UNCTAD
Foreign Direct Investment in Africa: Performance and Potential
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...there are a number of positive but little-known facts about Africa, such as the considerable improvement by African countries of their FDI policy frameworks, ...

As much as it is true that some African countries have been characterized by economic depression, military conflicts, unstable political regimes and mounting social and health problems, it is also true that there have been some positive developments in Africa that are highly relevant for foreign direct investors but that are seldom reported and not widely known.

Like any other region in the world, Africa deserves to be looked at in a differentiated way. Too often it is forgotten that Africa is a continent consisting of over 50 countries -- around a quarter of the nation States of the world -- which differ in terms of their political systems, economic and human development and, last but not least, their attractiveness as locations for FDI. There is, then, a need to take a closer and differentiated look at the conditions and opportunities for FDI in Africa.

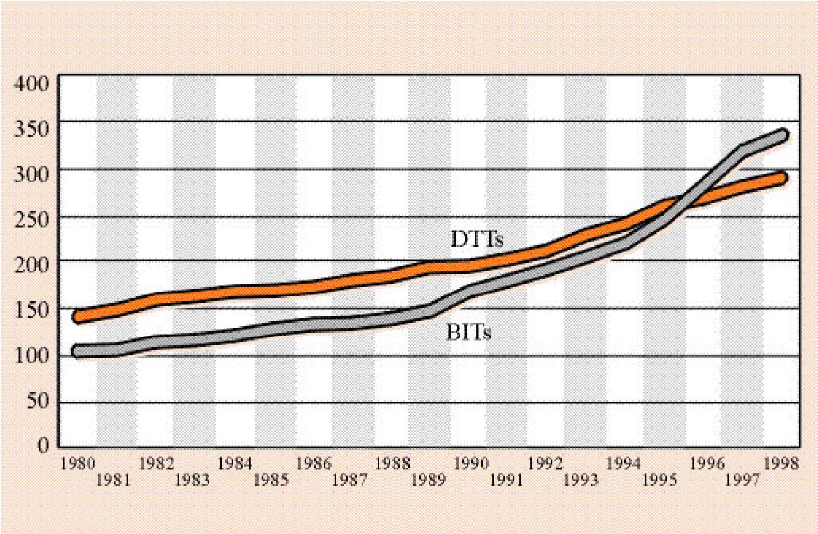
A number of African countries have initiated economic reforms aimed at increasing the role of the private sector, for example by privatizing State-owned enterprises. In addition, they have taken steps to restore and maintain macroeconomic stability through the devaluation of overvalued national currencies and the reduction of inflation rates and budget deficits (UNCTAD, 1998a, p. 124).

As part of these reforms, African countries have also improved their regulatory frameworks for FDI, making them far more open, permitting profit repatriation and providing tax and other incentives to attract investment. For example, 26 of the 32 least developed countries in Africa covered in a 1997 survey had a liberal or relatively liberal regime for the repatriation of dividends and capital (UNCTAD, 1997b). Progress has also been made in other areas that are important for the FDI climate, such as trade liberalization, the strengthening of the rule of law, and improvements in legal and other institutions as well as in telecommunications and transport infrastructure (World Economic Forum, 1998, p. 20).

Improvements in the regulatory framework for FDI have been buttressed in many countries by the conclusion of, or accession to, international agreements dealing with FDI issues. Most African countries (50) had concluded bilateral investment treaties (BITs) with other countries which aim at protecting and promoting FDI and which clarify the terms under which FDI can take place between partner countries. Egypt, for instance, had signed 58 BITs by 1 January 1999 (annex table 2), more than any other developing country (the Republic of Korea had signed 49 and Argentina 44 BITs). As at 1 January 1999, African countries had concluded 335 BITs, the majority of which had been signed since the beginning of the 1990s (figure 4). The treaties contribute to the creation of a more secure environment for foreign investors in the continent.

Figure 4. Bilateral investment treaties and double taxation treaties concluded by African countries, 1980–1998

(Cumulative number of treaties concluded by African countries since 1980)



Source: UNCTAD, FDI/TNC database.

African countries have also accelerated the conclusion of double taxation treaties (DTTs) in the 1990s (figure 4). DTTs can make it more attractive for foreign investors to invest in a country by helping them to avoid paying taxes twice on the same transaction. African DTTs are, however, concentrated in a few countries such as Egypt, Mauritius, South Africa and Tunisia, most of which already have a long track record of receiving considerable amounts of FDI (annex table 3). Nevertheless, other countries that only recently have become attractive destinations for FDI have become more active in this area: Uganda, for instance, concluded four such treaties in 1997 alone, three of which were with neighbouring Kenya, South Africa and the United Republic of Tanzania (Uganda Investment Authority, 1998, p. 6).

Finally, the majority of African countries have signed multilateral agreements dealing with the protection of FDI, such as the Convention establishing the Multilateral Investment Guarantee Agency (MIGA) and the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (table 2).

With all these improvements, the policy framework for FDI of many African countries has become similar to that of most other developing countries. However, realizing that, because of the negative image of Africa as a whole, it may not be sufficient to improve the investment climate and have economic determinants in place to catch investors' attention, many African countries have established investment promotion agencies to change this image as well as to facilitate investment. In the Southern African Development Community (SADC), for example, all 14 member States have established such agencies, seven of which were set up only in the 1990s (Mwinga et al., 1997). Since 1995, investment promotion agencies from 25 African countries have also joined the World Association of Investment Promotion Agencies (WAIPA) in order to benefit from an exchange of information on best practices in investment promotion. Some African agencies, such as the Uganda Investment Authority, are widely respected as successful agencies that adopt state-of-the-art practices in all areas of promotion (Tillett, 1996).

Table 2. FDI framework of African countries: membership in international agreements and institutions concerning FDI, as of 1 January 1999

Year of accession

Country	Convention establishing the Multilateral Investment Guarantee Agency	Convention on the Settlement of Investment Disputes between States and Nationals of other States	Convention on the Recognition and Enforcement of Foreign Arbitral Awards	World Intellectual Property Organisation (WIPO)
Algeria	1996	1996	1989	1975
Angola	1989	-	-	1985
Benin	1994	1966	1974	1975
Botswana	1990	1970	1971	1998
Burkina Faso	1988	1966	1987	1975
Burundi	1998	1969	-	1977
Cameroon	1988	1967	1988	1973
Cape Verde	1993	-	-	1997
Central African Republic	-	1966	1962	1970
Chad	-	1966	-	1963
Comoros	-	1978	-	-
Congo	1991	1966	-	1975
Congo, Democractic Republic of the	1989	1970	-	1975
Côte d'Ivoire	1988	1966	1991	1974
Djibouti	-	-	1983	-
Egypt	1988	1972	1959	1975
Equatorial Guinea	1994	-	-	1997
Eritrea	1996	-	-	1997
Ethiopia	1991	-	-	1998
Gabon	-	1966	-	1975
Gambia, The	1992	1975	-	1980
Ghana	1988	1966	1968	1976
Guinea	1995	1968	1991	1980
Guinea-Bissau	-	-	-	1988

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Table 2 (concluded)

Kenya	1988	1967	1989	1971
Lesotho	1988	1969	1989	1986
Liberia	-	1970	-	1989
Libyan Arab Jamahiriya	1993	-	-	1976
Madagascar	1988	1966	1962	1989
Malawi	1988	1966	-	1970
Mali	1992	1978	1994	1982
Mauritania	1992	1966	1997	1976
Mauritius	1990	1969	1996	1976
Morocco	1992	1967	1959	1971
Mozambique	1994	1995	-	1996
Namibia	1990	-	-	1991
Niger	-	1966	1964	1975
Nigeria	1988	1966	1970	1995
Rwanda	-	1979	-	1984
Sao Tome and Principe	-	-	-	1998
Senegal	1988	1967	1994	1970
Seychelles	1992	1978	-	-
Sierra Leone	1996	1966	-	1986
Somalia	-	1968	-	1982
South Africa	1994	-	1976	1975
Sudan	1990	1973	-	1974
Swaziland	199	1971	-	1988
Togo	1988	1967	-	1975
Tunisia	1988	1966	1967	1875
Uganda	1992	1966	1992	1973
United Republic of Tanzania	1992	1992	1964	-
Zambia	1988	1970	-	1977
Zimbabwe	1992	1994	1994	1981
Total	42	42	26	41

Source : UNCTAD, FDI/TNC database.

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Notes

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

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

3 FDI flows are not adjusted for inflation.

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

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

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

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

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

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

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

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

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

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