums (in coordination with CCs) | Yes | Yes | Yes | Yes |

<table>
<thead>
<tr>
<th>Financial institutions</th>
<th>Polish Development Bank (BGK)</th>
<th>Czech-Moravian Development Bank (CMZR)</th>
<th>Hungarian Eximbank</th>
<th>Slovak Eximbanka</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of financing available</td>
<td>Private equity and investment guarantees</td>
<td>Insurance</td>
<td>Eximbank Fund; Credit line (limited to Angola)</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Information support is closely linked to on-the-ground diplomatic representation of Central and Eastern European countries in sub-Saharan Africa. While diplomatic representation has increased over the years, the coverage is not extensive (see Table 6). More importantly, both depth of engagement and high-level representation are still lacking. Aside from the limited number of embassies, the number of embassy staff – in particular, of economic counsellors – is not sufficient to foster greater contact. Moreover, current contact at the highest levels of government is not frequent enough to foster closer links. Both Central and Eastern European and sub-Saharan African countries have started the long-term process of intensifying political relations. Typically, Central and Eastern European countries – especially those in the V4 group – will organize annual state visits at deputy ministerial level, while some have also set up regular bilateral economic cooperation commissions with some sub-Saharan African countries.88 However, heads of state or government or visits by relevant ministers occur only infrequently.


88 Each of the V4 countries has created their own separate bilateral joint economic commission with South African counterparts.
The key to successful partnership is a continuous relationship, maintained through intense contact rather than one-off, symbolic political visits. Central and Eastern European countries that have the means to open up embassies and allocate more staff to key positions should do so if they wish to deliver on a long-term Africa strategy. However, with governments confronted with often scarce resources and competing priorities, increasing the number of diplomatic missions abroad is not a favoured option. A rethink in policy, i.e. considering a more targeted and proactive approach, as opposed to expansion into many different corners of sub-Saharan Africa, could be beneficial. For those less strategically important countries where V4 countries would still like to maintain a presence, either the network of 47 EU delegations across Africa or the separate network of national consulates (and honorary consulates) can provide a source of political presence and information.

Table 6: Diplomatic missions of Central and Eastern European countries in sub-Saharan Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>Embassy</th>
<th>Consulates and honorary consulates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>Angola, Ethiopia, Kenya, Nigeria, Senegal, South Africa</td>
<td>Benin, Burkina Faso, Burundi, Cameroon, Côte d'Ivoire, Eritrea, Gabon, Ghana, Kenya, Madagascar, Mauritania, Mozambique, South Africa, Sudan, Tanzania, Uganda, Zambia</td>
</tr>
<tr>
<td>Romania</td>
<td>Angola, Ethiopia, Kenya, Nigeria, Senegal, South Africa, Sudan, Zimbabwe</td>
<td>Central African Republic</td>
</tr>
<tr>
<td>Slovakia</td>
<td>Ethiopia, Kenya, Nigeria, South Africa</td>
<td>Cameroon, Ethiopia, Guinea, Kenya, Malawi, Mauritius, Mozambique, Nigeria, Senegal, Seychelles, South Africa, Sudan, Togo, Uganda, Zambia</td>
</tr>
</tbody>
</table>

High-level visits serve as a credibility booster for accompanying business delegations from Central and Eastern European countries, and can signal the seriousness of intent to do business. A diplomat from one Central and Eastern European country pointed out that the entry of Western companies into Africa is often accompanied by a visit by a head of state or government to facilitate talks, as when German Chancellor Angela Merkel visited Ghana in August 2018. While it may not always be possible for a foreign head of state or government to pay an official visit, regular visits by relevant ministers (i.e. representing an elevation of discussions from deputy ministerial level) are a feasible option. Moreover, Central and Eastern European countries can utilize the platform provided by their respective presidencies of the Council of the EU (scheduled to be held by Croatia in the first half of 2020, by Slovenia in the second half of 2021 and by the Czech Republic in the second half of 2022) and ‘post-Cotonou’ negotiations to strengthen political dialogue with sub-Saharan African countries.

89 Research interviews (2019).
90 Research interviews (2019).
91 Research interviews (2019).
92 The Cotonou Partnership Agreement is a comprehensive, legally binding framework outlining relations between the ACP and the EU. The agreement expires in 2020, and negotiations are under way to determine a framework agreement.
Lastly, cultural links present an important dimension and should form part of a long-term business approach to Africa. Cultural ties break down stereotypes and open up the possibility for a more open-minded approach to doing business in the continent. The Western European (or rather EU-15) presence in Africa can in part also be explained by closer cultural links resulting from the historical colonial relationship and current diaspora populations and engagement. One past approach that can be utilized by Central and Eastern European investors to intensify both political and business contacts is scholarship programmes which during the socialist period provided education opportunities for African students at Central and Eastern European universities. In many instances, the increased drive for trade and investment today comes from people who benefited from former scholarship programmes. While some of the African graduates from Central and Eastern European educational institutions have taken up roles in business in their home countries, others serve in prominent political positions. These contacts can provide both a means of increasing knowledge of the destination countries, and entry points to business ventures. However, while the old scholarship programmes have proved useful, the alumni are ageing, and a fresh approach leading to the development of modern scholarship programmes, with some already under way, could prove useful in intensifying relations.
8. Conclusion

Economic links between Central and Eastern Europe and sub-Saharan Africa have intensified since 2004, when a number of Central and Eastern European countries acceded to the EU. However, the current levels of engagement should not be the ceiling for either region, nor should trade be the most dominant form of engagement. There are clear potential benefits – inclusive economic growth, quality job creation, transfer of technology and skills – on both sides to not only keep this relationship alive but elevate it to a new level, thereby increasing investment partnerships. An examination of investments from emerging economies and areas of the world that have traditionally been less active economically in sub-Saharan Africa serves to demonstrate that it is possible to forge closer ties.

This trend has become even more evident as investment in Africa moves away from its traditional focus, which was primarily based on resource extraction. There are indications that Africa could in some instances replace South and East Asia – including China – as a manufacturing base for global businesses, due to the rising costs of labour in the latter.\(^93\) Investments into Africa are no longer solely motivated by a desire to exploit the abundance of natural resources on the continent. This creates new opportunities, and should provide impetus for deepening investment ties.

Businesses in Central and Eastern European countries bring to the table a mix of advantages as part of the private sector of developed economies, but having emerged out of transition experiences. While the Central and Eastern European private sector offers the technologies, and skills in sectors such as agribusiness and ICT, that are important to development in Africa, it also offers advantages that some other players might lack, such as the ability to navigate difficult markets (an area in which it already has experience), and a positive image created through a meaningful contribution to African development in the past, as well as a lack of colonial ‘baggage’. However, businesses need to be wary of the context within which they operate. Among businesses that have successfully entered the sub-Saharan African market, there is a strong understanding that a long-term perspective is needed, rather than an expectation of short-term gains.\(^94\) This sort of thinking needs to extend across the Central and Eastern European region, to counter the perception that Africa is a place to make quick wins.

Improving investment levels between sub-Saharan Africa and Central and Eastern Europe will require significant efforts on both sides. In each case, a different set of policies will have to be pursued by national governments to bring about a noticeable change in investment levels. While sub-Saharan African governments will need to pursue inward investment promotion policies to attract investors, Central and Eastern European governments will need to pursue policies to incentivize their own businesses to pursue opportunities in Africa.

\(^94\) Research interviews (2019).
Policy options

No quick solution can bridge the gap between the potential and current reality of investment ties between Central and Eastern Europe and sub-Saharan Africa. Strengthened investment ties, with linked development and governance outcomes, between Central and Eastern Europe and sub-Saharan Africa will require a multidimensional approach and effort on both sides, as well support from the EU.

Central and Eastern European governments could:

• Define a strategic long-term commercial strategy towards sub-Saharan Africa centred on responsible investment, identifying the priority countries and sectors of engagement with sub-Saharan African counterparts based on comparative advantages and opportunities.

• Consider concentrating economic diplomacy in fewer sub-Saharan African countries, thereby increasing key embassy staff in selected countries. To compensate for their absence in some countries, encourage companies to use available EU structures for advice and information.

• Increase top-level political engagement in priority countries, either at ministerial or heads-of-state level, if diplomatic practice permits, accompanied by business delegations. Perhaps consider using the platform provided by the rotating presidency of the Council of the EU.

• Introduce outward investment mandates of domestic investment promotion agencies (IPAs), increase coordination between intergovernmental bodies, and initiate partnerships with target country IPAs in sub-Saharan Africa.

• Reform bilateral development assistance programmes to offer financial incentives for investments with a development-driven outcome.

• Create financial instruments to support businesses in terms of equity financing.

• Facilitate business visas for African business executives who are interested in private investment partnerships.

• Provide accessible information and analysis, for instance through local CCs and other reliable partners, to counteract stereotypes and negative perceptions and improve information sharing.

• Encourage companies to operate to the highest standards regarding products, integrity and labour welfare; offer priority sub-Saharan African partners useful transfer of technology, help in enabling local products to EU standards, and share experience gained in transitioning, for example (i) towards a conducive climate for business, including sanctity of contract; (ii) towards building better anti-corruption institutions; and (iii) from a state-owned to a private-sector-led economy.

• Review scholarship programmes, and review what improvements can be made to collaborating on the ground, in order to reduce administrative burdens and share mutually useful market insights.
Sub-Saharan African governments could:

• Further improve business climates through enhancing predictability and integrity, and communicate results to potential Central and Eastern European partners.

• Initiate the conclusion of BITs and DTTs with Central and Eastern European counterparts to improve investor protection and remove obstacles to investor confidence.

• Increase political commitment to strengthening the investment relationship and adopt national commercial strategies towards Central and Eastern Europe. Increase annual bilateral political exchanges, at least at deputy ministerial level, and ensure some ministerial-level engagement.

• Improve understanding of the host country by maximizing the provision of information on business conditions.

• Use opportunities, such as Central and Eastern European-hosted Africa Days, for advocacy on a range of issues, including doing business in their country and nuancing debates around migration.

• Facilitate business visa application procedures to allow smooth business operations to take place.

For the EU:

• Include Central and Eastern European national financial institutions as partners in the EU’s EIP and ensure equal access opportunities to Central and Eastern European enterprises.

• Work with the AU and RECs to support efforts remove obstacles to trade, most notably in terms of harmonization of standards across different EPAs.

• Strengthen economic diplomacy – using powers enshrined in the Treaty of Lisbon – and enhance work and information-sharing practices between businesses originating in the EU.
**Acronyms and Abbreviations**

ACP  African, Caribbean, Pacific countries  
AfCFTA  African Continental Free Trade Agreement  
AMU  Arab-Maghreb Union  
AU  African Union  
BGK  Polish Development Bank  
BIT  bilateral investment treaty  
CC  chamber of commerce  
CEE  Central and Eastern Europe(an)  
CEN-SAD  Community of Sahel-Saharan States  
CMZR  Czech-Moravian Development Bank  
COMESA  Common Market for Eastern and Southern Africa  
CzechInvest  (Czech) Business and Investment Development Agency  
DRC  Democratic Republic of the Congo  
DTT  double taxation treaty  
EAC  East African Community  
ECCAS  Economic Community of Central African States  
ECOWAS  Economic Community of West African States  
EEAS  European External Action Service  
EFSD  European Fund for Sustainable Development  
EGAP  Czech Export Guarantee and Insurance Corporation  
EIP  External Investment Plan  
EPA  Economic Partnership Agreement  
EU  European Union  
Eximbank(a)  Export-Import Bank  
FDI  foreign direct investment  
fintech  financial technology  
FMO  Netherlands Development Finance Company  
GSP+  generalized system of preferences plus  
HIPA  Hungarian Investment Promotion Agency  
ICT  information and communications technology  
IGAD  Intergovernmental Authority on Development (IGAD)  
IPA  investment promotion agency  
MFA  Ministry of Foreign Affairs  
MNE  multinational enterprise  
OECD  Organisation for Economic Co-operation and Development  
PAIH  Polish investment and Trade Agency  
REC  Regional Economic Communities  
SADC  Southern African Development Community  
SARIO  Slovak Investment and Trade Development Agency
SMEs: small and medium-sized enterprises
SSA: sub-Saharan Africa(n)
TSA: Ten Senses Africa
UNCTAD: United Nations Conference on Trade and Development
V4: Visegrád Four
About the Author

Damir Kurtagic was an Academy Robert Bosch Fellow with the Africa Programme at Chatham House in 2018–19, where his research focused on how the private sector in Central and Eastern Europe can be used to further engagement with sub-Saharan Africa.

Damir has been active in the international development field throughout his professional career. Before joining Chatham House, he worked with the United Nations Development Programme in Bosnia and Herzegovina, and at the United Nations Industrial Development Organization headquarters in Vienna, on issues of regional and rural development, as well as private–private partnerships in development.

He also worked in Brussels for organized business groups at the European Economic and Social Committee, and on an EU Commission-funded development project.
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