UNCTAD
Foreign Direct Investment in Africa: Performance and Potential
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... and in particular the high profitability of FDI in Africa. ...

The profitability of investments is, of course, of prime interest to foreign investors. The least known fact about FDI in Africa is that the profitability of foreign affiliates of TNCs in Africa has been high, and that in recent years it has been consistently higher than in most other host regions of the world.[9]

- In the case of United States FDI (table 3), it is noteworthy that between 1983 and 1997 there was only one year (1986) in which the rate of return in Africa was below 10 per cent;
- Since 1990, the rate of return in Africa has averaged 29 per cent; since 1991, it has been higher that in any other region, including developed countries as a group, in many years by a factor of two or more;
- Net income from British direct investment in sub-Saharan Africa (not including Nigeria) was reported to have increased by 60 per cent between 1989 and 1995 (Bennell, 1997a, p. 132);
- In 1995, Japanese affiliates in Africa were more profitable (after taxes) than in the early 1990s, and were even more profitable than Japanese affiliates in any other region except for Latin America and the Caribbean and West Asia (figure 6).

Earlier studies (UNCTAD, 1995) confirm the high rate of return of foreign affiliates of TNCs in Africa.

Table 3. Rates of return on United States FDI in Africa and selected regions, 1983–1997 [a]

(Per cent)

Region/sector	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 [b]
Africa [c]	17.7	23.7	17.3	5.6	15.5	13.9	17.4	24.2	30.6	28.4	25.8	24.6	35.3	34.2	25.3
Primary [d]	19.3	27.1	19.6	4.9	12.8	10.2	13.0	22.8	35.4	29.1	26.1	23.9	34.2	36.9	..
Secondary [d]	13.9	13.6	8.8	13.8	19.0	24.0	15.4	20.4	16.0	18.9	30.5	30.0	42.8	21.3	
Tertiary [d]	11.9	7.1	3.4	19.5	20.6	8.7	..	23.8	..	22.2	23.5	21.7	21.6	23.1	..
Other industries [d,e]	2.0	7.0	16.9	21.5	36.6	41.7	..	48.0	28.4	40.8	13.5	44.1	35.0	17.4	
Memorandum															
Asia and the Pacific	27.6	26.1	18.1	13.0	20.3	22.4	23.3	27.6	23.8	22.6	20.7	18.4	20.2	19.3	16.2
Latin America and the Caribbean	7.0	9.9	9.5	10.3	9.5	14.2	15.7	13.0	12.1	14.3	14.9	15.3	13.1	12.8	12.5
Developing countries	14.9	17.3	13.4	10.9	13.2	16.5	17.8	17.2	15.9	17.2	16.9	16.5	15.8	15.3	14.0
All countries	13.0	14.3	12.6	12.2	13.4	15.5	14.8	14.3	11.6	10.4	11.1	11.7	13.3	12.5	12.3

Source : UNCTAD 1998b, based on United States, Department of Commerce, various issues.

[a] The rate of return is calculated as the net income of United States foreign affiliates in a given year divided by the average of beginning-of-year and end-of-year FDI stock. The FDI stock data are valued at historical costs, resulting in an under-valuation of investment undertaken recently as compared to investments of an older date. This could create a bias towards higher rates of return for Africa in relation to other regions, under the assumption that a relatively higher share of FDI stocks in Africa than in other regions would be of a relatively old date.

[b] The stock data for 1997 used in the calculation are estimates by the United States Department of Commerce.

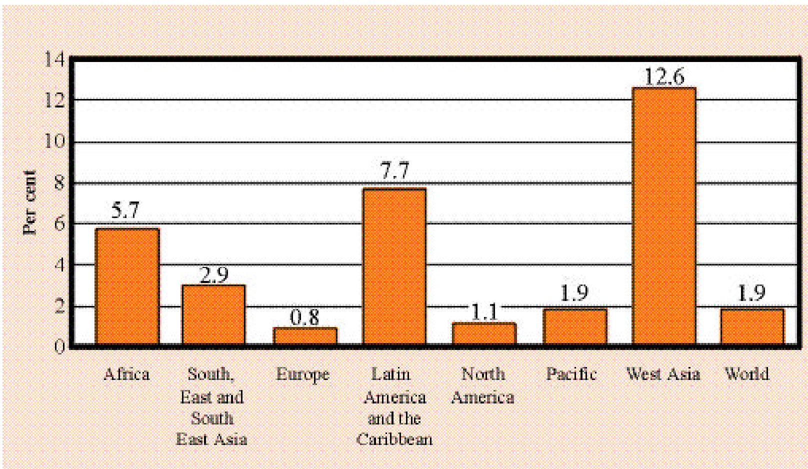
[c] Not including South Africa.

[d] Including South Africa.

[e] Includes agriculture, forestry and fishing, mining, constructon, transportation and communication as well as public utilities.

Figure 6. The profitability of foreign affiliates of Japanese TNCs, by selected host region, 1995 [a]

(Per cent)



Source: UNCTAD, based on Japan, Ministry of International Trade and Industry, 1998.

[a] Current income divided by sales.

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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.