EVENT REPORT

DIALOGUE ON SUSTAINABLE INVESTMENT IN ETHIOPIA, KENYA, MOZAMBIQUE AND ZAMBIA

Partnership for Investment and Growth in Africa (PIGA)

6 November 2019
China International Import Exposition (CIIE) Exhibition Centre,
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I. KEY INFORMATION

Objective of the event

Provide insights into the financial, social and environmental aspects of foreign direct investments as a means to bring positive impact and changes for the benefit of recipient countries for potential investors to build sustainable investment projects for the four PIGA countries.

Co-organizer

China Investment Promotion Agency (CIPA) of the Ministry of Commerce of China

Number of participants: Approximately 90 people (including approximately 30 women) from 50 companies and institutions.

Types of participants

- Potential Chinese investors;
- Representatives of Chinese and foreign-owned companies in Africa;
- Representatives of investment promotion agencies: the Ethiopian Investment Commission (EIC), the Kenya Investment Authority (KenInvest), the Mozambican Agency for Promotion of Investment and Exports (APIEX) and the Zambia Development Agency (ZDA);
- Experts and business representatives.

Expected results

- Investment priorities related to countries’ development priorities, incentives and opportunities in the agroprocessing and light manufacturing sectors in Ethiopia, Kenya, Mozambique and Zambia promoted by investment promotion agencies;
- Improved understanding of Chinese companies on sustainable and responsible business practices;
- Investment leads initiated or matured through advisory support and direct contact between Chinese investors and African investment promotion agencies and institutions.

Documents attached to this report

- Event programme;
- Presentation of the sustainability guidebooks;
- Link to sustainable investment guidebooks.

II. OPENING SESSION

Speakers

Mr. Liu Dianxun, Director General of the China Investment Promotion Agency (CIPA) of the Ministry of Commerce of the People’s Republic of China

Mr. Ashish Shah, Director of the Division of Country Programme, ITC

Mr. Andrew Gartside, Invest Africa Adviser, DFID
Key points are summarized below:

Mr. Liu Dianxun

- Chinese overseas investment in Africa is increasing every year in a growing numbers of industries with a great impact in terms of jobs creation.
- CIPA provides various types of support to Chinese companies looking to invest abroad:
  - Advice on avoiding risks
  - Support in implementing the Forum on China–Africa Cooperation (FOCAC) agreement
  - Nationwide industry platforms
  - Developing intellectual property (IP), not only in China, but also in other countries
  - Policy research and forums
  - Analytics
- CIPA is focusing more on creating intra-industrial and intraregional networks.

Mr. Ashish Shah

- Chinese investments are driving infrastructural growth in Africa and Chinese companies are investing in job-intensive projects, which could have long-term social and economic impacts. For example, Chinese investment in pharmaceuticals could have a great impact in terms of medicine accessibility and reliability for local populations.
- ITC includes sustainability in both design and implementation of projects. Four areas are key: (1) Gender equality, (2) Green growth, (3) Trade for sustainability, and (4) Work environment and labour rights.
- ITC has made available a sustainability guidebook to provide useful guidelines to Chinese and other foreign investors investing in the African countries covered by the PIGA project.

Mr. Andrew Gartside

- The UK Government is supporting PIGA, because it believes that attracting investments into labour-intensive manufacturing will lead to increased jobs and higher incomes in Africa.
- A very significant number of the 85 million to 100 million low-cost labour-intensive manufacturing jobs that China is expected to transform into higher-value-added jobs by 2030 could be captured by Africa.
- This China trip is an eye-opener in terms of the opportunities for knowledge and technology transfer from China to Africa.
- Encourages interactions between Chinese companies and African government officials.

III. GUIDES TO SUSTAINABILITY IN AGROPROCESSING AND LIGHT MANUFACTURING IN ETHIOPIA, KENYA, MOZAMBIQUE AND ZAMBIA

The objective of this session was to present the guidebooks developed by PIGA to provide a step-by-step guide to Chinese investors on how to comply with environmental and social
sustainability requirements and apply sustainable practices in their investment projects in Africa.

Speaker Mr. Andreas Beavor, ITC expert on sustainable development

Mr. Beavor’s presentation is attached to this report.

IV. ATTRACTING IMPACT INVESTORS: PIGA COUNTRY STRATEGIES AND INCENTIVES

In this session, potential investors learned about investment opportunities, incentives and their linkage to development priorities in the four PIGA countries.

Speakers Mr. Lourenco Sambo, Director General of APIEX  
Mr. Temesgen Tilahun, Deputy Commissioner of EIC  
Mr. Guracha Adi Bidu, General Manager of KenInvest  
Mr. Innocent Melu, Investment Manager of ZDA

Moderator Mr. Xuejun Jiang, Chief of the Office for Asia and the Pacific, ITC

Questions

1. Why is sustainable investment important to your country? What kind of investment are you looking to attract to contribute to the development agenda of your country?
2. What incentives do you provide to attract investments with high developmental impact potential in your country?
3. What kind of support do you give to investors to ensure that they comply with national environmental and social regulations and implement sustainable practices?

Key messages

Mr. Lourenco Sambo

- Sustainable investment includes the environmental and the social dimension and investors need to take these two aspects into their investment projects and need to contribute to social development.
- Mozambique is endowed with natural resources and the country needs to attract investment that will not only focus on exploiting these resources, but that will also contribute to value addition for the country and support the development of other value chains.
- There is a need for diversification to avoid running into Dutch disease, which is the development of mostly one economic sector (for instance, exploitation of natural resources) to the detriment of other sectors.
- Education is key to ensure that there is a fair distribution of benefits to the society from exploitation of resources.
- Investors need to engage with investment promotion agencies so they can be properly guided in their investment journey and avoid any complications (for instance, with the issuance of work permits). Companies should not rush, but should gather proper and adequate information.

Additional questions
In 2015, Mozambique reached its Millennium Development Goal of halving the number of hungry people, but still faces challenges to ensure food security for its population. Despite very good soil and climate for agriculture, Mozambique is highly vulnerable to extreme climatic conditions destroying infrastructure and hindering efforts to eradicate hunger. Attracting foreign direct investment (FDI) that can increase the resilience of rural communities by technology transfer and advanced agricultural methods is, therefore, key. What are the measures implemented by Mozambique to do so? What type of investment is Mozambique looking for from China in the agricultural sector?

- Agriculture and agroprocessing are very important sectors to develop in Mozambique to contribute to the country’s food security and balance of trade. For now, the country is focused on commodity value chains (cereals, rice, maize and sugar) for exports and the value addition is very limited when many jobs could be created to transform agricultural products. The development of the agroprocessing sector requires investments in infrastructure and investments are also required to shift from small-scale/household farming to commercial agriculture. Investments contributing to technology transfer, for instance in irrigation technics, are, therefore, welcomed.

- Incentives provided are fiscal and non-fiscal (such as special economic zones, tax exemption for several years and revenues repatriation, etc.).

Agriculture production in Mozambique is competitive in most cases; for some processing stages, sugar is required, but the sugar available locally is very expensive in Mozambique. Is it possible to import from elsewhere and still get incentives?

- This needs to be examined on a case-by-case basis, as Mozambique is trying to develop its own sugar industry, which is still at a very infant stage. We need to understand exactly the sugar demand of each project to facilitate the imports of sugar for this specific investment project.

Mr. Innocent Melu

- Zambia has developed a national promotion strategy to help achieve Vision 2030 of becoming a middle-income country. Investments must be aligned to this strategy centred on the following pillars: inclusiveness, agriculture, energy and education.
- The focus is on investments that help diversify the economy, add value to natural endowments (so, for instance, investments in agroprocessing rather than agriculture) and generate employment. Investments should take into account impact on the environment and community, beyond just meeting corporate social responsibility, and investments promoting backward and forward linkages are also favoured.
- It is key for investors to learn about the development priorities of the country, because there are specific incentives linked to the priority sectors of the country's development strategies.
- Investors benefit from fiscal and non-fiscal incentives. If investors invest in a special economic zone, there are two terms: “developer” and “operator”. The investor benefits from a five-year tax holiday as an operator and 10 years as a developer.
- There are also specific incentives for investments localized in rural areas with a minimum investment of $500 thousand: investors may benefit from import duty on your raw materials, as well of the capital; they also enjoy 10% corporate tax.

Additional questions

Zambia is aiming to move beyond exporting raw materials and start adding value to raw products in order to enhance industrialization, job and wealth creation. When it comes to
agriculture and agroprocessing projects, we have been told that it is very hard for investors to get working permits for their very skilled and experienced workers who do not have high-level diplomas, but are crucial to train the local workforce. How can the right balance be found between protecting local employment and enabling investors to initiate their project with the staff they require? Are there any specific measures in place for such projects?

- Chinese workers may face issues in some cases if the investor did not observe some key requirements and employed as many locals as possible. It is necessary to assess the skills available in-country to see if the required skills can be found locally. This is often not done properly due to a lack of information. ZDA is, therefore, available to guide investors for this process and examine on a case-by-case issue the solutions available. The key is for investors to come to ZDA early on in their investment process so they can be properly accompanied.

Africa has good land and climate; how can one investor access the agricultural opportunities?

- Agriculture and agroprocessing development are a priority for the Zambian Government. In all 10 provinces, the government has identified 100 ha to boost agriculture and agroprocessing development through partnerships (joint venture) with local entities. ZDA will be able to provide investors with all the information they need and link them with the appropriate stakeholders for them to start their investment project in agriculture.

**Mr. Guracha Adi Bidu**

- Kenya is also committed to Vision 2030 goals and has a Big 4 Agenda up to 2022, with four priority areas: manufacturing, agriculture, health sector and housing.
- The focus of investment attraction is on job creation and technology transfer to contribute to the Big 4 Agenda. The country expects investors to meet environmental protection requirements, and there are rigorous assessments in place. Investors need to have an inclusive and sustainable vision.
- Various incentives, fiscal and non-fiscal, are available. For instance, in special zones, investors benefit from a 10-year tax holiday, VAT exemption on water and electricity, and revenues repatriation, etc.

**Additional questions**

In recent years, the press has reported a number of conflicts between Chinese investors and locals. What do you think needs to be done to improve this situation? What is the suggestion you would like to give to investors in terms of labour and community engagement?

- To avoid any conflicts and controversy with the local population on foreign investors and the sectors they are targeting, Kenya is now voting on a list of sectors where foreign investors should not engage.
- Investors should learn about the local customs and culture to ensure that there will not be cultural misunderstandings and they should give local staff the opportunity to also understand their culture better. When good communication is enabled, issues can be solved easily.
- Kenya is launching a guide on do and don’ts for investor to avoid issues with local communities.

**Mr. Temesgen Tilahun**
- National vision is to bring structural economic transformation from an agriculture- to an industrial-based economy, middle-income nation by year 2025 and the role of investment is key to achieve that.
- **Ethiopia has included sustainability in its constitution** (Articles 43 and 44), recognizing the rights of Ethiopian citizens to a “clean and healthy environment”.
- Ethiopia also shared the aforementioned visions and strategic priorities; focus is on job creation, technology transfer and wealth creation.
- On agriculture and agroprocessing:
  - EIC is now partnering with Alibaba;
  - They recently developed dedicated industrial parks;
  - **The Agriculture Transformation Agency (ATA)** can assist with agriculture-related projects and the development of the agroprocessing sector is now also a focus of the government.
- Investors can benefit from financial (exemption, duty free and export of income) and non-financial (services and industrial parks) incentives.

**Additional question**

*Ethiopia is one of the most populated countries in Africa, heavily dependent on agriculture and forest resources and facing environmental challenges such as soil erosion, land degradation, water scarcity, deforestation and forest degradation. Is it a priority for Ethiopia to attract projects with a positive environmental impact and do you have examples of such projects?*

- The Government of Ethiopia has included sustainability in its constitution and is committed to building climate resilience. It has adopted [Ethiopia’s Climate-Resilient Green Economy (CRGE) Strategy](#), implemented along the current five-year development plan, the Growth and Transformation Plan II (GTP II), to identify green economy opportunities. Government itself is a major investor in sustainability; in constructing eco-friendly industrial parks and generating hydropower energy.
- **The Ethiopian Environmental Protection Authority (EPA)** supports investors to ensure compliance with national environmental regulations.
- Investors are also encouraged to settle in state-of-the-art industrial parks meeting best practices in terms of environmental protection (such as Hawassa Industrial Park).
- There are several good examples such as JP textiles, which is recycling all its waste water and went one step further to be able to reuse it in its operations, ensuring that there is no discharge.

**Question from a Chinese entrepreneur:** Is there a platform for online shopping in China providing Ethiopian items? We are looking for products to source from Ethiopia.

- Ethiopia has entered a partnership with Alibaba, and we are open to join as many as possible.

**V. THE BUSINESS CASE FOR SUSTAINABILITY AND EXAMPLES OF GOOD PRACTICES**

In this session, potential investors will get a better understanding of the business case for sustainability and get practical examples of good practices that can be applied when investing in Africa.

**Speakers**

Mr. Yang Nan, Chairman of JP Textiles
Mr. Yin Yiqiao, President of Future Development Group
Mr. Donald Larson, CEO and founder of Sunshine Nut Company LLC
Ms. Clare Pearson, International Development Director of DLA Piper
Moderator
Mr. Andrew Gartside, Invest Africa Adviser, DFID

Mr. Yang Nan (Investment in Ethiopia)

JP Textiles is settled in Hawassa Industrial Park, the first zero-waste emission industrial park in Ethiopia, equipped with a state-of-the-art wastewater treatment plant. As yarn dyeing and washing produces a high quantity of contaminated wastewater, water treatment is a must, but JP Textiles has gone one step further by reusing the wastewater.

- Could you tell us more about the process?
- Aside from the commendable environmental benefits of this, how does it help your profitability? For example, through cost savings or access to higher value markets.

- From the very beginning in 2014, the focus was to build an environment-friendly factory, not to repeat the mistakes of the past made in China: thinking about the consequences of the industries after pollution is already there.
- Ethiopia is a water tank for many countries, so it is key to maintain clean water. So all the water is treated and then, through another process, the wastewater is recycled for production. There is no discharge pipe in their industrial park, so they need to treat it totally. They are the first in the world to do that in such a conventional industry.
- The most difficult is not to implement the technology, but is cost management, especially in the conventional textile industry. Zero discharged water is very costly and reusing water does not help reduce the cost of water.
- This project is sustainable, because JP Textiles works for very famous brands with high sustainability standards. These brands want their value chains to be clean, so they are ready to help cover the required costs and pay a premium on the products they purchase.
- The old textile industry is suffering from its bad image, but, with these new techniques, they are giving a new image and they are trying to promote their zero-emission technology in China to have a broader impact there.

Ethiopia is often seen as a low labour cost destination, which is attractive for investors, but there are often reports of factories facing difficulties with staff discontent and turnover. With 650 employees in Ethiopia, what is the advice you want to give to Chinese investors for their investment project regarding labour-related issues, especially career development opportunities and benefits for employees?

- Due to religious beliefs and other cultural factors of Ethiopian staff, there is some cultural adjustment to do for Chinese employees for a good common understanding.
- The approach followed by JP Textiles to streamline communication was as follows:
  o Implementing training programmes for Ethiopian staff (from 2015, they started training graduates up to a moderate level in Chinese and then sent them to China for a few months’ apprenticeship). These employees then participated during the local set-up of the company so they could also train Ethiopian workers.
  o As Chinese staff also did not speak good English, they provided them with English lessons.
- Afterwards, they tried to promote many local employees to managerial positions.
- Investors need to be well aware of local culture, beliefs and laws. For instance, in Ethiopia, when employees start, they are entitled to 15 days of annual leave per year, whereas in JP Textiles’ factories in the USA or other places, when employees start, they do not have so much leave.
Mr. Yin Yiqiao (Kenya, Madagascar and Mozambique)

According to the 2017 McKinsey study titled “Dance of the lions and dragons”, 89% of the employees of the 1,000 Chinese-owned companies surveyed for the report are locals. However, only 44% of local managers are African. Based on your extensive experience developing projects in Kenya, Madagascar and Mozambique, what are the strategies you used to get local staff to senior management levels, and, where you have successfully elevated local staff to senior management, what has been the impact on your business?

- Future Group is an enterprise that grew up in Africa. At first, it was a small workshop and mill and now they cover seven countries in Africa. The main product is aluminium and recently solar panels to contribute to solving the electricity problem in Africa.
- The first important step is to have a proper talent-attraction strategy that will benefit the enterprise’s growth:
  o To do, so it is important to build and communicate on the company’s mission. In the case of Future Group, the company has two missions: becoming the most sustainable Chinese enterprise in Africa and becoming the bridge of China–Africa exchange.
  o It is key to inspire young, talented people. This is why in their day-to-day activity they emphasize their social responsibility (disaster relief activity and schooling support).
- Then a good career development mechanism is required to cultivate high-end local talents. Future Group implemented various measures such as linking the income to their performance in work, providing rewards and promoting the best employees, etc.
- Finally, they analyse the posts and positions held by Chinese people to understand which ones can be done by local people with the aim of increasing the number of local staff in all managerial positions. Depending on the country, the percentage between nationals and Chinese employees varies.
- All these measures are very beneficial for business, as they contribute to employee motivation, reduce staff turnover and improve productivity.

Cultural misunderstandings can really hamper the growth of the business and well-being of the employees with high staff turnover. Besides promoting local staff to senior management, what other measures did you implement to enable good cooperation between African and Chinese workers?

- Implementation of measures to avoid conflicts due to the language barrier (bad communication leads to misunderstandings):
  o Chinese employees need to understand the working language within half a year; otherwise, they will be sent back to China.
  o A hotline to report any issue encountered in the company is available for all employees.
  o Training of Chinese employees on local religions and cultures so they do not offend the local people. No matter which country they come from or their position, they need to treat people as equals.
  o Organization of community or sportive events in which they encourage Chinese employees to participate.

Mr. Donald Larson (Investment in Mozambique)

As a social enterprise, Sunshine Nut is looking at quadruple bottom line results – financial, environmental, social and transformational. Could you tell us a bit more about how this works?
- **Sunshine Nut** is a social enterprise selling processed cashew nuts. It is looking at quadruple bottom line results, which are financial (being profitable), environmental (mitigating carbon emissions and manual focus), social (supporting children and poor farmers, and investing profits in agriculture development) and transformational (hiring adult orphans and training them to become tomorrow’s business leaders and using facilities as training areas).

On the market side, significant segments of the market are already looking for evidence of certain standards in the products and services that they consume, including adhering to recognized production methods, the social impact of the business, and the environmental impact of production and transport.

- Acknowledging that, from a personal perspective, you have built your business around a strong ethical model, from a purely business perspective, do you use any particular certifications, and what is the business benefit of these?
- What have been the challenges around attaining these certifications, and are there ones that you would like to use in Mozambique, but are not yet using?
- Are there any standards certifications that you think will become a requirement for the mass market in future, for which businesses should be preparing themselves?

- Certifications can be marketing tools; they chose the most important for them, which is FSSC 22000 and B Corporation (standing for Benefit Corporation).
- B Corp is very highly demanded and they are among the 3,000 having this certification. There are lots of other certifications (such as GMO free, gluten free and fair trade, etc.), but they chose not to pursue these certifications because of the cost to be certified and would rather reinvest their proceeds into the communities.
- Rather than certifications becoming obligatory for mass markets, the key elements is that consumers have more and more demands on traceability. The Sunshine Nut model is, therefore, adapted for that.
- Traceability is going to be key in opening up opportunities in sectors such as the meat sector. They did not face many challenges to get the certifications and a third-party European auditing firm comes every year to run the audits.

**Mrs. Clare Pearson**

You were born in Zambia and have a lot of experience of various African countries. Chinese investing abroad gained a reputation for interacting mostly with the Chinese expat community and having little interactions with locals. What measures would you advise Chinese companies to implement to guarantee good integration with local staff and communities, and how can this help their business in the long term? What steps should they take when designing and implementing their investment project to ensure this positive integration?

- Despite the cultural differences and language barriers mentioned above, there are lots of commonalities between Chinese Confucianism and other religions (for instance, the concept of treating other people’s children as if they were your own) and this is a good base for sound collaboration.
- On top of complying with all local rules and regulations, small things, for instance, the organization of football games, can actually have a huge impact for the communities and workers. These activities bring people together, create trust and loyalty and positively contribute to the business.
- Three steps to develop a successful project:
  - Having a vision ⇒ work along the lines of the current government and develop a clear vision of the contribution your company can have. Share this vision to build good relationships.
Show passion → investors need to visit the countries they want to invest in and learn about local cultures. Getting physically there to see the reality and kill misconceptions is a prerequisite.

Naturalize → make sure you understand what is happening on the ground.

On the sustainability, corporate social responsibility (CSR) discussion: Climate change is an economic reality – it is not a threat; it is real and needs to be taken into account by all investors. Climate change and land and water sustainability are not mere CSR issues, but are mostly “survival of your company” issues.

Implementing technological advancements in agriculture is the future (for instance, there are now drones that are used to spray fields and that can indicate exactly what they spread).

There is a parallel opportunity for profit when two cultures join forces (to identify where they can overlap to get things going); this is the case for the African–Chinese relationship that is defining its own, very pragmatic rules. The old concept of partnerships, joint ventures are old school – we could talk now about a commonality of purpose for a certain amount of time.

VI. PICTURES OF THE EVENT

Panel 1: Attracting impact investors: PIGA country strategies and incentives

From left to right: Mr. Xuejun Jiang (Chief of the Office for Asia and the Pacific, ITC), Mr. Lourenco Sambo (Director General of APIEX), Mr. Innocent Melu (Investment Manager of ZDA), Mr. Guracha Adi Bidu (General Manager of KenInvest) and Mr. Temesgen Tilahun (Deputy Commissioner of EIC).
Panel 2: The business case for sustainability and examples of good practices

From left to right: Mr. Andrew Gartside (Invest Africa adviser, DFID), Mr. Donald Larson (CEO and founder of Sunshine Nut Company LLC), Mr. Yang Nan (Chairman of JP Textiles), Mr. Yin Yiqiao (President of Future Development Group) and Ms. Clare Pearson (International Development Director of DLA Piper).

VII. ANNEXES

- Event programme;
- Presentation of the four sustainability guidebooks;
- Opening remarks of Mr. Ashish Shah.