Given this, it should not be surprising that a more differentiated analysis reveals a number of countries that have been successful in attracting FDI...

Aggregate FDI inflow data for Africa conceal a diverse picture. In particular, they conceal that a number of African countries have been quite successful, especially when flows are standardized in relation to the size of recipient economies or when recent growth rates are taken into account.

Traditionally, two large economies, Egypt and Nigeria, have received significant inflows in terms of absolute size (though these have fluctuated from year to year); these two countries have always accounted for a high share of total inflows into Africa, though this share has declined from more than 67 per cent in 1983–1987 to 54 per cent in 1988–1992 and 38 per cent in 1993–1997 (annex table 5). In 1997, Nigeria -- primarily owing to its oil reserves -- topped the list of the largest FDI recipients in the continent with estimated inflows of $1.5 billion, followed by Egypt with nearly $891 million, although the best performances of these countries took place earlier, when these flows reached $2.0 billion (1994) and $1.3 billion (1994), respectively.

The relatively small figures for FDI inflows into other African countries have to be seen in perspective, because many of these countries are small or very small. When FDI inflows are standardized to take into account the size of the domestic market, by measuring them in terms of inflows per capita or per $1,000 of GDP, several African countries fare considerably better than the average for the developing countries as a group. In the early 1990s, notable examples included Angola, Botswana, Equatorial Guinea and Seychelles (UNCTAD, 1995, p. 26).[10] By another relative measure -- inward FDI flows as a percentage of gross fixed capital formation -- Africa's performance was comparable to that of the developing countries as a group: for 1991–1997, this percentage was 5.6 per cent for Africa (6.7 per cent for sub-Saharan Africa) as compared to 7.5 per cent for all developing countries (annex table 7). This relatively high percentage reflects partly the small size of many African economies, as well as inadequate domestic savings and investment, but it also means that FDI was not deterred and that the same amount of FDI may have a much larger developmental impact than in other parts of the developing world.

More recently, a group of African countries including Botswana, Equatorial Guinea, Ghana, Mozambique, Namibia, Tunisia and Uganda have attracted rapidly increasing FDI inflows, reaching absolute levels never attained before and comparable to those of other well performing developing countries. It should be underlined that, in all cases, inflows increased gradually, so that the high levels they reached did not result from an one-off jump related to, say, a few large projects in one year (which may happen in small countries attracting FDI to capital-intensive projects in natural resources). Among the countries that have emerged as "recent frontrunners" (see below) are some least developed countries (box 3). This demonstrates that countries with a very low income level can become attractive to foreign investors.

Success with respect to FDI inflows in Africa, where there is not only minimal FDI in many countries but also prolonged divestment in some, can also be measured in other ways. It can include countries whose inflows do not grow but stay at a consistently high level over a number of years (e.g. Swaziland), or countries that received substantial FDI in the past and, after a period during which their inflows declined, are again receiving high levels of inflows (e.g. Mozambique). And last but not least, success can refer to countries that have been able to reverse a negative FDI trend, characterized by years of negative flows. For example, the United Republic of Tanzania, which experienced four years of negative flows between 1984 and 1990, has seen consistently positive and continuously increasing inflows since 1991. Though these flows were until recently not enormous in absolute size, the reversal of the negative trend may be a precursor of future FDI growth. More generally, in 1997, only five African countries experienced negative FDI flows while, as recently as in 1992, the number of countries with negative flows was nine.

Box 3. Recent FDI frontrunner countries in Africa

To be classified as a frontrunner, a country had to perform well on at least one of the following criteria: annual inflows of FDI; FDI inflows per $1,000 GDP; ratio of FDI inflows to gross fixed capital formation; or FDI inflows per capita.[a] Based on these, seven countries were identified as recent frontrunners (box table 3.1).

These countries accounted for more than one quarter of FDI flows into Africa in 1996 while representing only 9 per cent of Africa's population and 8 per cent of the continent's GDP. The group does not include some African countries that were among the largest recipients of FDI flows during 1992-1996 (e.g. Nigeria). These lacked dynamism as defined by the second criterion mentioned above.

/...

(Box 3, continued)

Box table 3.1. Recent FDI frontrunners, by selected indicator, 1987-1991 and 1992-1996

(Millions of dollars and per cent)

Country	Average FDI inflows per year			FDI inlows per $1000 GDP			Ratio of FDI inflows to GFCF [a]			FDI inflows per capita		
	1987-1991	1992-1996	Change [b]	1987-1991	1992-1996	Change [b]	1987-1991	1992-1996	Change [b]	1987-1991	1992-1996	Change [b]
	(Million dollars)		(Per cent)	(Million dollars)		(Per cent)	(Million dollars)		(Per cent)	(Million dollars)		(Per cent)
Botswana	56.7	137.9	143	18.6	33.1	78	6.5	12.9	100	46	95	108
Equatorial Guinea	11.1	109.7	888	82.9	689.8	732	30.2	285.2	845	32	282	778
Ghana	11.9	121.4	920	2.1	20.5	869	1.7	14.9	754	1	7	778
Mozambique	9.2	33.3	263	6.8	23.5	247	1.2	3.6	201	1	2	228
Namibia	29.6	108.4	267	14.3	37.5	163	8.4	16.8	99	23	72	221
Tunisia	86.4	387.3	348	7.8	23.3	197	3.5	9	158	11	44	306
Uganda [c]	-1.4	77.6	19 796	-0.1	15.9	18 816	-0.1	10.3	15 175	0.0	4	16 672
Average for Africa	60.1	96.1	60	6.7	10.4	54	3.3	5.9	77	5	7	39
Average for all developing countries	212.1	613	189	8.2	17.3	111	3.5	6.8	98	8	20	164

Source: UNCTAD FDI/TNC database.

[a] GFCF = gross fixed capital formation.

[b] Percentage change during the period 1987-1991 to 1992-1996.

[c] In the years 1989 and 1990, Uganda experienced negative FDI inflows of $1.8 and $5.9 million, more than offsetting the positive inflows of the other years in the period 1987-1991 and resulting in a negative sum for the FDI inflows of that period as a whole.

/...

(Box 3, continued)

The frontrunners have different levels of development: Equatorial Guinea, Mozambique and Uganda are least developed countries (LDCs) while Botswana and Tunisia are middle-income countries. Also their location on the continent is quite different. As regards economic structure, Equatorial Guinea is an oil-based economy, while other frontrunners -- such as Tunisia and Ghana -- have more diversified economies.

Factors behind good FDI performance also differ from country to country: in the case of Equatorial Guinea it was mainly rich reserves of oil and gas. Natural resource reserves also played a role in the case of Botswana, Ghana, Mozambique and Namibia; however, these countries have also received some market-seeking FDI fueled by the relatively strong growth of their economies in recent years. Privatization has attracted considerable FDI into Mozambique, Ghana and Uganda. Finally, Tunisia has not only attracted market-seeking FDI, but also efficiency-seeking FDI, in particular into the textile and apparel industry. Apart from these differences the frontrunners -- or most of them -- have had a number of things in common:

- A stable and predictable policy and macroeconomic environment is an important factor in attracting FDI -- as well as a stable and predictable framework regarding FDI and a high degree of investment protection.

- Privatization programmes have become a source for attracting FDI.

- Significantly higher GDP growth rates in the past ten years underlining the importance of growth-oriented policies aimed at macroeconomic stability (box table 3.2).

- Efforts to improve the education levels of their citizens, particularly at the primary and secondary levels: in addition to a well-educated labour force and a relatively well-developed infrastructure, favourable trade policies have also played an important role in attracting foreign companies into most of these countries, particularly into manufacturing industries and especially in the apparel and textile industries (Sachs

/...

(Box 3, continued)

Box table 3.2. Selected indicators of macroeconomic stability for recent FDI frontrunner countries and averages for all Africa

(Per cent)

Country	Rate of inflation 1980-1990 (I) [a]	Rate of inflation 1990- most recent year (II) [a b]	Difference (II)- (I)	Overall government deficit(-) or surplus (+) as a percentage of GDP (current prices) 1980-1990 (III)	Overall government deficit(-) or surplus (+) as a percentage of GDP (current prices) 1990-most recent year [b] (IV)	Difference (IV) - (III)
Botswana	10.9	11.8	+ 0.9	9.4	5.5	-3.9
Equatorial Guinea	17.3	11.7	- 5.6	- 14.0	- 4.9	9.1
Ghana	47.4	30.8	-16.6	- 12.0	- 6.8	5.2
Mozambique	52.3	43.2	- 9.1	- 18.2	- 5.8	12.4
Namibia	17.5	10.5	- 7.0	- 1.6	- 4.0	2.4
Tunisia	8.3	5.2	- 3.1	- 4.7	- 3.8	0.9
Uganda	103.5	16.9	- 86.6	- 9.5	-3.0	6.5
Average, all Africa	16.1	30.7	+ 14.6	- 6.7	- 3.8	2.9

Source: UNCTAD, based on African Development Bank, 1998.

[a] Refers to consumer price indices (general), (1980 = 100).

[b] "Most recent" refers, in most cases, to 1996.

/...

(Box 3, continued)

and Sievers, 1998, p. 40). In fact, some of these countries stand out among African countries, the majority of which have pursued restrictive trade policies for a long time, with high tariff barriers on imports as well as exports, representing significant disincentives for export-oriented foreign firms in these industries.

- Deregulation paired with intense investment promotion activities: almost all successful countries have an investment promotion agency that often includes a one-stop shop that can give foreign companies quick and non-bureaucratic assistance in all aspects of their investment projects.

As natural resources have been among the main determinants for the attraction of FDI to almost all the frontrunners, some face the problem of sustaining such flows over a longer time. They have therefore used revenues derived from the extraction of these resources to fund the creation of other assets. For example, in the case of Botswana, revenues from the mining industry have been strategically invested to build up human capital in order to make the country attractive to other kinds of investment.

Even though Africa as a whole has been less successful than other regions in attracting FDI, the recent performance of the group of frontrunners shows that being located in Africa does not per se rule out success in attracting foreign firms. What is required is that countries offer a combination of policies, facilities for conducting business and an economic environment that foreign investors find appealing. The lessons outlined above are relevant for other countries seeking to increase inward FDI as well as for the frontrunners themselves, if they wish to sustain their recent performance. It should be noted that in addition to recent frontrunners selected on the basis of their performance in the 1990s, there are a number of “traditional” frontrunners such as Egypt, Mauritius, Morocco and Nigeria that have attracted substantial amounts of FDI over longer periods of time.

/...

(Box 3, concluded)

Source : UNCTAD 1998b.

[a] As the analysis focusses on the *size* of FDI flows, no indicators of the *quality* of the investment have been used. Cumulative FDI flows for the period 1992-1996 aim at averaging out annual fluctuations. Because of the focus on recent success stories, flow indicators have been used, as opposed to stock indicators, which tend to reflect FDI performance over a longer period.

To qualify as a frontrunner, a country had, first, to receive FDI flows above the developing-country average as measured by at least one of these indicators, and typically better than the average African country (though exceptions could happen). This filter yielded the following 18 countries: Angola, Botswana, Chad, Democratic Republic of Congo, Egypt, Equatorial Guinea, the Gambia, Ghana, Lesotho, Liberia, Mozambique, Namibia, Nigeria, Seychelles, Tunisia, the United Republic of Tanzania, Uganda and Zambia.The four indicators used capture only the level of FDI performance during a given period; they are static forms of measurement.

To capture the dynamics of performance, these 18 candidates had to pass through an additional test, namely an improvement in the performance on any of the four indicators the period 1987-1991. The improvement had to be higher than the increase in the same indicator for the average developing country, subject to the additional condition that in the case of an indicator that related absolute FDI inflows to an economic variable, the latter (the denominator) did not decline.

UNCTAD
Foreign Direct Investment in Africa: Performance and Potential
New York and Geneva, 1999
[Doc. symbol: UNCTAD/ITE/IIT/Misc.15]

Notes

1 The relevant figures for South Africa are 1.3 per cent for 1980-1990 and -0.1 per cent for 1990-1994. In general, South Africa is included in all data for Africa published in this booklet unless otherwise stated.

2 GNP per capita for sub-Saharan Africa grew by an annual average of 1.9 per cent in the period 1995-1996 and 4.4 per cent for the period 1996-1997. For North Africa (including some countries of the Middle East) this figure stood at 4.1 per cent for the annual average 1996-1997, while for 1995-1996 no figures were available (World Bank, 1998 and 1999).

3 FDI flows are not adjusted for inflation.

4 The figure increased temporarily to 11 per cent in 1986-1990.

5 It should be noted, that the FDI per $1,000 of GDP ratio in a number of African countries is most likely inflated, because GDP stagnated or even fell for some years in the past.

6 In the finance and insurance sector, the group of the biggest African TNCs include, as of 1993, Banque Algerienne de Developpement, Nedcor Bank Ltd. of South Africa and Banque Misr of Eqypt (UNCTAD, 1997d).

7 After its success in attracting FDI into its labour-intensive manufacturing industries, Mauritius now faces the challenge of upgrading existing FDI and attracting new FDI into higher value-added production activities (UNCTAD, 1998b, p. 169).

8 For both countries the share of natural resources increased in recent years. However, at least in the case of United States FDI stocks in Africa, the relative importance of FDI in natural resources has significantly decreased since the 1980s: the share of the primary sector in total United States FDI stock in Africa dropped from 79 per cent in 1986 to 53 per cent in 1996.

9 It should be noted in this context that investors perceive, rightly or wrongly, Africa in general as a risky place to invest and that there are some factors, such as the difficulty of reversing investment decisions as a result of weak capital markets, that increase the risk for foreign companies of investing in the continent (Collier and Gunning, 1999, p. 85). However, there is no systematic evidence that FDI in Africa in general is associated with more risks than FDI in other developing regions.

10 The relatively high FDI inflows into Angola and Equatorial Guinea appear to be odd at first sight, given these countries' prolonged difficult political and economic situation. The inflows were attracted by petroleum deposits.

11 For an elaboration, and for proposals of how this can be achieved, see United Nations (1998) and United Nations (forthcoming).

12 For an elaboration and proposals of how this can be achieved, see UNCTAD 1998a.

13 Also, access problems can sometimes be aggravated by the emergence of new international standards in areas such as product quality and environmental protection. Although affiliates of TNCs are in general in a much better position to meet these standards than domestic firms, increased technical assistance for African countries to introduce these standards can help all firms in these countries to access better developed countries markets.