

Foreign Direct Investment in Africa: Performance and Potential

UNCTAD

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...and supported by home countries and international initiatives.

Home countries and the international community can also contribute much to improve Africa's prospects as a viable and attractive location for FDI and should therefore support measures that are taken in the individual host countries in Africa. Existing and planned measures are discussed in box 5. Other measures that could be taken include the following:

Box 5. Home country measures to promote FDI into Africa

Recognizing the importance of FDI in development, major home countries have undertaken a number of measures to promote FDI into developing countries including those in Africa. The European Union countries offer several schemes to support investment in African, Caribbean and Pacific countries, partners of the Lomé Convention. The Centre for the Development of Industry of the European Commission, for example, promotes technical or commercial partnerships between firms from African, Caribbean and Pacific countries and European companies, through such activities as providing assistance in finding appropriate partner companies or co-financing feasibility studies. Association agreements between North African countries and the European Union that foresee the creation of a free trade area between the European Union and Algeria, Egypt, Morocco and Tunisia, can help promote trade and investment flows, especially of export-oriented FDI. Morocco's success in attracting foreign investors (see box 1) is partially explained by the fact that it will be a part of the free trade zone with the European Union in 2010 (Khalaf, 1998, p. 6).

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(Box 5, concluded)

Some countries have also undertaken individually various measures such as the provision of information, support of feasibility studies and matchmaking programmes that bring domestic and foreign firms together, to promote investment in developing countries (annex table 8). The United States has, among others, a comprehensive programme to insure political risk and the financing of its outward FDI run by the Overseas Private Investment Corporation (OPIC). It had provided a total of \$775 million in political risk insurance for United States companies investing in Africa by 1997 (Mutharika, 1997, p. 279). Most activities in Japan -- another important home country for FDI -- have been of a more indirect character. Japan was the host of the first and second Tokyo International Conferences on African Development (TICAD I in 1993 and TICAD II in 1998), which was attended by representatives from almost all African countries and major donor countries as well as international organizations. The conference led to a number of follow-up activities on vital issues regarding the future development of the continent, including FDI. Such activities include the organization of the Africa-Asia Business Forum and the establishment of the Africa-Asia Investment Information Center in Kuala Lumpur in 1999. As part of these activities, Japan, through UNDP, supported the project on the needs assessment to attract Asian FDI into Africa which is currently being implemented by UNCTAD. Furthermore, the Government of Japan provided financing for the Asia-Africa Cooperation Project, executed by UNCTAD, a project that aims -- among other things -- at promoting enterprise networking between African firms and private enterprises from developing Asia. Its emphasis on commodity producing or processing firms is aimed at stimulating Asian FDI in Africa or joint-ventures between Asian and African firms. UNCTAD, too, promotes Asia-Africa business networking: at a Forum in Kuala Lumpur, Malaysia, 1-5 March 1999, more than 120 one-on-one discussions took place resulting in 16 investment, marketing and service agreements between participating Asian and African firms.

Some important home countries have recently stepped up their efforts to promote FDI flows into African countries. The United States, for example, have just concluded a trade and investment agreement with South Africa. The framework agreement -- which is under negotiation with Ghana and the Economic Community of West African States (ECOWAS) -- foresees the establishment of a council of
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(Box 5, concluded)

representatives of both governments on trade and investment, which is to negotiate agreements and to identify barriers to trade and investment flows (Dunne, 1999). The United States African Growth and Opportunities Act, introduced to the United States Congress in April 1997, is another example in this respect. It seeks to expand trade and investment flows in both directions as opposed to the present relationship dominated by aid flows. The scheme foresees not only the lowering of trade barriers (in particular in the area of textile and apparel) but also the introduction of incentives for direct investment by United States companies in Africa. In the beginning of 1999, a revised version was submitted to the House for approval before going to the Senate. The new version includes among other things the authorisation for OPIC to provide \$650 million in investment guarantees and credits for United States' companies operating in Africa with a strong focus on infrastructure projects. In addition, the proposed bill foresees the establishment of new fora for African and United States business to meet and cooperate.

Source: UNCTAD.

- *Helping reduce external debt* remains a top priority. High external debt constitutes a serious impediment to the creation of a more favourable climate for domestic and foreign investors alike. External debt and FDI are linked, among other things, through balance-of-payments difficulties which in turn make it difficult to ease foreign-exchange and profit-remittance regulations -- both of which are important ingredients of a good investment climate. More importantly, debt-servicing deprives countries of badly needed savings for domestic investment to improve the physical and human infrastructure. Debt reduction should thus be a cornerstone of the international community's efforts to improve Africa's growth prospects in general and its attractiveness for FDI in particular. In this context, the heavily-indebted-poor-country initiative launched by the IMF and the World Bank in 1996 was initially welcomed as a major step towards addressing the debt problems of the poorest countries in a comprehensive way. However, more has to be done to increase the impact of this initiative

as it is often viewed as slow, cumbersome and overcomplicated, and only one African country -- Uganda -- has so far benefited from debt reduction, while seven other African countries (Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Ethiopia, Mali, Mauritania and Mozambique) are scheduled to receive debt reduction in the next three years. Also, while sustainable levels of debt should be repaid, the definition of what is sustainable should be relaxed, to ensure that the levels set are realistic (United Nations Executive Committee on Economic and Social Affairs, forthcoming).¹¹ In this connection, the United Nations welcome additional measures by creditors, including individual countries and multilateral institutions, aimed at a swift relieve of the debt burden of the poorest countries.¹²

- *Increasing technical assistance to leverage FDI.* In many countries weak infrastructure and insufficient skills are major bottlenecks for investment. Increased technical assistance could aim at overcoming some of these shortcomings. Assistance geared to improving the human and physical infrastructure, especially in those areas and sectors that are potentially of interest to foreign investors, may help to attract FDI flows. Technical assistance aimed at establishing or further improving a national regulatory framework conducive to FDI can also be important. Given the growing interrelationship between trade and investment, such a framework must increasingly take national trade policies into account as they affect FDI, in order to ensure the policy coherence that will allow countries to maximize benefits from FDI liberalization.
- *Facilitating access to developed countries' markets for African products.* Cheap labour -- which many African countries have in abundance -- can be a locational determinant of efficiency-seeking FDI (UNCTAD, 1998b). Typically, however, it has to be accompanied by additional conditions, among which access to international markets has played a prominent role. Increased access to developed countries' markets for non-traditional, labour-intensive goods, can therefore help to attract FDI into Africa, and especially into African LDCs. The recent initiative by the United States (box 5) that includes

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tariff reductions for certain products such as textiles or apparel and foresees the creation of free trade zones between African countries and the United States represents a step in this direction. It is presumed that a number of African countries -- including Botswana, Cameroon, Côte d'Ivoire, Ghana, Malawi, Mozambique, Nigeria, United Republic of Tanzania and Zambia -- could develop textile and apparel industries that would be able to export to the United States' market if they had quota-free and duty-free access to it (Sachs and Sievers, 1998, p. 41). Obviously, liberalized access to developed countries' markets can lead to additional FDI only if other impediments to foreign and local investment such as the lack of business support services are reduced.¹³

- *Disseminating information on investment opportunities.* As mentioned earlier, potential investors are often unaware of investment opportunities in African countries, simply because relevant information is not available. A survey by UNCTAD showed that, when preparing investment guides on individual countries, the four biggest international consultancy firms have paid little attention to African countries, especially to the least developed among them (table 4). To help fill this gap, efforts by the international community are needed. For this reason, UNCTAD and the International Chamber of Commerce (ICC) have launched a project on "Investment guides and capacity-building in least developed countries".

Table 4. Investment guides available from major international consultancy firms, 1999

Firm	Total number of guides	LDC guides
Arthur Andersen	82	2
Ernst & Young	65	1
KPMG	35	0
PricewaterhouseCoopers	76	0
Total	261	3

Source: Compiled by UNCTAD on the basis of information received from the companies involved.

In a pilot phase, UNCTAD and the ICC, in co-operation with the investment promotion agencies of six LDCs (of which five are from Africa), are producing investment guides that provide an objective and up-to-date overview of investment conditions and opportunities in these countries and which also serve as an opportunity to launch a policy dialogue between policy makers and investors in the six LDCs. At the same time, the project intends to familiarize investment promotion agencies with best practices in investment promotion activities. Investment-promotion efforts by other multilateral and regional institutions can also help to draw attention to investment opportunities. The project was launched in Ethiopia (box 6) and Mali.

Box 6. Investment guides and capacity building in Ethiopia

UNCTAD and the ICC started to implement the project “Investment guides and capacity-building in least developed countries” in Ethiopia with the organization of a first workshop in Addis Ababa, in January 1999. It was attended by representatives from Ethiopian ministries and other public institutions as well as by a number of executives from foreign and domestic companies. TNCs participating in the workshop included Agip, Akzo Nobel, Marubeni, Shell and Siemens. The purpose of the first workshop was to contribute to a public-private policy dialogue between key policy makers from the public sector and representatives from the private sector, including TNCs. Also, the workshop was designed to present and discuss a first draft of the planned investment guide for the country with the participants. The workshop helped to identify a number of critical issues for investors in Ethiopia. The workshop also led participants to explore possibilities of a continued dialogue between the two sides, e.g., in the form of the creation of a business advisory council linked to the Ethiopian Investment Authority -- the local counterpart organization of the project in Ethiopia. An improved version of the guide was presented at the second workshop in April 1999 in Addis Ababa. The workshop was designed to continue the policy dialogue while at the same time it aimed at adding to the capacity-building aspect of the project as officials from the Ethiopian Investment Authority reviewed together with experts from UNCTAD and PricewaterhouseCoopers their promotion strategies and policies.

Source: UNCTAD.

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Changing the negative and stereotypical picture of Africa -- which still prevails among large parts of the business community and the wider public outside the continent -- is crucial to attract more FDI to Africa. This booklet -- a follow up to a more comprehensive publication by UNCTAD (UNCTAD, 1995) -- is only a first attempt in this direction and only one small component of a larger Africa initiative by the United Nations to assist Africa in the integration into the global economy by contributing to an improvement in the business climate as well as by providing additional information on the real conditions and opportunities for doing business in Africa. Further FDI into Africa can only be stimulated when it becomes clear to a large number of investors that Africa -- as any other continent -- offers many attractive investment opportunities and that it is worthwhile to take a different look at Africa -- country by country, industry by industry and opportunity by opportunity.

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 Egypt (UNCTAD, 1997d).

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- 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.