UNCTAD
Foreign Direct Investment in Africa: Performance and Potential
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... and shows that Africa -- as any other continent -- offers attractive investment opportunities...

The principal message of this booklet is that Africa should not be considered a continent with poor investment opportunities. Grouping together more than 50 countries and projecting the same image onto all of them conceals not only a complex diversity of economic performance, including FDI performance, but also conceals factors determining FDI, which are in many cases similar to those in other developing countries, but not accompanied by adequate FDI inflows. A study of principal economic determinants of FDI flows in 1991-1993 -- level of development, market size, market growth and natural resource endowments -- concluded that, in as many as 19 African countries, the full potential for FDI, as measured by inflows per $1,000 of GDP, remained unexploited (UNCTAD, 1995, pp. 64-70). The study focused on showing that, in spite of common perceptions, a potential for more FDI does exist in Africa. But the study did not look into reasons why the potential was unexploited: whether it was because of the extension of the overall negative image of Africa to the countries with potential or because other necessary determinants of FDI were lacking in these countries, e.g. a proper enabling framework. Given the recent revival of economic growth in Africa, new countries with potential may have emerged.

As for a sectoral perspective, the same study identified FDI potential in Africa not only in the primary sector, as one would expect, but also in the services sector, especially in tourism and infrastructural services, and in the manufacturing sector (UNCTAD, 1995, pp. 71-73). A new factor that has emerged after the study was done has been the privatization process which started comparatively late in Africa. Now some African countries have large privatization programmes underway which can be expected to prompt further FDI inflows into the region in the near future. In over 15 countries of sub-Saharan Africa -- among them countries embarking seriously on privatization for the first time -- major new privatization programmes have been launched or re-activated (Bennell, 1997b, p.1801). Furthermore, governments are initiating the privatization of the largest State-owned enterprises that account for the lion's share of public assets in most countries of sub-Saharan Africa. As regards telecommunications, for example, more than 25 countries in sub-Saharan Africa are currently transferring all or part of their telecommunication monopolies from the state to the private sector (World Bank, 1998, p. 249). Privatization programmes are expected to enhance investment opportunities in African countries.

Also, there is evidence that in some of the more advanced African countries possibilities for research and development (R&D) related FDI are emerging. For example, a number of TNCs in the pharmaceuticals industry (such as Novartis or Eli Lilly) have implemented or are considering plans to conduct clinical testing and trials as well as related R&D for pharmaceutical products in Egypt, taking advantage of the highly skilled local personnel at comparatively low costs (UNCTAD, 1999, p. 63).