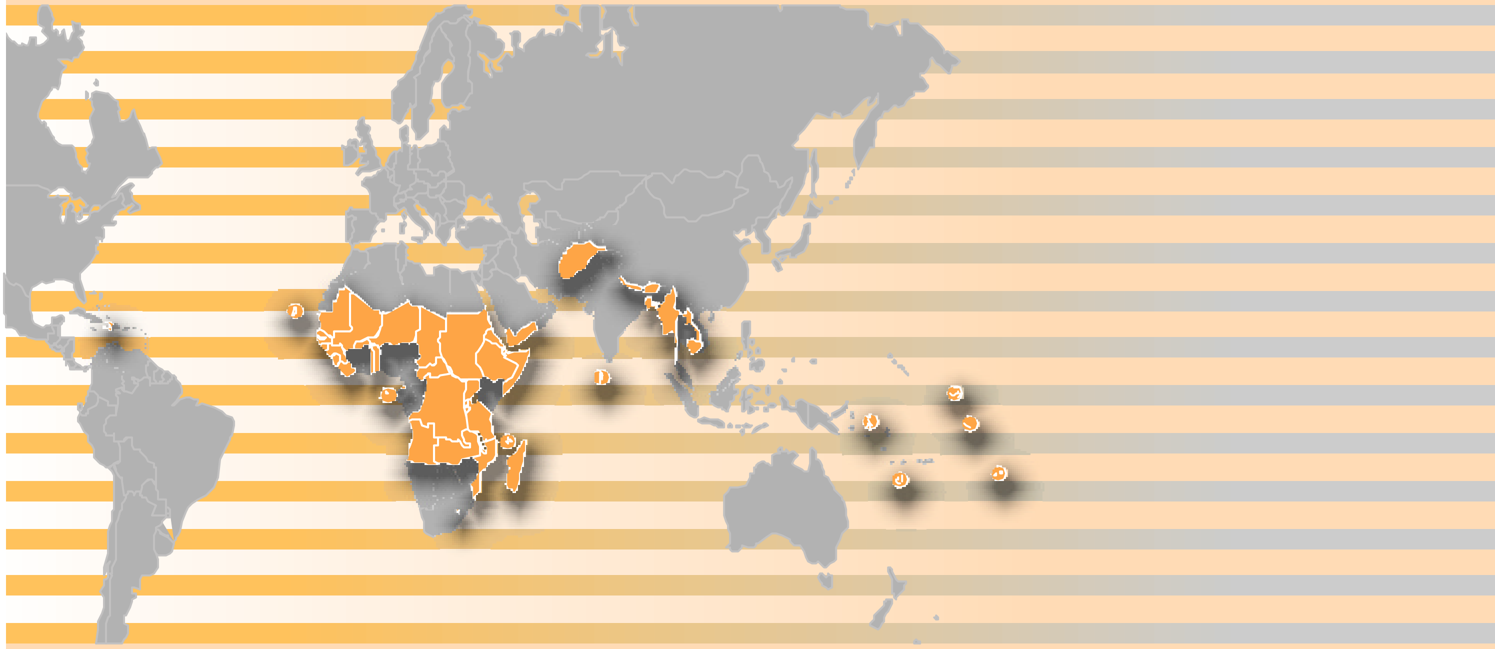
UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

FDI in Least Developed Countries at a Glance



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Note

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The following symbols have been used in the tables:

Two dots (..) indicate that data are not available or are not separately reported. Rows in tables have been omitted in those cases where no data are available for any of the elements in the row;

A dash (-) indicates that the item is equal to zero or its value is negligible;

A blank in a table indicates that the item is not applicable, unless otherwise indicated.

A slash (/) between dates representing years, e.g., 1994/95, indicates a financial year;

Use of a hyphen (-) between dates representing years, e.g., 1994-1995, signifies the full period involved, including the beginning and end years.

Reference to “dollars” ($) means United States dollars, unless otherwise indicated.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

Details and percentages in tables do not necessarily add to totals because of rounding.

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Preface

The 49 countries classified as "least developed countries" by the United Nations are the world's poorest, with per capita GDP under $900, and with low levels of capital, human and technological development. Although they account for nearly a quarter of the world in terms of the number of countries and more than one tenth in terms of population, their share of world GDP is less than 1 per cent.

To improve this situation, and to achieve sustainable poverty-reducing growth and development, domestic efforts and resources must be reinforced by external resources. Official development assistance constitutes, of course, an essential component in this regard, but these flows to least developed countries are declining. While measures need to be taken to halt this trend, it is also important to see how official development assistance can be complemented by other sources of external finance.

Foreign direct investment is of particular importance in this respect as it can bring not only much needed additional capital but also access to technology and know-how, as well as access to international markets. These assets are key for economic growth and development and for better integrating the least developed countries into the global economy. Indeed, foreign direct investment can directly contribute to the upgrading of the productive capacities in least developed countries and, in this manner, effectively complement the role of official development assistance.

Of course, foreign direct investment is no panacea. It cannot solve the underlying problems facing many least developed countries. But it can play a greater part than it presently does in the development process of most least developed countries, contributing to job creation, upgrading of the enterprise sector and increasing living standards.

Despite obvious constraints of limited purchasing power and scarce technological and human resources, there is a potential for higher foreign direct investment flows to the poorest countries. As is shown in this booklet, *FDI in Least Developed Countries at a Glance*, such flows are on the rise, indicating that a number of companies have indeed recognized the investment opportunities that exist. But to realize the full potential for more investment flows to these countries, more efforts are required by the countries themselves, as well as by the international community.

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Geneva, April 2001

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The primary sources of information are a number of UNCTAD databases, specifically those dealing with foreign direct investment, transnational corporations, cross-border mergers and acquisitions, bilateral investment treaties, and double taxation treaties. Every reasonable effort, including a request to the governments concerned to verify the data, has been made to ensure that each country profile is accurate and up-to-date.

Abbreviations

BITs	Bilateral investment treaties for the promotion and protection of foreign investment
CREFAA	Convention on the Recognition and Enforcement of Foreign Arbitral Awards
DAC	Development Assistance Committee
DTTs	Bilateral treaties for the avoidance of double taxation
FDI	Foreign direct investment
GATS	General Agreement on Trade in Services
GDP	Gross domestic product
ICSID	Convention on the Settlement of Investment Disputes between States and Nationals of Other States
IMF	International Monetary Fund
LDC	Least developed country
M&As	Mergers and acquisitions
MIGA	Multilateral Investment Guarantee Agency
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
TRIMs	Agreement on Trade-related Investment Measures
TRIPs	Agreement on Trade-related Aspects of Intellectual Property Rights
WAIPA	World Association of Investment Promotion Agencies

Contents

Page

Boxes

Figures

Tables

OVERVIEW: FDI IN LDCs

Virtually all countries today recognize that FDI can play an important role in economic growth and development. This applies also to the 49 countries that the United Nations classifies as LDCs (box 1). While FDI flows to the LDCs generally are small in absolute terms, they can nonetheless constitute a significant proportion of the overall capital formation in poor countries. Indeed, contrary to what is commonly thought, these countries offer considerable opportunities for additional investment.

This booklet is divided into two parts. The first depicts recent trends in FDI to LDCs and changes that have taken place in relevant areas of the regulatory legal framework. The second part presents country profiles of each of the 49 LDCs to enable the reader – at a glance – to get a general picture of the role of FDI in these countries. Basic information is provided on the volume and significance of FDI in LDCs. The data coverage also includes a breakdown of FDI by source country, industry and mode of entry. FDI flows are related to domestic investment, and data on the largest foreign affiliates and their operations in LDCs are presented. Finally, information on developments of the international legal framework is provided.

Box 1. Definition of LDCs

Forty-nine countries are currently designated by the United Nations as LDCs. The list is reviewed every three years by the United Nations Economic and Social Council.

The criteria underlying the list of LDCs are:

- ***a low income***, as measured by GDP per capita;
- ***weak human resources***, as measured by a composite index (Augmented Physical Quality of Life Index) based on indicators of life expectancy at birth, per capita calorie intake, combined primary and secondary school enrolment, and adult literacy;
- ***a low level of economic diversification***, as measured by a composite index (Economic Diversification Index) based on the share of manufacturing in GDP, the share of the labour force in industry, annual per capita commercial energy consumption, and UNCTAD's merchandise export concentration index.

Different thresholds are used for inclusion in, and graduation from, the list. A country qualifies to be added to the list of LDCs if it meets inclusion thresholds on all three criteria. A country qualifies for graduation from the list if it meets graduation thresholds on two of the three criteria. For the low-income criterion, the threshold on which inclusion in the current list is based has been a GDP per capita of $800, and the threshold for graduation has been a GDP per capita of $900.

On the basis of these criteria, the following countries are designated LDCs: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

Source: UNCTAD, 2000a.

Recent trends

FDI flows to the 49 LDCs as a group increased from an annual average of $0.6 billion during 1986-1990 to an annual average of $3.6 billion during the latter half of the 1990s.[1] In 1999, FDI flows increased further, to reach more than $5 billion. For the period as a whole, this represents an average annual growth rate of 20 per cent, compared to 22 per cent for developing countries as a group. This growth was broadly based: 27 LDCs experienced an average annual growth rate of more than 20 per cent and another 8 of between 10 and 20 per cent (table 1). Still, the performance of countries differed greatly, from a decline of 33 per cent at one extreme (Burundi) and a growth rate of 474 per cent (Cambodia) at the other.

Overall, however, the share of LDCs in total FDI inflows to developing countries declined from 2.2 per cent during 1986-1990 to 2.0 per cent during 1996-1999 (figure 1), as FDI to other developing countries grew faster.

Small, but increasing FDI flows to LDCs are changing the structure of external financial flows. While ODA, which is essential for infrastructure development, remains the largest component of resource flows into LDCs, it has been in decline in both absolute and relative terms. LDCs as a whole received $11.6 billion of (bilateral and multilateral) ODA in 1999, compared to $16.7 billion in 1990; for bilateral ODA alone, the amounts that LDCs received declined from $9.9 billion to $7.2

Table 1. Annual average FDI growth rates in LDCs, 1986-1999

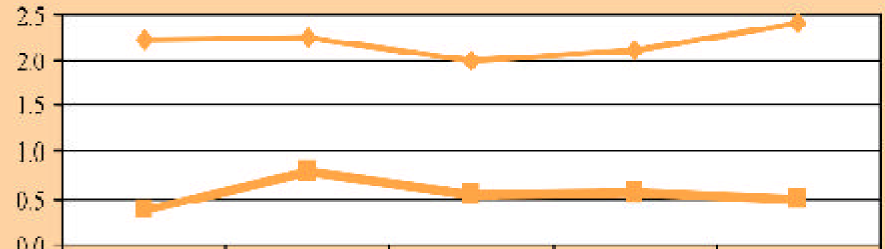
(Percentage)

Growth rates	Country	
More than 20%	Afghanistan	Malawi
	Bangladesh	Mali
	Benin	Mozambique
	Bhutan	Myanmar
	Burkina Faso	Nepal
	Cambodia	Samoa
	Cape Verde	Sao Tome and Principe
	Chad	Senegal
	Comoros	Somalia
	Djibouti	Tuvalu
	Eritrea	Uganda
	Ethiopia	United Republic of Tanzania
	Lao, People's Democratic Republic	Yemen
	Lesotho	
10-19.9%	Angola	Kiribati
	Congo, Democratic Republic of	Maldives
	Equatorial Guinea	Sudan
	Gambia	Vanuatu
0-9.9%	Guinea	Niger
	Guinea-Bissau	Solomon Islands
	Haiti	Togo
	Liberia	Zambia
	Madagascar	
Decline	Burundi	Rwanda
	Central African Republic	Sierra Leone
	Mauritania	

Source: UNCTAD, on the basis of the country tables below and UNCTAD's FDI/TNC database.

Figure 1. Share of FDI flows to LDCs in total FDI flows to developing countries and in the world, 1986-1999

(Percentage)



	1986-1990	1991-1995	1996-1999	1998	1999
Share of LDCs in total FDI flows to developing countries	2.2	2.2	2.0	2.1	2.4
Share of LDCs in world FDI flows	0.4	0.8	0.6	0.6	0.5

Source: UNCTAD, FDI/TNC database.

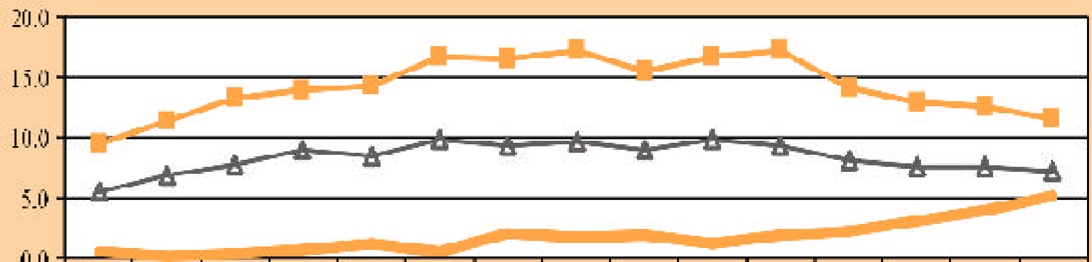
billion during the same period (figure 2). In contrast, as pointed out earlier, FDI has assumed a more prominent role than before in capital flows to LDCs. In fact, there are 29 countries that experienced, simultaneously, increases in FDI and decreases in *bilateral* ODA during the 1990s (table 2); in six LDCs, FDI inflows even exceeded bilateral ODA flows in 1999 (Angola, Lesotho, Liberia, Myanmar, the Sudan and Yemen).

In other developing regions, namely Asia and Latin America, FDI has become the largest component of net resource flows, accounting for some 70 per cent and four-fifths of the total, respectively (World Bank, 2000). In these regions, ODA plays a relatively small role in financial flows.

While the absolute amounts LDCs receive are low – for example, in 1999 FDI inflows to the LDCs as a group were of the same magnitude as those to the Czech Republic alone – what LDCs receive is of importance for their economies. More specifically, FDI inflows as a percentage of gross domestic capital formation averaged 8 per cent during 1997-1999 for LDCs as a group, compared to 12 per cent for all developing countries (figure 3). But this average hides great variations. Thus, while for many LDCs this number is smaller, 16 out of the 49 LDCs attracted more FDI relative to

Figure 2. FDI inflows and ODA flows to LDCs, 1985-1999

(Billions of dollars)



	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
FDI inflows	0.4	0.2	0.4	0.6	1.3	0.6	2.1	1.7	1.9	1.2	2.0	2.3	3.1	3.9	5.2
Total ODA	9.5	11.4	13.3	14.0	14.3	16.7	16.6	17.2	15.5	16.8	17.2	14.1	13.0	12.6	11.6
Bilateral ODA	5.5	6.8	7.8	8.9	8.5	9.9	9.2	9.6	9.0	9.8	9.3	8.1	7.6	7.6	7.2

Source: UNCTAD, FDI/TNC database and OECD Development Assistance Committee, International Development Statistics, online databases.

Table 2. Growth trends [a] in FDI and bilateral ODA flows, 1990-1999

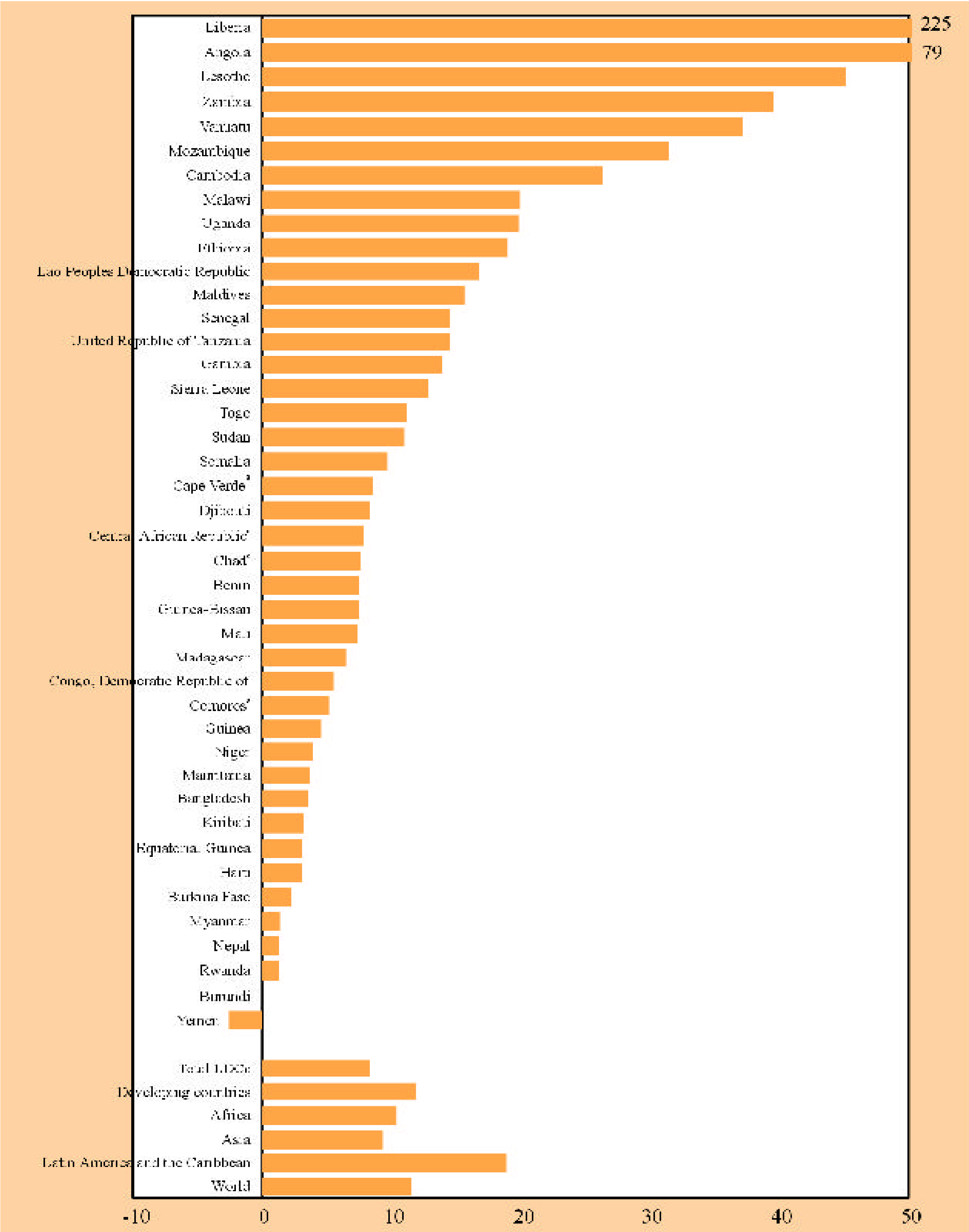
	FDI (-)	FDI (+)
ODA (+)	Bhutan Tuvalu	Angola Cambodia Cape Verde Eritrea Haiti Lao, People's Democratic Republic Liberia Madagascar Malawi Maldives Uganda
ODA (-)	Benin Burundi Guinea-Bissau Niger Rwanda Sierra Leone Yemen	Afghanistan Bangladesh Burkina Faso Central African Republic Chad Comoros Congo, Democratic Republic of Djibouti Equatorial Guinea Ethiopia Gambia Guinea Kiribati Lesotho Mali Mauritania Mozambique Myanmar Nepal Samoa Sao Tome and Principe Senegal Solomon Islands Somalia Sudan Togo United Republic of Tanzania Vanuatu Zambia

Source: UNCTAD, FDI/TNC database and OECD Development Assistance Committee, International Development Statistics, online databases.

[a] Calculated as the slope of the linear regression for FDI and ODA flows between 1990 and 1999.

Figure 3. FDI inflows as a percentage of gross fixed capital formation, 1997-1999

(Percentage)



Source: UNCTAD, on the basis of the country tables below and UNCTAD's FDI/TNC database.

[a] 1996-1998.

Note: Data for Bhutan, Eritria, Sao Tome and Principe, and Tuvalu are not available.

gross domestic capital formation than the average for all developing countries (figure 3). Whereas the top two performers (Liberia, Angola)[2] among these countries are characterized by special circumstances, most of the other countries are not. In other words: investment opportunities exist in LDCs (box 2).

Box 2. Investment opportunities in LDCs: the examples of Bangladesh, Ethiopia, Mali and Uganda

Most companies located outside LDCs know little about the investment opportunities existing in these countries. Very often these countries are lumped together as one group of countries with markets too small and risky to invest in. The general perception of LDCs by many outside investors is that – if there are investment opportunities at all – they are limited to a very narrow scope of mainly natural resource related industries. For many LDCs, however, this prejudice is not correct.

Bangladesh, with a population of almost 130 million people, offers a large reservoir of trainable, low-cost labour for electronic and light manufacturing activities. The success of investors in the textiles and garments industries is a good example of what could be possible in other light manufacturing or certain information technology activities. The latter includes programming of computer software as well as data entry and management, where investors could draw on a large pool of talent in computer literate workers. Textile and leather production, including the production of footwear, could also be an interesting sector for foreign investors, in particular as the country accounts for almost 2 per cent of the world's cattle and 3.7 per cent of the world's goat stock. As for natural resources, the proven gas reserves are in excess of 10 trillion cubic feet, little of which has so far been explored. Investment opportunities exist not only in the exploration of these reserves, but also in pipeline transmission, as many parts of the country are not yet served by pipelines.

Ethiopia is a large country with over 60 million inhabitants, located centrally not only in Eastern Africa but also within reach of the Arab peninsula. This location makes the country not only interesting for exploring the local market, but also for investors who wish to export to neighbouring countries. This is particularly true for agricultural products: a number of cut-flower and horticultural enterprises have started exporting successfully to Europe and the Middle East in recent years. Livestock – Ethiopia has the largest cattle population in Africa – represents another export opportunity, in particular to the Middle East. As for cash crops, Ethiopia produces one of the best coffees in the world. Opportunities in food processing are largely unexplored. The same holds for tourism, an industry in which Ethiopia could develop a sizeable niche-tourism market built on its rich millenium-old religious heritage, as one of the early places of christianity. Investment opportunities also include the education sector, as demonstrated by the recent joint venture plans between a North American university and a local entrepreneur to set up a university in Ethiopia in order to, among other things, tap into the Middle East market.

Mali offers opportunities in agriculture related industries. The country, one of the biggest cotton producers world-wide, offers opportunities in such value-added activities as spinning yarn or producing cotton-based textiles and garments. Foreign investors have only started to explore the opportunities in this industry. Also, within the region, Mali is a sizeable exporter of cattle without so far engaging in meat-processing activities for export. A similar phenomenon can be observed for other agriculture products such as cereals, fruits and vegetables where opportunities exist for canning and other processing activities. Mali has a rich cultural tradition, including sites such as the centuries-old trading hub of Timbuktu and a diverse nature ranging from the Sahara dessert in the north to the green and fertile regions especially in the south along one of West Africa's main rivers, the Niger. Despite this cultural and natural diversity, the hotel and tourism infrastructure is vastly underdeveloped, without any international hotel chain established so far in the country. Mali has become within the past five years the second most important gold producer in Africa. Additional investment opportunities stem from the comprehensive privatization programme on which the Government has embarked for a number of years.

/...

The growth of FDI during the period 1986-1999 was, of course, not uniform. Many LDCs experienced considerable fluctuations. For example, in Sierra Leone and Yemen divestment even exceeded new investment flows in many of the years during this period. However, a strong FDI performance in the 1990s, particularly in the latter half of the 1990s, in such countries as Bangladesh, Equatorial Guinea, Ethiopia, Lesotho, Mozambique, Myanmar, the Sudan, United Republic of Tanzania, may signal a change in the trend, from wide annual fluctuations or low levels of FDI inflows to relatively steady growth. Angola continued to be the largest host country during 1986-1999, attracting FDI inflows almost equivalent to Hungary in 1999.

In absolute terms, while investment flows to LDCs are still mainly directed to a few countries that are essentially oil-exporting or resource-rich countries (e.g. Angola, Zambia), FDI became less concentrated in the 1990s: in 1986-1990, five countries accounted for 77 per cent of FDI inflows; in 1996-1999, that percentage had declined to 50 per cent. Bangladesh, Cambodia, Mozambique, Myanmar and Uganda have recently become relatively large recipients. Nevertheless there is – not surprisingly, given the vastly different sizes of the countries involved – a wide gap in the level of FDI received by different LDCs (table 3): 13 LDCs received more than $100 million on average during 1996-1999, while 16 countries received less than $10 million. In 1999, only four LDCs (Angola, Myanmar, Liberia and Lesotho, in that order) reported an FDI stock of more than $2 billion (figure 4).

The bulk of FDI in LDCs (more than 90 per cent) is through greenfield investment rather than through cross-border M&As (including privatizations) (figure 5).[3] Only a few LDCs (notably the United Republic of Tanzania and Zambia) have recorded M&A deals of some importance during 1987-1999. Some of the deals did not target local firms, but existing foreign affiliates. For example, the largest M&A in an LDC so far was the $260 million acquisition of Texaco Inc-Yetagun Natural in Myanmar by Premier Oil Plc from the United Kingdom in 1997 (table 4).[4]

The geographical origin of FDI in LDCs varies by region and has also shifted over time. Due to geographical proximity and post-colonial ties, TNCs from Western Europe have traditionally been more active in the African LDCs than those from the United States and Japan (UNCTAD,

Box 2 (concluded)

Uganda's economic success over the past decade has created a number of interesting possibilities for foreign investors. Telecommunication services in the recently privatized telecommunication industry have developed dynamically, with foreign investors active in this industry. A host of opportunities also exists in agriculture related industries. Beverages and food processing offer possibilities in an economy that grew by on average more than 7 per cent in recent years. New and dynamic export products, such as cut flowers and fish, have been developed in recent years. The privatization programme is in full swing, with 46 companies currently up for sale. They cover the whole range of economic activities and include the national airline, financial institutions, hotels as well as public utilities. Tourism as well as other services such as in education and health care offer interesting long-term potential for FDI.

* * *

Obviously, the realization of some of these opportunities can be enhanced by policy measures that improve the overall climate for FDI and alleviate specific bottlenecks. Nonetheless, these examples indicate the richness of opportunities waiting for investors in LDCs. It is an encouraging sign that investors are becoming aware of these opportunities. In a recent survey among the world's 300 largest TNCs (jointly undertaken by UNCTAD and the ICC) on the prospects for FDI in Africa, companies ranked a number of LDCs among those countries with the greatest attractiveness for FDI (UNCTAD, 2000b, p. 46). Of the 53 countries in Africa, altogether 20 countries were named by the TNCs. Among these 20, almost a third (6) were LDCs, including – in that order – Mozambique, Angola, the United Republic of Tanzania, Ethiopia, Uganda and Malawi.

Source: UNCTAD, based on UNCTAD 2000b and forthcoming; UNCTAD and ICC, 2000a,b,c and forthcoming.

Table 3. FDI flows to LDCs, 1986-1999

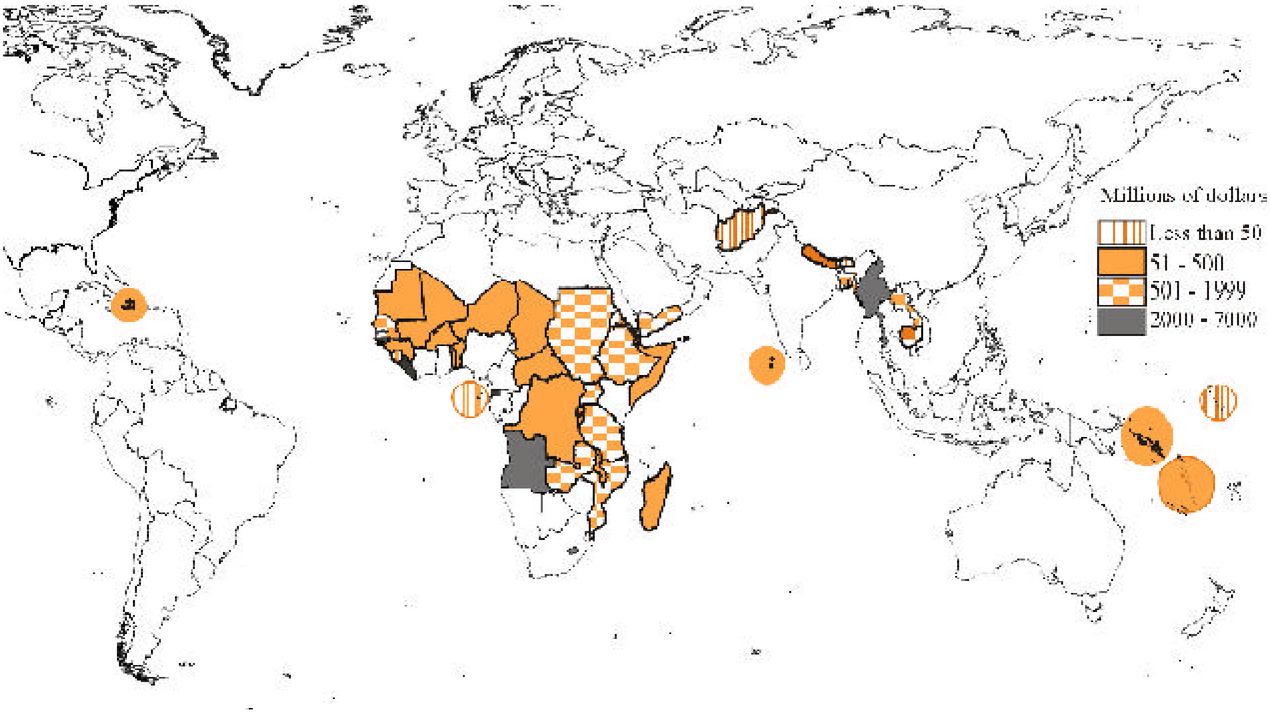
(Millions of dollars)

Economy [a]	1986-1990	1991-1995	1996-1999	1998	1999
	Annual average				
Angola	70	379	880	1 114	1 814
Myanmar	34	184	307	314	216
Lesotho	26	238	238	262	136
Sudan	- 4	-	210	371	371
Mozambique	5	32	184	213	385
Uganda	- 1	54	182	210	222
Cambodia	..	61	179	121	135
Zambia	113	54	171	198	163
United Republic of Tanzania	-	47	165	172	183
Ethiopia	1	7	160	261	68
Bangladesh	2	6	131	190	179
Liberia	239	- 7	130	190	249
Equatorial Guinea	4	43	102	11	-
Senegal	16	13	96	60	142
Lao, People's Democratic Republic	2	40	85	45	79
Mali	1	25	45	36	23
Malawi	9	13	42	70	32
Guinea	13	12	31	18	63
Benin	25	44	29	35	31
Congo, Democratic Republic of	- 15	- 1	29	61	74
Vanuatu	10	28	26	20	20
Madagascar	11	13	25	16	58
Togo	12	8	23	42	1
Chad	11	12	21	16	35
Somalia	- 2	1	15	-	61
Burkina Faso	3	7	15	10	21
Nepal	2	5	15	12	4
Solomon Islands	7	11	15	9	10
Cape Verde	1	7	13	9	2
Haiti	7	3	12	11	30
Maldives	4	7	11	12	12
Gambia	3	9	11	14	4
Niger	16	15	10	9	- 12
Samoa	1	3	7	3	2
Mauritania	4	7	6	-	17
Sierra Leone	- 14	- 2	5	- 10	2
Central African Republic	4	- 4	5	5	4
Djibouti	-	2	4	6	1
Rwanda	16	4	3	7	2
Guinea-Bissau	1	2	3	1	1
Comoros	3	-	2	2	-
Afghanistan	-	-	1	-	6
Kiribati	-	-	1	1	1
Sao Tome and Principe	-	-	-	-	..
Bhutan	-	-	-	..	..
Burundi	1	1	-	-	-
Tuvalu	..	-	-	-	-
Eritrea	..	..	-	- 2	1
Yemen	- 20	397	- 24	- 210	312
Total LDCs	622	1 780	3 620	3 936	5 160
Developing countries	27 908	79 282	182 136	186 476	214 107
World	160 901	229 056	641 809	690 751	1 021 362

Source: UNCTAD, on the basis of the country tables below and UNCTAD's FDI/TNC database.

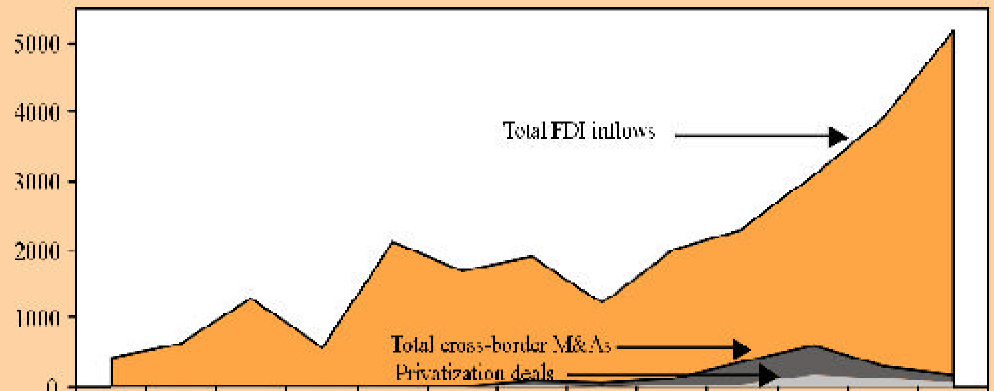
[a] Ranked according to size of FDI inflows during 1996-1999.

Figure 4. FDI inward stock in LDCs, 1999



Source: UNCTAD, on the basis of the country tables below and UNCTAD's FDI/TNC database.

Figure 5. FDI inflows, cross-border M&A sales and privatizations in LDCs, 1987-1999
(Millions of dollars)



	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total FDI inflows	426	616	1278	563	2109	1686	1913	1213	1977	2294	3092	3936	5160
Total cross-border M&A sales	0	0	0	0	0	13	82	53	115	370	590	288	187
Privatization deals	0	0	0	0	0	8	31	12	30	34	193	120	64

Source: UNCTAD, on the basis of the country tables below and UNCTAD's cross-border M&A database.

Note: Cross-border M&As (as well as privatizations) include purchases financed via both domestic and international capital markets that are not categorized as FDI. Furthermore, M&A data are expressed as the total transaction amounts of particular deals at the time of closure of the deals. Therefore, there is no direct relationship between FDI and cross-border M&As.

1999a). More specifically, France and the United Kingdom are the principal sources of FDI in African LDCs. Japanese FDI to African LDCs has mostly been driven by tax reasons: "flag-of-convenience" investment in shipping in Liberia accounts for some three-fourths of all Japanese FDI in Africa. The United States is less important than a number of European countries as a home country for FDI in most LDCs.

More recently, companies from South Africa have also become active in this region, particularly in neighbouring countries (table 4). Notable examples are M&As by Harmony Gold Mining and Anglovaal in the mining sector in Zambia; by South African Breweries (the ultimate parent firm of Indol International) in Botswana, Lesotho, Mozambique, Swaziland, the United Republic of Tanzania and Zambia; and by Pepkor, South Africa's biggest retailer, in Zambia and Mozambique. FDI from South Africa encompasses a wide range of industries, from mining and processing to banking and retailing. Some Asian companies (notably from India and Malaysia) have also invested in African LDCs, including in telecommunications and real estate. Asian investors have shown a particular interest in South Africa's neighbouring countries (e.g. Botswana), from where they can produce at low costs and export to the South African market.

In the Asian LDCs, a different picture emerges: intra-regional FDI is substantial. Firms from Malaysia, Singapore and Thailand are major investors in Cambodia, Myanmar and Lao People's Democratic Republic: Malaysia accounted for more than one third of the FDI stock in Cambodia in 1997; Thailand accounted for 35 per cent of the FDI stock in Lao People's Democratic Republic in 1999; and Singapore and Thailand together held a 35 per cent share of FDI stock in Myanmar in 1998.

There is limited information on the sectoral breakdown of FDI in LDCs. Recipients of FDI in LDCs for which such data are available (e.g., Bangladesh, Cambodia, Cape Verde, Ethiopia, Lao People's Democratic Republic, Myanmar, Nepal, Solomon Islands and Uganda) show that the industry distribution varies considerably, with all main industrial sectors represented. For example, in Solomon Islands most FDI goes to the fishery industry. In Lao People's Democratic Republic, FDI has been mainly in agricultural production. The petroleum sector dominates FDI in Angola. While manufacturing is the largest sector in Cambodia and Uganda, the services sector accounts for the largest share of inward FDI stock in Cape Verde and Nepal. In Ethiopia, the large recipient industry is the hotel industry. The telecommunications industry is the largest recipient industry in services in Uganda. Thus, the limited available evidence suggests that investment opportunities exist in a wide range of industries.

The largest foreign affiliates in LDCs are spread across various host countries and industries (table 5). Despite the large share of the resources-based sector in total FDI, a considerable number of affiliates are in the manufacturing sector (especially in chemicals) as well as in the services sector (especially in transport services). Large financial affiliates are few in LDCs, reflecting the poor development of financial markets in LDCs and the limited scope of financial services required for small trading or other activities. With the exception of a few resource-based companies, most foreign affiliates are relatively small in an international comparison (table 5). The geographical breakdown of the largest foreign affiliates in LDCs by home country shows a strong dominance of investors originating from France, Japan (primarily in Liberia) and the United Kingdom, reflecting the pattern emerging from the geographical breakdown of FDI.

Investors in LDCs indeed include some of the world's largest TNCs. As of 1999, 44 out of the *Fortune 500* firms had invested in 31 LDCs (box 3).

The FDI trends and patterns reviewed above show considerable variation among the 49 LDCs, reflecting the diversity that characterizes this group of countries. When assessing the potential of investment in LDCs, foreign investors therefore need to evaluate each project on its own merits. And, of course, in doing so, they are also influenced by the host countries' regulatory frameworks.

Table 4. The largest 50 cross-border M&A sales in LDCs, 1987-1999

Rank	Acquired company	Industry	Host economy	Acquiring company	Home economy	Value ($ million)	Year
1	Texaco Inc-Yetagun Natural	Oil and gas field exploration services	Myanmar	Premier Oil PLC	United Kingdom	259.9	1997
2	Sonatel (Senegal) [a]	Telecommunications	Senegal	France Cables et Radio [b]	France [c]	126.4	1997
3	Evander Gold Mines Ltd.	Mining	Zambia	Harmony Gold Mining Co Ltd	South Africa	96.7	1998
4	Electra	Electric, gas and water distribution	Cape Verde	Investor Group	Portugal	83.3	1999
5	Societe Nationale d'Electricite [a]	Electric, gas and water distribution	Senegal	Elyo/Hdro-Quebec	France	63.5	1999
6	Zambia Oxygen (Zambia) [a]	Business services	Zambia	African Oxygen Ltd	South Africa	60.0	1997
7	Cia Agricole et Industrielle	Insurance	Madagascar	Investor Group	Brunei	58.4	1996
8	BHP Minerals Mali Inc (Broken)	Mining	Malawi	Randgold & Exploration Co Ltd	United States	53.0	1996
9	Sotelgui (Guinea) [a]	Telecommunications	Guinea	Telekom Malaysia Bhd	Malaysia	50.0	1996
10	Zambia-Chambishi Cobalt [a]	Mining	Zambia	Anglovaal Ltd	South Africa	50.0	1998
11	Zambia Consolidated-Elec [a]	Electronic and electrical equipment	Zambia	Copperbelt Energy Consortium	United Kingdom	50.0	1997
12	La Source Group-Kasese Cobalt	Investment and commodity firms and dealers	Uganda	Banff Resources	Canada	48.9	1996
13	Sonatel (Senegal) [a]	Telecommunications	Senegal	France Cables et Radio [b]	France [c]	45.1	1998
14	United Meridian Corp-Block B	Oil and gas; petroleum refining	Guinea	Mobil Corp	United States	38.9	1995
15	National Tobacco of Ethiopia	Tobacco products	Ethiopia	Shaher Group	Yemen	36.0	..
16	Barge-Mounted Power Plant	Wholesale trade-durable goods	Bangladesh	Coastal Power Co (Coastal Corp)	United States	33.0	1998
17	Nile Breweries	Food and kindred products	Uganda	South African Breweries Ltd	United Kingdom	29.0	1997
18	Zambia Consolidated Copper [a]	Mining	Zambia	Cyprus Amax Minerals Co	United States	28.0	1997
19	Kilombero Sugar Co (Tanzania) [a]	Cane sugar, except refining	United Rep. of Tanzania	Investor Group	South Africa	22.0	1998
20	Tanzania Breweries [a]	Malt beverages	United Rep. of Tanzania	Indol International (South Africa)	South Africa	21.4	1993
21	Cia de Cimentos de Mocambique	Stone, clay, glass and concrete products	Mozambique	Cimpor-Cimentos de Portugal EP	Portugal	20.0	1994
22	Cimentos de Mozambique	Stone, clay, glass and concrete products	Mozambique	Cimpor-Cimentos de Portugal EP	Portugal	20.0	1994
23	Mali-Kalana Gold Mining Rights	Mining	Mali	Investor Group	South Africa	18.0	1995
24	Zambia Consolidated Copper-Chibuluma [a]	Mining	Zambia	Investor Group	South Africa	17.5	1997
25	Maamba Collieries Ltd (Zambia) [a]	Wholesale trade-durable goods	Zambia	Benicon Mining (Pty) Ltd	South Africa	17.5	1997
26	Golden Pride Gold Project	Gold ores	United Rep. of Tanzania	Resolute Samantha Group Ltd	Australia	17.0	1996
27	Zambia Sugar Co (Zambia) [a]	Food and kindred products	Zambia	Tate & Lyle PLC	United Kingdom	14.5	1995
28	MacMahon Brewery, Beira Brewery	Food and kindred products	Mozambique	Indol International (South Africa)	South Africa	14.0	1995
29	Industrias Florestais de Manic	Agriculture, forestry, and fishing	Mozambique	Sonae Industria SGPS	Portugal	13.1	1998
30	Nepal Arab Bk (Emirates Bk Int) [a]	Commercial banks, bank holding companies	Nepal	National Bank of Bangledesh	Bangledesh	11.9	1995
31	Uganda Commercial Bank (Uganda) [a]	Commercial banks, bank holding companies	Uganda	Westmont Land (Asia) Bhd	Malaysia	11.0	1998
32	National Milling Co (Zambia) [a]	Investment and commodity firms and dealers	Zambia	Investor Group	Namibia	11.0	1996
33	Commercial Bank of Mozambique	Commercial banks, bank holding companies	Mozambique	Investor Group	Portugal	10.7	1996
34	Investment and Dvlpt Bank of Malawi	Investment & commodity firms and dealers	Malawi	Standard Bank Group	South Africa	10.0	1998
35	Myanmar Airways (Myanmar) [a]	Air transportation and shipping	Myanmar	Investor Group	Singapore	10.0	1993
36	Northern Breweries (Zambia) [a]	Food and kindred products	Zambia	Lonrho Zambia (Lonrho PLC)	Zambia [d]	9.0	1996
37	Sudan Textile Factory (Kuwait) [a]	Textile and apparel products	Sudan	Daewoo Corp	Republic of Korea	8.0	1992
38	Tanzania Diamond Mines-Lupa	Gold ores	United Rep. of Tanzania	Bakertalc Inc	Canada	7.7	1994
39	Air Mandalay (Techmat Holdings)	Air transportation and shipping	Myanmar	Kemayan Synergy (Kemayan Corp)	Malaysia	7.2	1995
40	Stanbic Bank Uganda Ltd. [a]	Commercial banks, bank holding companies	Uganda	Stanbic	South Africa	6.5	1996
41	Lintco-Ginning Operations (2) [a]	Agriculture, forestry and fishing	Zambia	Lonrho Zambia (Lonrho PLC)	Zambia [d]	6.0	1996
42	Portland Cement Co (Malawi) [a]	Stone, clay, glass, and concrete products	Malawi	Commonwealth Development Corp	South Africa	5.6	1996
43	Tullow Oil-Yemen Interests	Oil and gas; petroleum refining	Yemen	ARCO Yemen Inc	United States	5.3	1992
44	Refined Oil Products (Zambia) [a]	Oil and gas; petroleum refining	Zambia	Unilever PLC	United Kingdom	3.8	1995
45	Tanzanian Diamond Mines-Maji	Gold ores	United Rep. of Tanzania	Bakertalc Inc	Canada	3.6	1994
46	Bottlers Nepal Ltd.	Food and kindred products	Nepal	Fraser and Neave Coca-Cola Pte	Singapore	2.3	1993
47	Zambia Venture Capital Fund	Investment and commodity firms and dealers	Zambia	African Development Bank	Supranational	2.0	1998
48	Scaw Ltd. [a]	Metal and metal products	Zambia	BK Engineering and Casting Ltd	India	2.0	1998
49	Digicom Haiti	Telecommunications	Haiti	Atlantic Tele-Network Co	United States	1.9	1998
50	FairPrice Intl (NTUC FairPrice)	Investment and commodity firms and dealers	Myanmar	Singapore Investment Corp	Singapore	1.8	1999

Source: UNCTAD, on the basis of the country tables below and UNCTAD's cross-border M&A database.

[a] Privatization.

[b] Includes also other foreign investors.

[c] Includes also other unspecified countries.

[d] The ultimate parent company is headquartered in the United Kingdom.

Note: Includes only deals whose transaction value is known.

Table 5. The largest 50 foreign affiliates in LDCs, 1999

Rank	Foreign affiliate	Host economy	Home economy	Industry	Sales ($ million)	Employment	Year of establishment
1	Dunlop Zambia Limited	Zambia	United Kingdom	Tires and inner tubes	8 770.7	448	1964
2	Brasseries et Limonaderies Du Rwanda SA	Rwanda	Netherlands	Malt beverages	6 494.3	1 000	..
3	Shell Exploration and Development Madagascar BV	Madagascar	Netherlands	Oil and gas exploration	4 286.1	66	..
4	Shorncliffe (Solomon Islands) Ltd.	Solomon Islands	United Kingdom		1 363.2	..	..
5	Boral Gas Solomons Ltd.	Solomon Islands	Australia	Gas exporation	1 297.8	..	..
6	Osel Odebrecht Servicos No Exterior Ltda	Angola	Brazil	Nonresidential construction	785.3	4 000	..
7	Ashanti Goldfields (T) Ltd.	United Rep. of Tanzania	Ghana	Gold ores	284.1	20	..
8	Pacific Resources Ltd.	Vanuatu	Hong Kong, China		133.8	..	..
9	Bhp Steel Building Products New Caledonia SA	Vanuatu	Australia		133.8	..	..
10	La compagnie minière d'Akouta	Niger	Japan	Mining	89.9 [a]	1 255	1978
11	Travel Industry Services Ltd.	Solomon Islands	Fiji	Transport	63.8	..	..
12	Compagnie Shell De Guinee	Guinea	Netherlands	Petroleum products except bulk terminals	50.0	33	..
13	Manufacture de Tabacs de l'Ouest Africaine	Senegal	France	Tobacco	48.8	410	..
14	Fisons Bangladesh Ltd.	Bangladesh	France	Pharmaceutical preparations	48.4	1 300	1964
15	Brasseries et Limonaderies Du Burundi Sarl	Burundi	Netherlands	Bottled and canned soft drinks	46.2	1 350	1997
16	Myanmar Kasho Co., Ltd.	Myanmar	Japan	Trading	41.0 [a]	8	1995
17	John Walkden And Cie	Benin	United Kingdom	Piece goods	39.2	74	..
18	Cobol Shipping Co., Inc.	Liberia	Japan	Transport	38.4 [b]	..	1989
19	The General Electric Co Of Bangladesh Ltd.	Bangladesh	United Kingdom	Motors and generators	37.7	1 200	1962
20	Nestle Senegal SA	Senegal	Switzerland	Fluid milk	27.2	230	..
21	Vespers Shipping Corp.	Liberia	Japan	Transport	26.7 [b]	..	1993
22	Manufacture Burkinabe De Cigarettes SA	Burkina Faso	France	Tobacco	25.9	150	..
23	Total Texaco Niger SA	Niger	France	Petroleum products except bulk terminals	25.2	45	..
24	Togo et Shell S A	Togo	Netherlands	Petroleum products except bulk terminals	25.2	96	..
25	Spie Batignolles Ltd.	Lesotho	France	Engineering services	21.9	1 400	1987
26	Cica Burkina	Burkina Faso	France	Cars and other motor vehicles	21.0	150	1991
27	Nouvelles Savonneries de l'Ouest Africain SA	Senegal	United States	Cleaning polishing and sanitation preparations	20.0	200	1994
28	Humolco Trans Inc.	Liberia	Japan	Transport	19.3 [a]	..	1986
29	Mic Tanzania Ltd.	United Rep. of Tanzania	Luxembourg	Electronic parts and equipment	19.2	150	..
30	Mamiya-Op (Bangladesh) Ltd.	Bangladesh	Japan	Sporting and athletic goods	16.7	600	1991
31	Laurel Shipping Corp.	Liberia	Japan	Transport	14.3 [a]	..	1973
32	Standard Chartered Bank Uganda Ltd.	Uganda	United Kingdom	Commercial banks	13.5	106	..
33	Cabinda Gulf Oil Company Ltd.	Angola	United States	Petroleum refining	12.5	1 800	..
34	Compagnie Francaise De L' Afrique Occidentale	Niger	France	New and used car dealers	10.1	45	1963
35	Canadian Occidental Yemen Operation Company Ltd.	Yemen	Canada	Oil and gas field services	9.6	1 000	..
36	Qbe Insurance (Vanuatu) Ltd.	Vanuatu	Hong Kong, China	Insurance carriers	9.2	..	..
37	Organon Bangladesh Ltd.	Bangladesh	Netherlands	Pharmaceutical preparations	9.1	1 000	1965
38	Samoa Breweries Limited	Samoa	Australia	Malt beverages	9.1	140	1978
39	Pascal (No.1) Tankers Corp.	Liberia	Japan	Transport	9.1 [b]	..	1987
40	Mol-Nic Transport Ltd.	Liberia	Japan	Transport	8.7 [a]	..	1989
41	Ananda Computers	Bangladesh	United States	Office equipment	8.7	40	1987
42	Societe Senegalaise d'Oxygene et d'Acetylene	Senegal	France	Natural gas liquids	8.6	80	..
43	Galaun Holdings Ltd.	Zambia	India	Holding companies	8.4	100	1995
44	Manufacture De Cigarettes Du Tchad	Chad	France	Tobacco	8.0	127	..
45	Emerald Resort Pvt., Ltd.	Maldives	Japan	Hotel	7.8 [a]	133	1991
46	Hoechst Madagascar SA	Madagascar	France	Chemicals	7.7	69	1969
47	World Car Carrier Inc.	Liberia	Japan	Transport	7.5 [a]	3	1988
48	Scac Delmas Vilejeu	Burkina Faso	France	Freight transport arrangers	6.8	350	..
49	Nord Electricite SA	Senegal	France	Electric services	6.5	9	..
50	Colgate Palmolive (Zambia) Ltd.	Zambia	United States	Manufacturing industries	6.4	150	..

Source: UNCTAD, on the basis of the country tables below and UNCTAD's FDI/TNC database.

[a] Data refer to 1996.

[b] Data refer to 1997.

Note: Includes only affiliates whose sales or employment data are known. Therefore, it is likely that other large foreign affiliates are missing from this list.

Box 3. Fortune 500 investors in LDCs

ABB (Angola, Zambia), Air France Group (Djibouti), Akzo Nobel (Bangladesh), AT&T (Vanuatu), Aventis (Bangladesh, Madagascar, Nepal, Uganda), BASF (Bangladesh, Ethiopia), Barclays (Vanuatu, Zambia), Bayer Ag (Bangladesh, Ethiopia), Bouygues (Benin, Central African Republic, Mali), Broken Hill Proprietary (Vanuatu), Chevron (Angola), Citigroup (Bhutan), Crédit Lyonnais (Guinea, Madagascar), Daewoo Corp. (the Sudan), E.I. du Pont de Nemours (Ethiopia), Elf Aquitaine (Angola), Exxon Mobil (Equatorial Guinea), Fortis (Central African Republic), Glaxo Wellcome (Bangladesh, United Republic of Tanzania), Groupe Pinault-Printemps (Benin, Burkina Faso, Central African Republic, Chad, Mali, Niger, Senegal, Togo), Imperial Chemical Industries (Angola), Invensys (Zambia), Itochu (Liberia), Johnson & Johnson (Angola), Lloyds TSB Group (Bangladesh, Uganda), Marubeni (Liberia), Matsushita Electric Industrial (United Republic of Tanzania), Mitsubishi (Ethiopia, Liberia, Zambia), Mitsui Fudosan (Nepal, Vanuatu), Mitsui (Bangladesh, Lao People’s Democratic Republic), Nestlé (Bangladesh, Senegal), Nippon Express (Bangladesh), Nissho Iwai (Liberia), Pfizer (Angola, Bangladesh, Mozambique), Phillips Petroleum (Angola), Pohang Iron & Steel (Myanmar), R. J. Reynolds Tobacco (United Republic of Tanzania), Suez Lyonnaise des Eaux (Burundi, Senegal, Vanuatu), Sumitomo (Cambodia, Liberia), Texaco (Angola), Tomen (Liberia), Total Fina Elf (Angola, Democratic Republic of the Congo, Mauritania, Niger, Senegal, Yemen), Toyota Tsusho (Angola, Cambodia, Vanuatu), and Unilever (Benin, Democratic Republic of the Congo, United Republic of Tanzania).

Source: UNCTAD, on the basis of the country tables on Fortune 500 investors.

Developments in the regulatory framework

In recent years, LDCs have stepped up their efforts to improve their investment climate. At the **national** level, most LDCs have now legislation in place offering a wide range of guarantees and opportunities for foreign investors. In many cases, new FDI regulations in LDCs have greatly liberalized restrictions, provide for non-discrimination between foreign and domestic private investors, allow profit repatriation, protect against expropriation, grant incentives and strengthen standards of treatment of foreign investors. In Bangladesh, for instance, the current regulations regime for FDI provides for non-discriminatory treatment to foreign investors and encourages FDI involvement in activities such as technology transfer and exports, with incentives that include tax holidays, a reduction of import duties on capital machinery and spare parts, duty-free imports for 100 per cent exporters, and tax exemptions on technology remittance fees. Tax reductions are also offered on interest on foreign loans and on capital gains by portfolio investors (UNCTAD and ICC, 2000a; United States, Commercial Service, 2000).

An area in which particularly important changes have taken place concerns limitations on foreign ownership and control. The Tanzanian Mining Act of 1996, for example, relaxed government regulatory control over the mining sector and removed a number of barriers that previously limited foreign ownership of mineral exploitation enterprises (United States, Commercial Service, 1999). In Cambodia’s current regime, all sectors of the economy are open to FDI. Industries that are eligible for 100 per cent foreign ownership vary according to the nature of the investment project. For instance, in publishing, printing, radio and TV activities, foreign equity is limited to 49 per cent. Local equity participation is also required in gemstone exploitation, brick making, rice mills, wood and stone carving manufacture and silk weaving (United States, Commercial Service, 2001a). In Bangladesh, foreign participation is allowed up to 100 per cent in all areas except in the four exclusively reserved for public investment (defense, forestry, nuclear energy and security printing) (UNCTAD and ICC, 2000a). Some restrictions related to the ownership of land and real estate have also been reduced in some countries. In Ethiopia, land is public property and cannot be purchased or sold. However, land for investment purposes can be obtained through leaseholds with their length varying from 15 to 99 years; a typical lease for a business venture is for 30-60 years (UNCTAD and ICC, 2000b; United States, Commercial Service 2001b).

Many LDCs furthermore guarantee foreign investors a right to repatriate capital and profits, thus exempting them from otherwise restrictive foreign exchange regimes. In Senegal, for example, there are no restrictions on the transfer or repatriation of capital and income or capital in convertible foreign exchange (United States, Commercial Service, 2001c), while other countries (e.g. United Republic of Tanzania) have removed completely foreign exchange restrictions and have introduced forex bureaux to handle foreign exchange transactions no longer controlled by central banks. In other countries, foreign exchange retention schemes allow foreign firms access to either all or a portion of the value of their exports. Zambia's Investment Act of 1991, for example, allows exporters to retain up to 70 per cent of their export earnings in the initial years of the investment and 50 per cent thereafter.

Many LDCs moreover have enacted new or revised legislation allowing foreign investors to participate in privatization programmes. Examples are Mauritania, Nepal, United Republic of Tanzania, Uganda and Zambia (UNCTAD, 2000c; UNCTAD and ICC, forthcoming; United States, Commercial Service, 1999, 2001d,e,f). In Uganda, for example, privatizations completed under the privatization programme have successfully attracted foreign investors in such activities as banking, farming, hotels and crop marketing (UNCTAD, 2000c; UNCTAD and ICC, forthcoming). A recurrent issue in many countries with regard to privatization is how to secure indigenous ownership of assets in a situation characterized by a fairly narrow capital base in the private sector.

Notwithstanding the ongoing liberalization of FDI restrictions, some LDCs still require approval for the establishment of FDI projects. In Mali, for example, authorization is required to invest in all industries (UNCTAD and ICC, 2000c). In some countries, proposed investments have to meet certain criteria stated in the investment codes to receive approval. In other countries (e.g. Mozambique, Eritrea), approval is required only to obtain fiscal benefits.

LDCs also offer generous tax incentives, usually targeted to certain types of investments or industries. In Guinea, amendments to the Investment Code of 1987 specified areas in which tax and duty exemptions are allowed, including agricultural products, fishery, chemical, pharmaceutical, tourism and hotel activities, among others (UNCTAD, 1995a). Tax incentives have also been used to direct investment to specific zones. In Cambodia, the Special Investment Zones Act of 1995 granted incentives for enterprises establishing operations in the zones of Phnom Penh and in the port of Sihanoukville (UNCTAD, 1995a). Similarly in Mozambique, an incentive scheme for undertakings located in the river Zamberi valley was introduced in 1998 (UNCTAD, 1998). Export incentives and free trade zones are also available in Angola, Malawi and Uganda, among others (UNCTAD, 2000d).

LDCs have also sought international assistance to improve their regulatory regimes for FDI. UNCTAD, for example, has undertaken in-depth investment policy reviews for some of these countries, with a view to enhance their attractiveness for foreign investors and maximize the contribution of FDI to development (box 4).

These national efforts have been complemented by increased international cooperation on FDI. At the **bilateral** level, 49 LDCs had concluded a total number of 224 bilateral investment treaties for the protection and promotion of foreign investment (BITs) by 1 January 2000 (figure 6). Of the 224 BITs, 136 were concluded during the 1990s alone (figure 7). In fact, the 1990s saw more than a three-fold increase in the number of BITs, compared with the number of BITs concluded during the 1980s. Overall, LDCs have concluded 120 BITs with developed countries (36 during the 1990s, 31 during the 1980s, 19 during the 1970s and 34 during the 1960s). A significant new development in recent years has been the dramatic increase of BITs concluded by LDCs with other developing countries, from 10 BITs at the end of the 1980s to 95 at the end of 1999. In addition, LDCs have begun to conclude BITs among themselves. So far three treaties were concluded during the 1990s, but the figure will be much higher when the 42 agreements negotiated in Geneva in January/February 2000 under the auspices of UNCTAD will be formally signed (box 5). Yemen and Bangladesh have signed the largest number of BITs, followed by Lao People's Democratic Republic and Senegal (figure 8). Thus, BITs have become an important instrument for strengthening South-South cooperation on investment matters. With these treaties, LDCs seek to provide foreign investors from the other BIT countries with international standards of treatment and legal guarantees, among other things, on the transfer of funds, against expropriation and for the resolution of investment disputes.

Box 4. Investment Policy Reviews

Many LDCs have significantly liberalized their FDI regimes, and governments are keen to know how well their reforms are working: Is there new FDI? Is it of the right kind? What more should be done? With the dismantling of traditional monitoring systems, policy makers lack a mechanism to generate feedback on the impact of investment measures. UNCTAD's Investment Policy Reviews are intended to fill this void: to provide government officials with a means of monitoring FDI in a liberal environment.

The Investment Policy Reviews are conducted by UNCTAD on the basis of a standard format and involving staff, international and national experts and inputs from Government and the private sector. The Reviews are presented and discussed in national workshops involving public officials and other stakeholders. They are also considered by UNCTAD's Commission on Investment, Technology and Related Financial Issues. The final texts are widely disseminated.

The Reviews are undertaken upon request. The assumption is that governments are ready to receive independent feedback and to engage in open dialogue with investors and peers. Their expectation is that a transparent and objective presentation of their countries' investment policies and opportunities will put their countries on the radar screen of international investors.

UNCTAD has completed Reviews for two LDCs (Ethiopia and Uganda) and five other countries (Ecuador, Egypt, Mauritius, Peru and Uzbekistan). Other LDCs that have requested Reviews include Cambodia, Lesotho, Nepal and the United Republic of Tanzania.

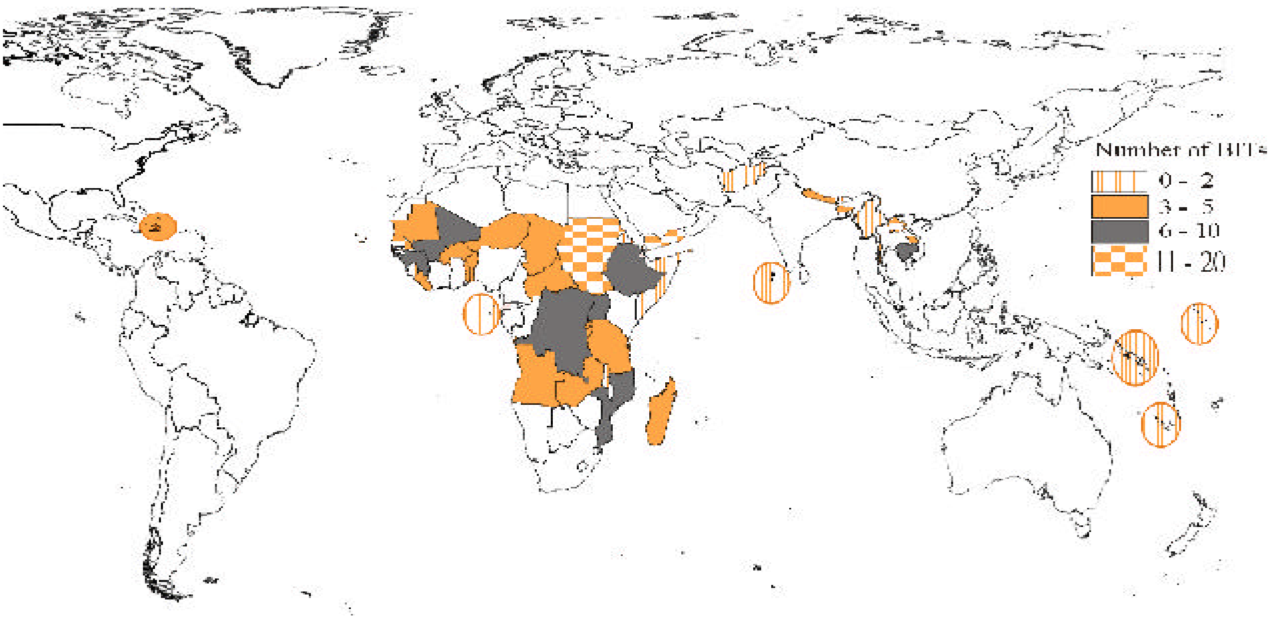
The Reviews have a common format of three sections examining a country's objectives and competitive position in attracting FDI; the FDI policy framework and administrative procedures; and policy options. They go beyond an examination of how well FDI policies look on paper by probing how well those policies work in practice in achieving stated national objectives. Since investor response is based on both policy and non-policy factors, a key feature of the Reviews is to survey actual investors on how they perceive current investment conditions and opportunities. Potential investors are also surveyed. Based on an analysis of investor perceptions and also of relevant FDI trends at the regional and global levels, the Reviews assess a country's core competencies in attracting FDI and, then, gauge the effectiveness of policies in leveraging the competitive strengths of a country (relative to other countries) and in ameliorating potential weaknesses. The policy options and recommendations are practical, geared to decision-makers in investment promotion agencies, and include coherent technical assistance and follow up. Uganda, for example, is actively implementing the recommendations.

The Reviews are funded primarily by extra budgetary resources. Individual country projects are funded on a cost-sharing basis by UNDP, donor governments, host government institutions and, as appropriate, the local and transnational private sectors (by sponsoring individual workshops or providing in-kind support, such as technical studies or industry experts).

Source: UNCTAD.

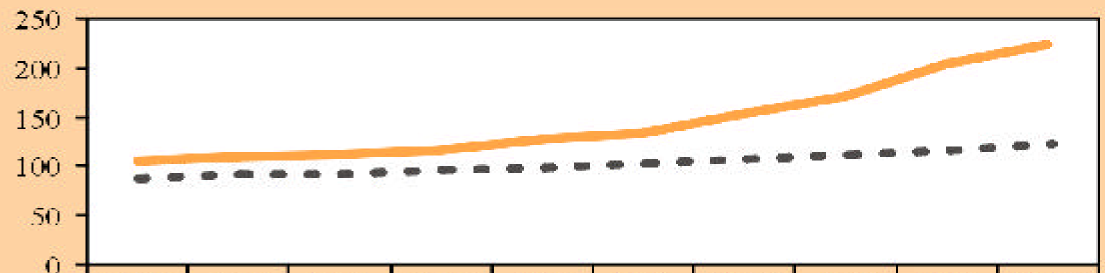
The avoidance of double taxation is another consideration in foreign investors' locational decisions. LDCs have therefore also concluded a growing number of bilateral treaties for the avoidance of double taxation (DTTs), reaching a total of 130 by 1 January 2000 (figure 9), of which 39 were concluded during the 1990s (figure 7). Of these, 86 were signed with developed countries, mainly with members of the European Union (62, about half of the total number of DTTs), 37 with developing countries, 4 with countries of Central and Eastern Europe and 3 between LDCs themselves. Until 1980, the majority of DTTs were signed with developed countries (17 to 5 in the 1950s, 12 to 5 during the 1960s, 27 to 6 in the 1970s, respectively). Over the past two decades, however, LDCs have signed an almost equal number of DTTs with developed and developing countries (10 and 9 in the 1980s respectively and 18 each during the 1990s). Bangladesh and Zambia have signed the largest number of DTTs, followed by United Republic of Tanzania and Malawi (figure 10). The pace of concluding DTTs has remained unchanged in recent years, in contrast with the sharp increase in the number of BITs recently (figure 7).

Figure 6. Density mapping of BITs concluded by LDCs, 1 January 2000



Source: UNCTAD, on the basis of the country tables below and UNCTAD's database on BITs.

Figure 7. BITs and DTTs concluded by LDCs, 1990 - 1 January 2000
(Cumulative)



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
BITs	105	110	112	117	127	133	154	171	204	224
DTTs	94	98	99	102	106	109	113	119	122	130

Source: UNCTAD, on the basis of the country tables below and UNCTAD's BITs and DTTs databases.

Box 5. BIT negotiations with particular focus on francophone LDCs

LDCs are increasingly viewing the conclusion of BITs with other developing countries as a means of promoting FDI flows among developing countries. FDI flows originating from developing countries amounted to $66 billion in 1999.

UNCTAD assists LDCs in this area by facilitating negotiations among partner countries. One negotiating event took place in Geneva, at the Palais des Nations, from 24 January to 2 February 2001. Eighteen countries (10 LDCs, 6 developing and 2 developed countries) participated in the bilateral negotiations, namely, Belgium, Benin, Burkina Faso, Burundi, Cameroon, Chad, Comoros, Egypt, Ghana, Guinea, Madagascar, Malaysia, Mali, Mauritania, Mauritius, South Africa, Switzerland, and Zambia. Forty-two BITs were finalized and initialed. In addition, 9 treaties were negotiated but required further discussions before finalization. It is expected that the finalized agreements would be signed during the Third United Nations Conference on LDC in Brussels, in May 2001.

/...

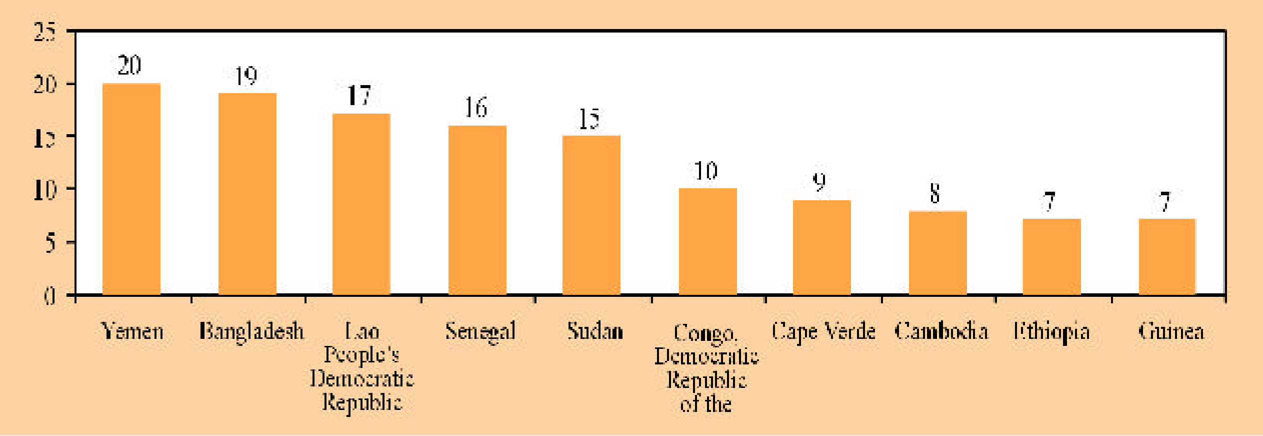
Box 5 (concluded)

The BITs negotiating event provided the participating LDC not only with the opportunity to conclude treaties with several other countries, but also to exchange experiences and compare negotiating approaches. The advantage of bringing chief negotiators together in one place where they can concentrate on the negotiation of several BITs is therefore that it allows for combining economies of scale with capacity-building in this field.

UNCTAD plays a facilitating role by making it possible to assemble a number of chief negotiators with authority to negotiate and providing substantive and logistic support. UNCTAD does not participate in the negotiations.

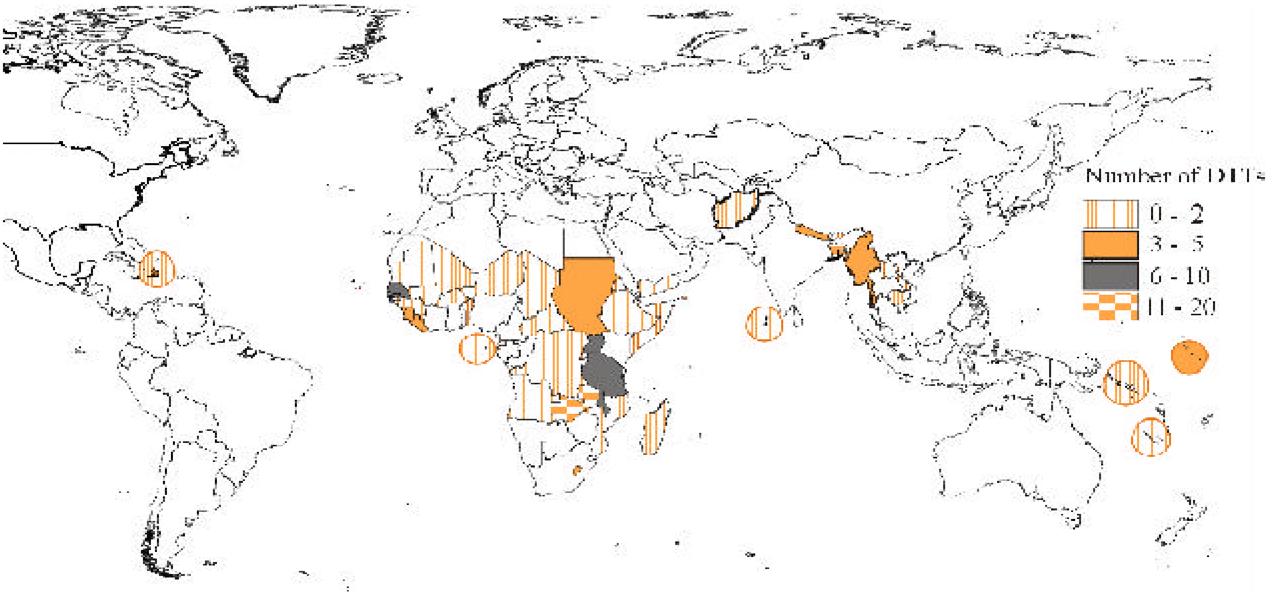
Source: UNCTAD.

Figure 8. The top 10 LDCs in terms of the number of BITs concluded, 1 January 2000



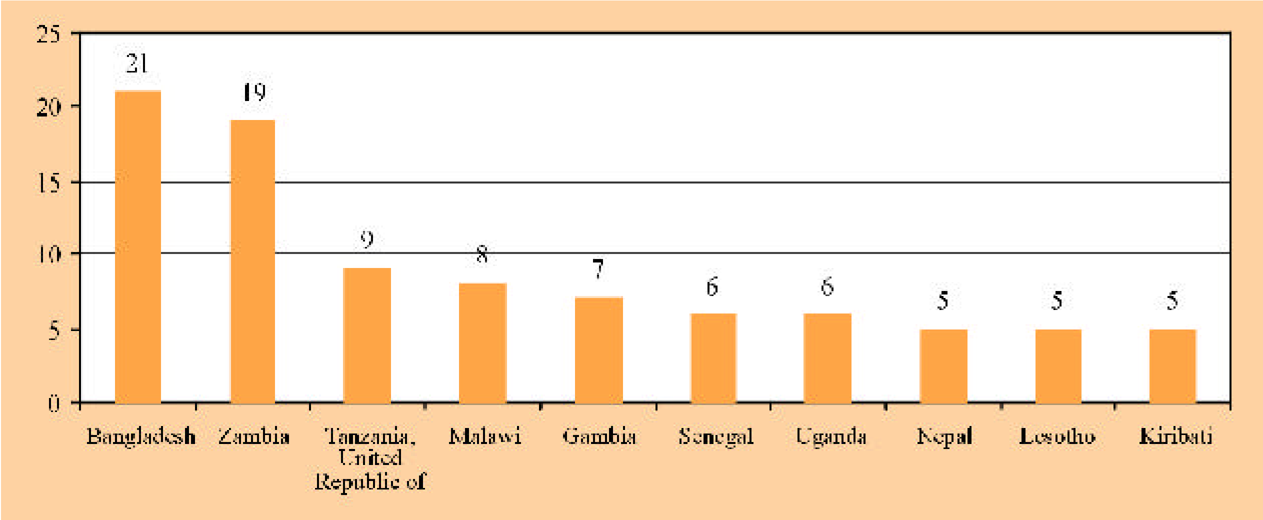
Source: UNCTAD, on the basis of the country tables below and UNCTAD's database on BITs.

Figure 9. Density mapping of DTTs concluded by LDCs, 1 January 2000



Source: UNCTAD, on the basis of the country tables below and UNCTAD's database on DTTs.

Figure 10. The top 10 LDCs in terms of the number of DTTs concluded, 1 January 2000



Source: UNCTAD, on the basis of the country tables below and UNCTAD's database on DTTs.

At the same time, LDCs have shown increased interest in becoming parties to key **multilateral** investment agreements (table 6). As of April 2001, 18 LDCs had acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, while the Convention on the Settlement of Investment Disputes between States and Nationals of other States had been ratified by 33 of the 49 LDCs. (Four additional countries have signed the Convention but had not yet deposited their instruments of ratification.) By signing the ICSID Convention, LDCs obtain access to ICSID's arbitration mechanism for the resolution of investment disputes. Moreover, 40 LDCs are now full members of the Multilateral Investment Guarantee Agreement (MIGA), and 6 are in the process of fulfilling membership requirements. MIGA provides insurance guarantees for foreign investors against non-commercial risks in their host developing countries. In addition, 32 of the LDCs have become members to the WTO and thereby parties to three main agreements relating to investment, namely the Agreement on Trade-related Investment Measures (TRIMs), the General Agreement on Trade in Services (GATS) and the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS); another 12 LDCs have observer status to WTO. Participation in these WTO agreements brings LDCs in line with multilaterally-agreed principles and standards on trade, investment and intellectual property rights protection, while allowing them to enjoy special and differential treatment by reason of their development status (UNCTAD, 2000e).

Beyond improving their regulatory framework, LDCs have also been increasingly proactive in promoting their countries, emphasizing their attractiveness for foreign investors. For that purpose, 37 LDCs have established agencies – typically investment promotion agencies (IPAs) – that specifically concentrate on promotional activities. Of these, 25 have joined the World Association of Investment Promotion Agencies that has, among its main objectives, to promote and develop cooperation among IPAs on a regional and global scale, to share country and regional experiences, and to help IPAs gain access to technical assistance and training (table 7). In some cases, the same agencies are also responsible for setting the requirements for inward FDI and for approving investment projects. An important trend in this respect has been the introduction of "one-stop windows" in order to simplify procedures and facilitate the entry of foreign investors. Madagascar and Sudan, for example, changed their administrative procedures in this direction (UNCTAD, 1995b). These agencies can also play an important role in the dialogue and negotiations between investors and the relevant government authorities, seeking to ensure that investors are fully informed of the benefits to be derived from their country. Examples here are the Malawi Investment Promotion Agency established in 1992 (UNCTAD, 1995b) and the Vanuatu Foreign Investment Board set up through the Foreign Investment Act in 1998 (UNCTAD, 1999b). National efforts to attract investors are also being supported by international organizations;

Table 6. LDCs party to main international investment-related instruments, as of April 2001

Country	CREFAA[a]	ICSID[b]	MIGA[c]	TRIMS[d]	GATS[e]	TRIPS[f]
Afghanistan		√				
Angola			√	√	√	√
Bangladesh	√	√	√	√	√	√
Benin	√	√	√	√	√	√
Bhutan				g	g	g
Burkina Faso	√	√	√	√	√	√
Burundi		√	√	√	√	√
Cambodia	√	√	√	g	g	g
Cape Verde			√	g	g	g
Central African Republic	√	√	√	√	√	√
Chad		√	h	√	√	√
Comoros		√				
Democratic Republic of Congo		√	√	√	√	√
Djibouti	√					
Equatorial Guinea			√	g	g	g
Eritrea			√			
Ethiopia		√	√	g	g	g
Gambia		√	√	√	√	√
Guinea	√	√	√	√	√	√
Guinea Bissau		√	h	√	√	√
Haiti	√	√	√	√	√	√
Kiribati				√	√	√
Lao People's Democratic Republic	√		√	g	g	g
Lesotho	√	√	√	√	√	√
Liberia		√	h			
Madagascar	√	√	√	√	√	√
Malawi		√	√	√	√	√
Maldives			√	√	√	√
Mali	√	√	√	√	√	√
Mauritania	√	√	√	√	√	√
Mozambique	√	√	√	√	√	√
Myanmar			√	√	√	√
Nepal	√	√	√	g	g	g
Niger	√	√	h	√	√	√
Rwanda		√	h	√	√	√
Samoa		√	√	g	g	g
Sao Tome and Principe			√	√	√	√
Senegal	√	√	√	√	√	√
Sierra Leone		√	√	√	√	√
Solomon Islands			h	√	√	√
Somalia			√	√	√	√
Sudan		√	√	g	g	g
Togo		√	√	√	√	√
Tuvalu			√	√	√	√
Uganda	√	√	√	√	√	√
United Republic of Tanzania	√	√	√	√	√	√
Vanuatu			√	g	g	g
Yemen		√	√	g	g	g
Zambia		√	√	√	√	√

Source: UNCTAD, on the basis of the country tables below.

[a] Convention on the Recognition and Enforcement of Foreign Arbitral Awards.
[b] Convention on the Settlement of Investment Disputes between States and Nationals of other States.
[c] Convention Establishing the Multilateral Investment Guarantee Agency.
[d] Agreement on Trade-related Investment Measures.
[e] General Agreement on Trade in Services.
[f] Agreement on Trade-related Aspects of Intellectual Property Rights.
[g] Observer status in the WTO.
[h] Countries in the process of fulfilling membership requirements to MIGA.

Table 7. Investment promotion agencies in LDCs, as of March 2001

Country	IPA	Member of WAIPA
Angola	√	√
Bangladesh	√	√
Benin	√	√
Cambodia	√	
Cape Verde	√	√
Central African Republic	√	
Chad	√	
Democratic Republic of Congo	√	√
Eritrea	√	
Ethiopia	√	√
Gambia	√	√
Guinea	√	√
Haiti	√	√
Kiribati	√	√
Lao People's Democratic Republic	√	
Lesotho	√	√
Liberia	√	
Madagascar	√	
Malawi	√	√
Maldives	√	√
Mali	√	√
Mauritania	√	
Mozambique	√	
Myanmar	√	
Nepal	√	√
Niger	√	
Samoa	√	√
Senegal	√	√
Sierra Leone	√	√
Solomon Islands	√	√
Sudan	√	√
Togo	√	
Uganda	√	√
United Republic of Tanzania	√	√
Vanuatu	√	√
Yemen	√	√
Zambia	√	√

Source: UNCTAD, on the basis of the country tables below and WAIPA.

for example, to ensure that reliable and objective economic and legal information on LDCs reach interested investors in all parts of the world, UNCTAD and the International Chamber of Commerce prepare and publish investment guides for LDCs (box 6).

Conclusions

With ODA to LDCs declining, other sources of external finance assume increased importance. A growing number of LDCs have recognized that FDI is a key channel for the inflow of much needed capital, knowledge, technology and access to international markets. In order to facilitate greater inflows of FDI, many LDCs have taken important steps to create a more favourable investment climate. While much still remains to be done in this regard, there are undoubtedly significant opportunities for FDI in LDCs. Indeed, FDI to the LDCs increased during the 1990s, but at a slower pace than that to other developing countries. Thus, the share of LDCs in global inflows of FDI has declined.

The international community has an important role to play in helping to ensure that existing opportunities are adequately communicated to corporate executives and in providing assistance to LDCs to improve the scope for FDI further. The data presented here show that FDI patterns vary considerably among the LDCs, underlining the importance of assessing opportunities and needs on a country-by-country, industry-by-industry and opportunity-by-opportunity basis. With a concerted effort by the international community, complementing and reinforcing the steps taken by LDCs themselves, FDI can play a greater role in the development process of these countries, and contribute to an upgrading of the productive capacity of their domestic enterprise sectors, to bring about higher economic growth and an improved quality of life.

Box 6. LDC opportunities and conditions: the UNCTAD - ICC Investment Guides

The project "Investment guides and capacity-building for least developed countries" is a collaborative venture by UNCTAD and the International Chamber of Commerce (ICC). Its objective is to bring together two parties with complementary interests: firms that seek new investment locations and countries that seek new investors. This is not always a straightforward exercise, for firms are driven by their global strategies as much as lured by specific opportunities; moreover, countries have economic and social objectives that transcend attracting foreign investment.

The UNCTAD-ICC investment guides are thus properly seen as a part of a process, a long-term process at the heart of which is an ongoing dialogue between investors and Governments. The guides themselves are products of dialogue, including that occurring among and between representatives of business and Government during the workshops that precede the completion of the guides. The guides, in turn, contribute to the dialogue, helping to strengthen and sustain it, as in the long-term it is particularly this dialogue that creates conditions increasingly conducive to greater flows of investment.

During 2000, guides were produced for Bangladesh, Ethiopia and Mali, based on workshops held earlier in each of these countries. Workshops were also organised in Mozambique and Uganda, with the guides to these countries to be published in April and June 2001. An independent panel of experts has assessed the pilot phase of the project in March 2001. The panel's report – finalized in March 2001 – concluded with a very positive assessment of the project and recommended its continuation.

Source: UNCTAD.

Notes

1 TNCs operating in LDCs often engage in other activities than FDI. Many TNCs are involved through non-equity arrangements, such as management agreements, technical assistance agreements, or technology licensing. Non-equity investments or low equity investments reflect the preference of either the governments of host countries, or of TNCs, or both. Governments may actively seek this form of investment as a means of accessing international technology. For TNCs, these forms of investment may suit their interest because they enable them to earn income without risking capital. Examples include the hotel industry.

2 The large inflows of FDI to Liberia are primarily due to "flags-of-convenience" investment by Japanese companies, whereas FDI in Angola is almost totally made in the petroleum sector.

3 Cross-border M&A deals include those with an acquisition of more than 10 per cent equity by foreign investors only. For details see Sources and Definitions.

4 The ultimate parent firm of this acquired company is Texaco Inc. of the United States.

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Sources and Definitions

Maps:
The 49 LDC maps were created by using ArcView GIS software (Environmental Systems Research Institute Inc., 1996). All of these maps were approved by Cartographic Section, Department of Public Information, United Nations with some modifications.

Area:
Data are from *UNCTAD Handbook of Statistics 2000* (New York and Geneva: United Nations), United Nations publication, Sales No. E/F.00.II.D.30. Data for Ethiopia, Nepal and United Republic of Tanzania are from national sources. Data for Tuvalu are from United Nations, *Statistical Yearbook*, 44th issue (New York: United Nations, 2000).

Population:
Data are provided by the United Nations Population Division, as of May 2000. Data for Tuvalu are from *UNCTAD Handbook of Statistics 2000* (New York and Geneva: United Nations), United Nations publication, Sales No. E/F.00.II.D.30. Data on Liberia are from national source.

Capital city and official language:
Information is from UNCTAD, *Statistical Synopsis of the Least Developed Countries* (Geneva: UNCTAD, 1999).

Currency and exchange rate (period average):
Data are from the IMF, *International Statistic Financial*, *Yearbook 2000* (Washington, D.C: IMF). Data related to Eritrea, Kiribati and Tuvalu are from www.emulateme.com. Data on Burundi are from a national source.

GDP, exports of goods and services, imports of goods and services:
Data are collected by the UNCTAD secretariat. Information as of November 2000. GDP for Myanmar is in purchasing power parity and is from www.emulateme.com. Figures on Afghanistan, Liberia and Somalia on export and import are from www.emulateme.com.

ODA:
Data are from OECD, *Geographical Distribution of Financial Flows to Aid Recipients: 1994-1998* (Paris: OECD, 2000). The data used in this booklet are bilateral ODA from member countries of DAC of the OECD only. The data for 1999 are from OECD DAC, "International Development Statistics", online database (www.oecd.org/dac/htm/online.htm).

External debt:
Data are from World Bank, *Global Development Finance 2000, Country Tables* (Washington, D.C.: World Bank, 2000). "External debt" includes long-term debt (public and publicly guaranteed debt and private nonguaranteed debt), the use of IMF credit and short-term debt.

Inward FDI: geographical breakdown, by source, and industrial breakdown:
Data are from UNCTAD, FDI/TNC database. Data for Bangladesh, Cambodia, Cape Verde, Ethiopia, Lao People's Democratic Republic, Myanmar, Nepal, Solomon Islands and Uganda are from national sources. In the case of countries for which no data were available from national sources, data on outward FDI from home countries were used to provide some indication on source countries. Tables on FDI by country or by industry were not produced in the country profiles for countries for which no information was available.

FDI inflows/inward stocks:

FDI is defined as an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor (foreign affiliate). An equity capital stake of 10 per cent or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as a threshold for FDI. FDI *flows* comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise, or capital received from an FDI enterprise by a foreign direct investor. As most of LDCs do not report their FDI inflows, various sources as well as some estimation methods are used.

Those economies in this booklet for which national official data are available for the period 1985-1999, or part of it, are the following:

Period	Economy
1985-1999	Burundi and Senegal
1990-1999	Angola, Benin, Lesotho, Madagascar, Mozambique and United Republic of Tanzania
1991-1999	Haiti and Lao People's Democratic Republic
1994-1999	Cambodia, Zambia
1990-1998	Ethiopia, Malawi and Togo
1992-1998	Burkina Faso and Niger
1993-1998	Mali and Uganda
1996-1998	Gambia

The data for other economies or for the missing years of the above economies were obtained from various sources. Those economies for which data from IMF (*International Financial Statistics* and *Balance-of-Payments* CD-ROMs, December 2000) were used for this period, or part of it, are listed below:

Period	Economy
1985-1999	Solomon Islands and Vanuatu
1985, 1989 and 1996-1999	Sudan
1985-1998	Yemen
1985-1993 and 1995-1999	Rwanda
1985-1995 and 1998	Mauritania
1986-1999	Bangladesh, Guinea and Maldives.
1986-1998	Cape Verde.
1989-1999	Myanmar
1996-1999	Nepal
1989-1996	Equatorial Guinea
1985-1995	Sierra Leone
1987-1989 and 1991-1995	Gambia
1987-1995	Comoros
1992-1995	Djibouti
1985-1994	Central African Republic.
1985-1994	Kiribati
1985-1989 and 1991-1994	Chad
1992-1993	Cambodia
1985-1992	Mali
1991-1992 and 1999	Uganda
1985-1991	Niger and Zambia
1988-1990	Lao People's Democratic Republic
1985-1989	Angola, Burkina Faso, Haiti, Senegal and Togo,

1986-1989	Lesotho
1989	Benin
1986-1989	Mozambique
1989	Madagascar
1985 and 1987	Malawi
1985-1987	Liberia
1985	Somalia

Those economies for which World Bank data (*World Development Indicators 2000* CD-ROM) were used for the period 1985-1999, or part of it, are listed below. However, these data refer to net FDI flows (FDI inflows less FDI outflows) and FDI inward flows. Consequently, data on FDI outflows were estimated by subtracting FDI inward flows from net FDI flows:

Period	**Economy**
1994 and1998	Samoa
1995-1998	Central African Republic and Chad
1996-1998	Comoros and Djibouti
1997	Equatorial Guinea
1997	Kiribati
1992-1995	Nepal
1994	Rwanda
1992-1993	Zambia
1990	Haiti

OECD data on outward flows from DAC member countries were used as proxy for FDI inflows for the countries below:

Period	**Economy**
1999	Cape Verde, Central African Republic, Chad, Comoros, Mali, Niger and Yemen.
1997-1999	Eritrea
1987-1989, 1993 and 1995-1998	Sao Tome and Principe
1990-1991 and 1995-1997	Bhutan
1994, 1996 and 1998-1999	Tuvalu
1986-1992 and 1996-1998	Somalia
1985-1992, 1994 –1999	Guinea-Bissau
1987, 1991-1997	Afghanistan
1986-1988 and 1990-1995	Sudan
1985-1988, 1990-1993 and 1995-1997	Samoa
1985-1987, 1989-1991 and 1999	Djibouti
1990-1991 and 1999	Burkina Faso
1988-1999	Liberia
1985 and 1988-1990	Uganda
1985-1986, 1990 and 1999	Gambia
1985-1989	United Republic of Tanzania.
1986, 1988-1989 and 1999	Malawi
1985-1988	Benin, Ethiopia and Madagascar
1985-1988 and 1998-1999	Equatorial Guinea
1986-1987	Myanmar
1985	Guinea, Maldives, Lao People's Democratic Republic and Mozambique
1985-1999	Democratic Republic of Congo
1996-1997 and 1999	Mauritania
1996-1999	Sierra Leone
1985-1991	Nepal

Those economies for which FDI inflows data were unavailable from the above-mentioned sources, UNCTAD estimates were used:

Period	**Economy**
1995-1996 and 1998-1999	Kiribati
1988	Djibouti
1989 and 1999	Ethiopia
1999	Samoa, Somalia and Togo.

FDI *stock* is the value of the share of the capital and reserves (including retained profits) attributable to a parent enterprise, plus the net indebtedness of affiliates of parent enterprises. FDI flow and stock data used in this booklet are not always defined as above. In most cases of FDI stock data presented in this booklet, stock is estimated as an accumulation of flows for a certain period. Data based on approvals of FDI are also used because they allow a disaggregation to the country or industry level.

Gross fixed capital formation:
Data are from UNCTAD, FDI/TNC database. Original data are from the IMF's international-financial-statistics CD-ROM.

Cross-border M&As, sales and purchases/largest cross-border M&A deals:
Data are from UNCTAD, cross-border M&A database. Privatization deals that are considered as FDI (acquisition of more than 10 per cent equity share) are included. They are marked in the table. The data on M&As in this booklet conform to the FDI definition as far as the equity share criterion is concerned. The deals, however, include purchases financed via domestic and/or international capital markets, and thus include funds not categorized as FDI in their transaction value. M&A data are expressed in their total transaction amounts of particular deals, not in differences between credits and debits of acquirers in the deal, recorded at the time of the closure of the deals. Thus M&A values are not necessarily those undertaken in a single year. A chart on cross-border M&As was not produced in the country profiles for countries for which there was no M&A activity or whose data was not available.

BITs and DTTs:
Data are from UNCTAD's BITs and DTTs databases. The information is as of 1 January 2000. There were no such agreements for the countries whose tables were not produced in the country profiles.

Largest foreign affiliates:
Data are from UNCTAD's FDI/TNC database based on information from *Who Owns Whom CD ROM* (London: Dun and Bradstreet Ltd., 2000) and national sources. A *foreign affiliate* is an incorporated or unincorporated enterprise in which an investor, who is resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise. In this booklet, majority-owned foreign affiliates with a foreign equity stake of more than 50 per cent only are considered.

Membership of relevant international agreements:
Information collected by the UNCTAD secretariat as of April 2001.

Investment promotion agencies:
The information is from WAIPA's *Annual Report 2000-2001* (Geneva: UNCTAD, WAIPA Secretariat, 2001).

Fortune 500 investors:
On the basis of the list of the global 500 companies in *Fortune*, 24 July 2000, parent companies of foreign affiliates are checked.

DAC member countries:
The countries members of the OECD Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.