# Foreign Direct Investment by African Countries

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## Foreword

UNCTAD, supported by INWENT, brought together researchers and experts on foreign investment data in Africa to:

- assess foreign direct investment trends in Africa,
- highlight the role that timely and accurate FDI can play in supporting policy analysis
- discuss policy implications for strengthening FDI.

The first and third of these objectives, for good policy and for good understanding of trends, place significant demands on the data, which statisticians must satisfy. Good data must be not only accurate and timely, but relevant. But on the other hand, the data will not be good if the users and analysts do not see their relevance to policy. Statisticians and Investment Offices will not put in the necessary effort at collection, checking, and understanding, unless the data have a clear use and an identifiable user.

One of the points that came out of information about developed countries' experience in compiling data was how much particular policy concerns determine which data are important to policy makers, in different countries or at different times. One example: The importance of natural resources in investment in Africa means that correct identification of costs and benefits is both particularly important and particularly difficult, as the resources are exhaustible. It is an area where political interests and worries are always present. Statistics must respond to these needs; the standard tables that a country or international agencies require are attempts to guess what will be most important to most people, but will not fit any country exactly.

Other current policy debates, include regional integration, dependence on particular investors, and the potential vulnerability to unexpected inflows and outflows, particularly when liabilities are short-term. The one regional and seven country case studies included as annexes highlighted the relevance to particular countries, and attempt to use the data which are now available to contribute to some of the policy questions.

There are some clear priorities:

1. To identify the **substance** of a situation. Varying definitions and varying company structures may make it difficult to compare data. As well as conventional data, therefore, analysts must ask: who are the ultimate owners? What is the most appropriate sector for a complex company?

2. To identify the most **important investors.** Much information on FDI comes from surveys and interviews, where each company must be treated separately. How many must be included to get most of what policy makers need? This requires a cost-benefit analysis, but one done by judgement because, as always with a sample, it is only possible to deal with probabilities.

3. To ensure that companies **understand** what data are needed, and why. This is partly a question of substance, of explaining the uses demonstrated in these

papers, but also of understanding: both the words and the concepts of balance of payments data differ from company language. This requires trials and revisions.

4. To make companies willing and interested in providing good data (not giving the forms to the newest member of staff, or putting them at the bottom of the pile). This is partly a matter of showing how they are used, so explaining and talking. But it is partly a matter of presentation: asking only what is needed to know; asking only questions relevant to a respondent; finding technical solutions to organising surveys and requests for information (new electronic possibilities can alter old patterns, so this is not a one-off question).

5. To give attention to data problems such as **valuation** and **retained earnings**.

6. To understand the implications of **timing**: investment is a long term process, not an instantaneous one at the moment of announcement or of recording in company accounts

7. To use **multiple sources of data**, and to reconcile them. These include company data and balance sheets (where available, for example from subsidiaries), surveys, information from other government entities, information from other countries, information from other parts of a company.

8. To **check and find cross checks**. The papers presented at the meeting demonstrated how this could be important, with conflicts between country and multilateral data. The next step, as always, has to be to look at the sources, assess their reliability, and find supplementary sources. People for whom the data are important will make more effort, so if the source is from an organisation or country which really needs those data, it is more likely to be reliable.

Foreign investment is highly particular. It is lumpy. It is not like trade where the principal element is counting. In all countries, including the largest and most developed, the number of major companies is small enough that they can literally be listed. The importance of the major companies to the economy is large enough that each is a significant element in the data. This means a different approach, with much more direct contact. This raises questions of the role of trust on both sides: the companies need to learn to rely on the statisticians to use the numbers for statistics, and not for taxation or regulation. It means that the statisticians must learn how to interpret what they are told. It also means different ways of treating the data, with problems of confidentiality.

Closely related to the questions of trust are problems of bias. Can statisticians trust the companies to want to give accurate data (even before the problems of what they can do)? Do they trust governments not to use the data for taxes or will they underestimate? Or will they overestimate, perhaps for reasons of prestige? UNCTAD believes that most African data are underestimated, but we need more analysis to know if this is true and whether it is more true of African data than others. Many of both the methodological reasons, like lack of data on retained earnings, and the trust reasons apply as much in other areas as in Africa.

The exchange of experience in these papers and at the workshop suggests some ways of improving our information. There was much emphasis on the importance of **experience** and **trial and error**. But these can be supplemented by technical training, and by more systematic ways of learning from the experiences of others.

The questions asked by the participants and their answers to each other provided some practical information about what works, and what has not worked. The participants therefore decided to try to find ways of ensuring regular exchange of experiences, and as a first step to publish the presentations in this report.

# I. Trends and determinants of FDI by African Countries

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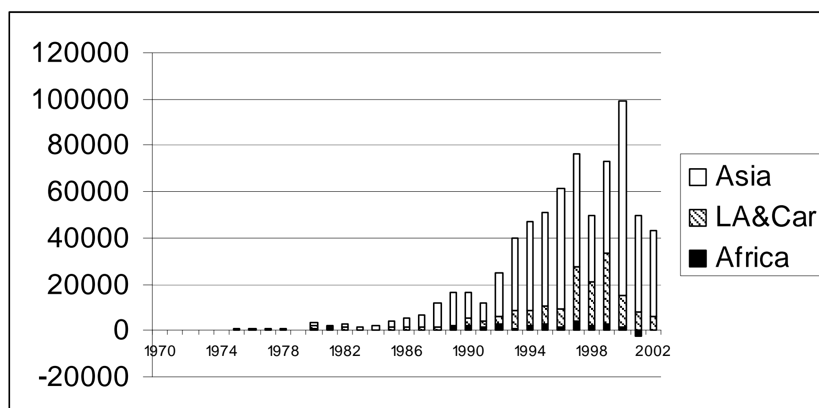
## 1 Introduction

Foreign Direct Investment (FDI) from developing countries has risen sharply over the past two decades. This has been noted by several authors since the early 1980s (Lall, 1983; Kumar, 1995; Page 1998; Aykut and Ratha, 2003, and UNCTAD, 2004). Most FDI has been by Asian firms establishing footholds in other Asian countries but there has also been investment in developed countries such as the EU. Total investment by developing countries began to rise from about 1% of total foreign investment flows in the late 1970s to 4% in the mid 1980s and 6% by 1990, and after a peak in the 1990s before the Asian crisis, has remained around 6-7% of the total. The rise coincided with the reduction in the large differential between developing and developed country growth found in the 1970s and with a reduction, in some cases a reversal, of relative protection in developed and developing countries (revival of protection in the developed countries; liberalisation in the developing). It also coincided with some reduction in the growth of outflows to developing countries, suggesting that the same influences were affecting flows in both directions. South-South flows are estimated (as a residual, and noting challenges regarding data and methodology) to have risen from 5% in 1994 to 30% in 2000 of the total FDI inflows to developing countries, see Aykut and Ratha (2003).

With the exception of South African investment, there is little FDI stemming from Sub-Saharan Africa. Accordingly, little has been written about African outward FDI. African investment is still only 0.2% of the total, and only about 3% of total developing country foreign investment (UNCTAD WIR 2004). Although Africa in total has a share of inward investment in total capital formation which is only slightly below average for developing countries, the ratio of outward investment to capital formation is low.

Some transnational companies have begun to emerge in developing countries, and they now account for about 7% of the total TNCs (UNCTAD WIR 2004). But again the chief investors are Asian (East and South), plus Brazil. Only South Africa has some companies represented among the top 50 developing country companies (7 in 2004, of which 4 are in the table for the first time).

**Chart 1 Developing country outward FDI (US$ million)**



Source: *UNCTAD WIR 2004*

The faster growth and relative shortage of capital in developing countries would suggest that developing countries are more likely to be net recipients of investment than net investors, although more firm-based or industrial explanations for investment mean that this need not imply that there will be no outward flows. But Africa has, at least until recently, grown more slowly than other developing countries (table 1 and Appendix table 27) so that the implications for net investment flows were less clear. In the last few years, the revival of prospects for commodities (as a result of the emergence of China as a major purchaser) has transformed Africa's apparent prospects and relative position. Therefore, conclusions about both the size and the sectoral composition of African investment are likely to be more than usually provisional. Africa has gone from having the slowest growth in its exports of the developing regions (and slower than the average for developed countries) to being second only to East and South Asia, suggesting major potential changes for trade-related investment.

**Table 1 World output and export growth 1990-2004 (percentage)[a]**

World output growth, 1990-2004 [a]

| | 1990-2000 [b] | 2000 | 2001 | 2002 | 2003 [c] | 2004 [d] |
|---|---|---|---|---|---|---|
| World | 2.3 | 4.0 | 1.4 | 1.7 | 2.6 | 3.8 |
| Developed countries/ regions | 2.4 | 3.5 | 1.0 | 1.2 | 2.0 | 3.2 |
| Transition economies | -2.5 | 6.8 | 4.5 | 3.9 | 5.9 | 5.9 |
| Developing economies | 4.9 | 5.6 | 2.4 | 3.5 | 4.5 | 5.8 |
| Africa | 2.5 | 3.2 | 3.6 | 2.9 | 3.5 | 3.9 |

Export volumes of goods, by region and economic grouping, 1990-2003

| | Export volume 1990-2000 [b] | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| World | 6.0 | | -0.2 | 2.6 | 4.9 |
| Developed economies | 5.3 | | -0.9 | 0.6 | 1.5 |
| Developing countries | 7.6 | | 0.6 | 6.2 | 10.8 |
| Africa | 3.4 | | 2.2 | 0.8 | 7.5 |
| Latin America | 9.3 | | 2.7 | 0.2 | 5.2 |
| West Asia | 5.3 | | 3.3 | -5.0 | 3.3 |
| East and South Asia | 8.1 | | -0.8 | 10.5 | 14.0 |
| Transition economies | 6.6 | | 8.2 | 8.1 | 12.4 |

Source: UNCTAD Trade and Development Report 2004

*a* Calculations are based on GDP in constant 1995 dollars
*b* Average
*c* Preliminary
*d* Forecasts

This paper will try to pull together what is known about African outward FDI. While many of the issues apply to total outward FDI, we will distinguish between intra Africa outward FDI and African outward FDI to outside the region. The next chapter will discuss the various motives suggested by theoretical analysis of the reasons for investing abroad, and the implications of these for what we might observe. The third chapter will present the data and some case studies on total African investment. Chapter 4 will describe African investment within Africa, analysing whether the explanations suggested by theory seem to apply. It will concentrate on the countries which are consistently the principal African investors by value: South Africa, Botswana, and Ethiopia, or by share of gross fixed capital formation: including Botswana, Ethiopia, Malawi, Mauritius, and South Africa. It will also look at the small number of cases where this is becoming an important economic force in the host

countries. These include Mozambique, Uganda, Tanzania, Malawi and Zambia[1] The following chapter will examine the much more limited evidence on African investment outside Africa, and whether that can be explained by general theory. The analysis can only be done qualitatively because of the lack of data and the limited number of investing countries. Finally, we will ask if some conclusions can be drawn on the most important explanations of African investment, and the implications of this for the directions and sectoral distribution of such investment.

[1] Because of lack of data we cannot examine Nigeria, Liberia, and Libya which are becoming significant investors

# 2 Theoretical explanations of developing country FDI

## 2.1 Explaining developing country foreign investment

Neo-classical researchers regard FDI and international capital flows as closing the savings gap in developing countries (e.g. Chenery and Bruno, 1962). We would expect capital to flow from capital rich to capital poor countries, as is suggested by developments in the Heckscher-Ohlin approach to trade by Mundell (1957), because capital is scarce in developing countries which should lead to profitable investment opportunities for capital in developing countries. On this view there should be no outflows from Africa.

However, FDI represents control of production as well as a flow of capital, and it is influenced by other factors as well. In the traditional trade approach, trade and FDI might be seen as substitutes, but as other factors affect FDI , such as technology and firm-specific assets, they may also be complements (Markusen, 1984 and 1995). Examples of firm-specific assets are brand names (acquired through advertising) or firm specific knowledge (acquired through R&D). On this view African outward FDI would still be limited, because they do little research and spending on advertising, with the possible exception of South Africa.

Recognising that there are other reasons for FDI than differences in factor endowments and factor prices, trade economists have begun to embrace increasing returns, imperfect competition and product differentiation in addition to the traditional comparative advantage paradigm and where multinationals have been incorporated and made endogenous. The first attempts were by Helpman (1984) who integrated vertical multinationals and Markusen (1984) who integrated horizontal multinationals into the trade theory. Vertical multinationals separate production geographically into different plants to intra-industry trade. Horizontal multinationals are multi-plant firms selling similar products in different locations. Markusen (1997) presents a unified approach to vertical and horizontal multinationals. Horizontal Multinational Enterprises (MNEs) dominate if nations are similar in size and relative endowments and if transport costs are high. Vertical MNEs appear with headquarters in the skilled labour abundant country, provided that transport costs are high enough. National firms dominate if both trade costs are small and the home market is large enough: in this situation it makes sense to incur the fixed costs of setting up only one plant, from where to export. Within this framework it can be shown that trade and investment liberalisation are not substitutes and the two taken together may lead to a reversal in the direction of trade. Carr et al. (2001) provides a good empirical test of the framework, clearly showing the complexity and non-linearities affecting FDI and hence the relationship between trade and FDI. On this view, African outward FDI (particularly intra-Africa) will grow, but only in the future as incomes in Africa rise and their economic structures become similar.

International business economists (see Dunning, 1993) have explained the emergence of TNCs using an eclectic paradigm for FDI, the Ownership-Location-Internalisation (OLI) framework. Multinationals need to have some firm specific asset that differentiates them from domestic firms to compensate for the extra costs in terms of local knowledge that a foreign firm must incur to operate in foreign markets. The firm

specific asset is called an ownership (O) advantage. Multinationals should also have an internalisation (I) advantage to internalise business contacts, and not to outsource. The reason why a multinational invests in one country but not in another depends on the country's locational advantage (L). The OLI framework explains FDI on the basis of ownership-specific advantages of the firm, internationalisation incentives and locational advantages. Dunning then defines four types of TNCs:

- market-seeking (TNCs that serve market through investment rather than through exports)
- efficiency-seeking (e.g. TNCs using low labour costs)
- natural resources-seeking
- strategic asset seeking (seeking technology, skills or take over brand names)

Using this classification, African investors are more likely to invest in order to seek markets or for strategic reasons, and especially the latter is more likely to be out of Africa. African's are less likely to invest outside Africa for efficiency reasons (it has relatively low wages, though there is disparity as we will note later) or for natural resources (Africa has an abundance of natural resources). We also need to take into account policy factors (trade, investment, privatisation) as these have changed dramatically within Africa.

Aykut and Ratha (2003) also discuss factors behind the rise in South-South flows, and distinguish between pull and push factors but do not deal with the African context (with the exception of South Africa).

Push factors include:

- rising wealth in emerging markets
- rising cost of labour and non-tradables
- breaking up domestic monopolies
- new technology and communications improved information sharing and reduced transaction costs
- strategic, desire to procure inputs such as oil
- capital account liberalisation regarding outward FDI, changes in trade barriers, regional trade agreements, and government policies encouraging outward FDI.

Pull factors include:

- Large and growing markets
- Geographic proximity and ethnic and cultural ties
- Supply of cheap labour
- Abundance in raw materials
- Incentives in host countries, preferential treatment of foreign companies, and export markets through preferential treatment.

In this paper we will attempt to explain changes in outward FDI by Africa through the lens of the following factors (building on Page, 1998):

1 Relative growth rates. If Africa is now growing less slowly than other regions, then logically speaking investors would take advantage of that; or African

countries with faster growth rates should receive more African FDI than African countries with slower growth (e.g. due to conflict).

2 Relative market size. The size of Africa's markets is relatively small, individually and to some extent for Africa as a whole. There are large markets outside Africa which can be served by FDI (or trade). Outward investment should be relatively high, and within Africa should go to larger economies

3 Level and changes in relative protection. Tariff-jumping is said to be one motive behind FDI (Brazil to Europe, also from Asia to Europe, see e.g. Page 1998 and Kumar, 1995), and with tariffs for many African countries higher than in developed countries, this could lead to African outward FDI in other African countries. But the growing importance of regions in Africa which have reduced intra-African barriers could have reduced this incentive. although the high cost of transport in intra-African trade (estimated at equivalent to pre-liberalisation tariffs) may mean that there is still an incentive to invest near to markets.

4 Regional influences. Regionalisation both in Africa and in the potential destinations for its investment increases the size of markets, increasing incentives, but may reduce differences in growth rates, costs, or policies among neighbours, reducing incentives for investment.

5 Changes in policy and laws on inward and outward investment. Many African countries have seen changes in investment policy, including bilateral and regional investment treaties, and privatisation policy, almost all towards a more liberal stance towards FDI. This should have affected intra-Africa FDI

6 Changes in relative costs of production. If the level of wages or user costs of capital is higher in Africa, or if they were growing more rapidly than outside Africa this would lead to more outward African FDI.

7 Changes in strategy to obtain better access to technology, distribution channels or other inputs. This would lead to developing country outward FDI for competitiveness reasons (Kumar, 1995). Firm-specific assets, such as technology or management skills, may be emerging in some African firms, increasing their propensity to invest abroad.

8 Region specific knowledge: common characteristics are a well-studied positive influence on trading patterns, because they lower the information costs of entering new markets; this may also give African companies an advantage over non-African countries in African destinations. This is particularly important in Africa because conventional risk rating and country evaluation is less common and less comprehensive for African countries. Only South Africa is regularly rated, with some coverage at Mauritius and Botswana (African Development Report 2003).

There are also general potential influences on African investment which could help explain its direction

9 The links of complementarity with trade, suggesting that as African trade expands moves into markets, investment could follow.

10 The possibility that some African countries will emerge as particularly active in foreign investment, as some have done in Europe and Asia: the shares of FDI are much more concentrated than those of trade suggesting that there are special characteristics that make some countries more likely to be major investors

11 Foreign investment requires firms able to negotiate the differences in economic and legal conditions in the foreign country, or put differently, with prospective sales or cost saving sufficiently large to justify incurring the costs. Normally, such firms are larger than average. Firms must reach the critical size on the basis of home markets: this is likely to be a constraint in small economies (and most African economies are still very small compared to those of the major world investors), but as the economies grow, the number of potential TNCs will increase. The more barriers to investment come down, both direct barriers and differences in company legislation and standards, either within regions or in general, the smaller the required size for a firm to be internationally competitive.

Cost factors have reduced the relative attractiveness of developing countries, and Africa in particular, as destinations for foreign investment, although market factors have probably increased it. The importance of information and the relative lack of information about Africa outside Africa both suggest that any increase in investment in Africa may be preferentially by African investors. Policy presents fewer barriers (but perhaps also reduced incentives

### 2.2 Data requirements

To examine how these theoretical predictions may help us to understand African investment, we need a broad range of data. We need to examine relative growth rates, market size, wage rates and costs of capital. We need information on policy stances towards FDI and towards trade, both amongst African countries and amongst African and non-African countries. We also need to know about the African companies which are investing abroad. But above all we need good FDI data on African outward FDI, to other African countries and to non-African countries, by sector and over time. As we will see in the remainder of this paper, not all data are available, and there are several difficulties with FDI data, pointed out e.g. by Aykut and Ratha (2003).

## 3 Total African outward FDI, flows and stocks[2]

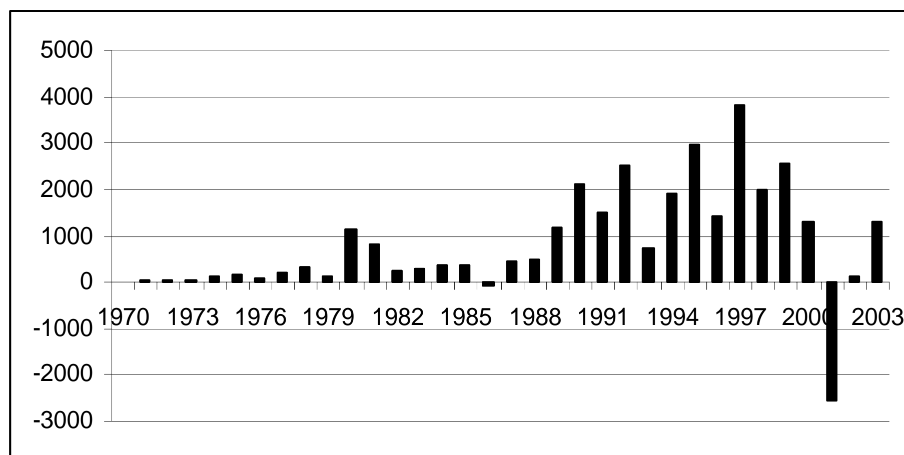
Total outflows from Africa are small, an average of $2.2 billion a year from 1992 to 1999; $1.3 billion in 2003 (chart 2). This is only 3.6% of total outward investment from developing countries ($35.6 billion), and 0.2% of total world outward FDI. Almost all is from Sub-Saharan Africa, with only Libya in the last six years becoming a significant investor from North Africa (Chart 3). This is in sharp contrast to the pattern for inflows to Africa, where North Africa takes about a third ($5.8 billion out of $15 billion in 2003).

The figures for stocks are similar, with Africa accounting for 4.6% of stocks of outward investment in 2003, of which North Africa was responsible for about a tenth.

For all developing economies, outward stocks are equivalent to about 12% of GDP (and inward to 31%); For Africa, outward stocks are only 6.6% of GDP, although inward stocks are nearer the average at 35%. For North Africa, outward stocks are only 1.5%, while for sub-Saharan Africa they are 10%, much nearer to the developing country average.

Outflows were negligible until the 1990s when outflows began to rise. They were negative in 2001 and 2002, but were positive in 2003.

**Chart 2 FDI outflows from Africa, 1970-2003**




Source: www.unctad.org; Appendix table 1

[2] Investment can be measured either in flows, the movement of capital in each period (normally yearly), or stocks, the total existing investment in a country (normally measured as the sum of previous years' flows). Flows are more likely to show any relationship to an influence that changes over time (relative growth rates, for example), but are also highly variable, particularly in small countries, because a single change by a large company can overwhelm all other flows in a particular year. Stocks are better for permanent (or slowly changing) relationships, such as relative size and relative costs of labour, and they may smooth out erratic movements, but as an indirect measure stocks derived as cumulative flows are seriously subject to measurement error.

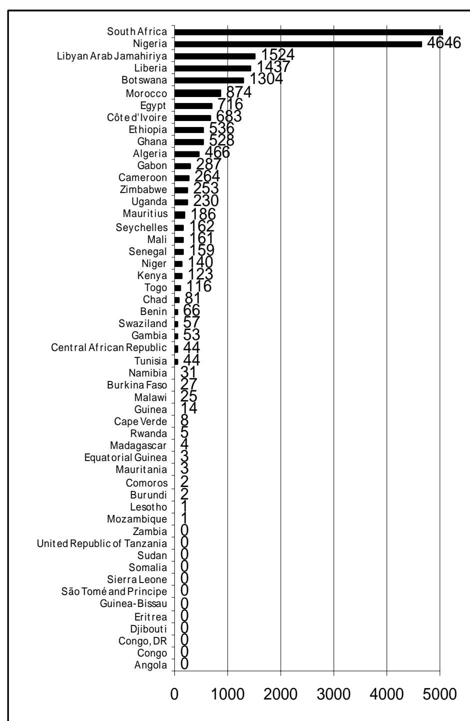
A number of charts and tables examine total outflows by country and show the following:

- In terms of FDI outward stocks, the top 5 countries in 2003 were South Africa, with more than 60% of the total, Nigeria, Libya, Liberia and Botswana (chart 3).
- In terms of FDI outflows in 2003, the top 5 include South Africa (56%), Liberia, Libya and Ghana followed by Nigeria, Botswana, Mauritius and Ethiopia (chart 3). The majority of countries invest less than US$10 m abroad each year.
- Smaller countries are likely to have smaller flows, so we need to scale for domestic size. Chart 4 shows outward FDI flows as per cent of gross fixed capital formation in 2003. For Africa as a whole, the percentage is 1.1, slightly lower than the average for all developing countries of 2.1, because of the low figures for North Africa (average: 0.3%; Libya: 2.8%). (For south East Asia the average is 2.4%). For Sub-Saharan Africa, the average, however, is 2.8%. In 2003, the highest percentages were for Gambia (9.4%), Ghana 4.3%, Seychelles, 4%, and Botswana and Mauritius 3.2%. South Africa was 2.9%.
- Inflows are normally bigger than outflows in all countries except Liberia, Libya and Gabon (Appendix table 12).

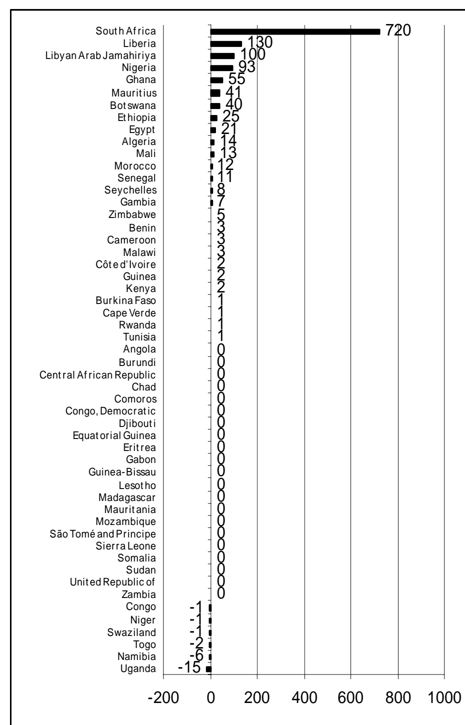
South African companies are also dominant in lists of developing country TNCs, with 1 in the top 10 and another 6 in the next 40 (UNCTAD WIR 2004). No other African company is in the list. South Africa has 941 parent corporations. Tunisia has 142, Mauritius 16, and Swaziland 12 (possibly dating from the period of sanctions when some South African firms relocated); no other African country has more than 8.

## Chart 3 Outward FDI by African countries

Stock (accumulated flows) at end 2003, US$ million

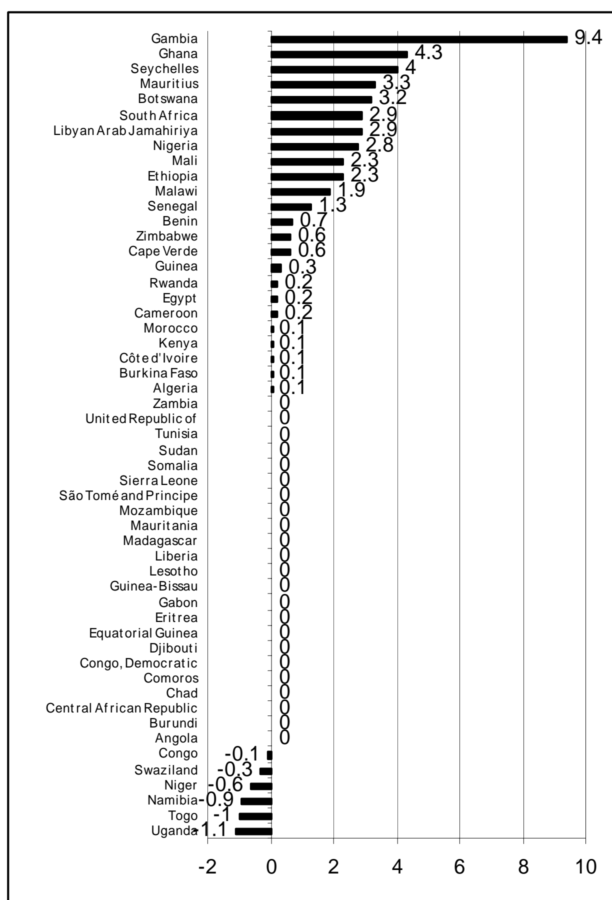



outflows in 2003, US$ million




Source: [www.unctad.org](http://www.unctad.org)

**Chart 4 Outward flows as % of gross fixed capital formation, 2003**




Source: www.unctad.org

## 4. African FDI outflows in Africa

Most investment in Africa does not come from other African countries, because of the important shares of the EU and the US. Total inward stocks are $167 billion, dwarfing total African outward investment of $40 billion. Perhaps more surprisingly, most African investment does not go to other African countries because of the very high share of South African investment which goes to the EU. This was $15 billion in 2002, i.e. over 40% of total African outward stock. In addition, $2.3 billion of South African investment was in the US and 0.7 billion in Australia, another 10%. Only $1.4 billion of South African outward stocks were in other African countries, accounting for 3.6% of total African outward stock, and under 1% of total African inward stock (table 2).

**Table 2 South African outward stock of FDI (US$ mn and %)**

| | In Africa | In World | share Africa in total |
|---|---|---|---|
| 1990 | 716 | 14864 | 4.8% |
| 1991 | 635 | 15999 | 4.0% |
| 1992 | 925 | 19052 | 4.9% |
| 1993 | 867 | 18679 | 4.6% |
| 1994 | 906 | 19071 | 4.8% |
| 1995 | 1057 | 23433 | 4.5% |
| 1996 | 1043 | 26537 | 3.9% |
| 1997 | 1334 | 24563 | 5.4% |
| 1998 | 1697 | 28452 | 6.0% |
| 1999 | 1631 | 33213 | 4.9% |
| 2000 | 1768 | 35276 | 5.0% |
| 2001 | 1631 | 26899 | 6.1% |
| 2002 | 1353 | 19286 | 7.0% |

Source: Quarterly Bulletin, South African Reserve Bank

There is some evidence on what determines the allocation of investment among different African countries that is likely to be relevant to where intra-African investment goes. The African Development Report 2003 reported that, as well as the normal cost and growth variables, the ratio of public spending and of debt to GDP were negative factors, while privatisation revenues were positive (p. 106). On corruption, which it also identified as a negative influence, the highest ranked (least corrupt) African countries were Botswana, Namibia, and South Africa, but even these were well down the list (24th, 28th, and 36th). Ghana was at 50; Senegal 66, Malawi 68, and Zambia 77. Business Map (2000) attempted to classify some SADC countries according to the concerns raised by investors which it interviewed. Mauritius and South Africa 'scored' highest at about 75% (suggesting that these should be the major destinations, particularly for African investors which are the most aware of their neighbours' characteristics), followed by Botswana, Mozambique, Zambia, and Namibia, all around 60%, and then Tanzania, with Zimbabwe even then falling to 'unacceptable risk'.

The fastest growing African countries (Appendix chart 1 and Appendix table 27) include some of the major outward investors, Liberia, Mauritius, Botswana, Ethiopia, but not South Africa.

Some African regions have provisions which could be expected to affect intra-regional investment. In Central and West Africa, the common currency areas could be expected to promote investment as well as trade by reducing the costs of exchange risk, but none of their members appears in the principal investors. COMESA, the Common Market of East and Southern Africa (which includes most southern and Eastern African countries, but South Africa has not joined) has a long tradition of what would now be called 'trade facilitation' measures which have significantly reduced the cost of trading within the region (including common insurance and customs standards, agreements on air and other transport services, etc.) These might have reduced the need for barrier-jumping intra-regional investment, although increasing the ease of investment.

Much investment in Africa has gone into natural resources, much of it into mining and other exploitation of metals (including aluminium in Mozambique), and some intra-African investment has the same pattern. South African firms are particularly important in mining and other natural resources.

Table 3 summarises the sectoral focus of African investors, both in Africa and outside Africa based on information supplied so far.

**Table 3 Sectoral focus of African investors**

| Home country | Total outward FDI | In Africa | Outside Africa |
|---|---|---|---|
| South Africa | | Natural resources<br>Infrastructure (energy, telecommunciations)<br>Financial Services<br>Retail<br>Tourism | Retail<br>Media<br>Paper / packaging |
| Mauritius | Finance (54%, 2000)<br>Hotels (20%, 2000)<br>Secondary (4%, 2000)<br>Other (22%, 2000)<br>(www.unctad.org) | Hotels, sugar in Mozambique<br>Textiles/Clothing in Madacasgar | Trade<br>Transport |
| Kenya | | Beverages<br>Trade<br>Finance | Services |
| Ghana | | Mining | |
| Zimbabwe | | | Other Business services<br>Trade |

Source: own estimates from various sources

Overall in Africa, foreign investment has been increasing in services, notably telecommunications and privatised services. There has been significant South African presence in this (see below), but Egypt has also invested in telecommunications in Algeria, Chad, Congo, DRC, Tunisia and Zimbabwe (UNCTAD WIR 2003).

In order to understand the flows within Africa better, it is necessary to look at particular countries for which we have some data. This section will therefore look at South Africa, the major African investor in Africa, in spite of the low share that Africa represents in South African investment, Mauritius, Ethiopia, Uganda, Malawi, Tanzania, Nigeria, Mozambique, Botswana and Zambia. South Africa, Mauritius, Ethiopia, Nigeria, and Botswana are major investors; Uganda is a growing recipient; in Malawi, Mozambique and Zambia, South Africa is a major investor, starting to be seen as a major influence on the economy and policy more widely.

### 4.1 South African Investment in Africa

No other African country is a major investor in South Africa. South Africa is the third largest foreign investor in Africa following the UK (US$20 billion in 2002, 1.9% of total UK investment stocks) and the US (US$19.0 billion in 2003). Because FDI outflows are highly volatile, we show the stock of outward FDI from South Africa in the rest of Africa (table 2). Not only has the volume increased rapidly, the share of Africa in total outward FDI has also increased from 5 to 7%.

90% of South African FDI within Africa goes to Southern African countries. At the end of 2002, the stock of South African FDI was (Quarterly Bulletin)

- US$700m in Mozambique, half the total
- US$400m in Mauritius,
- US$83 m in Namibia,
- US$60 m in Zimbabwe
- US$29 m in Botswana
- US$27 m in Swaziland
- US$17 m in Lesotho
- US$15 m in Zambia.

Around US$129 m, or just 9% of total stock of South African FDI in Africa, goes to other African countries than those mentioned above, much of it to Tanzania and Uganda (see Appendix chart 3 for other data).

While South African FDI to Africa is not very important in terms of South Africa's total FDI (7%), South African FDI *is* important for Southern African countries. South African FDI (accumulated over 1994-2003) represents the lion's share of total inward FDI for countries such as Lesotho (86%) and Malawi (80%), see table 4. South African is the top foreign investor in seven SADC countries. In 1999 South African FDI was responsible for 49% of the inward FDI stock in Botswana of which 60% was through a De Beers Diamonds subsidiary located in Luxembourg), see UNCTAD's *Investment Policy Review Botswana*. In 2003, 25% of SADC FDI was from South Africa (African Development Report, 2003)

**Table 4 South African investment in other SADC countries**

| Country | SA FDI as a percentage of total FDI in the country 1994 to 2003 | SA ranking as foreign investor in the country |
|---|---|---|
| Lesotho | 86% | 1 |
| Malawi | 80% | 1 |
| DRC | 71% | 1 |
| Swaziland | 71% | 1 |
| Botswana | 58% | 1 |
| Tanzania | 35% | 2 |
| Mozambique | 31% | 1 |
| Zambia | 29% | 1 |
| Zimbabwe | 24% | 3 |
| Namibia | 21% | 3 |
| Angola | 1% | 6 |
| Mauritius | -9% | 3 |

Source: The BusinessMap Foundation, reported in Humphries (2004)

Naidu and Lutchman (2004) find that South African companies have a presence in the African continent in almost all sectors of the economy (Appendix table 21).

Most South African investment in SADC is in natural resources followed by basic industries and utilities. Table 5 shows some large investments in the SADC resources sector.

**Table 5 South Africa's largest investments in SADC resources sector 2001-2003**

| Year | Target Company | Target Country | Source Company | US$m | Type |
|---|---|---|---|---|---|
| 2001 | Pande & Temane gas fields | Mozambique | Sasol Oil | 581 | New |
| 2001 | Skorpion zinc project | Namibia | AngloGold | 454 | New |
| 2003 | Zimbabwe Platinum Mines | Zimbabwe | Impala Platinum | 85 | Expansion |

Source: The BusinessMap Foundation in Humphries 2004

South African companies have also been important in mining in Tanzania, DRC, Angola, and, outside SADC, in Ghana, Guinea, and Mali (mainly gold). In its immediate neighbours, including Angola and Botswana, and Namibia, diamonds remain important. 8 of 21 major investments by South Africa in Africa in 2000-3 were in natural resource sectors; 8 in services, 1 in utilities (electricity), and 2 in basic industries (UNCTAD WIR 2004).

In recent years, South African has also become prominent as an investor in telecommunications in the rest of Africa, including Tanzania, DRC, Cameroon, Nigeria, Rwanda, Swaziland, Mozambique, and Uganda. The rapid expansion of fast food outlets and supermarkets in Africa has been led by South African companies (African Development Report 2003). These are less likely to appear in lists of major investments, because they are less capital intensive industries, but are more prominent within the host economies, and hence have attracted increasing attention, and occasional opposition.

Table 6, shows some of South Africa's investments in Africa

**Table 6 South African subsidiaries in Africa**

| | | | | | |
|---|---|---|---|---|---|
| South Africa | Zambia | Mining and quarrying | Chambishi Metals | | 560 |
| | Zambia | Finance | Stanbic Bank Zambia | | |
| | Tanzania | Beverages | SA Breweries | 186 | 1266 |
| | Tanzania | Banking | NBC | | 1100 |
| | Mozambique | Paper | Cartanagem de Mocambique | 3.0 | 200 |
| | Mozambique | Chemicals | Emprese Quimica de Mocambique | | |
| | Malawi | Finance | Commercial Bank | | 763 |
| | Kenya | Finance | Stanbic Bank | | 125 |
| | Uganda | Telecommunications | MTN | | 200 |
| | Uganda | Finance | Stanbic Bank | | 99 |

Source: www.unctad.org

South Africa hosts a number of other TNCs, with major holdings in other African countries, see table 7. These include the South African supermarkets. Appendix table 14 gives further information on South African investments in SADC in recent years.

**Table 7 Other emerging TNCs from South Africa**

| Company name | Host country | Sector |
|---|---|---|
| Eskom enterprises | Offices in Uganda, Nigeria and Mali; links with 32 countries | Infrastructure and energy |
| CS Holdings | Tanzania and Ethiopia | IT service provider |
| Illovo Sugar | Malawi, Tanzania, Zambia, Swaziland, Mauritius and Mozambique | Africa's leading sugar producer |
| Italtile | Namibia, Botswana, Swaziland, Tanzania, and Australia | World's largest buyer of ceramic tiles |
| Metro Cash & Carry's | Botswana, Namibia | Wholedale discounters and hypermakets |
| Pick 'N Pay | Africa, Australia | Supermarkets |
| Protea Hotels | Nigeria, UK, Zambia and Gulf | Africa's largest hotel group |
| Shoprite | Zambia and Namibia (and 11 other African countries), plans for India | Supermarkets |

Source: Company websites and Goldstein (2003)

Anglo Gold acquired Ashanti Goldfield in Ghana in February 2004. Ashanti had significant stakes in operations in Guinea, Zimbabwe and Tanzania. AngloGold is listed on securities exchanges in Johannesburg, New York, Australia and the London Stock Exchange, Euronext Paris and Euronext Brussels. It produces gold from 19 operations in 8 countries in the US, Latin America, Africa and Australia (www.anglogold.com). As part of Anglo American, it has other mining interests in other African countries.

The MTN Group has so far limited itself to telecommunications in the African continent with operations in Cameroon, Rwanda, Uganda, Nigeria, Mauritius and Swaziland. MTN South Africa was awarded a national GSM 900 license in 1993 and began to expand in Africa from 1997 onwards (www.mtn.co.za).

In 1996, Vodacom, a cellular telephone company, began to expand into other SADC countries, including Lesotho, Tanzania, DRC, and Mozambique

Naspers, founded in 1915, has internet operations in Africa, China and Thailand through subsidiaries such as M-Web, SportsCn.com and controls satellite/pay television in Sub-Saharan Africa using various subsidiaries, joint ventures and agents. It has also expanded into Europe via MultiChoice (renamed MIH Holdings), www.naspers.com.

Barlow was founded in 1902, and by the 1960s had expanded into many areas such as motor vehicle retailing, steel and building materials handling equipment, consumer electronics and steel manufacturing and selling. Based mainly in South Africa, Barlow also acquired trading interests in the UK, Zimbabwe, Botswana and Namibia. In 1969 Barlow lists its shares on the London Stock Exchange. By 1979 it acquired Wrenn Brungart in the US. The 1980s and 1990s saw further expansion into UK, US, Australia, Spain, Belgium and Portugal. Sectors include Equipment, Industrial Distribution, Motor, Cement and Lime, Scientific, Coatings, Steel Tube and others. (www.barloworld.com)

Nampak Limited, Africa's largest packaging manufacturer, has interests in major packaging companies in several African countries (Ethiopia, Kenya, Malawi, Mozambique, Nigeria, Namibia, Swaziland, Tanzania, Zimbabwe and Zambia).

In banking, Standard Bank has investments in 16 African countries, of which 10 are in SADC, including Namibia, DRC, Lesotho, Mozambique, Tanzania, Zimbabwe, Swaziland, Zambia, Malawi, and Botswana. ABSA has taken over banks in Tanzania and Mozambique. In retailing, Shoprite is in all SADC countries except DRC and the Seychelles, while Metro Cash and Carry is in Botswana and Namibia, and Pick 'n' pay in various African countries. For both, the major period of expansion came after 1995. The expansion of supermarkets came at the time when African countries were making the transition to supermarkets, and in contrast to the similar transition in Latin America and Asia, a few years earlier, European and US supermarkets did not have a role, either in South Africa, which had already made the transition, or in the other African countries in which South Africa invested. This is, therefore a clear example of a sector in which there is an abnormal weight of intra-regional investment. Hotels, airlines, and IT are other new services investments. (Rumney, Pingo 2004, Goldstein 2003, Games 2004).

There has also been investment in agriculture. Illovo sugar (discussed further in IV on Malawi) has investments in Malawi, Tanzania, Swaziland, Mauritius, Zambia and Mozambique. South African Breweries (SAB) is also a major investor in other African countries, including Mozambique and Tanzania.

As indicated above, most of these investments are in SADC, but South Africa does have some investments in the rest of Africa, notably Nigeria, which is also a major trading partner (Games 2004), Ghana, and Mali, and is starting to look at North Africa, in particular Morocco. In North Africa there has been investment in electricity by Eskom and initial interest by mining companies.

South Africa has seen itself as a political leader in Africa, and particularly in southern Africa, and would include a major economic role in this. Humphries 2004 notes that 'the official view is that such expansion provides the necessary mobilisation of inward [to other African countries] capital flows, which is seen as an important resource for President Thabo Mbeki's realisation of the Africa Renaissance and New Partnership for Africa's Development (NEPAD).' But (*ibid*) it is also the case that 'the expansion of corporate activity in Africa is generated by the reality that it offers good business prospects'. The more rapid growth, and better expected prospects for Africa, both help to explain the increase in South African investment in other African countries. Returns are now higher (Games 2004). Some of the investment in recent years could be explained as catching up, after the years of apartheid and sanctions (and some of course may be reclassification of investments which did not want to stress their South African origin prior to 1994). There has also been gradual liberalisation of South African policy on capital outflows; although some capital controls still remain, these do not obstruct direct investment. And it has signed increasing numbers of Bilateral Investment Treaties within its region (UNCTAD WIR 2004). The regional agreements plus some bilateral ones have increased access by exporters in its neighbours, and these have stimulated some investment abroad to reduce costs; wage costs in South Africa remain significantly above those of other countries within SADC. In contrast, liberalisation to South Africa within SADC was deliberately

subject to a transition period (because it was seen as more likely to dominate the other countries), and unlike most of its neighbours, it is not a member of COMESA so it has seen much less liberalisation in its markets than the others. This suggests that it has much more motive to invest abroad to 'jump barriers' than its trading partners have had to invest in it.

South Africa has the largest economy in Southern Africa, increasing the probability of both high inward and high outward investment. It has, however, been among the slowest growing (Appendix table 27) and its own domestic investment rate has been relatively low for Africa (16% compared to an average of 20% African Development Report 2004 and see Appendix chart 2), suggesting a need to import capital. Its share of outward investment in total capital formation is higher than the average for Africa, but not among the highest: interestingly, the shares of inward and outward investment are similar, implying little net foreign investment.

It has bilateral investment treaties with Ghana and Mauritius in Africa, and a double taxation agreement with Mauritius (UNCTAD South Africa fact sheet), but most of its treaties are with non-African countries.

Although general fears of a major South African presence in other African countries ('financial colonisation', Goldstein 2003 p. 3) are clearly not supported by the evidence of its very small aggregate role, its position in a few countries is more controversial (especially the five where it accounts for more than half of foreign investment) (Table 4). This will be discussed in more detail in the country sections on Mozambique and Zambia. Some South African firms which have invested in other African countries have been parastatals, notably ESKOM in electricity, which has activities in 32 African countries (Games 2004), as well as in rail, airports, and airways and this contributes to concern.

### 4.2 Mauritian investment in Africa[3]

Over 1990-1999, Mauritius invested a total of US$119 m abroad. Mauritius is also a major recipient of FDI. Its average inflows are $70 million, and outflows 40 million, giving it one of the highest ratio of outflows to fixed capital formation. Of its outward investment, 16% went to Comoros, 5% each to Madagascar, and Mozambique, 1% each to the Seychelles and South Africa (UNCTAD *Investment Policy Review Mauritius*). There have been recent increases to Mozambique, Madagascar and Seychelles, see case study examples. The stock of Mauritian FDI in Tanzania was US$84.4 m in 1999, see UNCTAD *Investment Policy Review Tanzania*.

Mauritius is the nearest parallel to South Africa. Its companies also began as national companies and invested abroad in the same activities. The difference is that for South Africa, production at home and abroad was for local consumption. In Mauritius it was for export. Mauritius is cited as the country most welcoming to foreign investors, having signed 29 double tax treaties (Goldstein 2003; Bank of Mauritius), and with a *de facto* export zone covering the whole country. Most of the double taxation treaties are with developed countries, but 8 are with other African countries. Of its 17 bilateral investment treaties, 4 are with other African countries (South Africa, Namibia, Swaziland, and Zimbabwe), but most of those awaiting signature are with other African countries.

It has a high per capita income ($4000), second only to the Seychelles, and 50% higher than South Africa, but its small size means that it attracts FDI mainly as a platform for exports. This was not an obvious role, as it has few natural resources and rising labour costs, but it has used its political and trading position to attract particular types of production that depend on preferences (notably sugar and clothing), and then expanded into other areas. It increasingly attracts investment from South Africa. The first major investments from South Africa were in 1997 and 1998. It was responsible for just over 50% of investment in 2003 (see Appendix table 15). The second investor (9%) is Reunion, which could be included with France (8%). The UK is 9%. (The Asian investors are no longer important.) Most of the South African investment seems to be in banking. Its own investment abroad goes principally to the Seychelles and Mozambique, with a little to Madagascar and South Africa. It thus has a very different pattern for its inflows and outflows. It has invested in sugar in Mozambique, clothing in Madagascar, and tourism in Tanzania: in all three cases expanding an industry that it has developed at home by taking advantage of lower costs and (for sugar and clothing) similar preferences in large neighbouring countries. Its foreign investment now is principally in finance (or unspecified).

Table 8 shows some of its subsidiaries.

**Table 8 Subsidiaries of Mauritian TNCs in Africa**

| | | | | | |
|---|---|---|---|---|---|
| Mauritius | Madagascar | Textiles | Floreal Madagascar | 7 | 4100 |
| | | Textiles | NCS International | 2 | 2300 |
| | Madagascar | Finance | Banque SBM Madagascar | | 21 |
| | Madagascar | Finance | Union Commercial Bank | | 81 |

Source: www.unctad.org

[3] See also section V on Mauritius

**Box Mauritian FDI in Mozambique: relative market size and resource seeking**

Mauritian companies have also invested in Mozambique, mainly in services and agri-business. The operations for subsidiaries in Mozambique are often their most important operations abroad. This is the case for instance for Sena Holdings, a four-company consortium which controls the Companhia de Sena operating sugar plants in Marromeu and Luabo (the government retains a 25% stake). Other planned investments include investments in rice, cotton and the hospitality industry.

Source: Goldstein, 2003

**Box Mauritian FDI in African textiles and clothing: efficiency seeking FDI**

Mauritius has grown rich on the basis of building up a large textile and clothing sector using Export Processing Zones. Mauritius relied on bulk products for the EU and US markets. While attempts to upgrade into higher quality products proved difficult, Mauritius tried to compete on costs by investing in lower cost locations such as Madagascar and Mozambique, although the quality of infrastructure and productivity was lower than expected. While still receiving FDI in the clothing sector, AGOA has also boosted Mauritian FDI to countries such as Senegal.

Source: Goldstein, 2003

### 4.3 Ethiopia[4]

Ethiopia received African FDI worth US$145 million over 1993-1998, 11% of the total. Most came from the Middle East (66%) and EU (16%). Unlike other investment, African investment in Ethiopia takes the form almost exclusively of wholly owned subsidiaries rather than joint ventures. Its outward investment was 2.3% of gross capital formation in 2003, slightly above the average.

In the last 4 years its investment from other African countries has risen from virtually 0 to an estimated 10% in 2004 (Appendix table 16). Kenya is involved in five investments; the Sudan in three; South African firms in two; and Libya in one. Asia and developed countries remain more important. Its Commercial Bank has started to invest in neighbouring countries (see box).

It is one of the poorest countries in Africa, and its total national income is also low, in spite of its large population, but it has grown more rapidly than the average in recent years.

It has BITs with 18 countries, of which 4 are African, Sudan, Algeria, Libya, and Tunisia. In 2003-4 it relaxed restrictions on the private sector in some sectors and improved information for foreign investors (UNCTAD WIR 2004).

[4] See also section III on Ethiopia

## 4.4 Uganda[5]

Over the period July 1991 – December 1996, Africa was responsible for 142 out of a total of 629 FDI projects (23%) in Uganda.

Uganda has very low per capita income, but has attracted increasing amounts of foreign investment: it has accounted for about 20% of gross fixed capital formation in the last 6 years. It has been disinvesting abroad, supporting high net inflows.

The principal investors in Uganda have been developed countries, led by the UK and Bermuda (possibly also UK based). The principal African investors have been South Africa, Mauritius and Kenya (Appendix table 17). South African investment was about 10% of the total from 1996/7 to 2000/1, although it has now fallen back. In stocks, South Africa is still almost 10%, with Mauritius and Kenya about 5% each. The principal South African firms are in breweries, telecommunications and banking, including South African Breweries, MTN, Stanbic Bank, Standard Chartered bank, with Kenya important in breweries and chemicals (Section VIII).

[5] See also section VIII

**Box African FDI in Ugandan textile and cotton: privatisation**

Privatisation has played an important role in attracting FDI in Uganda. Some of the firms privatised (e.g. Cotton Ginneries), have shown that with new capital, change in policy and by operating in a COMESA regional setting, the industries can become competitive. For example, Ex Ken Limited of Kenya was set up in Uganda and is subcontracted by the parent company in Kenya to produce for the USA market under AGOA. Cotton Clark from South Africa is a new investor in cotton ginning operating in Soroti 400km from the Capital City, Kampala in the Cotton Belt. They procured an existing Ginning mill under the privatisation programme in August 2001. Cotton Clarks has operations in Zambia, Malawi and South Africa.

Mkandawire, 2004

## 4.5 Malawi[6]

Malawi is both poor and small, so has little ability to attract FDI for the domestic market. On inward investment, its share of gross fixed capital formation has been about average for Africa, with low outflows. Data on FDI are limited for FDI, and mainly based on reports by partner countries. Investors include South Africa, with the others being developed countries plus Malaysia (Appendix table 18).

The principal activities and exports and thus the principal destinations of foreign investments, are agriculture, notably tobacco and sugar. Sugar is dominated by a South African-owned firm (see box, contributed by Lizzi Chikoti). Its operations are thus part of the Illovo sugar groups total sugar production, in other African countries and also in the US. Malawi's sugar exports benefit strongly as the Case Study notes from preferential trading arrangements in both the US and the EU, and these provide the incentive to foreign investors to use it as an export base. The return on the shareholders' equity has been at least 30%, and often higher.

There is little outward investment, but some of its insurance companies are beginning to do business in neighbouring countries.

[6] See also section IV

## 4.6 Tanzania[7]

The stock of African FDI in Tanzania (Appendix table 18 B) was US$155.4 m in 2001, 44% of the total. More than half (24%) was from South Africa, and this will be higher now because South Africa has taken over Ashanti; Ghana then still had 5%; Mauritian and Kenyan FDI stocks in Tanzania were both about 5%, Uganda had a small share. For inflows of new investment (Appendix table 18 A), Africa again was responsible for 44%, almost entirely from South Africa. South African investment has been in mining (as noted), brewing, sugar, oil, banking, hotels, and the airport (see Appendix table 18D). It is therefore becoming a major influence on the economy, and this has been reflected in its external policy. Kenyan investment, though smaller in value, is responsible for more companies (Appendix table 18C). Tanzania, in spite of its location and its ties through the East African Cooperation to Kenya and Uganda, has remained a member of SADC, and left COMESA (Kenya and Uganda are in COMESA, not SADC). South Africa accounted for more than a third of FDI in Tanzania in the last decade (table 4).

Tanzania is a poor country, but with a large population so that its economy is comparable to Uganda and Mauritius. FDI has been a major source of investment for it in recent years.

## 4.7 Mozambique

Mozambique remains a poor country, and a small economy, but has grown rapidly in recent years because of the structural changes caused by South African investment. Total African inflows approved in 1999 into Mozambique was around US$1 billion, around 30% of total Mozambican inward FDI. This was mainly from South Africa which accounted for 35% of inflows from 1990 to 2001 (Goldstein 2003). In 1999 Mauritius was the main African investor due to FDI in the tourism sector, which accounted for half of approved African investment, but the most important investment has been by South Africa in the Mozal aluminium smelter (a private South African investor holds 47%; the Industrial Development Corporation of South Africa 24%, the Mozambique government 4%, and Mitsubishi Japan 24%). This has transformed the Mozambique economy, now accounting for most of its exports and about 7% of its GDP (Business Map 2000). It is the largest employer (Games 2004) in Mozambique. Its success was closely tied to access to power from South Africa following the completion of a major dam. It has led to the building of a port and other infrastructure required by the smelter, as well as improving water and telecommunications infrastructure. Some has been essential to the operations, but there has also been a deliberate 'linkages' strategy to improve the impact of the investment on the rest of the economy. It has also changed Mozambique's rules on investment, with South African pressure leading to liberalisation (Goldstein 2003). There is important South African investment in electricity and gas. Some South African investment also came from privatisation, including purchase of the breweries, and both South Africa and Mauritius have invested in sugar. There is also South African investment in telecoms. From outside Africa, the major investors have been Portugal and Malaysia (Business Map 2000).

[7] See also section VII

### 4.8 Botswana

Botswana (one of the original Least Developed Countries when the category was first adopted) has become one of the highest income countries in Africa (at $3000 per capita), slightly higher than South Africa, although below Mauritius, and is thus a significant sized economy in spite of its small population. Its principal export success has been diamonds, through a South African-based firm, affiliated to De Beers. It is no longer a major recipient of FDI, but has started to send investment abroad.

South Africa accounts for almost 60% of FDI (table 4), with investment in clothing, insurance, banking, and agriculture (chicken production) as well as mining. Mauritius is also an investor, in clothing, and Zimbabwe, in shoes. India and Sri Lanka have made investments in garments, for export to the EU and the US, and India in car parts for the regional market.

### 4.9 Zambia

Zambia is small and poor, although less poor than Malawi, and with more important natural resources. While its copper mining looked like a weak base until recently, the doubling of the copper price has improved its prospects. Zambia has therefore been able to attract sufficient FDI to cover about 15% of its gross fixed capital formation.
It has bilateral investment treaties with 6 countries, only one of them African: Ghana, with which it appears to have no investment.

Detailed data are not available, but the US and South Africa are major investors, as well as several EU countries, including UK, Netherlands, and Sweden, and some Asian: India and Japan. There is South African investment not only in mining, the major investment and the major Zambian export (about 60-70% of the total), but also in banking. There is some distribution investment from Zimbabwe.

South Africa acquired prominence as an investor in Zambia during the privatisation exercise, and especially with the purchase of the copper mines in 2000, then the decision to disinvest in them. It has also been more evident as an investor because of its operation of supermarket chains which in the last three years have started to shift Zambia to use of supermarkets instead of markets. It has invested in hotels and telecom, and it has holdings in sugar (Illovo Sugar, see Malawi), cotton, and horticultural products (Humphries 2004).

### 4.10 Role of South Africa

What is clear from these country notes is that South Africa is a major investor and a major influence on the economy in a significant number of southern African countries. In contrast, these countries are not important to it: Only Mauritius and Mozambique take more than a half percent of its total foreign investment. This gives a very asymmetric relationship of dependence on South Africa. While other regional leaders also have asymmetric relations, this is much starker than the role of the US in the Americas or of China and Japan in Asia.

## 5 African investment outside Africa

Much of African outward FDI is to the rest of the world and most of this is by South Africa (table 9). South African firms have increasingly invested in the EU, Australia and to a lesser extent in the US and Asia.

Table 10 shows the distribution of South African investment stocks at end-2002. Three quarters are in the EU, and the rest evenly divided between other developed countries and developing countries. Within the EU, Luxembourg and the UK, Austria, Belgium, and the Netherlands are the principal destinations.

**Table 9 African outward FDI stocks (US $)**

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|
| US | | | | | | | 2298 | 2187 |
| Germany | | | 216 | 178 | 101 | 755 | | |
| UK | | | 4502 | 2496 | 3016 | 1901 | 962 | |
| Australia | | 93 | 127 | 271 | | | | |
| France | | 112 | | | | | | |
| Netherlands | 160 | 76 | 51 | 55 | | | | |

Sources: OECD, US BEA, UK ONS

**Table 10 South Africa: outward FDI stock, by geographical destination, 2002 %**

| Region/ economy | 2002 % |
|---|---|
| Developedcountries | 90 |
| European Union | 74 |
| Austria | 13 |
| Belgium | 9 |
| Germany | 3 |
| Luxembourg | 23 |
| Netherlands | 3 |
| United Kingdom | 22 |
| North America [a] | 11 |
| Australia | 3 |
| Developing countries | 10 |
| Africa | 7 |
| Botswana | *0.4* |
| Lesotho | *0.1* |
| Mauritius | 2 |
| Mozambique | 3 |
| Namibia | *0.4* |
| Swaziland | *0.1* |
| Zambia | *0.1* |
| Zimbabwe | *0.3* |
| Asia | 2.0 |
| Hong Kong, China | 1.8 |

Source: South African Reserve Bank 2004

### 5.1 Investment in developed countries

At the end of 2002, the stock of African FDI in the UK was around US$750 million, most of it from South Africa. The share of South Africa in total African FDI stock in the UK hovered around 75%, but declined more recently to 60%. In terms of flows, South Africa was responsible for 90% of total African FDI in the UK in 2002. African FDI is quite profitable in the UK, with South African firms performing very well in 2002, relative to other African investors (see Appendix table 19).

The stock of African FDI in Germany jumped to $800m in 2001, 90% of the total is due to South Africa. There are 41 African affiliates in Germany, half of this from South Africa.

African FDI in the US reached US$2.2 bn in 2003, but only a small part of this is due to South Africa.

South Africa is by far the most important African investor in Australia, and in some years in Belgium/Luxembourg (probably because of De Beers), but not or less so in France and the Netherlands.

## 5.2 Subsidiaries of African TNCs outside Africa

Table 11 shows subsidiaries of non-South African TNCs outside Africa. While it is clear that there *are* examples of other African TNCs in say the EU and US, the main finding is that these appear not to be large.

**Table 11 Subsidiaries of African TNCs (excluding South African) outside Africa**

| Home country | Host country | Sector | Company name | Sales ($ m) | Employment |
|---|---|---|---|---|---|
| Kenya | UK | Other business services | Mowlex | 0.2 | |
| | Italy | Transport | Kenyan airways | | 7 |
| | UK | Other business services | Wavon International | | |
| | UK | Finance | Kq Leasing | | |
| Mauritius | Italy | Transport | Air Mauritius | 17 | 10 |
| | France | Trade | Bonair Paris | 2 | 6 |
| | UK | Trade | Hanway Stationary | | 12 |
| | UK | Trade | New Star Traders | | 6 |
| | France | Trade | Plastinax | | 4 |
| | UK | Transport | Unitramp | | |
| Ethiopia | UK | Transport and storage | Ethiopian Airlines Corp | | |
| Zambia | UK | Mining and quarrying | Zambia Consolidates Copper Mimes | | |
| | Germany | Transport and storage | Zambian airways | | 7 |
| Mozambique | Italy | Transport | Linhas Aereas De Mozambique | | |
| Zimbabwe | UK | Food and Kindred Products | CSC Meat importers | 24.8 | 5 |
| | US | Agriculture | African Plantation Corporation | | 1 |
| | UK | Other business services | Fleetness 136 limited | | 5 |
| | UK | Other business services | Stevecourt | | |
| | UK | Transport and storage | Affretair | | |
| | Netherlands | Trade | CSC Meat importers | | |
| | UK | Other business services | Zih | | |
| | UK | Trade | Crewlane | | |
| | UK | Trade | Alexanders Investments | | |
| | UK | Other business services | South African Holidays | | |
| Somalia | Italy | Transport and storage | Somali airlines | | |

Source:www.unctad.org

The major South African TNCs appear to have subsidiaries mainly in European countries and Australia, and a few in the US and more recently in Asia.

**Table 12 Major South African TNCs, ranked by foreign assets**

| Rank in top 50 non-financial TNC from developing countries, by assets | Host country | Sector | Company name | Foreign assets ($ mn), 2002 | Foreign sales ($ mn), 2002 | Foreign employment, 2002 |
|---|---|---|---|---|---|---|
| 10 | Mills in Africa, EU and US; sales office around world | Paper | Sappi Limited | 3733 | 2941 | 9807 |
| 12 | European and Asian and in Australia | Industrial chemicals | Sasol Limited | 3623 | 3687 | 7107 |
| 18 | Nigeria, Cameroon, Uganda, Rwanda and Swaziland | Telecommunications | MTN group | 2582 | 729 | 1970 |
| 19 | US, Africa, Argentina, Brazil and Australia. | Gold ores | Anglo gold | 2301 | 831 | 30821 |
| 30 | Europe, Asia and Africa | Media | Naspers limited | 1655 | 412 | 1742 |
| 31 | EU, US, Africa, Australia | Diversified | Barloworld | 1596 | 1984 | 9973 |
| 44 | Europe, Africa | Rubber and plastics | Nampak limited | 782 | 328 | 10962 |

Source: www.unctad.org

Of the companies in table 12, only MTN operates mainly in Africa. It, and Anglo Gold, and Naspers which also have major activities are discussed in Chapter 3, section 3.2.1.

Sappi consists of Sappi Forest Products in Johannesburg, Sappi Fine Paper with subsidiaries in North America, Europe and South Africa and sales offices across the world (www.sappi.com). It is discussed in detail in Section VI.

Nampak has a blow moulding operation in the UK. Through MY Cartons it has subsidiaries in the UK, Netherlands and Belgium, and MY Healthcare in the UK, Italy, Germany, France, Ireland, and Luxembourg, and through Nampak Plastics in 13 sites across Europe. (www.nampak.com).

Two major South African Transnational Corporations (TNCs), Anglo American and South African Breweries (now called SABMiller) have invested extensively in the SADC, but were reclassified as UK based companies following their foreign listings and majority UK shareholding (Rumney and Pingo, 2004). Before its reclassification, South African Breweries bought a 64% stake in Miller Brewing (of the US) for US$5.6 billion. After this acquisition, South Africa Breweries changed its name to SABMiller,which then acquired Birra Peroni (Italy) and Harbin Brewery (China) in 2003. Hence, a global player.

SAB had developed under sanctions with a domestic monopoly, but unable to expand abroad, so it had the scale to be able to invest abroad when the opportunity came (Goldstein 2003). In this pattern of growth behind barriers, followed by foreign investment, it was similar to the supermarkets that expanded within Africa, but chose to go into non-African markets as well.

**Box SAB Miller: relative market size and strategic asset seeking**

SAB Miller is a good example of how a South African firm turned into a global company, which is now listed as a UK company. South African Breweries was unable to expand during the apartheid period. But by the 1990s, it acquired privatised breweries in Mozambique, Tanzania and Angola, enlarging its market on the basis of profitable and efficient production. In the mid-90s it expanded into India, China and Central and Eastern European countries. But because SAB faced a shortage of hard currencies (all profits were in developing countries' currencies), it needed to expand to developed countries, eventually acquiring the US Miller Brewing Company. It has also acquired companies such as Italian Perroni.

Source: Goldstein, 2003

# 6 Conclusions

## 6.1 Results of the data overview

The data on African outward FDI are patchy. While there are relatively good data for aggregated outflows, there is no systematic coverage of outward FDI by country, except in the case of South Africa and Mauritius. This leaves many gaps:

- Where does all the outward FDI go from Nigeria, Liberia and Cote d'Ivoire?
- There is little information on destination of outward FDI from Francophone countries, but countries such as Togo and Mali invest abroad a sizeable part of their domestic investment.
- There is little detail on the sectoral focus of investors (except South Africa and Mauritius).

Some emerging findings include:

- Only a few countries are major investors at regional level, and only South Africa is significant outside Africa.
- African outward FDI does play a significant role in some other African countries, predominantly in Southern African countries where South African FDI is responsible for up to 60-80% of total FDI inflows.
- There are emerging South African TNCs: some are global players (Sappi, Sasol, MTN, Anglo Gold, Naspers, Barloworld and Nampak) while others are significant in the African context (such as Shoprite, Illovo Sugar and Eskom).
- South African FDI to outside Africa is more important to South Africa than intra-African.
- Non-South African FDI outside the continent is small and insignificant even to individual countries, though potentially important for individual firms such as UK establishments of Air Kenya/Mauritius.
- Within Africa there are many investment links, e.g. Mauritius in Tanzania, Madagascar, and Mozambique; Kenya in Tanzania and Uganda; Ghana in Tanzania; Zimbabwe in Mozambique. Of these, Kenya's role in East Africa is the most important, after South Africa's impact.

## 6.2 Explaining African FDI outflows

We will discuss the ten factors behind African outward FDI as discussed in chapter 2.

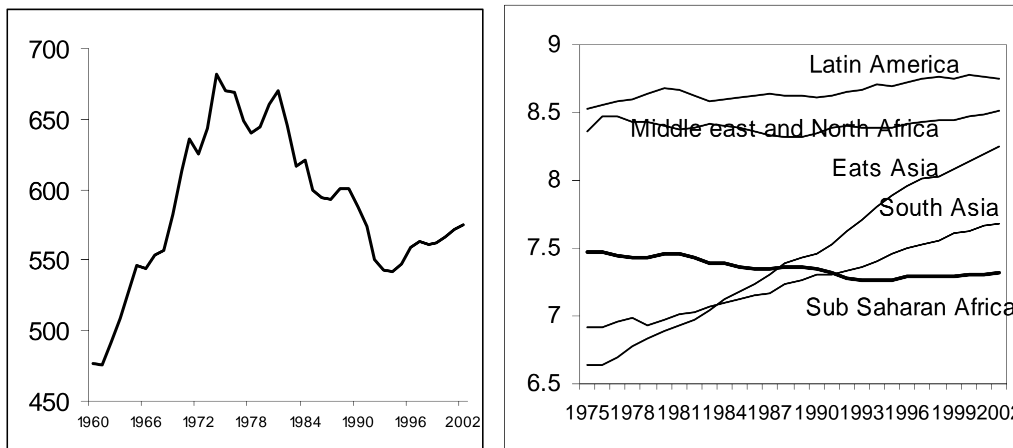
*6.2.1 Relative growth rates*

While Africa may have turned a corner with respect to its growth performance, it compares poorly with other regions such as East Asia and Africa. In particular some African countries have had negative growth even in recent years.

There is some evidence that African countries that have done worst have higher FDI outflows. For instance, over the past five years to 2002 Cote d'Ivoire, Kenya, Nigeria and South Africa are in the bottom half of chart 4 in terms of growth performances, but they are in top 10 of chart 3 on annual outflows. In addition, the country with one of the worst growth performances, Togo, has a high outward FDI - total investment ratio. However, the picture is not clear cut. Top performers such as Botswana and to some extent Ghana and Ethiopia feature as major African outward investors in chart 3 or chart 4.

**Chart 5 Sub-Saharan Africa's slow growth.**

*1995 international PPP per capita dollars* *ln 1995 PPP per cap dollars*




*Source*: World Development Indicators 2004

*6.2.2 Relative market size*

Charts 3 and 4 show that some of the smaller African countries have felt a need to invest abroad: Seychelles, Mauritius and Swaziland are in the top half of African outward investors. South African firms see South Africa, and all of Africa, as too small and invest outside.

*6.2.3 Level and changes in relative level protection*

For this it will be important to compare tariff data, with trade and FDI, intra and out of Africa. Table 13 and Appendix table 22 present tariff data by country and over time. At first sight there does not seem to be an obvious relation between outward FDI to a country and its tariff rate, or over time, tariff reductions coinciding with increased FDI.

But South Africa has opened, relative to the past and to its neighbours, while there has been little change in the markets affecting it, so that at least a change to more outward investment by South Africa in other Southern African countries would be consistent with the evidence. Some South African investment within SADC has taken advantage of this. In other countries (Ghanaian investment in chocolate production in the EU, for example), foreign investment has been the result of trade barriers in export markets (EU sugar quotas).

What is probably more important is that the high costs of trading because of poor physical and institutional infrastructure mean that actual barriers to trade remain much higher than tariffs indicate, and therefore the incentive to satisfy African markets by FDI is much greater than the small size of their markets and low tariff barriers might otherwise suggest.

**Table 13 The pattern of tariff changes in Africa**

| | Average 1980-1985 | Average 1990-1995 | Average 2000-2002 |
|---|---|---|---|
| All Africa | 32.8 | 23.6 | 16.1 |
| North Africa | 31.0 | 27.2 | 22.5 |
| West Africa | 38.5 | 22.8 | 14.2 |
| Central Africa | 30.0 | 21.7 | 16.7 |
| East Africa | 37.3 | 28.3 | 15.9 |
| Southern Africa | 19.5 | 19.7 | 12.7 |
| Manufacturing | 28.1 | 20.4 | 16.5 |
| Agriculture | 40.2 | 22.5 | 14.5 |
| Mining/resources | 50.5 | 18.4 | 13.2 |
| Oil | 30.7 | 25.2 | 20.2 |

Source: African Development Report 2004

*6.2.4 Regionalisation*

The number of Regional Trade Agreements is increasing within Africa. Outside Africa, RTAs are deepening in scope and coverage. Several now include provisions for investment or trade in services (which also covers mode 3, investment). However, the scope of investment provisions in African RTAs (e.g. SADC and COMESA) is still limited and would score low compared to NAFTA or ASEAN FTA, see Appendix table 23. Trade provisions may have helped FDI. Although there are South African investments outside SADC, they are small so that there is a close correlation between that region and South African FDI. Other African investment is also normally within regions, for example, the high share of Kenya in its neighbours. The shift of Tanzania from the region which matched its trading interests (COMESA) to the region which matched its investment inflows (SADC) suggests a strong relationship between regions and investments. But in SADC, the cause may be in the inverse direction; the investment patterns may help to explain the region (as in the case of Tanzania). SADC was originally made up of the countries most strongly affected by the old regime in South Africa, the Front Line states, and it remains an association of the countries most closely linked to its economy.

Unfortunately, we do not have data on the African currency unions to see how they have influenced intra-union FDI, but total flows within them appear to be small.

*6.2.5 Changes in policy on inward and outward investment laws*

The number of Bilateral Investment Treaties has been increasing recently (Appendix table 24), but overall the number of African BITs is low by world and developing country standard. The number of intra African BITs is usually a low share of total BITs, though South Africa is catching up. UNCTAD World Investment Report (WIR) 2004 emphasised regulatory frameworks and BITs in explaining South African investment, but these do not seem to give it a special advantage, in the countries where it invests or over other countries.

**Box African FDI in African Infrastructure: changes in regulation/privatisation**

Deregulation and privatisation of infrastructure in Africa has lagged behind other regions. However, South Africa and Mauritius privatised fixed line telecommunications and attracted extra African foreign investors; Tanzania also sold off fixed line telecommunications; Lesotho's Tele-Com was sold in part to South Africa, Zimbabwe and Mauritius.

In mobile telecommunications, South Africa's MTN and Vodacom followed different strategies. MTN has since the mid 1990s invested in foreign markets such as Nigeria, Rwanda, Uganda, Swaziland, Cameroon. While relying much more on the local South African market, Vodacom has also expanded into Mozambique, Lesotho, Tanzania, DRC and Zambia. Mauritius Telecom bought shares in Burundi's Africell.

These examples show that there are examples of intra-African FDI through liberalisation in infrastructure – so far most has been limited to telecommunications.

Source: http://ppi.worldbank.org and Goldstein, 2003

Privatisation is suggested (e.g UNCTAD WIR 2004) as an important influence and it has attracted some major intra-African investments into infrastructure (e.g. MTN in telecommunications and Eskom in power), but half is in South Africa most of which is by South Africa. As with the FDI data while the privatisations have been small in absolute terms in most African countries (Appendix table 25), South Africa's role may have been large.

The revenues of privatisation in Africa were less than 1% of total revenue in developing countries over the period 1985-1999 (Brune et al 2004). However, since then there have been some increases and some privatised assets have been taken over by South Africa companies (e.g. MTN, Sasol, Vodacom).

*6.2.6 Changes in relative costs of production*

This argument aims to explain FDI by relative unit labour costs and relative user costs of capital (measured by interest rates). For instance, labour costs are lower in Mozambique and Madagascar than in Mauritius, which is one for the reasons for Mauritian outward FDI to these countries. The major example is South African investment in other SADC countries which offer lower wages and (increasingly) good trade access. The aluminium investment in Mozambique depended on low cost energy.

*6.2.7 Changes in strategy*

Some South African companies clearly have a global strategy: e.g. SABMiller becoming a global player; MTN and Vodacom becoming important regional players.

Mauritius has systematically invested in other African countries in sectors which were becoming mature or facing cost or supply constraints within Mauritius (in sugar production in Mozambique, which has more land and improving access to protected markets); in Madagascar, which offers lower wages in clothing; and in Tanzania, which offers new opportunities in tourism. Illovo sugar from South Africa has invested in other African countries with more preferential trading arrangements with the EU and the US.

The South African companies which have invested in developing countries are in mining and low-technology manufacturing, so that there does not appear to be a motive of seeking access to new technologies, or of using company-specific technologies. Arguably, the growing South African role in telecommunications suggests that it is using a technological advantage, but it also has a capital cost advantage in these, and had the chance to develop a national industry in a larger market. Both South Africa and Mauritius appear to have the role of intermediary countries, receiving investment from developed countries, and investing in countries less developed than they are.

Where South African firms have a clear advantage is in the dual nature of the South African economy. This means that they have experience in dealing with economic structures and consumer preferences are similar to both the low income and poorly developed infrastructure countries where they invest in Africa and the more developed countries where most of their investment is.

*6.2.8 Region specific knowledge*

South Africa would claim this as an advantage. There is also a more sensitive aspect to this: by its strong presence in most of the countries in which it invests, it has acquired influence over their economic policies. Particularly within a regional context, where new policies are being agreed regionally, this gives it a significant advantage.

*6.2.9 Complementarity with trade*

This does not seem to be supported by the investment data. The dependence of South Africa's neighbours on it for investment is much greater than their trade dependence, and neither South Africa nor Mauritius has the same pattern for investment as for trade. The investment in most of the African countries is for local sales for example (in services including distribution) or for export to third countries (especially in natural resources), not to replace the home country's exports or to encourage trade back to it.

*6.2.10 Emergence of key African investors*

South Africa and Mauritius may be emerging as disproportionately important investors, at least at regional level. Both have clear national economic strategies that depend on investment in their neighbours; both have national companies that are 'too large' for the domestic markets, and seeking outlets.

*6.2.11 Steps towards a conclusion*

There is too little information to come to firm conclusions about whether there are special factors determining African investment. It is clearly possible to find explanations within the normal theory for most of what we observe, but there remains the fact that the very asymmetric role of South Africa and of South African investments is not paralleled in other continents or in other African countries, and as a single observation it is difficult to explain with any certainty.

For the non-southern African countries and for South African investment towards the developed countries, the sizes of the flows suggest no special explanations are needed. There are small, but useful markets, behind physical barriers, if not always behind policy barriers, and FDI is the normal response. Some have resources, particularly natural resources, which makes investment for export a reasonable prospect. Any permanent shift to higher commodity prices than have been experienced or expected in recent years could increase the number of African countries receiving this type of investment, as natural resources are their principal export.

For South Africa and its neighbours, a new economic structure seems to be emerging, with very high South African impact on a few economies. Some, the other members of the Southern African Customs Union, Botswana, Lesotho, Namibia and Swaziland are already closely tied to the South African economy by policy as well as economics. Mozambique could be moving in this direction, and a more closely integrated SADC could bring the other countries into that position. But the emergence of Mauritius as a

supplementary, if much smaller, source of investment in SADC, suggests that the pattern may be more complicated.

# Appendix

## Charts

**Chart 1**

*Annual growth in real per capita GDP (international PPP dollars, 1997–2002)*

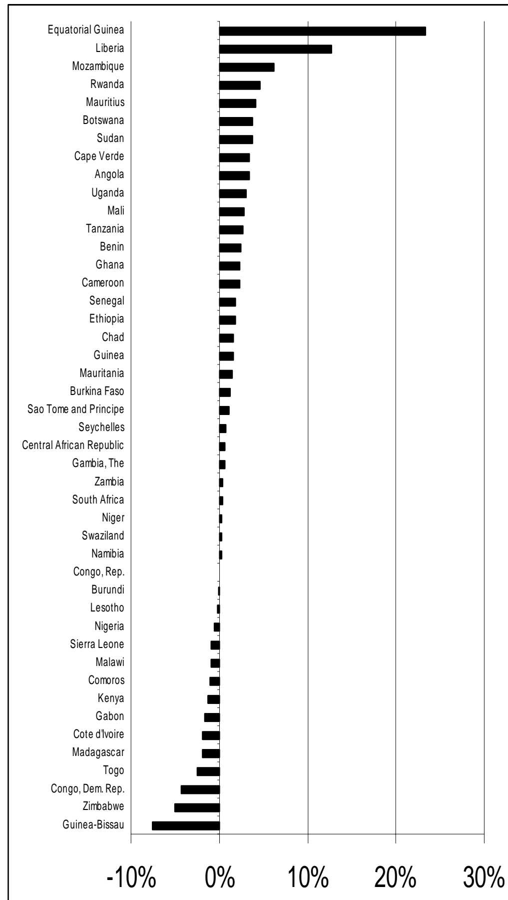
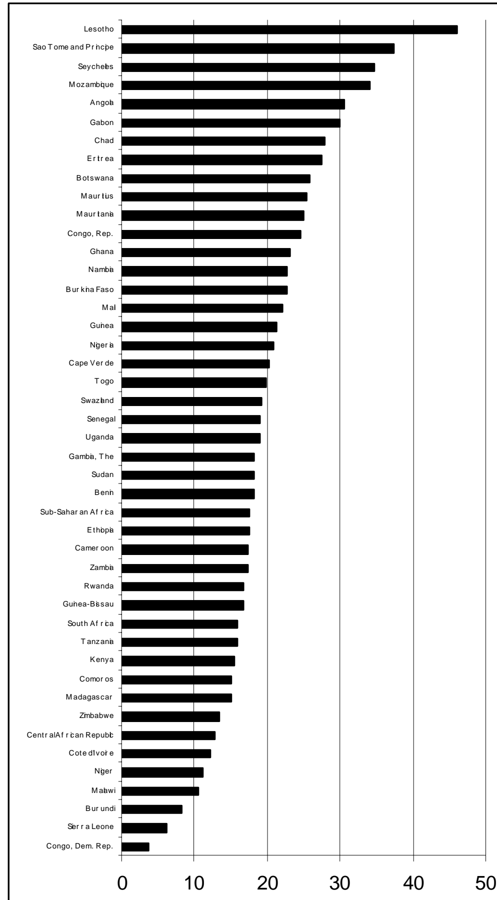


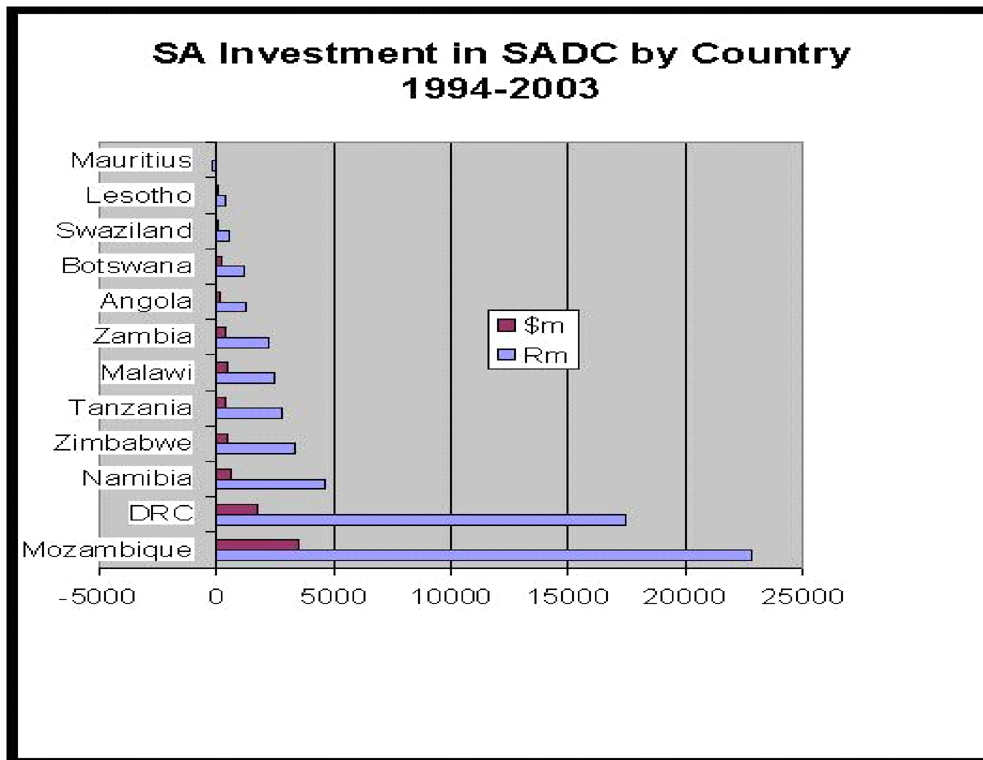

**Chart 2**

*Gross fixed capital formation, % of GDP (average 1997–2002)*




*Source*: World Development Indicators 2004

**Chart 3 South African investment in SADC by country 1994-2003**




*Source: The BusinessMap Foundation* in Humphries *2004*

Chart 3 shows different data from table 4 taken from *BusinessMap* for South African investment SADC. This shows for instance that South African FDI in Mozambique amounted to US$3 billion over 1994-2003. It should be noted that this is more than the FDI stock in 2002 on the basis of *Quarterly Bulletin* data. Part of the difference can be due to different time periods, but it is also possible that there are differences in measurement issues.

# Appendix tables

**Table 1 FDI outflows from Africa 1970-2003 US$ million**

| | Africa | North Africa | Other Africa |
|---|---|---|---|
| 1970 | 19 | 2 | 17 |
| 1971 | 31 | 1 | 30 |
| 1972 | 26 | 5 | 21 |
| 1973 | 61 | 3 | 58 |
| 1974 | 128 | -1 | 129 |
| 1975 | 175 | 35 | 140 |
| 1976 | 94 | 4 | 90 |
| 1977 | 226 | 122 | 103 |
| 1978 | 334 | 81 | 253 |
| 1979 | 115 | 73 | 41 |
| 1980 | 1128 | 126 | 1002 |
| 1981 | 813 | 83 | 730 |
| 1982 | 248 | 78 | 171 |
| 1983 | 307 | 101 | 206 |
| 1984 | 368 | 92 | 277 |
| 1985 | 357 | 67 | 290 |
| 1986 | -60 | 66 | -126 |
| 1987 | 432 | 186 | 246 |
| 1988 | 473 | 109 | 363 |
| 1989 | 1200 | 106 | 1094 |
| 1990 | 2098 | 135 | 1962 |
| 1991 | 1515 | 313 | 1203 |
| 1992 | 2509 | -100 | 2609 |
| 1993 | 742 | -426 | 1168 |
| 1994 | 1913 | 138 | 1775 |
| 1995 | 2976 | 137 | 2839 |
| 1996 | 1418 | 101 | 1317 |
| 1997 | 3812 | 476 | 3336 |
| 1998 | 1982 | 367 | 1614 |
| 1999 | 2564 | 313 | 2252 |
| 2000 | 1319 | 227 | 1092 |
| 2001 | -2535 | 202 | -2738 |
| 2002 | 115 | 266 | -152 |
| 2003 | 1288 | 148 | 1140 |

Source: www.unctad.org

**Table 2 Outward FDI by African countries, stocks 2003, US$ million**

| Country | Value |
|---|---|
| South Africa | 24195 |
| Nigeria | 4646 |
| Libyan Arab Jamahiriya | 1524 |
| Liberia | 1437 |
| Botswana | 1304 |
| Morocco | 874 |
| Egypt | 716 |
| Côte d'Ivoire | 683 |
| Ethiopia | 536 |
| Ghana | 528 |
| Algeria | 466 |
| Gabon | 287 |
| Cameroon | 264 |
| Zimbabwe | 253 |
| Uganda | 230 |
| Mauritius | 186 |
| Seychelles | 162 |
| Mali | 161 |
| Senegal | 159 |
| Niger | 140 |
| Kenya | 123 |
| Togo | 116 |
| Chad | 81 |
| Benin | 66 |
| Swaziland | 57 |
| Gambia | 53 |
| Tunisia | 44 |
| Central African Republic | 44 |
| Namibia | 31 |
| Burkina Faso | 27 |
| Malawi | 25 |
| Guinea | 14 |
| Cape Verde | 8 |
| Rwanda | 5 |
| Madagascar | 4 |
| Mauritania | 3 |
| Equatorial Guinea | 3 |
| Burundi | 2 |
| Comoros | 2 |
| Mozambique | 1 |
| Lesotho | 1 |
| Angola | 0 |
| Congo | 0 |
| Congo, DR | 0 |
| Djibouti | 0 |
| Eritrea | 0 |
| Guinea-Bissau | 0 |
| São Tomé and Principe | 0 |
| Sierra Leone | 0 |
| Somalia | 0 |
| Sudan | 0 |
| United Republic of Tanzania | 0 |
| Zambia | 0 |

Source: www.unctad.org

**Table 3 Inward FDI Stocks in African countries, 2003, US$ million**

| Country | US$ million |
|---|---|
| South Africa | 30373 |
| Nigeria | 23770 |
| Egypt | 20983 |
| Tunisia | 16567 |
| Angola | 13182 |
| Morocco | 11608 |
| Algeria | 6336 |
| Côte d'Ivoire | 4083 |
| Sudan | 4033 |
| Equatorial Guinea | 3808 |
| Chad | 2895 |
| Liberia | 2750 |
| United Republic of Tanzania | 2583 |
| Congo | 2480 |
| Zambia | 2341 |
| Uganda | 2042 |
| Mozambique | 1842 |
| Ghana | 1746 |
| Cameroon | 1730 |
| Namibia | 1176 |
| Zimbabwe | 1134 |
| Ethiopia | 1096 |
| Botswana | 1080 |
| Kenya | 1046 |
| Senegal | 992 |
| Congo, DR | 974 |
| Mauritius | 822 |
| Seychelles | 748 |
| Swaziland | 719 |
| Mali | 692 |
| Benin | 668 |
| Togo | 567 |
| Mauritania | 562 |
| Madagascar | 482 |
| Niger | 454 |
| Lesotho | 427 |
| Malawi | 376 |
| Eritrea | 355 |
| Gambia | 324 |
| Guinea | 303 |
| Rwanda | 268 |
| Cape Verde | 209 |
| Burkina Faso | 163 |
| Central African Republic | 119 |
| Djibouti | 52 |
| Guinea-Bissau | 50 |
| Burundi | 48 |
| Sierra Leone | 33 |
| São Tomé and Principe | 28 |
| Comoros | 23 |
| Gabon | 20 |
| Somalia | 5 |
| Libyan Arab Jamahiriya | -4054 |

Source: www.unctad.org

**Table 4 Outward FDI by African countries, average annual flows 1999-2003, US$ million**

| Country | US$ million |
|---|---|
| Liberia | 166 |
| Libyan Arab Jamahiriya | 120 |
| Botswana | 94 |
| Nigeria | 93 |
| Ghana | 60 |
| Morocco | 43 |
| Algeria | 38 |
| Egypt | 30 |
| Mali | 21 |
| Mauritius | 15 |
| Côte d'Ivoire | 13 |
| Ethiopia | 11 |
| Senegal | 10 |
| Seychelles | 8 |
| Gabon | 8 |
| Benin | 7 |
| Togo | 6 |
| Zimbabwe | 6 |
| Gambia | 5 |
| Congo | 4 |
| Malawi | 3 |
| Cameroon | 3 |
| Guinea | 2 |
| Kenya | 2 |
| Burkina Faso | 1 |
| Tunisia | 1 |
| Rwanda | 1 |
| Cape Verde | 1 |
| Equatorial Guinea | 0 |
| United Republic of Tanzania | 0 |
| Central African Republic | 0 |
| Madagascar | 0 |
| Burundi | 0 |
| Swaziland | 0 |
| Mozambique | 0 |
| Lesotho | 0 |
| Guinea-Bissau | 0 |
| Comoros | 0 |
| Congo, DR | 0 |
| Djibouti | 0 |
| Eritrea | 0 |
| Mauritania | 0 |
| São Tomé and Principe | 0 |
| Somalia | 0 |
| Sudan | 0 |
| Zambia | 0 |
| Sierra Leone | 0 |
| Angola | 0 |
| Chad | 0 |
| Niger | -1 |
| Namibia | -4 |
| Uganda | -14 |
| South Africa | -202 |

Source: www.unctad.org

**Table 5 Inward FDI by African countries, average annual flows 1999-2003, US$ million**

| Country | US$ million |
|---|---|
| South Africa | 2140 |
| Angola | 1711 |
| Morocco | 1330 |
| Nigeria | 1104 |
| Algeria | 768 |
| Egypt | 739 |
| Sudan | 680 |
| Tunisia | 608 |
| Equatorial Guinea | 606 |
| Chad | 492 |
| United Republic of Tanzania | 356 |
| Côte d'Ivoire | 290 |
| Congo | 255 |
| Mozambique | 254 |
| Uganda | 252 |
| Namibia | 167 |
| Ghana | 133 |
| Botswana | 123 |
| Zambia | 108 |
| Cameroon | 108 |
| Mauritania | 93 |
| Mauritius | 92 |
| Mali | 83 |
| Congo, DR | 78 |
| Senegal | 75 |
| Ethiopia | 72 |
| Swaziland | 67 |
| Seychelles | 57 |
| Madagascar | 54 |
| Kenya | 48 |
| Libyan Arab Jamahiriya | 47 |
| Gambia | 46 |
| Benin | 46 |
| Togo | 43 |
| Eritrea | 33 |
| Lesotho | 32 |
| Malawi | 27 |
| Zimbabwe | 26 |
| Cape Verde | 24 |
| Guinea | 23 |
| Niger | 15 |
| Liberia | 12 |
| Burkina Faso | 12 |
| Djibouti | 5 |
| Rwanda | 5 |
| Sierra Leone | 5 |
| São Tomé and Principe | 5 |
| Central African Republic | 4 |
| Guinea-Bissau | 3 |
| Burundi | 2 |
| Comoros | 1 |
| Somalia | 0 |
| Gabon | -6 |

Source: www.unctad.org

**Table 6 Outward FDI flows by African countries 2003, US$ million**

| Country | US$ million |
|---|---|
| South Africa | 720 |
| Liberia | 130 |
| Libyan Arab Jamahiriya | 100 |
| Nigeria | 93 |
| Ghana | 55 |
| Mauritius | 41 |
| Botswana | 40 |
| Ethiopia | 25 |
| Egypt | 21 |
| Algeria | 14 |
| Mali | 13 |
| Morocco | 12 |
| Senegal | 11 |
| Seychelles | 8 |
| Gambia | 7 |
| Zimbabwe | 5 |
| Malawi | 3 |
| Benin | 3 |
| Cameroon | 3 |
| Kenya | 2 |
| Guinea | 2 |
| Côte d'Ivoire | 2 |
| Tunisia | 1 |
| Rwanda | 1 |
| Burkina Faso | 1 |
| Cape Verde | 1 |
| United Republic of Tanzania | 0 |
| Madagascar | 0 |
| Burundi | 0 |
| Gabon | 0 |
| Equatorial Guinea | 0 |
| Central African Republic | 0 |
| Lesotho | 0 |
| Chad | 0 |
| Mozambique | 0 |
| Guinea-Bissau | 0 |
| Comoros | 0 |
| Congo, Democratic Republic | 0 |
| Djibouti | 0 |
| Eritrea | 0 |
| Mauritania | 0 |
| São Tomé and Principe | 0 |
| Somalia | 0 |
| Sudan | 0 |
| Zambia | 0 |
| Sierra Leone | 0 |
| Angola | 0 |
| Congo | -1 |
| Swaziland | -1 |
| Niger | -1 |
| Togo | -2 |
| Namibia | -6 |
| Uganda | -15 |

Source: www.unctad.org

**Table 7 Inward FDI flows by African countries, 2003, US$ million**

| Country | US$ million |
|---|---|
| Morocco | 2279 |
| Equatorial Guinea | 1431 |
| Angola | 1415 |
| Sudan | 1349 |
| Nigeria | 1200 |
| Chad | 837 |
| South Africa | 762 |
| Libyan Arab Jamahiriya | 700 |
| Algeria | 634 |
| Tunisia | 584 |
| Côte d'Ivoire | 389 |
| Congo | 386 |
| Mozambique | 337 |
| Uganda | 283 |
| United Republic of Tanzania | 248 |
| Egypt | 237 |
| Cameroon | 215 |
| Mauritania | 214 |
| Congo, Democratic Republic | 158 |
| Ghana | 137 |
| Mali | 129 |
| Zambia | 100 |
| Botswana | 86 |
| Namibia | 84 |
| Kenya | 82 |
| Senegal | 78 |
| Mauritius | 70 |
| Ethiopia | 60 |
| Gambia | 60 |
| Seychelles | 58 |
| Gabon | 53 |
| Benin | 51 |
| Madagascar | 50 |
| Swaziland | 44 |
| Lesotho | 42 |
| Niger | 31 |
| Malawi | 23 |
| Eritrea | 22 |
| Zimbabwe | 20 |
| Togo | 20 |
| Cape Verde | 14 |
| Djibouti | 11 |
| Burkina Faso | 11 |
| São Tomé and Principe | 10 |
| Guinea | 8 |
| Sierra Leone | 8 |
| Rwanda | 5 |
| Central African Republic | 4 |
| Guinea-Bissau | 2 |
| Comoros | 1 |
| Somalia | 1 |
| Liberia | 0 |
| Burundi | 0 |

Source: www.unctad.org

**Table 8 Outward FDI flows as % of gross fixed capital formation, average 1999-2003**

| Country | % |
|---|---|
| Botswana | 8 |
| Gambia | 7 |
| Ghana | 4 |
| Seychelles | 4 |
| Mali | 4 |
| Libyan Arab Jamahiriya | 4 |
| Nigeria | 4 |
| Togo | 3 |
| Malawi | 2 |
| Benin | 2 |
| Mauritius | 1 |
| Ethiopia | 1 |
| Senegal | 1 |
| Côte d'Ivoire | 1 |
| Zimbabwe | 1 |
| Gabon | 1 |
| Cape Verde | 1 |
| Morocco | 1 |
| Congo | 0 |
| Guinea | 0 |
| Algeria | 0 |
| Burundi | 0 |
| Rwanda | 0 |
| Burkina Faso | 0 |
| Cameroon | 0 |
| Egypt | 0 |
| Central African Republic | 0 |
| Kenya | 0 |
| Equatorial Guinea | 0 |
| Madagascar | 0 |
| United Republic of Tanzania | 0 |
| Angola | 0 |
| Comoros | 0 |
| Congo, DR | 0 |
| Djibouti | 0 |
| Eritrea | 0 |
| Guinea-Bissau | 0 |
| Lesotho | 0 |
| Liberia | 0 |
| Mauritania | 0 |
| Mozambique | 0 |
| São Tomé and Principe | 0 |
| Sierra Leone | 0 |
| Somalia | 0 |
| Sudan | 0 |
| Tunisia | 0 |
| Zambia | 0 |
| Chad | 0 |
| Swaziland | 0 |
| Niger | -1 |
| Namibia | -1 |
| Uganda | -1 |
| South Africa | -2 |

Source: www.unctad.org

**Table 9 Inward FDI flows as % of gross fixed capital formation, average 1999-2003**

| Country | % |
|---|---|
| Equatorial Guinea | 127 |
| Chad | 70 |
| Gambia | 64 |
| Angola | 55 |
| Sudan | 42 |
| Nigeria | 41 |
| Mauritania | 35 |
| Congo | 29 |
| Seychelles | 29 |
| Mozambique | 28 |
| Swaziland | 27 |
| Namibia | 25 |
| United Republic of Tanzania | 24 |
| Côte d'Ivoire | 23 |
| São Tomé and Principe | 22 |
| Cape Verde | 21 |
| Uganda | 21 |
| Togo | 20 |
| Zambia | 19 |
| Congo, DR | 16 |
| Morocco | 16 |
| Mali | 14 |
| Malawi | 13 |
| Eritrea | 12 |
| South Africa | 12 |
| Tunisia | 11 |
| Sierra Leone | 10 |
| Botswana | 10 |
| Benin | 10 |
| Ghana | 10 |
| Lesotho | 9 |
| Senegal | 9 |
| Mauritius | 8 |
| Djibouti | 8 |
| Madagascar | 8 |
| Guinea-Bissau | 8 |
| Niger | 7 |
| Ethiopia | 7 |
| Cameroon | 7 |
| Algeria | 6 |
| Burundi | 4 |
| Egypt | 4 |
| Zimbabwe | 3 |
| Kenya | 3 |
| Guinea | 3 |
| Central African Republic | 3 |
| Comoros | 2 |
| Burkina Faso | 2 |
| Rwanda | 2 |
| Libyan Arab Jamahiriya | 1 |
| Liberia | 0 |
| Somalia | 0 |
| Gabon | -1 |

Source: www.unctad.org

**Table 10 Outward FDI flows as % of gross fixed capital formation, 2003**

| Country | % |
|---|---|
| Gambia | 9.4 |
| Ghana | 4.3 |
| Seychelles | 4 |
| Mauritius | 3.3 |
| Botswana | 3.2 |
| Libyan Arab Jamahiriya | 2.9 |
| South Africa | 2.9 |
| Nigeria | 2.8 |
| Mali | 2.3 |
| Ethiopia | 2.3 |
| Malawi | 1.9 |
| Senegal | 1.3 |
| Benin | 0.7 |
| Zimbabwe | 0.6 |
| Cape Verde | 0.6 |
| Guinea | 0.3 |
| Rwanda | 0.2 |
| Cameroon | 0.2 |
| Egypt | 0.2 |
| Côte d'Ivoire | 0.1 |
| Morocco | 0.1 |
| Algeria | 0.1 |
| Burkina Faso | 0.1 |
| Kenya | 0.1 |
| Gabon | 0 |
| Burundi | 0 |
| Central African Republic | 0 |
| Equatorial Guinea | 0 |
| Madagascar | 0 |
| United Republic of Tanzania | 0 |
| Angola | 0 |
| Comoros | 0 |
| Congo, Democratic Republic | 0 |
| Djibouti | 0 |
| Eritrea | 0 |
| Guinea-Bissau | 0 |
| Lesotho | 0 |
| Liberia | 0 |
| Mauritania | 0 |
| Mozambique | 0 |
| São Tomé and Principe | 0 |
| Sierra Leone | 0 |
| Somalia | 0 |
| Sudan | 0 |
| Tunisia | 0 |
| Zambia | 0 |
| Chad | 0 |
| Congo | -0.1 |
| Swaziland | -0.3 |
| Niger | -0.6 |
| Namibia | -0.9 |
| Togo | -1 |
| Uganda | -1.1 |

Source:www.unctad.org

**Table 11 Inward FDI flows as % of gross fixed capital formation, 2003**

| Country | % |
|---|---|
| Equatorial Guinea | 295.9 |
| Chad | 127.9 |
| Gambia | 83.6 |
| Sudan | 80.1 |
| Mauritania | 79.5 |
| São Tomé and Principe | 45.7 |
| Angola | 43.9 |
| Congo | 37.5 |
| Nigeria | 36 |
| Côte d'Ivoire | 34.2 |
| Mozambique | 29.9 |
| Seychelles | 28.9 |
| Congo, Democratic Republic | 23.6 |
| Mali | 22.4 |
| Morocco | 22.2 |
| Uganda | 20.9 |
| Libyan Arab Jamahiriya | 19.9 |
| Swaziland | 18.2 |
| Djibouti | 17.2 |
| Zambia | 16.2 |
| United Republic of Tanzania | 15.6 |
| Niger | 14.3 |
| Cameroon | 13.8 |
| Cape Verde | 12.8 |
| Malawi | 12.4 |
| Namibia | 12.3 |
| Benin | 10.8 |
| Ghana | 10.7 |
| Tunisia | 9.7 |
| Lesotho | 9.6 |
| Togo | 9 |
| Senegal | 9 |
| Eritrea | 8.9 |
| Botswana | 6.9 |
| Guinea-Bissau | 6.5 |
| Sierra Leone | 5.7 |
| Mauritius | 5.5 |
| Ethiopia | 5.4 |
| Madagascar | 5.3 |
| Kenya | 5.2 |
| Gabon | 4 |
| Algeria | 3.9 |
| Comoros | 3.8 |
| South Africa | 3 |
| Central African Republic | 2.8 |
| Zimbabwe | 2.5 |
| Egypt | 2 |
| Rwanda | 1.6 |
| Burkina Faso | 1.4 |
| Guinea | 1.2 |
| Burundi | 0 |
| Liberia | 0 |
| Somalia | 0 |

Source: www.unctad.org

**Table 12 Inward FDI flows minus outward FDI flows, average annual flows 1999-2003, US$ million**

| Country | US$ million |
|---|---|
| South Africa | 2341 |
| Angola | 1711 |
| Morocco | 1287 |
| Nigeria | 1011 |
| Algeria | 730 |
| Egypt | 709 |
| Sudan | 680 |
| Equatorial Guinea | 606 |
| Tunisia | 606 |
| Chad | 492 |
| United Republic of Tanzania | 356 |
| Côte d'Ivoire | 277 |
| Uganda | 266 |
| Mozambique | 254 |
| Congo | 251 |
| Namibia | 172 |
| Zambia | 108 |
| Cameroon | 105 |
| Mauritania | 93 |
| Congo, DR | 78 |
| Mauritius | 78 |
| Ghana | 74 |
| Swaziland | 67 |
| Senegal | 65 |
| Mali | 62 |
| Ethiopia | 61 |
| Madagascar | 54 |
| Seychelles | 49 |
| Kenya | 46 |
| Gambia | 41 |
| Benin | 38 |
| Togo | 36 |
| Eritrea | 33 |
| Lesotho | 32 |
| Botswana | 29 |
| Cape Verde | 24 |
| Malawi | 23 |
| Zimbabwe | 21 |
| Guinea | 20 |
| Niger | 16 |
| Burkina Faso | 10 |
| Djibouti | 5 |
| Sierra Leone | 5 |
| São Tomé and Principe | 5 |
| Central African Republic | 4 |
| Rwanda | 4 |
| Guinea-Bissau | 3 |
| Burundi | 2 |
| Comoros | 1 |
| Somalia | 0 |
| Gabon | -15 |
| Libyan Arab Jamahiriya | -73 |
| Liberia | -154 |

Source: www.unctad.org

**Table 13 African growth and investment performances**

| | Fixed investment as % of GDP, 1998-2002 | GDP per capita growth, 1998-2002, actual and rank | |
|---|---|---|---|
| Equatorial Guinea | 91.6 | 23.8 | 1 |
| Lesotho | 46.3 | -0.2 | 36 |
| Angola | 36.9 | 3.5 | 7 |
| Mozambique | 36.7 | 6.3 | 2 |
| Sao Tome and Principe | 35.2 | 1.1 | 25 |
| Seychelles | 34.8 | 0.9 | 26 |
| Chad | 30.7 | 1.7 | 21 |
| Gabon | 30.1 | -1.6 | 43 |
| Eritrea | 26.7 | -2.4 | 46 |
| Mauritania | 26.4 | 1.5 | 23 |
| Tunisia | 25.6 | 3.2 | 9 |
| Algeria | 24.5 | 1.9 | 17 |
| Botswana | 24.3 | 3.8 | 5 |
| Mauritius | 24.2 | 4.1 | 4 |
| Congo, Rep. | 23.8 | 0.1 | 34 |
| Morocco | 23.0 | 1.9 | 18 |
| Mali | 22.4 | 2.9 | 11 |
| Ghana | 22.4 | 2.4 | 15 |
| Burkina Faso | 22.2 | 1.2 | 24 |
| Namibia | 21.9 | 0.2 | 33 |
| Nigeria | 21.5 | -0.6 | 37 |
| Guinea | 19.9 | 1.6 | 22 |
| Cape Verde | 19.9 | 3.5 | 8 |
| Uganda | 19.1 | 3.1 | 10 |
| Swaziland | 18.9 | 0.3 | 32 |
| Gambia, The | 18.5 | 0.7 | 27 |
| Senegal | 18.3 | 1.9 | 20 |
| Egypt, Arab Rep. | 18.2 | 2.5 | 13 |
| Togo | 18.2 | -2.4 | 47 |
| Benin | 18.1 | 2.5 | 14 |
| Cameroon | 17.7 | 2.4 | 16 |
| Ethiopia | 17.6 | 1.9 | 19 |
| Rwanda | 17.4 | 4.7 | 3 |
| Zambia | 16.6 | 0.4 | 29 |
| Tanzania | 16.0 | 2.7 | 12 |
| Guinea-Bissau | 15.7 | -6.6 | 50 |
| Madagascar | 15.5 | -1.7 | 44 |
| South Africa | 15.4 | 0.3 | 31 |
| Kenya | 14.7 | -1.2 | 42 |
| Central African Republic | 13.6 | 0.7 | 28 |
| Sudan | 13.3 | 3.7 | 6 |
| Cote d'Ivoire | 12.5 | -1.8 | 45 |
| Djibouti | 12.3 | -1.1 | 41 |
| Zimbabwe | 12.3 | -5.0 | 49 |
| Libya | 12.3 | | |
| Comoros | 12.2 | -1.1 | 40 |
| Malawi | 11.5 | -0.9 | 39 |
| Niger | 11.1 | 0.4 | 30 |
| Burundi | 7.2 | 0.0 | 35 |
| Sierra Leone | 6.5 | -0.7 | 38 |
| Congo, Dem. Rep. | 4.0 | -4.3 | 48 |

Source: WDI 2004; 2002 is the latest year for which data are available. There are missing data for some countries.

**Table 14 Prominent South African investments in Africa since 1998**

| Investment | Target country | Investor and project details | Type | Amount | Date |
|---|---|---|---|---|---|
| **Resources and resource-related** | | | | | |
| Gas to liquid plant | Nigeria | Sasol SA (construction commenced, main office located in Nigeria as well as Lusaka, Maputo, Harare and Gaborone) | new | not known | 2003 |
| Luarica and Fucauma alluvial diamond concession | Angola | Trans Hex joint venture with Angolan State Diamond Organisation | PPP | $30m | 2002 |
| Kipushi Zinc Mine and Kamoto Copper Mine | DRC | Kumba Resources (Kamoto with IDC) | new | $123,5m | 2002 |
| Navachab Gold Mine | Namibia | AngloGold | expansion | not known | 2002 |
| Mimosa Mining Company | Zimbabwe | Implats through ZCE Platinum (35 to 50% stake), joint venture with Aquarius Platinum | merger/ acquisition | $12m | 2002 |
| Zimbabwe Platinum (Zimplats) | Zimbabwe | Implats (30 to 51% acquisition) | merger/ acquisition | R202m | 2002 |
| Independence Gold Mines | Zimbabwe | Metallon Corporation acquisition from Lonmin | merger/ acquisition | R161m | 2002 |
| Kamoto Copper Mine | DRC | Kumba Resources (expression of interest, with IDC) | interest | R1,339m | 2002 |
| Geita Gold Mine | Tanzania | AngloGold, with Ashanti Goldfields (AngloGold currently contemplating a merger with or acquisition of Ashanti) | new | $400m | 2000 |
| Mozal II | Mozambique | Multi-state including IDC (24%) | expansion | $860m | 2001 |
| Rand Air Mozambican operations | Mozambique | Withdrawal of Rand Air (air compressor and generator hire) – corruption and bureaucracy | disinvestment | not known | 2001 |
| Mererani Tanzanite Project | Tanzania | African Gem Resources (Afgem) | new | R173m | 2001 |
| Zimplats | Zimbabwe | Implats (30% acquisition, with ABSA Bank) | merger/ acquisition | R131m | 2001 |
| Ngezi opencast mine, Hartley Platinum | Zimbabwe | Implats (30% with Zimplats) | new | R240m | 2001 |
| Etame Oil | Gabon | Sasol SA | new | not known | .. |
| Pande and Temane gas fields, Temane processing facility | Mozambique | Sasol SA (construction commissioned with $64m worth of cross-border pipes to reach Secunda by 2004) | new | $1,2m | 2001 |
| Bulk emulsion plant (mining solution) | Ethiopia | AECI (already manufacturing Dulux products in Botswana, Malawi, Mozambique, Swaziland and Zimbabwe,with operations in seven African countries outside South Africa) | new | R10m | 200 |
| **Investment** | **Target country** | **Investor and project details** | **Type** | **Amount** | **Date** |
| Chambishi Metals | Zambia | Anglovaal (Avmin) – privatization (withdrawal expected 2003) | privatisation | $150m | 1998 |
| Kudu gas fields | Namibia | 10% by Energy Africa, with Shell (also interests in Equatorial Guinea, Congo, Egypt, Gabon, Libya, Mauritania, Morocco and Uganda, and production in Congo and Gabon) | exploration | $400m | licence expires 2005 |
| **Retail/ consumer (selected major investments only)** | | | | | |
| Shoprite/Megasave distribution centre | Angola | Shoprite | new | R113m | 2002 |
| Protea Hotel Rhyalls | Malawi | Protea's new hotel in Blantyre(also expansion in Zambia, Tanzania) | expansion | $4,5m | 2002 |
| Champion supermarket group | Madagascar | Shoprite | merger/ acquisition | not known | 2002 |
| Laurentina | Mozambique | South African Breweries through Cervejas de Mocambique (78% holding from Castel subsidiary) | merger/ acquisition | not known | 2002 |
| Vilanculos Sanctuary | Mozambique | Jordan Properties (concession) | privatisation | $20m | 2002 |
| Afri-Ski Mahlasela | Lesotho | Afri-Ski & Leisure, first ski resort Ski Resort in Lesotho | new | $10m | 2002 |
| Coca-Cola Bottling Luanda | Angola | South African Breweries (45%) | new | $19m | 2001 |
| Zambian Falls Entertainment and Convention Centre | Zambia | Kersaf (through Sun International) | new | $56m | 2001 |
| Royal Palm Hotel | Tanzania | Legacy Hotels and Resorts (intention) | new | $25m | 2001 |
| Pep Stores | Malawi | Pep Clothing – withdrawal | disinvestment | (R100m) | 2001 |
| Holiday Inn | Tanzania | Sun International | new | $13,2m | 2000 |
| **Financial services** | | | | | |
| Metropolitan Namibia | Namibia | 20% by Pinnacle (local empowerment consortium) from New Africa Capital | disinvestment | not known | 2002 |
| African Life | Zambia | African Life (extending operations in Botswana, Namibia, Kenya and Ghana) | expansion | not known | 2001 |
| Uganda commercial bank | Uganda | Stanbic Bank Uganda | merger/ acquisition | not known | 2001 |

| | | | | | |
|---|---|---|---|---|---|
| Banco Austral (formerly Popular Development Bank) | Mozambique | 80% by ABSA (re-privatisation) | privatisation | not known | 2001 |
| National Bank of Commerce | Tanzania | (70%, 15% of which sold to IFC) by ABSA | privatisation | $10m | 1999 |
| Commercial Bank of Zimbabwe | Zimbabwe | ABSA (privatisation, but minority stake) | merger/ acquisition | $8m | 1999 |
| Barclays of Swaziland | Swaziland | Standard Bank | merger/ acquisition | $10m | 1998 |
| **Agriculture** | | | | | |
| Accuara de Xinavane | Mozambique | Tongaat-Hulett (49%, PPP) | privatisation | $7m | 2001 |
| Mon Tresor and Mon Desert | Mauritius | 80,25% stake from Illovo to local consortium | disinvestment | (R472m) | 2001 |
| **Telecommunications/ infrastructure** | | | | | |
| Hydroelectric project | DRC | Eskom (expression of interest) | interest | $6,000m (expression of interest) | 2002 |
| Air Tanzania | Tanzania | SAA | merger/ acquisition | $20m | 2002 |
| Caminhos de Ferro de Mocambique | Mozambique | Spoornet, Ressano Garcia Railway Company (15-year concession) | privatisation | $78m | 2002 |
| Vodacom Mozambique | Mozambique | Vodacom, with 2% local consortium, Emotel and 23% warehoused (15-year licence) | new | $90m | 2002 |
| Mobile Malawi | Malawi | Ubambo Investments | new | $28m | 2002 |
| Vodacom DRC | DRC | Vodacom International (51%) in joint venture with Congolese Wireless Networks (CWN) | new | $139m | 2001 |
| Vodacom Tanzania Ltd | Tanzania | 65% by Vodacom International | new | $150m | 2000 |
| MTN Cameroon | Cameroon | MTN International – GSM licence | new | not known | 2000 |
| MTN Uganda | Uganda | 50% by MTN International – second national operator | new | $80m | 1998 |
| MTN Nigeria | Nigeria | 94% by MTN International – successful bid for GSM licence | new | $285m | 1998 |
| MTN Rwanda | Rwanda | 31% by MTN International – GSM licence | new | not known | 1998 |
| MTN Swaziland | Swaziland | Joint venture – GSM licence | new | not known | 1998 |

Source: DBSA (2004)

**Table 15 Mauritius. FDI to and from Mauritius 2003 (%)**

| Region/ economy | Inward | Outward |
|---|---|---|
| Developed countries | 19 | |
| European Union | 17 | |
| France | 8 | |
| United Kingdom | 9 | |
| United States | 2 | |
| Developing economies | 76 | 100 |
| Africa | 61 | |
| Reunion | 9 | 0 |
| South Africa | 52 | 1 |
| Madagascar | 0 | 4 |
| Mozambique | 0 | 45 |
| Asia | 15 | 0 |
| United Arab Emirates | 3 | 0 |
| China | 2 | 0 |
| India | 7 | 0 |
| Malaysia | 4 | 0 |
| Seychelles | 0 | 49 |

Source: Mauritius country paper

**Table 16 Ethiopia**

**A FDI flows to Ethiopia, by geographical origin, 1992-2004 (millions of dollars and percentage)**

| Region/ economy | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004* | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | US$ million | | | | | | | | | | | | | % |
| **Total world** | 0.2 | 3.5 | 17.2 | 14.1 | 21.9 | 288.5 | 260.7 | 70.0 | 134.6 | 349.4 | 255.0 | 465.0 | 545.1 | |
| **Developed countries** | - | - | 0.1 | - | 0.5 | 69.8 | 17.0 | 45.6 | 19.5 | 103.1 | 48.8 | 209.2 | 264.5 | 49 |
| European Union | - | - | 0.1 | - | - | 67.2 | 12.7 | 12.3 | 8.0 | 36.0 | 26.4 | 75.0 | 123.7 | 23 |
| Canada | - | - | - | - | 0.1 | - | 0.0 | - | - | - | - | 48.2 | 6.8 | 1 |
| United States | - | - | - | - | 0.4 | 0.5 | 0.1 | - | 0.3 | 67.1 | 21.3 | 82.2 | 123.1 | 23 |
| **Developing economies** | 0.2 | 3.5 | 17.2 | 14.1 | 21.5 | 218.4 | 207.7 | 23.6 | 113.3 | 231.6 | 194.4 | 233.1 | 218.4 | 40 |
| Africa | - | 0.3 | - | - | - | 0.7 | 0.9 | 0.8 | 0.7 | 8.8 | 7.7 | 52.1 | 52.0 | 10 |
| Asia | 0.2 | 3.2 | 17.2 | 14.1 | 21.5 | 217.8 | 206.8 | 22.8 | 112.6 | 222.8 | 185.5 | 173.9 | 162.4 | 30 |

**B Major African Investments Operating in Ethiopia**

| Name of Investor | Country of Origin | Value of Investment (Million USD) | Sector/Industry | Year of Establishment |
|---|---|---|---|---|
| ZAK Ethiopia Manufacturing & Trading P.L.C. | Kenya | 4.19 | Manufacturing | 1994 |
| Ethiopian Steel Plc | Kenya/Mauritus | 7.76 | Manufacturing | 1996 |
| Ali Mohammed Ali Ebrahim | Sudan | 2.39 | Construction | 1997 |
| Danie Johannes Oberholezen | South Africa | 0.87 | Other Businesses | 1997 |
| Ethiodream Plc | Italy/Yemen/South Africa | 1.51 | Agriculture | 1997 |
| Ethio-Libyan Joint Agricultural Co. | Libya | 1.28 | Construction | 1997 |
| Jaffar Enterprise "Blue Nile Tannery" Plc | Sudan | 1.50 | Manufacturing | 1997 |
| Kalu-Works Ethiopia P.L.C. | Kenya | 1.46 | Manufacturing | 1997 |
| ROTO Plc | Kenya | 0.50 | Manufacturing | 1997 |
| Shoe Wind Industries PLC | Britain/Kenya | 1.58 | Manufacturing | 1997 |
| Sodere Investment PLC Service | Sudan | 0.77 | Trade | 2003 |

Source: Ethiopia country paper

**Table 17. Uganda**
**A. FDI flows to Uganda, by geographical origin, fiscal year 1992/ 1993 to 2001/ 2002 (millions of dollars, percentage)**

| | 1992 /1993 | 1993 /1994 | 1994 /1995 | 1995 /1996 | 1996 /1997 | 1997 /1998 | 1998 /1999 | 1999 /2000 | 2000 /2001 | 2001 /2002 | 2002 /2003 | 2002 /2003 % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Region/economy** | **US $ million** | | | | | | | | | | | % |
| **Developed countries** | 16.9 | 33.8 | 42.6 | 44.8 | 63.1 | 73.6 | 89.0 | 103.7 | 88.1 | 139.5 | 129.2 | 53 |
| **European Union** | 13.7 | 27.5 | 34.6 | 36.4 | 51.3 | 59.8 | 72.4 | 84.3 | 71.6 | 40.0 | 37.0 | 15 |
| Netherlands | 1.6 | 3.1 | 4.0 | 4.2 | 5.9 | 6.8 | 8.3 | 9.6 | 8.2 | 9.8 | 9.1 | 4 |
| Sweden | 0.8 | 1.5 | 1.9 | 2.0 | 2.8 | 3.3 | 4.0 | 4.7 | 4.0 | 5.7 | 5.3 | 2 |
| United Kingdom | 10.2 | 20.5 | 25.8 | 27.2 | 38.3 | 44.6 | 54.0 | 62.9 | 53.5 | 24.3 | 22.5 | 9 |
| Canada | 2.1 | 4.2 | 5.3 | 5.6 | 7.9 | 9.2 | 11.1 | 12.9 | 11.0 | 7.5 | 7.0 | 3 |
| United States | 1.0 | 2.1 | 2.7 | 2.8 | 3.9 | 4.6 | 5.5 | 6.5 | 5.5 | 92.0 | 85.2 | 35 |
| **Developing economies** | 21.5 | 43.1 | 54.2 | 57.0 | 80.3 | 93.6 | 113.3 | 132.0 | 112.2 | 43.2 | 40.0 | 17 |
| **Africa** | 10.9 | 21.8 | 27.5 | 28.9 | 40.7 | 47.5 | 57.5 | 66.9 | 56.9 | 34.0 | 31.5 | 13 |
| Kenya | 4.2 | 8.4 | 10.6 | 11.1 | 15.7 | 18.3 | 22.2 | 25.8 | 21.9 | 6.6 | 6.1 | 3 |
| Mauritius | 1.6 | 3.2 | 4.0 | 4.2 | 5.9 | 6.9 | 8.3 | 9.7 | 8.2 | 7.4 | 6.9 | 3 |
| South Africa | 5.1 | 10.3 | 12.9 | 13.6 | 19.1 | 22.3 | 27.0 | 31.5 | 26.7 | 2.5 | 2.4 | 1 |
| Bermuda | 9.2 | 18.4 | 23.1 | 24.3 | 34.3 | 40.0 | 48.4 | 56.3 | 47.9 | 5.6 | 5.2 | 2 |
| **Asia and the Pacific** | 1.4 | 2.9 | 3.6 | 3.8 | 5.3 | 6.2 | 7.5 | 8.7 | 7.4 | 3.5 | 3.3 | 1 |
| India | 0.7 | 1.4 | 1.8 | 1.9 | 2.7 | 3.1 | 3.8 | 4.4 | 3.7 | 3.5 | 3.3 | 1 |
| Singapore | 0.7 | 1.4 | 1.8 | 1.9 | 2.7 | 3.1 | 3.8 | 4.4 | 3.7 | - | - | |

**B. FDI stock in Uganda, by geographical origin, 1999 - 2003 (millions of dollars)**

| **Region/economy** | **1999** | **2000** | **2001** | **2002** | **2003** |
|---|---|---|---|---|---|
| **Total world** | 666.9 | 807.1 | 962.3 | 1164.6 | 1358.8 |
| **Developed countries** | 251.3 | 319.4 | 363.7 | 472.5 | 579.6 |
| **European Union** | 198.4 | 265.6 | 319.8 | 359.5 | 395.4 |
| Belgium | | 19.9 | 21.4 | 21.2 | 20.9 |
| France | | 19.2 | 20.7 | 20.7 | 20.5 |
| Netherlands | 18.3 | 34.8 | 43.4 | 53.7 | 63.1 |
| Sweden | 10.3 | 15.4 | 20.6 | 27.0 | 32.9 |
| United Kingdom | 169.9 | 176.3 | 213.6 | 237.0 | 257.9 |
| Canada | 35.3 | 35.9 | 45.8 | 53.9 | 61.4 |
| United States | 17.6 | 17.9 | -1.8 | 59.0 | 122.9 |
| **Developing economies** | 322.5 | 403.7 | 467.0 | 478.5 | 487.9 |
| **Africa** | 159.4 | 208.8 | 240.7 | 245.2 | 249.4 |
| Kenya | 67.2 | 74.7 | 65.9 | 62.9 | 60.9 |
| Mauritius | 18.7 | 34.5 | 50.3 | 58.3 | 65.6 |
| South Africa | 73.5 | 99.6 | 124.4 | 124.0 | 122.9 |
| Bermuda | 139.7 | 170.2 | 198.3 | 203.1 | 206.2 |
| **Asia and the Pacific** | 23.4 | 24.7 | 27.9 | 30.2 | 32.3 |
| India | 11.9 | 12.2 | 13.5 | 15.8 | 18.1 |
| Singapore | 11.5 | 12.5 | 14.5 | 14.4 | 14.1 |

Source : Uganda country paper
Note: Data represent equity investment and are based on a survey of 326 companies.

**Table 18. United Republic of Tanzania**

**A. FDI flows in Tanzania, by geographical origin, 1999-2001**
(Millions of dollars)

| Region/economy | 1999 | 2000 | 2001 | 2001 |
|---|---|---|---|---|
| | **$ million** | | | % |
| Total world | 541.5 | 282.0 | 467.2 | |
| Developed countries | 245.3 | 128.2 | 240.3 | 51 |
| European Union | 36.6 | 26.6 | 141.4 | 30 |
| Netherlands | 5.6 | 1.6 | 58.5 | 13 |
| United Kingdom | 31.0 | 25.0 | 82.8 | 18 |
| Canada | 79.7 | - | 21.5 | 5 |
| United States | 24.2 | 27.8 | 27.8 | 6 |
| Australia | 49.0 | 4.0 | 3.9 | 1 |
| Others | 55.8 | 69.8 | 45.6 | 10 |
| Developing economies | 296.2 | 153.8 | 226.8 | 49 |
| Africa | 261.6 | 145.0 | 211.9 | 45 |
| Kenya | 21.3 | 6.5 | 14.2 | 3 |
| Mauritius | 16.7 | 4.6 | 3.7 | 1 |
| South Africa | 44.7 | 132.4 | 189.5 | 41 |
| Asia | 34.6 | 8.8 | 14.9 | 3 |

*Source: Tanzania Investment Report,* December 2001& upcoming report

**B. FDI stocks in Tanzania, by geographical origin, 1998 - 2001**
(Millions of dollars)

| **Region/economy** | **1998** | **1999** | **2000** | **2001** | **2001** |
|---|---|---|---|---|---|
| | **$ million** | | | | **%** |
| **Total world** | **1714.7** | **2 418.9** | **3 038.8** | **3 776.8** | **100** |
| **Developed countries** | 1 081.2 | 1 487.3 | 1 769.4 | 2 032.0 | 54 |
| European Union | 630.3 | 877.7 | 752.8 | 880.3 | 1 |
| Denmark | 25.1 | 47.6 | 36.3 | 35.5 | 1 |
| France | 31.6 | 47.1 | 20.5 | 33.6 | 1 |
| Germany | 36.7 | 51.0 | 22.4 | 52.6 | 1 |
| Italy | 71.3 | 57.9 | 57.5 | 63.6 | 2 |
| Netherlands | 111.4 | 117.2 | 47.1 | 105.4 | 3 |
| Sweden | 25.7 | 34.2 | 24.6 | 29.7 | 1 |
| United Kingdom | 328.5 | 495.4 | 534.5 | 559.9 | 15 |
| Norway | 33.0 | 36.9 | 31.7 | 26.2 | 1 |
| Switzerland | 29.6 | 30.1 | 127.5 | 115.5 | 3 |
| Canada | 101.2 | 184.0 | 406.7 | 430.6 | 5 |
| United States | 127.9 | 161.7 | 177.2 | 170.0 | 11 |
| Australia | 111.3 | 177.7 | 43.4 | 49.8 | 1 |
| Japan | 6.8 | 3.7 | 190.9 | 172.2 | 5 |
| **Developing economies** | 613.9 | 905.9 | 1268.9 | 1744.8 | 46 |
| Africa | 472.7 | 737.6 | 1 100.6 | 1 549.3 | |
| Ghana | 277.6 | 418.7 | 149.9 | 174.9 | 5 |
| Kenya | 56.2 | 55.8 | 113.7 | 275.5 | 7 |
| Mauritius | 73.7 | 89.0 | 175.8 | 171.4 | 5 |
| South Africa | 33.9 | 140.3 | 640.6 | 912.2 | 24 |
| Uganda | 0.4 | 5.4 | 1.5 | 1.6 | 0 |
| Asia | | | | | |
| United Arab Emirates | 2.3 | 3.0 | 17.7 | 17.0 | 0 |
| China | 10.4 | 10.6 | 23.0 | 23.7 | 1 |
| India | 4.9 | 5.6 | 11.1 | 15.0 | 0 |
| Malaysia | 42.4 | 48.5 | 41.2 | 41.5 | 1 |

**C. The number of affiliates of TNCs in Tanzania, by geographical origin, 1990-2000**

| Region/economy | 1990-2000 |
|---|---|
| **Total world** | 603 |
| **Developing economies** | 244 |
| Africa | 97 |
| North Africa | 4 |
| Egypt | 2 |
| Libyan Arab Jamahiriya | 2 |
| Other Africa | 93 |
| Ethiopia | 3 |
| Ghana | 3 |
| Kenya | 62 |
| Mauritania | 3 |
| Mauritius | 6 |
| Mozambique | 1 |
| Rwanda | 2 |
| Sierra Leone | 1 |
| Somalia | 2 |
| Uganda | 5 |
| Zimbabwe | 4 |

**D. Largest affiliates of African TNCs in the Tanzania, 2000** (Millions of dollars and number)

| Company | Home economy | Industry | Sales | Employees |
|---|---|---|---|---|
| **A. Industrial** | | | | |
| Ashanti Goldfields (Tanzania) Ltd. | Ghana (now South Africa) | Mining | 284.4 [a] | 20 [a] |
| Tanzania Breweries Ltd. (South African Breweries) | South Africa | Beverages | 185.9 | 1,266 |
| **B. Tertiary** | | | | |
| C Mehta and Company Tanzania Ltd. | Kenya | Distributive trade | .. | 20 [a] |
| **C. Finance and Insurance** | | | | |
| NBC (1997) Limited (Amalgamated Bank of South Africa) | South Africa | Banking | 385.4 | 1,100 |
| East African Development Bank | Uganda | Banking | 151.1 | .. |
| Stanbic Bank Tanzania Ltd. | South Africa | Banking | 140.5 | 159 |
| Delphis Bank | Kenya | Banking | .. | 90 [a] |

*a* Data refer to 1999.

Source: Tanzania Country Paper

**Table 19 Characteristics of African extra regional FDI (mn US$ for stocks and flows)**

| Host country | Variable, source region | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|
| in US | FDI stocks in US -total | | | | | | | | |
| | By Africa | | | | | | | 2298 | 2187 |
| | By South Africa | | | | | | | 493 | 376 |
| | Other Africa | | | | | | | 1805 | 1811 |
| | FDI stocks in US - manufacturing | | | | | | | | |
| | Africa | | | | | | | 663 | 653 |
| | South Africa | | | | | | | -26 | -37 |
| | Other Africa | | | | | | | 689 | 690 |
| In Germany | FDI stocks in Germany | | | | | | | | |
| | Africa | | | 216 | 178 | 101 | 755 | | |
| | South Africa | | | 88 | 117 | 40 | 688 | | |
| | Number of affiliates | | | | | | | | |
| | Africa | | | 40 | 42 | 37 | 41 | | |
| | South Africa | | | 11 | 20 | 17 | 20 | | |
| | Employment '000 | | | | | | | | |
| | Africa | | | 2 | 3 | 2 | 3 | | |
| | South Africa | | | 1 | 2 | 2 | 2 | | |
| | Sales | | | | | | | | |
| | Africa | | | 890 | 533 | 554 | 985 | | |
| | South Africa | | | 334 | 320 | 185 | 537 | | |
| In UK | FDI flows | | | | | | | | |
| | Africa | | | 2217 | 374 | 956 | 131 | 160 | |
| | South Africa | | | 1605 | 340 | 869 | 106 | 144 | |
| | Other Africa | | | 612 | 34 | 87 | 25 | 16 | |
| | Share SA in Africa | | | 0.72 | 0.91 | 0.91 | 0.81 | 0.90 | |
| | FDI stocks | | | | | | | | |
| | Africa | | | 4502 | 2496 | 3016 | 1901 | 962 | |
| | South Africa | | | 3369 | 2009 | 2227 | 1570 | 563 | |
| | Other Africa | | | 1133 | 487 | 788 | 332 | 399 | |
| | Share SA in Africa | | | 0.75 | 0.80 | 0.74 | 0.83 | 0.59 | |
| | Profits | | | | | | | | |
| | Africa | | | 19 | 333 | 414 | 319 | 223 | |
| | South Africa | | | -63 | 299 | 384 | 253 | 219 | |
| | Other Africa | | | 82 | 34 | 30 | 66 | 5 | |
| | Rate of return | | | | | | | | |
| | Africa | | | 0.00 | 0.13 | 0.14 | 0.17 | 0.23 | |
| | South Africa | | | -0.02 | 0.15 | 0.17 | 0.16 | 0.39 | |
| | Other Africa | | | 0.07 | 0.07 | 0.04 | 0.20 | 0.01 | |
| In Australia | FDI flows in Australia | | | | | | | | |
| | Africa | 53 | | 34 | 32 | | | | |
| | South Africa | 53 | 2 | 58 | 32 | 70 | | | |
| | FDI stocks in Australia | | | | | | | | |
| | Africa | | 93 | 127 | 271 | | | | |
| | South Africa | | 45 | 129 | 271 | 270 | | | |
| Belg. and Lux | FDI flows in Belgium and Luxembourg | | | | | | | | |
| | Africa | 40 | 19 | 103 | 49 | 19 | | | |
| | South Africa | 10 | -7 | 79 | 22 | | | | |
| In Canada | FDI flows in Canada | | | | | | | | |
| | Africa | 19 | 43 | 39 | 27 | 56 | | | |
| In France | FDI stocks in France | | | | | | | | |
| | Africa | | 112 | | | | | | |
| | South Africa | | 1 | 2 | 1 | | | | |
| In Netherlands | FDI stocks in Netherlands | | | | | | | | |
| | Africa | 160 | 76 | 51 | 55 | | | | |
| | South Africa | 6 | 5 | 13 | 11 | | | | |

Sources: compiled from data from OECD, US BEA, UK ONS

**Table 20 Subsidiaries of other African countries' TNCs in Africa**

| Home country | Host country | Sector | Company name | Sales (US$ mn) | Employment |
|---|---|---|---|---|---|
| Kenya | Tanzania | Beverages | Kibo Breweries | 348.4 | 250 |
| | Uganda | Beverages | Uganda Breweries | 328.3 | 1000 |
| | Tanzania | Rubber | Treadsetters tyres | | 125 |
| | Tanzania | Beverages | Elvira Mineral Water Companies | | 30 |
| | Uganda | Plastics | General Mouldings | 0.1 | 45 |
| | Uganda | Trade | Transpaper | 2.0 | 35 |
| | Uganda | Food | Uganda Grain Milling | | 120 |
| | Tanzania | Trade | Service and computer industries | 0.7 | 33 |
| | Uganda | Trade | Car and General | 0.3 | 18 |
| | Uganda | Trade | Cooper Motor Corporation | | 80 |
| | Uganda | Trade | Lonrho Motors | | 52 |
| | Tanzania | Trade | Metha and Company | | 7 |
| | Tanzania | Trade | Car and General | | |
| | Egypt | Other business services | Menamet Communications | | |
| | Tanzania | Finance | Trust Bank | | 90 |
| | Tanzania | Banking | Delphis Bank | | 90 |
| | Tanzania | Finance | Diamond Trust Bank | | 45 |
| Ghana | Tanzania | Mining | Ashanti Goldfields (merged with Anglo Gold in 2004) | 284 | 20 |
| Nigeria | Sierra Leone | Finance | Guaranty Trust Bank | | |
| Djibouti | Ethiopia | Finance | Commercial Bank of Ethiopia | | |
| Tanzania | Kenya | Insurance | Phoenix of East Africa Assurance | | 90 |
| Zimbabwe | Zambia | Trade | Insor Distribution Zambia | | 15 |

Source: www.unctad.org

**Table 21 Major South African corporates in Africa by sector**

| Sector | | SA Corporation and number of countries invested |
|---|---|---|
| **Aviation and airport services** | | Airports Company of South Africa (9 countries) |
| **Airlines** | | South African Airways (SAA), stakes in Air Tanzania and Eagle Airline |
| **Banking and financial services** | **Private enterprises** | Stanbic (9 countries) |
| | | ABSA (4 countries) |
| | | Stanlib (Standard Bank / Liberty Bank joint venture) (9 countries) |
| | | First Rand plus subsidiary Rand Merchant Bank (3 countries) |
| | | Nedbank (7 countries) |
| | | Investec Ltd (4 countries) |
| | | Metropolitan Life (5 countries) |
| | **State-owned enterprises** | DBSA (7 countries) |
| | | IDC (20 countries) |
| **Construction** | | Murray & Roberts (3 countries) |
| | | Group 5 (13 countries, contracts) |
| | | Concor (9 countries, contracts) |
| **Energy** | | Sasol (4 countries, contracts) |
| **Manufacturing** | | Nampak (10 countries) |
| | | Sappi (3 countries) |
| | | SABMiller (13 beer breweries 10 countries, 35 sorghum breweries in 5 countries) |
| | | Illovo Sugar (5 countries) |
| | | Tongaat Hulett (3 countries) |
| | | Barloworld (7 countries) |
| | | AECI subsidiaries AEL and Dulux (7 countries) |
| **Media and broadcasting** | | Multichoice (services in 21 countries) |
| **Mining** | | De Beers (3 countries) |
| | | Anglogold (8 countries) |
| | | Goldfields (operation in 1 country ) |
| | | Randgold Resources (3 countries) |
| **Retail** | | Shoprite (outlets in 15 countries) |
| | | Massmart (Makro, Game, Dion, Cash & Carry, Builders Warehouse), 300 outlets in SACU |
| | | Metcash (3 countries) |
| | | Wooltru / Woolworths (19 countries) |
| | | Steers Holdings (Steers, Debonairs, FishAways, Church's Chicken, Pouyoukas Foods) (9 countries, franchises) |
| | | Pepkor Holdings (Pep Stores, Ackermans) (6 countries) |
| | | Ellerine Holdings Limited (Ellerines, Town Talk Furnishers, Furn City, Rainbow Loans, CPI, Foreign, Wetherlys, Osiers, Roodefurn) (5 countries) |
| | | JD Group (Abra, Barnetts, BoConcept, Bradlows, Electric Express, HI-FI Corporation, Joshua Doore, Morkels, Price and Pride, Russells) (4 countries) |
| **Research & Development** | | V&A Waterfront (contracts in 3 countries) |
| **Telecommunications** | | MTN/M-Cell (5 countries) |
| | | Vodacom (contracts in 5 countries) |
| | | Transtel (A division of Transnet) |
| | | Eskom Enterprises Telecommunications |
| **Transport** | | Transet (9 divisions with African involvement including Spoornet Joint Ventures and its subsidiary Comazar, Transwerk and Transtel), 20 country contracts |
| | | Unitrans (7 countries) |
| **Tourism and Leisure** | | Protea Hotels (9 countries) |
| | | Southern Sun (6 countries) |
| | | Sun International (4 countries) |
| | | Imperial Car Rental (8 countries) |
| **Utilities** | **Power** | Eskom Enterprises (28 country contracts) |
| | **Water** | Umgeni Water (3 country contracts) |
| **Information Technology** | | Arivia.com (state-owned) (offices in 3 countries) |
| | | Mustek (Mecer brand), 8 countries |

Source: Naidu and Lutchman (2004)

**Table 22 Average Tariff rate by sector in SSA and other regions (1990s)**

| Country | Year | Tariff Rate (%, unweighted) All Goods | Agric. | Man. |
|---|---|---|---|---|
| Benin | 1996 | 13.1 | 13.7 | 12.8 |
| Botswana | 1996 | 11.1 | 12.3 | 11.0 |
| Burkina Faso | 1998 | 31.1 | 37.0 | 29.1 |
| Cameroon | 1996 | 18.1 | 24.3 | 17.8 |
| Central Africa Rep | 1997 | 7.0 | 7.6 | 6.8 |
| Chad | 1997 | 15.8 | 17.0 | 15.5 |
| Congo Rep. | 1997 | 17.6 | 18.0 | 17.5 |
| Cote d'Ivoire | 1996 | 19.2 | 21.2 | 18.8 |
| Gabon | 1998 | 20.6 | 25.1 | 19.7 |
| Ghana | 1995 | 15.0 | 20.1 | 14.1 |
| Guinea | 1998 | 16.4 | 16.6 | 16.3 |
| Kenya | 1999 | 18.0 | 16.7 | 18.2 |
| Madagascar | 1998 | 6.8 | 6.4 | 6.9 |
| Malawi | 1998 | 15.7 | 15.6 | 15.7 |
| Mali | 1999 | 11.2 | 16.1 | 10.4 |
| Mauritius | 1998 | 19.0 | 14.9 | 19.5 |
| Mozambique | 1997 | 15.6 | 16.9 | 15.3 |
| Nigeria | 1998 | 23.4 | 23.0 | 24.0 |
| Rwanda | 1993 | 34.8 | 58.0 | 31.1 |
| Senegal | 1996 | 12.3 | 13.5 | 12.1 |
| South Africa | 1999 | 8.5 | 8.0 | 8.6 |
| Tanzania | 1999 | 16.1 | 17.4 | 16.2 |
| Togo | 1997 | 13.3 | 13.6 | 13.3 |
| Uganda | 1996 | 13.2 | 23.7 | 11.6 |
| Zambia | 1997 | 13.6 | 15.9 | 13.0 |
| Zimbabwe | 1998 | 22.2 | 27.0 | 21.7 |
| Averages for Regions (number of countries) | | | | |
| All developing countries (96) | 1993–99 | 13.1 | 17.0 | 12.4 |
| East Asia (15) | 1994–99 | 9.8 | 13.9 | 9.4 |
| South Asia (5) | 1996–99 | 27.7 | 26.3 | 28.0 |
| Sub-Saharan Africa (26) | 1993–99 | 16.5 | 19.2 | 16.0 |
| Middle East & N. Africa (11) | 1995–99 | 14.4 | 20.8 | 13.2 |
| Transition Europe (15) | 1996–99 | 9.6 | 15.7 | 7.8 |
| Latin America (24) | 1995–99 | 10.1 | 13.8 | 9.5 |

*Notes*: Agric refers to agriculture products and Man to manufactures.
*Sources*: WTO, IDB CD ROM 2000 and Trade Policy Review, various issues, 1993–2000; World Bank, World Development Indicators, 2000 and UNCTAD, World Investment Report 2000

Source: African Development Report 2004

## Table 23 Summary table of investment related provisions in RTAs

| | NAFTA | MERCOSUR | CARICOM | ANDEAN | ASEAN | SADC | COMESA |
|---|---|---|---|---|---|---|---|
| **INVESTMENT RULES** | | | | | | | |
| What year did investment provisions come into force at regional level | 1994 | 1994 | 1982 & 1997 | 1991 | 1987 & 1998 | Few provisions | 1994 |
| **1 Scope and coverage** | | | | | | | |
| a Applicable to non-parties (when or when not) | Yes | Yes | No | Yes | AIA National Treatment | | No |
| b Positive or negative list approach | Negative | Colonia – Negative Buenos Aires - positive | Positive | Positive | 1987 – positive AIA-negative | | Positive |
| c Main exceptions (safeguards, sectors etc.) | | | | | | | |
| **2 National Treatment** | | | | | | | |
| a Pre-establishment (all sectors?) | Yes | Yes | No | Not specified | Yes | No | No |
| b Are there restrictions on ownership rules? (e.g. min equity share) | Yes | No | No | No | Yes | No | No |
| c Operations by MNEs in the country | Yes | Yes | No | Not specified | Yes | No | No |
| **3 Most Favoured Nation and fair and equitable treatment** | | | | | | | |
| a granted to parties | Yes | Yes | No | No | Yes | No | Yes – fair & equitable |
| b non-parties | Yes | Yes | No | No | No | No | No |
| **4 Performance requirements** | | | | | | | |
| a Are they banned for new and existing investment? | Yes | Yes | No | Yes | No | No | No |
| b Do they go beyond TRIMs? | Yes | Yes | | No | | | |
| **5 Transfers of funds** | | | | | | | |
| a Are transfer of funds across borders allowed | Yes | Yes | Yes | Yes | Yes | No | Yes |
| **6 Do provisions with respect to expropriation exist (nationalisation ,etc.)** | Yes | Yes | Yes | Yes | Yes | No | Yes |
| **7 Settlement of Disputes** | | | | | | | |
| a State-to-state | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| b Investor-state | Yes | Yes | Yes under certain conditions | No | Yes | No | No |
| c Access to International Dispute Settlement (ICSID, UNCITRAL) | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| **TRADE RULES** | | | | | | | |
| **9 Rules of Origin** | | | | | | | |
| a Do rules or origin exist | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| b Value Content Criterion: Domestic/Regional Value Content (RVC) | RVC 50-60% | MC40% RVC60% | N/A | MC: 50% | MC: 60% | MC: 70-35% | MC:60% RVC:35% |
| c Are there roll-up arrangements? | Yes | Yes | - | | | Yes | Yes |
| d Are drawback allowed? | No | Yes | - | | Yes | | Not after 10 years |
| e Mean/median value of restrictiveness | 4 | 3 | | | 4 | 4 | 3 |
| **10 Tariff structures** | | | | | | | |
| a Does a Common External Tariff exist. | No MFN varies from 5.5% - 16.5% | Yes since 1995 | Yes since 1991 | Yes since 1993 | No | No | No. Plans for CET |
| b Level of intra-regional tariffs and plans | 0-2% | Duty free | Duty free | Duty free | 0-7% | Mixture of duty free and SACU CET | Different levels of tariff elimination |
| c Exceptions | Yes | Yes | Yes | | | | |
| **11 Other relevant provisions (regional enterprise schemes, regional investment funds, etc.)** | | | Free movement of people | Andean Multinational Enterprises Andean development Cooperation Andean Business Advisory Council | Asean Industrial Co-operation Regional Investment Promotion Events Asean Investment Portals | | |
| Investment relevant integration index (1= no; 2=middle;3=integrated) INV | 3 | 2 | 2 | 2 | 2/3 | 1 | 1 |
| **Investment relevant integration index (1= no; 2=middle;3=integrated) TRADE** | 2 | 3 | 3 | 2 | 1 | 1 | 1 |

Sources: Te Velde and Fahnbulleh (2003).

**Table 24 Intra African Bilateral Investment and Double Taxation Treaties**

| Reporting country (1995-2003, unless otherwise stated) | BIT (total) | BIT intra Africa | | DTT (total) | DTT intra Africa | |
|---|---|---|---|---|---|---|
| | Total number | With | Year | | | |
| Angola | 4 | Cape Verde | 1997 | 0 | | |
| Senegal | 7 | Mauritius | 2002 | 5 | Mauritius | 2002 |
| | | South Africa | 1998 | | | |
| Zimbabwe | 21 | Mauritius | 2002 | 14 | Mauritius | 1992 |
| | | | | | South Africa | 1965 |
| Burundi | 2 | Comoros | 2002 | 0 | | |
| | | Mauritius | 2002 | | | |
| Uganda | 8 | South Africa | 2000 | 12 | Zambia | 1968 |
| | | | | | South Africa | 1997 |
| | | | | | Kenya | 1999 |
| | | | | | Tanzania | 1999 |
| | | | | | Mauritius | 2003 |
| Zambia | 6 | Ghana | 2001 | 19 | South Africa | 1965 |
| | | | | | Kenya | 1968 |
| | | | | | Tanzania | 1968 |
| | | | | | Uganda | 1968 |
| Chad | 9 | Benin | 2001 | 0 | | |
| | | Burkina Faso | 2001 | | | |
| | | Mali | 2001 | | | |
| | | Mauritius | 2001 | | | |
| Sierra Leone | 4 | | | 4 | | |
| Somalia | 1 | | | 0 | | |
| Rwanda | 3 | | | 0 | | |
| Mozambique | 9 | Zimbabwe | 1990 | 2 | | |
| | | Mauritius | 1997 | | | |
| | | South Africa | 1997 | | | |
| Malawi | 3 | | | 8 | South Africa | 1971 |
| Mali | 11 | Benin | 2001 | 2 | | |
| | | Cameroon | 2001 | | | |
| | | Chad | 2001 | | | |
| | | Comoros | 2001 | | | |
| | | Guinea | 2001 | | | |
| South Africa | 29 | Ghana | 1998 | 29 | Lesotho | 1995 |
| | | Mauritius | 1998 | | Mauritius | 1996 |
| | | Mozambique | 1997 | | Seychelles | 1998 |
| | | Senegal | 1997 | | | |
| | | Uganda | 2000 | | | |

Source: www.unctad.org/fdistatistics

**Table 25 Country-level privatisations in Africa, 1985-1999**

| | Revenues (1985 US$ bn) | Revenues as % of 1985 GDP | Transactions | Size state owned sector in 1980 |
|---|---|---|---|---|
| Burkina Faso | 0.02 | 0.9 | 35 | medium-high |
| Cameroon | 0.09 | 0.9 | 31 | medium |
| Congo,Dem.Rep | 0.00 | 0.0 | 23 | high |
| Congo,Rep. | 0.04 | 1.6 | 67 | high |
| Côted'Ivoire | 0.68 | 7.8 | 96 | high |
| Ethiopia | 0.35 | 8.9 | 162 | medium-high |
| Gabon | 0.03 | 0.8 | 8 | medium-high |
| Gambia | 0.01 | 4.1 | 32 | medium-high |
| Ghana | 0.90 | 21.6 | 227 | high |
| Guinea-Bissau | 0.01 | 2.8 | 21 | medium-high |
| Kenya | 0.23 | 3.7 | 190 | high |
| Malawi | 0.06 | 5.5 | 73 | high |
| Mali | 0.07 | 3.2 | 68 | medium |
| Niger | 0.00 | 0.3 | 29 | medium |
| Nigeria | 0.85 | 4.4 | 95 | high |
| Senegal | 0.23 | 6.3 | 54 | medium |
| South Africa | 4.53 | 3.4 | 33 | medium-high |
| Togo | 0.06 | 5.4 | 55 | high |
| Uganda | 0.17 | 5.4 | 101 | medium-high |
| Zambia | 0.38 | 11.2 | 253 | high |
| Zimbabwe | 0.78 | 14.6 | 9 | medium-high |

Source: Brune *et al*. (2004)

**Table 26 Private sector investment in developing country infrastructure**

| Year | Europe and Central Asia | Latin America and Caribbean | Middle East and North Africa | South Asia | SSA |
|---|---|---|---|---|---|
| 1985 | | 147 | | | |
| 1986 | | 10 | | | 0 |
| 1987 | | 141 | | | 20 |
| 1988 | | 320 | | | 0 |
| 1989 | | 2480 | | 18 | 24 |
| 1990 | 68 | 7831 | 10 | 267 | 40 |
| 1991 | 273 | 9942 | | 640 | 1 |
| 1992 | 1094 | 12216 | 16 | 52 | 43 |
| 1993 | 869 | 15868 | 2932 | 1112 | 31 |
| 1994 | 3643 | 16610 | 298 | 2804 | 648 |
| 1995 | 8083 | 17597 | 120 | 3544 | 742 |
| 1996 | 10331 | 26611 | 342 | 4646 | 1431 |
| 1997 | 13531 | 50269 | 5069 | 5920 | 4326 |
| 1998 | 11845 | 70497 | 3066 | 2575 | 2397 |
| 1999 | 9268 | 36212 | 2982 | 2683 | 4388 |
| 2000 | 22220 | 39243 | 4165 | 4034 | 3263 |
| 2001 | 7119 | 34348 | 3870 | 4582 | 4963 |
| 2002 | 9694 | 17920 | 1558 | 5486 | 3542 |
| Total (per cent) | 98,039.10 (18%) | 358,260.40 (66%) | 24,426.80 (4%) | 38,361.10 (7%) | 25,858.10 (5%) |

Source: http:// ppi.worldbank.org

**Table 27 GDP growth in selected African economies, 1990-2004 (percentages)**

| | 1990-2000 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|
| All developing economies | 4.9 | 1.3 | 3.6 | 5.6 | 2.4 | 3.5 | 4.5 | 5.8 |
| Africa | 2.5 | 3.1 | 2.8 | 3.2 | 3.6 | 2.9 | 3.5 | 3.9 |
| Algeria | 1.9 | 5.1 | 3.2 | 2.4 | 2.6 | 4.1 | 6.7 | 6.5 |
| Cameroon | 1.7 | 5.0 | 4.4 | 4.2 | 5.3 | 4.4 | 4.2 | 4.5 |
| Côte d'Ivoire | 3.3 | 4.7 | 1.6 | -2.5 | 0.4 | -1.8 | -3.8 | 0.0 |
| Ethiopia | 4.3 | -1.9 | 6.2 | 5.7 | 8.9 | 2.7 | -3.8 | 6.5 |
| Ghana | 4.3 | 4.7 | 4.4 | 3.7 | 4.2 | 4.5 | 4.7 | 5.0 |
| Kenya | 2.1 | 1.6 | 1.3 | -0.2 | 1.1 | 1.0 | 1.5 | 2.5 |
| Morocco | 2.3 | 7.7 | -0.1 | 1.0 | 6.3 | 3.2 | 5.5 | 4.5 |
| Nigeria | 2.5 | 1.9 | 1.1 | 4.2 | 2.9 | -0.9 | 6.0 | 3.5 |
| South Africa | 2.1 | 0.7 | 2.0 | 3.5 | 2.8 | 3.0 | 1.9 | 2.5 |
| Tunisia | 4.7 | 4.8 | 6.0 | 4.7 | 4.9 | 1.7 | 6.1 | 6.0 |
| Zimbabwe | 2.5 | 2.9 | -0.7 | -4.9 | -8.4 | -5.6 | -13.2 | -9.0 |

Source: UNCTAD Trade and Development Report 2004

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# II. FDI Profile in Egypt

by

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[8] This paper expresses only the opinions of its author and not necessarily those of the Central bank of Egypt.

## Introduction

Foreign direct investment plays a vital role in pushing up economic growth rates in both developed and developing countries. It also contributes to transferring advanced technology to host countries, and stimulating local market competition. Moreover, it provides more training chances, and creates job opportunities. Accordingly, this leads to developing human capital in host countries, optimizing the use of available resources, and accelerating their integration into international markets.

However, recent studies find some potential risks associated with the increase in FDI, especially if these investments exceed the capacity of the host country. An increase in FDI reflects the weakness as well as the strength of the country's institutions. Therefore, encouraging this type of investment needs great caution as it requires thorough and careful studies that take into consideration the specific needs and capacity of each country.

African countries including Egypt, enjoy natural as well as other investment potentials that not only exceed those in many other countries but also help them to occupy a high position for attracting foreign investments, Nevertheless, these countries have not obtained their fair share of FDI yet. Statistics indicate a continuous decrease in these investments due to some impediments that hinder the increase in their inflows.

This paper aims in the first place to provide a country profile of foreign investment in Egypt to identify the main impediments to its flow to Egypt. Subsequently, it proposes a number of solutions that contribute, one way or another, to developing this type of investment, given the comparative advantages provided by the Egyptian economy.

It consists of six main parts. The first tackles the methodology of FDI data compilation in Egypt. It attempts to identify its weak points and the steps that should be taken to develop it, so as to obtain an overall picture of the status of foreign investment in Egypt. The second part deals with the main incentives provided by the country to the foreign investor. The third part reviews the status of FDI and its development since early 1990s. The fourth addresses the main impediments that limit the inflow of this type of investment. The fifth deals with the recent trends relating to attracting FDI. Finally, the sixth part reviews some proposed solutions that contribute some way or another to attracting more investments.

## 1. Methodology of FDI data compilation

The Balance of Payments Manual, Fifth Edition, 1993 defines direct investment as "the category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy. (The resident entity is the direct investor and the enterprise is the direct investment enterprise.) This implies the existence of a long-term relationship between the direct investor and the enterprise. Moreover, the direct investor owns 10% or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

The Balance of Payments Compilation Guide prepared by the IMF Statistics Department noted the following three systems for the compilation of foreign direct investment data:

- The international transactions reporting systems (ITRS)
- Information from approvals
- Enterprise surveys systems

On basis of quality comparison, Enterprise Survey is considered the best, despite the underlying high costs, as it is based on actual data on FDI and on any changes that may occur thereon. ITRS came next, as it relies on the banking system statistics based on cash flows. The IMF considers the second system less effective than the aforementioned ones as it depends solely on approvals granted to enterprises. In Egypt direct investment data are compiled by two entities:

1. The Central Bank of Egypt

The primary objective of compiling FDI data is to serve the preparation of the BOP estimates. For this purpose, the Central Bank of Egypt draws on the data records of banks submitted to the General Department of Foreign Exchange. The FDI item comprises the following:

- Replenishments of capital and operation accounts
- Incoming transfers for the purchase of real estates or buildings
- Incoming transfers for the purchase of securities representing 10% or more of the corporate capital. These data are provided by the Capital Market Authority

2. The General Authority for Free Zones and Investment (GAFI)

The General Authority for Free Zones and Investment compiles FDI data submitted from all the government entities.
These data comprise:

- Issued capital of the direct investment enterprises in Egypt
- Investment costs associated with FDI in oil business (this data is provided to GAFI by the Ministry of Petroleum)

The following table illustrates the advantages and disadvantages of data collected by these two entities:

**Table 1. Advantages and Disadvantages of the Recording and Publication of FDI Data**

| | *The Central Bank of Egypt* | *The General Authority for Investment* |
|---|---|---|
| Advantages | Keeping record of the actual foreign investment flows through the accounts opened at the CBE. | Keeping record of all foreign investment approvals |
| | Complying with the IMF's methodology of recording FDI data. | The ability to directly record expansions and capital increases in companies (i.e. it does not depend on records of capital transfers from abroad through the banking system) in case companies report them to benefit from investment incentives. |
| Disadvantages | Non cash flows are not recorded. | The time lag between the recording of FDI data and the transfer of invested funds. Sometimes, the investment does not go beyond the stage of company registration |
| | Reinvested profits and dividends and internal transactions of these investments are not calculated. | investment appears overvalued as only the issued capital of companies is recorded. |
| | | The Capital Market Authority data is only registered after companies convene their general assemblies. |

Accordingly, there are two entities in Egypt for recording FDI, and there is a clear disparity in their published data. Though the data published by the Central Bank of Egypt conform more to the methodology of IMF and the data disseminated by international organizations for this purpose, IMF missions have shown the deficiencies of these data as they exclude:

- Direct investors' corporate subscriptions in the form of in-kind stocks
- Reinvested profits
- FDI data in the petroleum sector

For the purpose of reaching an accurate figure that represents FDI in Egypt, a joint committee was formed comprising representatives of all authorities concerned, especially the CBE, GAFI, the Capital Market Authority and the Ministry of Petroleum. Through the meetings and discussions of this committee, an agreement was reached whereby the aforementioned data is to be reported to the CBE by the GAFI and the General Egyptian Petroleum Corporation after the inclusion of the FDI figure published by the Central Bank of Egypt.

On the other hand, GAFI, the sole agency responsible for contacting foreign investors, is currently working on developing its method of compiling FDI data in order to ensure obtaining more precise and comprehensive data. To this end, GAFI has established a number of specialized committees to evaluate the in-kind stock quotas of the foreign investors in the given resident investment enterprise, and to assess the reinvested dividends (by the investment expansion committee). In present, there are a

number of studies being conducted on the application of Enterprise Survey, with a special emphasis on the ways to obtain the necessary financing to apply this system.

## 2. Incentives to FDI

Egyptian authorities through the consecutive governments have provided a number of incentives for foreign investment, through issuing some relevant legislations, laws and decisions, and concluding many treaties and agreements on the regional and international levels; this includes the following:

- Egypt ratified the pan-Arab capital investment agreement, effective on 20/2/1972, including ten countries along with Egypt, which are: Jordan, UAE, Sudan, Syria, Iraq, Palestine, Kuwait, Libya, Mauritania, and Yemen. It stipulates that capital inflows should enjoy the same privileges given to the national one, and the Arab investor should have the right to transfer his net capital, net earnings and any relevant compensation. Host countries should not nationalize or confiscate any Arab investments in virtue of this agreement.
- Law no. 43 of 1974 includes many incentives, the most important of which are:
    - Enterprises should not be nationalized or expropriated, nor invested capital be confiscated, seized, or sequestrated except through lawful process.
    - Projects benefiting from the provisions of this law shall be exempted from some administrative red tapes, which experience has proven the importance of making such exemption.
    - Machinery, equipments and transportation equipment necessary for the establishment of the aforementioned projects shall be exempted from taxes and customs duties according to a decree of the President of the Republic and at the request of the Investment Authority.
    - Profits distributed by each project shall be exempted from the general tax on income, with a maximum of 5% of the shareholders' share of invested capital. Also, the profits of projects shall be exempted from the tax on commercial and industrial profits and the taxes appendant thereto.
    - Interest due on the foreign loans concluded by the project shall be exempted from all taxes and duties.
    - Foreign experts and employees brought from abroad to work in any of the enterprises shall be permitted to transfer from Egypt a portion from their wages, salaries and honoraria not exceeding fifty percent of their total earnings, also funds enjoying the provision of this law may be re-exported provided five years have passed since the invested capital was brought into the country.
- Ratifying the investment dispute settlement agreement between host Arab countries and citizens of other Arab countries, effective on 19/7/1976. This agreement regulates the ways and procedures for dispute settlement through laying the bases of reconciliation between the disputed parties, and if failed, the dispute is referred to arbitration.
- Egypt had joined the unified agreement on investment of Arab capitals in the

Arab countries, effective on 7/9/1981. The agreement prescribed a number of measures with the aim of giving incentives to the flow of Arab capitals. These measures include:

  - Working to avoid frequent change of regulations and systems governing Arab investment.
  - Designating a single entity to deal with the investor, from information applications to investment licensing and any operations related to investment start-offs.
  - Insulating Arab investment from the effects of any fluctuations in the relationships between Arab countries.
  - Providing the investors with a number of (legal, financial or judicial) guarantees.
  - Creating a new organization, an Arab investment Court, along with the rules of reconciliation and arbitration (included in the aforementioned agreement).

- The Investment Law No. 230 for 1989 was issued. Chapter II of this Law included some of the guarantees and exemptions provided to enterprises, the most important of which are:

  - products of enterprises are not subject to compulsory pricing and determination of profits.
  - profits distributed by these enterprises are exempted from taxes on earnings of mobile capitals, and from the general income tax for five years, extendible to ten years for enterprises inside the new industrial areas, the new urban communities and remote areas.
  - net profits of the invested capital may be transferred, wholly or partially, within the limits of the credit balance regarding the enterprise's foreign currency account at the highest declared exchange rate.

- Law No. 97 for 1996 was issued to amend some of the provisions of the Banks and Credit Law. Under this Law, the percentage of foreigners' ownership in a bank's issued capital was allowed to increase over 49%.

The New Investment Guarantees and Incentives Law

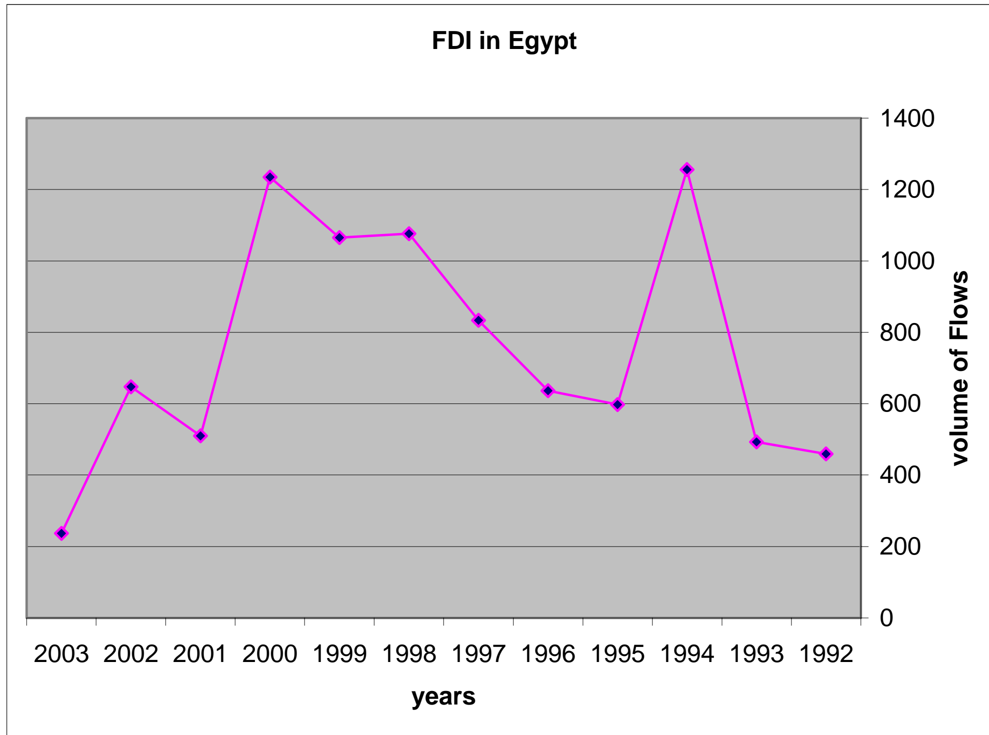
- On May 5, 1997, the new Investment Guarantees and Incentives Law no. 8/1997 was passed, and signed as one of the State's laws on May 11, 1997.
- The principal purpose of the Law is to boost production and foreign direct investment by streamlining procedures, removing bureaucratic barriers to business formation and providing tax incentives to priority sectors.
- The Law gives more incentives for priority investment sectors, such as infrastructures, auto parts, software, oil field services, tourism and manufacturing.
- It provides an incentive structure, which is geographically based, with tax holidays for projects in target development areas.
- The Law aims at encouraging small-and medium-scale enterprises.
- It also provides incentives for export activities and exporters.

- The Law is basically derived from the former Investment Law No. 230/1989, but there are four different investment guarantees that were amended:
- Companies and enterprises may not be nationalized, placed under custody, frozen or confiscated.
- No administrative agency may interfere in the pricing of company and enterprise products, or determine their profits.
- No authority may cancel or suspend all or part of a previously issued license to benefit from real estate, except in cases where license conditions have been breached.
- Companies and enterprises may own the construction and constructed land necessary for their activity and the extension thereof, regardless of the nationality of the owners, the place of their residence or their share of ownership.
- Projects under the Social Fund for Development will now enjoy a 10-year tax exemption.
- Projects outside the Old Valley or transferred from there will now have a 20-year tax holiday.
- Tax incentives will be automatic and will no longer require a prior approval of any administrative authority.
- An amendment to Law No. 8/1997 has been passed by the parliament early June 2000, allowing further tax incentives for expansions and projects.
- In addition, the Executive Regulations of the Investment Law have been amended, comprising new activities and areas eligible for investment incentives in May 2000.
- Laws aimed at improving the private sector business environment include Law No. 3/1998. This allows for the immediate establishment of new companies, and is a major step toward simplifying procedures and for company incorporation.

### 3. FDI status in Egypt

According to the UNCTAD World Investment Report, FDI flows into Egypt decreased considerably during 2001-2003. The annual average of these flows amounted to US$ 465 million during the period, declining by 58.6% over 1998-2000 and by 38.0% over 1991-1997. This noticeable decline was due mainly to a number of factors, including the fall in mergers and acquisitions; 9/11 attacks ; the deteriorating security in the Middle East; and the implications of the financial crises that hit South East Asian countries, Russia and some Latin American countries since the end of 1997.

**Chart 1 FDI in Egypt**




Undoubtedly, those factors combined affected the performance of the global economy in general, and the economies of the developing countries (including Egypt of course) in particular. Economic growth rates slowed down, and budget deficits widened, and inflation rates rose sharply, exerting pressures on the exchange rate. It is worthy to note that the above-said variables are key affecting factors for the flows of FDI.

The accumulated balance of the foreign direct capital reached US$ 20983 million or 26.2% of GDP, rising by an annual average of 2.3% during 2001-2003, against an annual average of 6% during 1991-2000. Consequently, the share of FDI in the fixed capital formation decreased from 6.7% in 2000, and 8.9% during 1992-1997 to 2% in 2003.

The abovementioned developments were reflected, in turn, in Egypt's share of FDI as a percentage of total FDI to Africa. Although the volume of FDI to Africa rose by 28% to US$ 15 billion in 2003, Egypt's share of these investments declined to 3.3% for the annual average during 2001-2003, against 10.5% during 1997-2000 and 15.5% during 1991-1996.

Against this background, the rank of Egypt in the top ten African countries attracting investments retreated from second position during 1991-1996 and 1998-1999- to seventh during 2000 and 2001, then to eighth during 2002. In 2003 Egypt was excluded from this list. At the global level, Egypt's rank continued to fall according to the UNCTAD Report, to 123 on the list of 140 countries during 2001-2003. Egypt, therefore, joins for the first time the list of the 20 countries attracting least investment in spite of its great potential. On the other hand, many other countries showed a

tangible improvement, e.g., Morocco occupied 32 position, Bahrain (51) and the Sudan (29).

**Table 1 FDI in Egypt and Some African Countries**

| *Country* | *1992-1997* | | | *1998-2000* | | | *2001-2003* | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Value* | *%* | *Order* | *Value* | *%* | *Order* | *Value* | *%* | *Order* |
| Nigeria | 1402 | 23.6 | 1 | 995 | 10.1 | 3 | 1195 | 7.7 | 4 |
| South Africa | 1045 | 17.6 | 2 | 984 | 10.0 | 4 | 2769 | 17.9 | 1 |
| Egypt | 820 | 13.8 | 3 | 1125 | 11.5 | 2 | 465 | 3.0 | 6 |
| Morocco | 551 | 9.3 | 4 | 494 | 5.0 | 5 | 1862 | 12.0 | 2 |
| Angola | 304 | 5.1 | 5 | 1488 | 15.2 | 1 | 1735 | 11.2 | 3 |
| Sudan | 35 | 0.6 | 6 | 378 | 3.9 | 6 | 879 | 5.7 | 5 |
| Other | 2083 | 35.1 | ---- | 4347 | 44.3 | ---- | 6571 | 42.5 | ---- |
| Total | 5936 | 100 | ---- | 9811 | 100 | ---- | 15476 | 100 | ---- |

## 4. Impediments to FDI in Egypt

Despite the numerous advantages and potential that Egypt enjoys, and notwithstanding the various incentives stipulated in investment laws for encouraging foreign investment, FDI in Egypt remains on the decline. Such a decline may be ascribed to the presence of some obstacles which could be classified into two main groups. The first group is related to the economic reform program. The second has to do with the problems that spoil the investment climate and have an adverse impact on the efficiency of investors and their competitiveness.

*First group: problems related to the economic reform program*

- Structural imbalances in the Egyptian economy
- Uncertainty caused by financial crises which have affected a number of economies
- The slow pace of privatization
- Higher State budget deficit as a ratio of GDP
- Higher inflation rates, due to the reliance basically on the Central Bank to finance the budget deficit
- The relative instability of the Egyptian pound exchange rate against the US dollar

*Second group: problems related to investment climate*

- Customs incentives granted to investors are not linked or proportional to the contribution of his investments to increasing GDP or exports, or transferring a new technology or creating job opportunities.
- Complexity of the tax administration, in respect of the method of dealing between tax entities and investors, causing a waste of time and effort and unduly raising costs. This is in addition to the high rates of direct taxes on corporate profits and the multiplication of indirect taxes

- Certain restrictions are imposed by the legal framework for investors, (e.g.: the Companies Act stipulates that the number of Egyptian workers in the companies subject to this law should not be less than 90% of total workers).
- Complexity of government procedures necessary for corporate foundation and obtainment of licenses. Add to this, some fees are imposed by the local government on certain projects.
- Complexity of settlement procedures of commercial disputes and slow decisions thereon
- The high cost of labor, due to the decline in its productivity and the shortage of some professional skills on the one hand, and to the rise in the value of social insurance, on the other hand
- Low level of transparency and the difficulty of data access for investors, particularly about available investment opportunities.

To sum up, the problems associated with the implementation of the economic reform program, along with the crises of 1997 and 2001, and the continuous suffering of investors from some investment-relevant problems all led to curb flows of investment in general and of foreign direct investment in particular.

## 5. Trends of FDI in Egypt

The Egyptian authorities are currently exerting their utmost efforts to complete the economic reform process launched since the early nineties of the previous century. In this respect, and with the support of the new government, a particular emphasis is placed on completing the structural and financial reforms needed to achieve sustainable development, enhancing the competitiveness of Egyptian exports in the international markets, as well as mitigating the bureaucratic hindrances and other impediments to ensure completing the prerequisites for an environment favorable for attracting more foreign investments. Hereunder are the most important measures taken by the State in this context:

- Egypt's keenness to achieve a greater openness to the global economy through joining the WTO agreement, and its commitment under this agreement to liberalize the economic activity sectors at varying levels.
- On 29 January 2003, it was decided to abolish the dollar central rate. The LE exchange rate was to be determined according to market mechanisms. This is meant to help address the external deficit, attract further foreign currency and direct it in a way that largely contributes to promoting the efforts of economic development. Banks were also free to determine the buying and selling rates of the foreign exchange within the foreign exchange free market.
- Law No. 14 of 2004 was issued, amending the investment incentives and guarantees.
- Customs duties were cut, the number of customs categories were lowered and the distortions eliminated in the tariff schedule to encourage investments and ease inflationary pressures.

- The government is preparing a draft law for reducing the general tax on income and corporate taxes. The measures are intended to alleviate the burdens on low-income brackets.
- Establishment of a ministry for investment to develop and encourage both foreign and local investment through creating an environment conducive to investment ( e.g., entities that the investor has to deal with have been all brought together in one place - One Stop Shop) and removing investment obstacles, in cooperation with other relevant entities and ministries.
- The Central Bank, Banking Sector and Money Law No 88 of 2003 was issued. Its main objective is to enhance the independence of the Central Bank as regards setting and implementing the monetary policy. To this end, the Central Bank is invested with all the powers needed. The Law also includes some articles that ensure the principle of transparency so as to early identify and address the deficiencies.
- Particular care is paid to strengthen and enhance the effectiveness of supervision over banks via setting the regulations that banks should abide by to ensure the integrity of the banking system. Salient of these regulations is obligating all banks to comply with the capital adequacy standards as stated in Basle Accords and to set a system for classifying assets, contingent liabilities and forming provisions.

In light of the abovementioned developments in FDI in Egypt and through the description here of the obstacles to its flows (in spite of the privileges and the capacities that Egypt enjoys and the incentives granted to encourage this type of investment), it should be pointed out that encouraging FDI in Egypt requires not only further incentives, but also more attention to other factors that contribute to an appropriate environment for both local and foreign investment.

### 6. Proposals for FDI development in Egypt

Against this background, it would be convenient to suggest some proposed solutions that may help - one way or another - improve the investment climate in Egypt so as to attract more FDI to maximize the benefit therefrom in enhancing economic growth, transferring hi-tech, providing more job opportunities, increasing exports, and achieving further integration into global economy. These could include:

1. Bolstering macroeconomic stability, through addressing structural disequilibrium in the Egyptian economy. Special attention should be paid to the reform of the budget deficit, which is the cornerstone of economic reform, due to the pressures this deficit exercises on inflation rates. Also, growth rates of the national economy should be raised; and stability of the exchange rate be achieved, as instability increases inflationary pressures, and, as such, negatively affects investments.
2. Developing the taxation system in Egypt, via hastening the issuance of the new tax law, whereby the tax base is to be broadened and its brackets lowered. This is expected to help raise individual incomes, and, in turn, consumption; a matter that will have a positive impact on production and investments. In

addition, utilization of taxes should be rationalized and directed to meeting particular economic priorities and targets, such as developing industry, increasing exports, and creating job opportunities.

3. Simplifying licensing procedures, providing lands for projects at cost prices, and extending utilities thereto. Moreover, the government should take part in feasibility studies and offer grants for research and development as in Turkey.
4. Continuing to develop the modus operandi in the institutions concerned with foreign investment, so as to attract more FDIs.
5. Establishing offices for investors' rights protection -for post-investment services, in particular- as well as specialized courts for examining suits related to intellectual property rights.
6. Continuing reforms of customs distortions, and pressing ahead with lowering tariffs in tandem with the WTO agreement for enhancing the competitiveness of Egyptian products.
7. Setting a strategy for the development and improvement of human skills through broadening craft fields taught in secondary education; encouraging universities to conduct research for the development of industry; organizing programs –as in Japan- for those who are unqualified or slipped out from education; in addition to setting programs for developing the skills of workers in technologically developed sectors, paying special attention to transformational training programs; and developing education in Egypt to meet the labor market requirements.
8. Intensifying propaganda for investment in Egypt, through enhancing the role of commercial representation offices abroad in spreading propaganda for existing and potential investments in Egypt, and the incentives presented by the Egyptian authorities, in addition to the basic task of these offices, namely opening new markets for Egyptian exports. Designing a map for investments in Egypt and highlighting investment opportunities, with the necessity of minimizing bureaucratic procedures, unifying the entities dealing with investors and conducting feasibility studies for investment opportunities. It is also important to pay utmost attention to Upper Egypt and to launch an economic restructuring in this region, while exploiting its potential to establish small and medium scale industries. In addition, due care should be paid to notary public offices nationwide, particularly concerning streamlining their relevant procedures.
9. Joining a strong economic bloc is crucial, especially given the fact that we live in the age of giant economic blocs. The aim is to benefit from the advantages brought about by such an action, namely giving momentum to economic growth and development. Therefore, a quick implementation of an Arab free trade area which will be culminated in the Arab common market is necessary to enhance the ability of the Egyptian economy to attract investments, and consequently, to achieve sustainable growth.
10. Ensuring prudential transfer of hi-tech.
11. Developing the Egyptian financial market in accordance with the international standards, and completing the development and improvement of the legislative framework governing it.

12. Highlighting the necessity of opening the door for multi-national companies, being the driving force for foreign direct investment.
13. Creating a favorable climate for attracting foreign investments by developing the infrastructure, such as roads, bridges, telephone lines, internet, electricity nets, water and sanitary investment, etc.

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# III. Attracting Foreign FDI – Ethiopia's Experience

Yesuf Ademnur
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Paper prepared for Workshop on 'Capacity building for promoting FDI in Africa: trends, data compilation and policy implications' InWent / UNCTAD meeting 22-24 November 2004, UNECA, Addis Ababa

**1. Definition of FDI**

- FDI is defined as an investment involving a long term relationship and reflecting a lasting interest and control by resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)
  *World Investment Report, 2003, Page 231*
- In the Investment Proclamation No. 280/2002 no definition is given for FDI. But Foreign Capital is defined as:
- Capital obtained from foreign sources and includes the re-invested profit and dividends of a foreign investor.

**2. Global FDI inflows**

- According to the 2003 World Investment Report global FDI inflows for the year 2000-2002 in Billions of dollars were:

| *Host Region* | *2000* | *2001* | *2002* |
|---|---|---|---|
| World | 1,393 | 824 | 651 |
| Developed econ. | 1,121 | 589 | 460 |
| % of world total | 80.5 | 71.5 | 70.7 |
| European Union | 684 | 389 | 374 |
| % of world total | 49.1 | 47.2 | 57.5 |
| Western Europe | 710 | 401 | 384 |
| % of world total | 51.0 | 48.7 | 59.0 |
| Developing economies | 246 | 209 | 162 |
| % of world total | 17.7 | 25.4 | 24.9 |
| Asia | 142 | 107 | 95 |
| % of world total | 10.2 | 13.0 | 14.6 |
| Africa | 8 | 19 | 11 |
| % of World Total | 0.6 | 2.3 | 1.7 |

## 3. The benefits of FDI to Ethiopia

- Employment Creation
- Latest equipment and technology introduced
- New management technique introduced
- New industries developed--- economic diversification
- Access to marketing expertise and market links
- Source of foreign currency
- Government tax income increases

## 4. Measures taken by the government

- The government has issued an investment code and made consecutive amendments

*a. Issuance of Investment Proclamation no. 15/1992 in May 1992*

- ✓ It is the first investment code in the country
- ✓ The establishment of the Ethiopian Investment Office

<u>Limitations</u>

- Incentives were restricted to a few sectoral categories mainly agriculture and manufacturing (No incentive to social sectors)
- Foreign investors were obliged to deposit 125,000 USD in a blocked account
- Only 13 foreign investments were approved

*b. Issuance of Investment Proclamation no. 37/1996: Changes Introduced*

- Inclusion of additional sectors such as health, education, tourism, consultancy services in the incentive scheme
- Removal of the requirement for foreign investors to deposit 125,000 USD
- Specification of areas eligible for incentives based on the International Standard Industrial Classification (ISIC) code
- As a result of this foreign investment projects approved increased (more than 300 projects approved)

*c. Issuance of Investment Proclamation no. 116/1998: Changes Introduced*

- Redefinition of domestic investor to include foreign nationals , Ethiopian by birth
- Allowing private-government joint investments in defense and telecommunication
- Opening hydro-power electric generation to domestic and foreign investors

*d. Issuance of Investment Proclamation no. 280/2002: Changes Introduced*

- Reducing the minimum investment capital required for foreign investors from:
  500,000 USD to 100,000 USD (wholly foreign)
  300,000 USD to 60,000 USD (Jointly with domestic)
  100,000 USD to 50,000 USD (Consultancy)

- Avoiding minimum investment capital requirement for foreign investor re-investing his profits or dividends or exporting at least 75% of his output
- Allowing foreign investor or foreign national treated as domestic investor[9] the right to own a dwelling house and other immovable property required for his investment
- Allowing investors to employ duly qualified expatriate experts required for the operation of their business
- More than 400 foreign investment projects approved

## 5. Forms of FDI inflows into Ethiopia

- FDI inflows in the form of Greenfield investment; these are approved by the Ethiopian Investment Commission (EIC)
- FDI inflows in the mining sector i.e. prospecting, exploration and development of minerals and petroleum resources. These are approved by the Ministry of Mines
- FDI in the form of acquisitions (privatization of existing enterprises). These are approved by the Ethiopian Privatization Agency

## 6. FDI data collection and compilation

- The Ethiopian Investment Commission (EIC) is a governmental organization established to approve and facilitate foreign investment projects in the country
- EIC has a database of investment projects which have been approved and issued investment license
- EIC also collects secondary data from the Ministry of Mines
- Foreign money entering into the country in the form of cash is registered in the National Bank of Ethiopia

*Problems with regard to FDI data*

- Data compilation is based on the value (capital) of approved investment projects.The actual value is not available.
- Since investment made by a local and foreign investors (joint investment projects) is taken as a foreign investment the contribution of the local partner is added to the FDI data. This means there is over estimation of FDI data
- The amount of money brought by foreign investors (in the form of cash) is not registered separately.
- No survey is made of FDI to collect actual data
- EIA has no data on repatriated capital. This may result in over estimation of data on FDI stock
- EIA has no data on re-invested capital
- As a result of these the FDI data may not show the actual picture

[9] Some former Ethiopians resident abroad are treated as domestic investors

**Box Investing in the Financial Sector-Commercial Bank of Ethiopia**
**Yesuf Ademnur**

The Commercial Bank of Ethiopia is the largest financial institution in Ethiopia. The bank is a public enterprise with total assets of 2.86 billion USD. It has more than 170 branches in Ethiopia and one branch in Djibouti. The branch in Djibouti was opened in the year 1980. The Djibouti branch is staffed with 26 employees. Six of the employees are Ethiopians while the remaining 20 are nationals of Djibouti.

The key functions, that is, the positions of the manager, assistant manager, chief cashier, auditor, foreign loan officer and accountant are held by the nationals of Ethiopia. Other clerical and non clerical functions are performed by the nationals of Djibouti. The bank owns its own building and some part of the building is rented to Ethiopian Air Lines, Ethiopian Insurance Corporation and Maritime and Transit Enterprise which are operating in Djibouti. The bank gives full-fledged banking services.

The total assets in the years 2000, 2001, 2002 and 2003 were Birr 193, 199, 179 and 193 million. The bank has been functioning for more than twenty years until its liquidation in March/April 2004. At the time of its liquidation the bank had a non-performing loan of Birr 191 million.

*Source*: Commercial Bank of Ethiopia.

# IV. Malawi

*Waiting for PowerPoint file from UNCTAD*

Hector Kankkuwe
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Paper prepared for Workshop on 'Capacity building for promoting FDI in Africa: trends, data compilation and policy implications' InWent / UNCTAD meeting 22-24 November 2004, UNECA, Addis Ababa

**Sugar Corporation of Malawi**
**Lizzie Chikoti**

***Profile of the TNC***

The Sugar Corporation of Malawi Limited (SUCOMA) is listed on the Malawi Stock Exchange and the ILLOVO Sugar Group of South Africa holds 60% of the issued share capital. Admarc Investments Holding Company (AIHC), a Malawian company, holds 25% of the shares with the balance held by institutional investors and members of the public. SUCOMA is Malawi's only sugar producer with significant agricultural and milling assets at the Nchalo Sugar Estate in the south east of the country and at Dwangwa Sugar Estate in the mid-central region.

About 60% of sugar produced by SUCOMA is sold to local industrial and consumer markets with about 20% of production sold to preferential markets in Europe and the United States at prices that are significantly above the world price. The remainder is sold into nearby regional markets. SUCOMA's operations are of considerable benefit to the local economy, earning valuable foreign exchange and providing permanent employment for almost 8,000 people, with a further 6,000 jobs provided on a seasonal basis.

SUCOMA is part of the ILLOVO Sugar Group in South Africa, which is a leading global sugar producer and a significant manufacturer of downstream products, with agricultural, manufacturing and other interests extending over six Southern African countries. The Group also produces sugar from beet at one operation in the United States. Excellent climatic and soil conditions found in the Group's African countries of operation, accompanied by irrigation from secure water sources, are ideal for the cultivation of high-yielding and good quality sugar cane. Annual cane production of approximately 5.8 million tones is produced on agricultural estates in South Africa, Malawi, Zambia, Swaziland, Tanzania and Mozambique. Annual sugar production amounts to approximately 2.3 million tones, which is sold principally to domestic and preferential markets, as well as to the world market, and comprises 1.25 million made in South Africa, Malawi (260,000 tones), Zambia (230,000 tones), Swaziland (215,000 tones), Tanzania (125,000 tones), Mozambique (65,000 tones) and the USA (160,000 tones). Value-added operations include the downstream production of syrup, furfural, furfural alcohol, diacetyl, acetoin, 2.3-pentanedione, ethyl alcohol, lactulose and dextran.

A recently completed independent survey of international sugar production costs for the period 2002/03 revealed that Malawi, Zambia, South Africa and Swaziland were ranked among the world's ten lowest-cost cane sugar producers.

***Volume of Sales***

Total sugar production for the 2000/01 season increased by 20,408 tones to 207,801 tones, representing the fourth highest output ever achieved. However, for the second year running abnormally wet weather at the beginning and end of the season disrupted harvesting operations. This prevented realization of the full crop potential and significantly reduced final sugar production.

Significant highlights of the year 2001 were the successful completion of agricultural and milling rehabilitation and expansion projects, the introduction of a new depot-based distribution system which will ultimately result in sugar being available throughout Malawi at a uniform price, and continued progress towards the achievement of SUCOMA's overall business goals through the ongoing development of its people. These factors have resulted in the company being well placed to take advantage of market opportunities arising from the newly signed Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA) trade agreements, as well as from the restructuring of the European sugar market.

Several factors, including increased inflation and a material devaluation of the Kwacha, had a major impact on the Malawi economy during the year, resulting in a reduction in consumer spending. The benefit in terms of export earnings from a weaker Kwacha was negated to an extent by the Euro, which also declined in value against the US dollar. This situation resulted in a tough business year for the Group.

Revenue of K4.980 billion was 59% above that achieved in 2000, and profit before interest and tax increased by 11% to K1.275 billion. However, headline earnings declined by 15% on the previous year's results to K563 million. This erosion of profits was mainly due to a significant increase in finance costs associated with the expansion and rehabilitation projects undertaken over the past three years, the full benefit of which was not realized due to inclement weather conditions.

***Export Markets***
Malawi is a member of the African, Caribbean and Pacific (ACP) producer group, and has access to preferential markets tin Europe. In addition, it benefits from preferential access to the United States, as already earlier alluded to. These markets are supplied at premiums above the world free market price. In 2001, sugar amounting to 50,000 tones was sold into these markets. SUCOMA is continuing its development of regional markets, supported by bilateral trade agreements as well as the COMESA and SADC trade agreements. Regional trade during 2001 amounted to 36,500 tones.

The European Union's Special Preferential Sugar agreement, under which Malawi exports sugar into Europe, was under review in 2001. It was expected that this agreement would be phased out in eight years' time and replaced with an agreement which would grant duty free access into Europe for the world's Least Developed Countries (LDC's). Malawi falls within this category and will therefore continue to have privileged access to European markets into the future.

***Total Assets***
On a gross basis, non-current assets amounted to K2.518 billion whereas current assets were K4.230 billion, deriving a total of K6.748 billion. The foreign component was estimated at K4.048 billion.

***Corporate Practices and Strategies***

Some of the corporate strategies and practices that made the company a success include, but are not limited to:

- *Remuneration* – The remuneration philosophy of the Group is to ensure that employees are rewarded for their contribution to the Group's operating and financial performance at levels which take account of industry, market and country benchmarks. To this effect, the group has a remuneration committee that is responsible for the assessment and approval of a broad remuneration strategy for the group;

- *Ethics* – It is a fundamental policy of the company, embracing all group operations, to conduct its business with honesty and integrity and in accordance with the highest legal and ethical standards. The company has established a Code of Conduct and Business Practices, determining the minimum standards required of all staff.

- *Environment* – The underlying philosophy of the group's environmental policy is the adoption of protective strategies to manage and control the impact of ILLOVO's agricultural and manufacturing operations upon the environment, at the same time as safeguarding its extensive assets and human resources. Agricultural operations are guided by the adoption of conservation farming practices to ensure agricultural production on a sustainable basis with minimum impact on the environment and the community. Practices include the implementation of land use plans and adherence to industry environmental guidelines, including those pertaining to cane burning. At the manufacturing level, factory emissions are monitored in accordance with prevailing legal limits and company standards.

- *Health care* – ILLOVO provides its own health care facilities across its operations to employees, their dependants and, where no other public medical facilities exist, members of surrounding communities. Presently, the group operates 28 primary health care clinics and hospitals. In many instances, the company also provides financial and other support, such as the provision of specialized medical equipment, for public health care institutions where these benefit both the company and the local community.

**Seven-Year Review of SUCOMA's Performance (K'Million)**

| | ***2001*** | ***2000*** | ***1999*** | ***1998*** | ***1997*** | ***1996*** | ***1995*** |
|---|---|---|---|---|---|---|---|
| **Income/Balance sheet data** | | | | | | | |
| Revenue | 4,980 | 3,135 | 2,437 | 1,622 | 1,184 | 1,194 | 676 |
| Operating profit before tax/interest | 1,275 | 1,151 | 1,024 | 561 | 435 | 563 | 268 |
| Net profit attributable to shareholders | 566 | 685 | 630 | 257 | 316 | 330 | 105 |
| Dividends | - | 156 | 454 | 195 | 189 | 48 | 24 |
| Headline earnings | 563 | 663 | 628 | 261 | 253 | 330 | 180 |
| Total shareholder's equity | 2,195 | 1,629 | 1,100 | 924 | 862 | | |
| Total assets | 6,748 | 4,820 | 3,048 | 2,082 | 1,460 | | |
| Net assets | 5,678 | 3,770 | 1,832 | 1,310 | 1,103 | | |
| **Financial Statistics** | | | | | | | |
| Return on average | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| shareholders' equity (%) | 29.6 | 50.2 | 62.3 | 28.8 | 44.7 | 75.0 | 39.2 |
| Return on net assets (%) | 34.5 | 42.6 | 60.5 | 46.8 | 42.9 | 67.1 | 43.3 |
| Gearing (%) | 104.3 | 65.9 | 8.4 | 0.1 | 1.7 | 51.0 | 141.2 |
| Interest cover (no. of times) | 2.2 | 28.7 | N/A | 116.0 | 11.6 | 6.9 | 3.4 |
| **Employment Statistics** | | | | | | | |
| Total number of employees at year end | 9,406 | 10,038 | 10,607 | 11,527 | 11,746 | 10,817 | 11,813 |
| Average number of employees | 11,545 | 12,278 | 11,607 | 11,637 | 11,282 | 11,315 | 12,731 |
| **Operational Statistics** | | | | | | | |
| Sugar production ('000 tones) | 208 | 187 | 210 | 195 | 218 | 224 | 196 |
| Sugar sales by destination | 213 | 200 | 207 | 218 | 215 | 214 | 178 |
| Domestic market | 126 | 143 | 159 | 163 | 165 | 155 | 143 |
| European Union quotas | 40 | 43 | 35 | 40 | 33 | 39 | 22 |
| USA quota | 10 | 11 | 13 | 10 | 17 | 13 | 10 |
| Regional markets | 37 | 3 | - | 5 | - | 7 | 3 |

# V. Mauritius

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Paper prepared for Workshop on ‘Capacity building for promoting FDI in Africa: trends, data compilation and policy implications’ InWent / UNCTAD meeting 22-24 November 2004, UNECA, Addis Ababa

## Introduction

## Overview of the Mauritian economy

*The main pillars of the Mauritian economy*

- Agriculture
- Manufacturing
- Tourism & leisure
- Financial & business services
- ICT

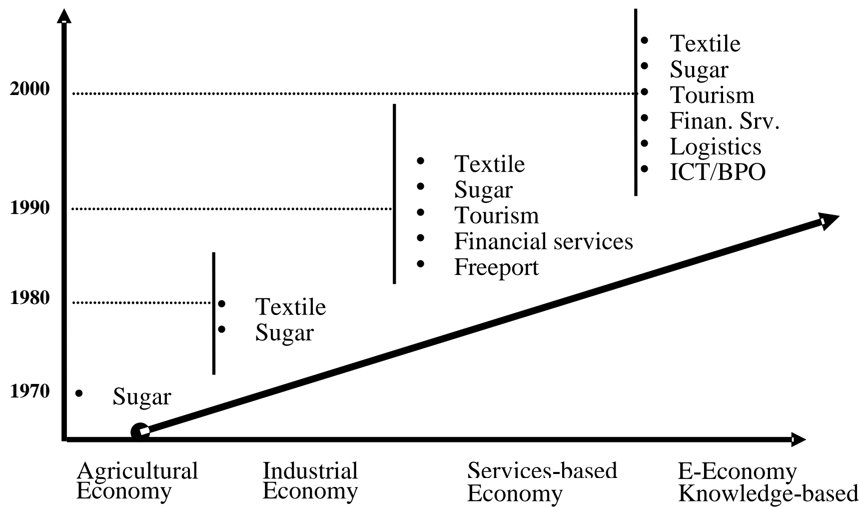
Other emerging areas:

- Seafood hub
- Knowledge hub

**Table 1. Mauritius fact sheet**

| | |
|---|---|
| Land Area | 1,865 sq km |
| Population | 1,222,811 (2003) |
| Labour force | 524,100 |
| Literacy Rate | 86% (2003) |
| Official Languages | English, French |
| Life Expectancy | 71 Years |
| Time Zone | GMT (+ 4 hours) |
| Govt System | Parliamentary Democracy |
| Legal System | Based on French civil law system with elements of English common law |
| Currency | Mauritian Rupee |
| Head of State | President |
| Head of Government | Prime Minister |
| Exchange Rate (Nov 04) | 1 Euro =Rs 35<br>1 Dollar= Rs 29 |
| GNP (per capita) 2003 | 4,493 USD |
| Fixed line connectivity(2003 | 341,414 |
| Internet Users | 180,000 |
| Mobile Phone Connectivity(2003) | 400,465 |
| Computer ownership among households (2003) | 29.4 % |

**Chart 1. Mauritius: the transition from an agrarian to a knowledge-based economy**




**Outward Investment from Mauritius**

Bank of Mauritius – Responsible organ

- Methodology is in line with the Fifth Edition of the IMF Balance of Payments Manual.
- Source of data: returns from both Category 1 (commercial) banks and Category 2 (offshore) banks (since July 2002)
- Investment in the form of equipment is not accounted for.
- Mauritius emerged as an outward investor in the 1990s
- From 1990 to 2003, outward investment exceeded US$83 million:

**Table 2. Outward investment from 1990-2003**

| *Period* | *Annual average US$* |
|---|---|
| 1990-1994 | 18 million |
| 1995-1999 | 6 million |
| 2000-2003 | 16 million |

- Outflows exceeded inflows in 1992, 1993 and 1998

**Chart 2. Outflows and inflows in 1992, 1993 and 1998**

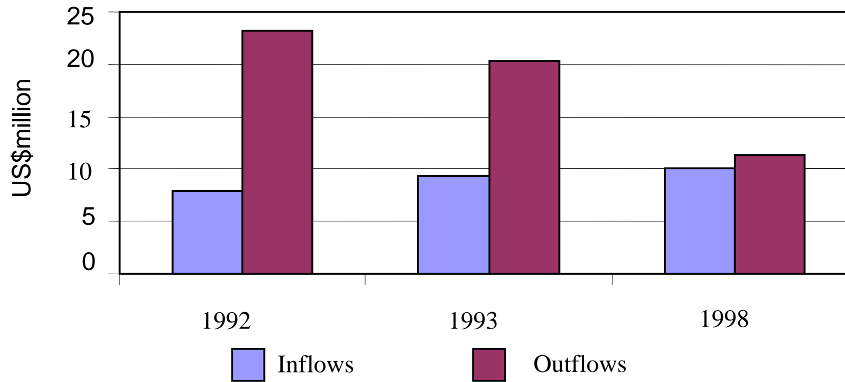
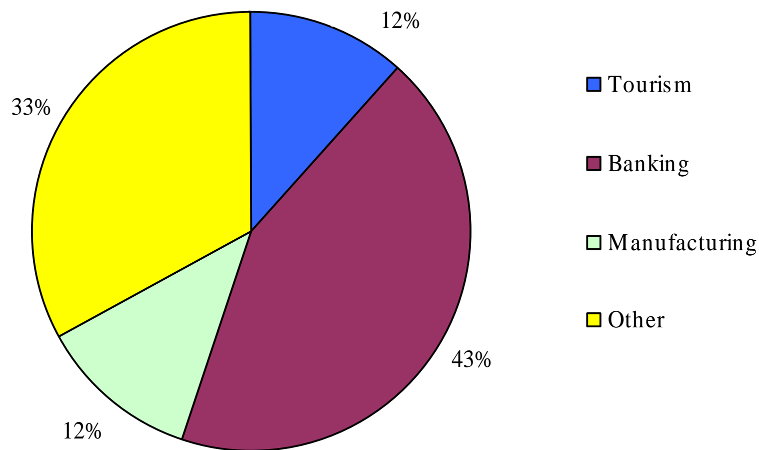



**Chart 3. Outward Investment by Sector- cumulative outward investment, 1990-2004***



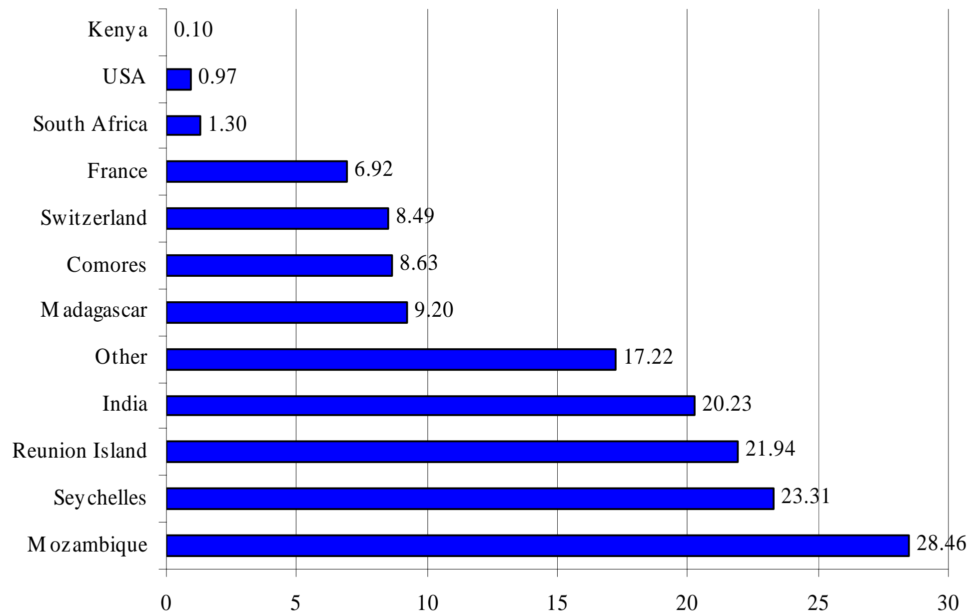

- 2004 data: January to June 2004

**Table 3. Host country by sector**

| *Host country* | *Main sectors* |
|---|---|
| Réunion Island | Banking; tourism; retail; insurance |
| India | Banking |
| Comoros | Tourism; telecommunication |
| Madagascar | Apparel; agribusiness; retail |
| Mozambique | Agribusiness; telecommunication |
| Seychelles | Telecommunication; tourism |
| South Africa | Banking |
| France | Banking |

* 2004 data: January to June 2004

**Chart 4. Cumulative investment abroad, 1990-2004* (US$ million)**




* 2004 data: January to June 2004

*Advantages of Outward Investment*

- Service foreign customers
  Local companies have been able to better service their foreign customers, e.g. in the agribusiness sector in Mozambique and cellular services in Seychelles.
- Cost of production
  e.g in the apparel sector moving to Madagascar has contributed to reduce the cost of production.
- Shortage in the labour force
  Mauritius is moving toward services → low supply of labour in primary and industrial sectors.
- Opportunity to expand
  The small size of the country makes it difficult for companies to expand and benefit from economies of scale, e.g. in the sugar industry and tourism sector.
- Bigger market
  Local demand is relatively small. Easier for some companies to access foreign market through outward investment than the traditional export channels.

**Schemes to encourage outward investment**

*Board of Investment*

- Set up in March 2001 under the Investment Promotion Act (IPA) 2000 with a view to:
    1. Streamline the legal framework and to making better provisions for the promotion and facilitation of investment in Mauritius;
    2. Promote and facilitate investment in Mauritius; and,
    3. Stimulate the development, expansion and growth of the economy by promoting Mauritius as a competing business and service centre.
- Operates under the aegis of the Ministry of Finance and Economic Development
- Encourage outward investment through the Regional Development Scheme that was introduced in 2001

*Regional Development Certificate*

- Objective
    - To encourage investment in an agricultural, industrial or service-related project in any member country of a regional organisation of which Mauritius is a member.
- Qualifying activities - the company shall require:
    - As main object, the promotion of cross-border investment in the region;
    - A minimum paid-up share capital or stated capital of Rs.2 M;
    - A minimum of 35% of shareholding in any company;
    - Registered in a member country of a regional organisation of which Mauritius is a member; and,
    - Investing in a regional development project approved by BOI
- Incentives
    - 15% corporate tax;
    - Investment is deemed to be capital expenditure; and,
    - Investment allowance of 25% is allowed.

To date only two certificates have been granted – (project in Mozambique and Madagascar).

# VI. Sappi - A Case Study in South African Outward FDI - From straw-based paper mill in the African bush to world leader in coated fine paper

Reginald Rumney
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Paper prepared for Workshop on ‘Capacity building for promoting FDI in Africa: trends, data compilation and policy implications’ InWent / UNCTAD meeting 22-24 November 2004, UNECA, Addis Ababa

## Introduction

South Africa's major transnational corporations exhibit one interesting feature: they are no longer South African. South Africa's biggest mining corporation, and a company that once had interests in almost every area of South African business, Anglo-American Corporation has its primary listing on the London Stock Exchange. Mining and metals group Billiton, the first South African company to change its primary listing to the LSE, in 1997, moved its listing to the Australian bourse on merging with Australian group BHP. SABMiller (formerly South African Breweries), is the third such company, followed by life assurer Old Mutual and IT company Dimension Data to have moved their primary listings to London, thereby not qualifying as South African. Subsequently South African financial services group Investec was allowed only a limited primary listing in London, and Gold Fields South Africa had been denied the right to list its assets offshore, indicating that the Treasury had shut the door on such relocations.

**Table 1: Major corporations' date of primary listing on the LSE**

| Company | Year of LSE listing |
| --- | --- |
| Billiton | 1997 |
| Anglo American | 1999 |
| Old Mutual | 1999 |
| South African Breweries | 1999 |
| Dimension Data | 2000 |

The London-listed ex-South African TNCs explained moving their head offices offshore by pointing to the availability of more and cheaper capital in major markets to fund expansion; boosting levels of investment for the company through tracker funds, which target the FTSE 100.

For Anglo American, a spin-off was that this would enable them to "deconglomerate," shedding non-mining subsidiaries and interests to focus on the firm's core business. Instead of buying up ever greater shares of the South African economy the managers could concentrate on acquiring other mining operationals globally.

The other reason for globalisation, advanced by SABMiller staff[10], is summed up in the phrase, "Eat or be eaten". The idea was that intensifying competition in the brewing industry would mean that SAB would either become a global company, and an acquirer, or be acquired by a global company.

Hence Sappi represents the most instructive case study of a South African TNC. Ranked by foreign assets, Sappi is number 10 out of 50 TNCs in Unctad's 2004 Annual Report. Ranked by Unctad's Transnational Index, which is calculated by the average of foreign assets to total assets, foreign sales to total sales and foreign employment to total employment, Sappi

[10] Comment by senior SAB communications manager David Williams during presentation on the economic effects of the London listings, 2002.

is ranked number 9.[11] Of those 50 TNCs, only seven are South African; most are Asian.

Despite being a global operation, paper and pulp company Sappi has retained its primary listing on the JSE Securities Exchange. Its history of transformation into a global company, despite exchange control regulations that prevented it from easily exporting capital, have their roots in a management style that did not always make the company popular with South Africa's investment community.

**Table 2**

| Top South African Transnational Corporations | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | ***Assets US$m*** | | ***Sales US$m*** | | ***Employees*** | | |
| **Foreign assets** | **TNI** | **Corporation** | **Industry** | **Foreign** | **Total** | **Foreign** | **Total** | **Foreign** | **Total** | **TNI (per cent)** |
| 10 | 9 | Sappi Ltd | Paper | 3,733 | 4,641 | 2,941 | 3,729 | 9,807 | 17,572 | 71.7 |
| 12 | 34 | Sasol Ltd | Industrial chemicals | 3,623 | 8,960 | 3,687 | 7,114 | 7,107 | 31,150 | 38.4 |
| 18 | 22 | MTN Group Ltd | Telecommunications | 2,582 | 3,556 | 729 | 1,991 | 1,970 | 4,192 | 52.1 |
| 19 | 21 | Anglogold Ltd | Gold mining | 2,301 | 3,964 | 831 | 1,761 | 30,821 | 53,097 | 54.4 |
| 30 | 32 | Naspers Ltd | Media | 1,655 | 2,498 | 412 | 1,148 | 1,742 | 10,711 | 39.5 |
| 31 | 20 | Barloworld Ltd | Diversified | 1,596 | 2,569 | 1,984 | 3,409 | 9,973 | 23,192 | 54.5 |
| 44 | 24 | Nampak Ltd | Rubber and plastics | 782 | 1,281 | 328 | 1,317 | 10,962 | 18,062 | 48.9 |
| *Source: Unctad WIR 2004* | | | | | | | | | | |

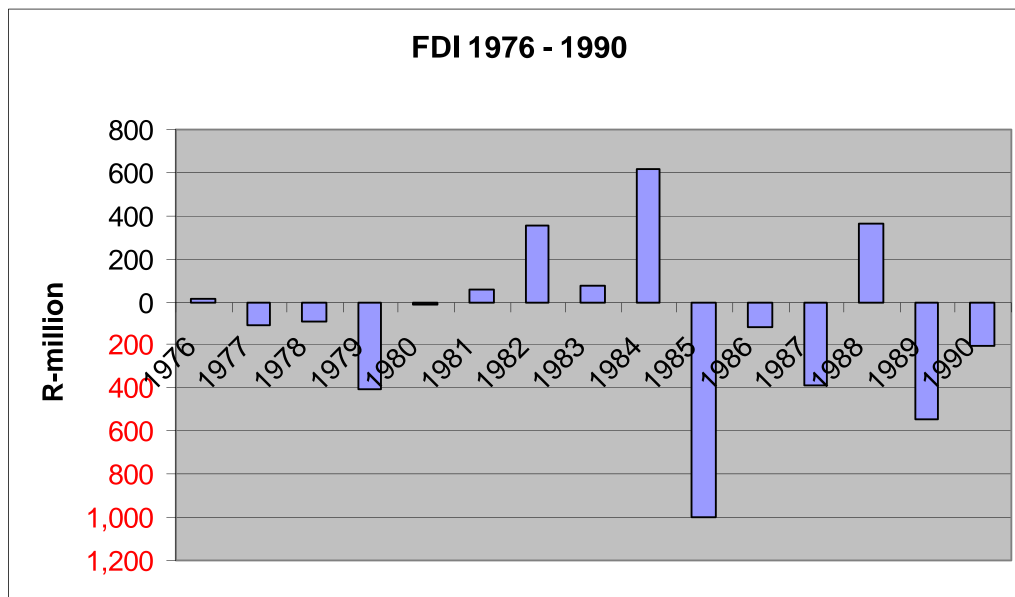
## Background to outward FDI

Before examining Sappi's history, it is pertinent to examine the history of FDI in South Africa. As a developing economy, and one with a low savings rate and desire for imported goods that surges in times of prosperity, especially the artificial prosperity of a strengthening exchange rate, South Africa is thought to need FDI. More importantly, because of its isolationist history South Africa needs FDI to link its economy into the global supply chains of the world economy.

### *History of FDI*

The history of South African fixed foreign investment for almost three decades is one of low inflow and indeed accelerating disinvestment, prompted by a growing acknowledgement by businesses and societies worldwide that the political dispensation in the country was morally unacceptable and financially risky. A clear trend of disinvestment can be seen from 1976, the year of the June 16 Soweto student uprising.

[11] World Investment Report 2004: The Shift Towards Services, Unctad.




*Exchange controls*

A concomitant phenomenon in South Africa from the 1970s was the development of the "siege state," a turning away from international engagement on many levels as the country became an international pariah. Capital flight became a risk as investors, domestic and foreign, began to view the country as a political risk. Hence Apartheid prevented the South African government before 1990 from relaxing exchange controls on residents and non-residents alike, and instead intensified them. The dual-listed currency, the financial rand mechanism, was reintroduced in September 1985 after earlier being scrapped, as disinvestment accelerated in the wake of then-State President PW Botha's infamous 1985 "Rubicon" speech. This environment made it difficult for South African companies to invest offshore.

**Sappi history**

As will be seen the political and economic environment of the 1970s and 1980s shaped the nature of Sappi's outward investment

Sappi's early history is aligned with the history of import substition fuelled by import shortages in wartime. In this sense it is by no means unique (Robertson, Trace). South African Pulp and Paper Industries Limited was registered as a company in December 1936, with the aim of making paper for the growing domestic market from straw. In August of 1937 construction of a pulp and paper mill began on land near Springs, not far from Johannesburg. The mill was named 'Enstra' short for 'Enterprise Straw'. Despite a boost to sales from a decline in imports due to shipping disruptions during the Second World War, and import protection, the company grew slowly, and its expansion is described by Sappi itself as "a mix of building new mills, establishing tree plantations for pulp, and domestic acquisitions."

Only in 1950 did Sappi decide to develop a second mill in KwaZulu Natal, to be called 'Tugela'.

From its very early years, Sappi was associated with major mining house, Union Corporation, a major shareholder whose backing would be important during major acquisitions. But ownership by a mining house in the South African business environment characterised by dominance and central control also implied a certain lack of dynamism.

Eugene Van As, the current non-executive chairman, and the man to whom as Chief Executive for 24 years Sappi's internationalisation and successful adaptation is imputed, described the situation when he became CE in 1978 (after joining the company in 1977) – a situation that necessitated risk-taking.

"The bigger vision for the company was developed very early. It had tremendous structural problems and was too outdated to compete. Government was moving towards lifting import controls. There was no way Sappi could survive as it was. The board had to decide whether to sell it or try to fix it. My recommendation was to fix it. But to do that, you had to pretty well bet the company. Union Corp agreed."

Sappi started, as with SAB and Old Mutual, by investing in Africa, though its initial African investment was relatively small and within the SA Customs Union. In 1988 Sappi acquired the Usutu Pulp Company in Swaziland, a world leader in unbleached softwood kraft market pulp production, from Courtaulds of the UK. It followed this with the acquisition of Saiccor, the world's single largest producer of dissolving pulp in 1989, also from Courtaulds. This was at the height of South Africa's political crisis, and disinvestment pressures may have played a role in Sappi's acquisitions. The Industrial Development Corporation, a State merchant bank designed to aid industrialisation, was also a shareholder.

Sappi's major gamble was not at this stage offshore investment but the expansion of the Ngodwana Mill, finished in 1985, at a total cost of more than $1.1bn, South Africa's largest single private sector investment at that time. Problems with tax agreements and surging interest rates lifted the cost, and the group had to have two rights issues, sending the share price down between April 1984 and November 1985 by 70%. Market opprobrium was heaped on management.[12]

Almost 50% of Ngodwana's output was aimed at the export market – and this in a time of growing trade sanctions against South Africa - showing that the company's thinking had become firmly outward. This was to benefit the company when sanctions eventually were lifted or fell into abeyance.

Yet the end of the siege state also had its discomforts. In the 1993 annual report Sappi bemoans the end of isolation: "… increasing acceptance of SA internationally has been a mixed blessing. An example of the negative aspect of the falling away of trade sanctions is the increase in the volume of coated and uncoated paper exported to this country by international paper producers from declining markets elsewhere. The lack of import protection makes South Africa a particularly attractive new market – so

[12] Interview with Eugene van As, Financial Mail, March 27 2002.

much so that imports of coated and uncoated papers last year were more than double those of 1990."

Van As has also put his finger on another benefit enjoyed by Sappi (and other South African multinationals) for some years, warning that South Africa's then relatively higher tax rate and a change in tax policy "has made it less attractive to run Sappi from here", though he still wanted the group to remain a multinational SA-based company.[13] In the 1990s and before, South African earnings offshore were not taxed. The change to residence-based taxation from source-based taxation, however, has not been sufficient to convince Sappi to relocate. Transnationals can manage their tax affairs through balancing tax paid in one country with tax paid in another, and the company's effective tax rate is not excessive. The National Treasury appears to be well aware of the disincentive effects of high company tax rates, though South Africa's Secondary Tax on Companies (which taxes dividends paid) is acknowledged to be problematic.

In October 1999 Sappi bought out the minority shareholders in Leykam Murztaler, the 74%-owned Austrian company, and agreed in principle to acquire the minority interests in Usutu Pulp Company in Swaziland. Van As noted that the group was reorganising its international structure to consolidate the cash flows of all its subsidiaries into a wholly owned group, restructure its offshore holding companies for greater tax efficiency and to remove the restrictions on the movement of its funds.

| **Acquisition History** | | |
|---|---|---|
| | *Acquisition* | *Description* |
| 1988 | Saiccor | World's single largest producer of dissolving pulp. Nearly 100% of the company's output is exported. |
| 1989 | Major share in the Usutu Pulp Company in Swaziland | Producers of unbleached softwood kraft market pulp. |
| 1991 | Speciality Pulp of Hong Kong | International trading arm and Sappi Trading set up. |
| 1992 | 99% of Hannover papier, Germany. | Sappi shares listed on the London and Frankfurt stock exchanges and the Paris Bourse. |
| 1994 | 75% of SD Warren | USA's largest manufacturer of woodfree coated paper. |
| 1997 | 91.5% of KNP Leykam | Sappi owns 22% of the market share of coated woodfree paper in Europe. KNP is Europe's largest producer of coated woodfree paper, with 4 mills in the Netherlands, Belgium and Austria. |
| 2002 | Various assets of Potlatch Corporation, USA. | $480m purchase price |

*UK Investment*

[13] Interview with Van As, Business Day, June 16 2002.

Sappi's international acquisition trail began in 1990, the year that State President FW De Klerk began the process of ending South Africa's isolationist policy by unbanning the ANC and other organisations, putting the country on the road to democracy and decisively signalling the beginning of the end of Apartheid.

Almost at once, it became possible for South African companies to look aggressively for offshore expansion. Sappi achieved just this with the purchase of five fine paper mills in the United Kingdom, and the establishment of Sappi Europe, with it's head office in London.

*European investment*

This was followed in 1992 with the acquisition of 99% Hannover Papier, Germany's leading producer of coated woodfree paper, establishing Sappi as one of the top three European producers in this sector. Sappi shares were listed on London and Frankfurt stock exchanges, and the Paris Bourse. The following year Sappi Europe SA was launched as the pan-European sales organisation for Sappi products.

The purchase was an example of the ability of the management to resist shareholder discomfort and take long-term decisions that were perceived to be risky at the time, with the share falling from almost R50 to R20 by late 1993.

Van As is quoted as saying, "When we bought Hannover, everybody said we were crazy. That was largely because South Africans didn't understand German accounting. Especially in those days, the published accounts were not worth the paper they were written on. The only thing you could really value the business on was cash. We paid only six times cash flow. And we knew it was there. They had just bought a new machine and they were heavily indebted." [14]

The purchase made Sappi one of the top three European producers of coated woodfree paper.

*US investment*

The acquisition of SD Warren in the US for $1,45bn (then worth about R5.73bn), according to the Financial Mail,[15] was the biggest-ever foreign investment by an SA company, enabling Sappi to gain a leading market share of more than 20% in the US coated paper market.

“It also took Sappi into the arcane world of US structured financing. Again, local analysts and financial media queried the price, at an apparent p:e of about 21. Exchange controls had yet to be lifted. It was funded with debt and equity, in complex financial instruments. And it lifted the group gearing ratio from 41% to over 100%, implying greater volatility and risk.”[16]

This was followed by the acquisition of Potlatch Corporation's coated fine paper business and its Cloquet pulp and paper mill in Minnesota, USA.

[14] Financial Mail, ibid.
[15] Interview. Ibid.
[16] Interview. Ibid.

*Asian investment*

On October 28 this year, Sappi announced it had reached an agreement to acquire 34% of Jiangxi Chenming Paper Company Limited in a joint venture with Shandong Chenming Paper Holdings Limited (47.2%), together with Jiangxi Paper Industry Company Limited (3.8%), Shinmoorim Paper Manufacturing Company Limited of South Korea (7.5%), and the International Finance Corporation (7.5%). Sappi's equity contribution will be around US$60 million.

Jiangxi Chenming is reportedly building a 350,000 ton a year light-weight coated paper machine, together with a bleached thermo mechanical pulp and deinking plant and ancillary power plant and transport infrastructure in Nanchang, the capital of Jiangxi Province in southeast China. Total cost of the project was an estimated US$487 million, with the mill scheduled to start delivering paper in the first half of 2005.

### The present

Unlike other South African TNCs, like Anglogold, Sappi did not primarily target Africa as an investment destination, aside from nearby Swaziland. One-time arch-rival of Sappi in the domestic market Mondi, is owned by Anglo-American Corporation. It has also followed an international expansion strategy. Mondi has moved into Eastern Europe. Mondi Europe chairman and CEO David Hathorn spelled out the reason for investing in Poland. “It’s easier to do business in Poland than South Africa. It’s less regulated. The authorities are constructive and support you. The unions are pragmatic, and there are better skills for similar costs.”[17]

*Global dominance*

The various acquisitions have enabled Sappi to focus clearly on core areas as a vertically integrated producer of certain types of paper: pulp production and coated woodfree paper (for glossy magazines and the like).

| **Top 10 Coated Fine Paper Products** | |
|---|---|
| Sappi | 12% |
| Stora Enso | 10% |
| M-Real | 8.10% |
| APP | 6.80% |
| Lecta | 5.30% |
| Total | 42% |

Sappi has achieved its purpose of dominance in a particular product, enabling it to influence prices as the market leader.

*Refocusing*

As part of its refocusing, in May 2000, Sappi sold fibreboard manufacturer Sappi Novobord, to Sonae South Africa (Pty) Ltd for an undisclosed amount. Sonae South

[17] Supplement on Investment in Poland, Financial Mail, October 21 2003.

Africa is a wholly owned subsidiary of Sonae Industria SPGS, described as the world's largest manufacturer of wood-based panels. Sappi said the Novobord business no longer fitted Sappi's strategy, which focuses on pulp and paper. At that stage Sappi had sold US$326 million of non-core assets since setting itself a target of R2 billion in May 1998.

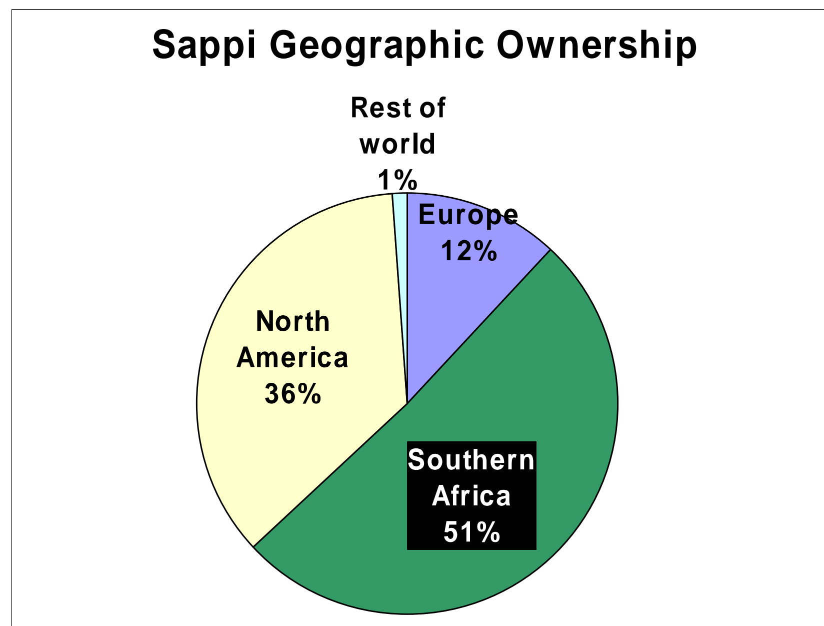
In January 1002, Sappi sold its mining timber division of Sappi Forest Products.

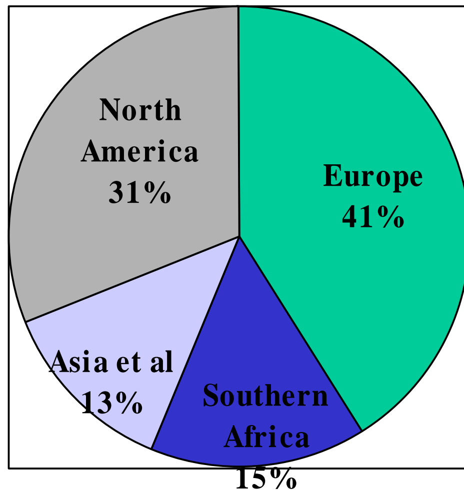
Sappi continued to focus on coated woodfree paper. In May 2001 Sappi Fine Paper North America exits the US uncoated paper business by closing its Mobile mill in Alabama. In March 2002 Sappi ended its presence in the carbonless paper market by closing its Transcript mill in Scotland. It has continued to sell non-core businesses, the latest being the sale of Boskor sawmill to Swartland Meubels, a family owned business.

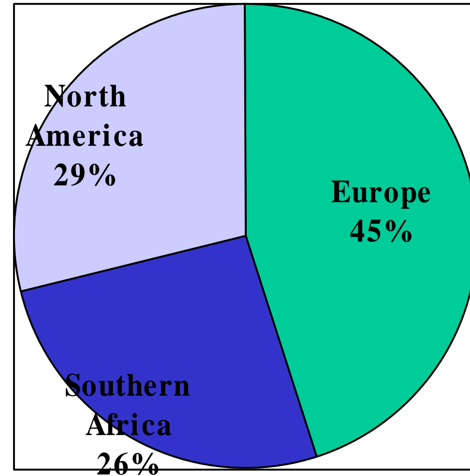
**Conclusion**

What led Sappi to globalise, was in summary:

- End of dominance in domestic market because of diminished import protection threatened profitability.
- Product specialisation in coated woodfree paper was seen as the way to maximise profits.
- Resource riches in Southern Africa were insufficient, while bigger and more profitable markets for glossy paper in Europe and American markets beckoned.The The result of Sappi's refocusing and expansion is that it can boast diversified sales, product sources, and investment, making it less dependent on any one region, though it still sources a great deal of pulp from Southern Africa (see graphs below).






*Source*: Sappi Annual Results 2003

Sappi was nurtured by infant industry protectionism of the sort common after World War II, but had to struggle against the new externally imposed protectionism of the 1980s, trade sanctions. South African companies were urged to export, so that South Africa could maintain a surplus on the current account of the BoP to finance debt repayment after the Debt Standstill that followed the demand for debt repayment by overseas banks after 1985. Trade sanctions helped protect Sappi domestically, while government did what it could to encourage exports, but the inability to expand and focus on core business by acquiring companies in the area of specialisation overseas hindered Sappi's growth.

In the 1990s, when it became possible to move offshore after the unbanning of the ANC and PAC, and the beginning of South Africa's redemption in the eyes of the world, Sappi overcame exchange control hurdles by funding its offshore expansion through a combination of equity and debt. The equity funding had the effect of bringing foreign investment into the country.

Sappi funded the buyouts of minorities in in European paper business KNP Leykam through a global equity offering to raise some $US200m. This brought new non-South African shareholders into Sappi or increased the holdings foreigners already had. Burhmann, KNP's biggest shareholder (19.9%) and from whom it acquired KNP Leykam, participated by placing a third of Sappi shares.

It has also been involved in bringing new investment into the country, for instance, the R330-million expansion of Lignotech South Africa - a joint venture between Sappi Saiccor and Norwegian-based Borregaard (Lignotech is the world's largest producer of speciality lignin chemicals).

Sappi's experience has also shown that listing offshore is not necessarily the only way to access capital, though its size is not comparable to the London-listed former conglomerates, and its history is that of being owned by a conglomerate rather than being one.

Sappi belonged to one of the broad groupings of South African business that held sway for decades in South Africa, loosely that of a section of Afrikaner capital aligned with what became Gencor before metamorphosing into base metals producer Billiton in the 1990s. Like the other mining houses, Gencor was a conglomerate, and it was the major shareholder in Sappi. In the restructuring of the 1990s, Sappi came to be controlled by management, with no clear majority shareholder. Sappi was undoubtedly considered, along with Mondi, strategic for most of its life: the continuing IDC shareholding is a reminder of the State's involvement. Yet in the 1990s, to the extent that the ANC was aware at all of Sappi's internationalisation, government neither hindered nor helped this process. The focus was on inward investment and on expanding trade. The General Export Incentive Scheme launched in 1990 would have benefited exporters such as Sappi. This concentration on export markets may in turn have brought the attention of the management to the possibilities of investment in those markets.

The investor community was not entirely supportive, to say the least, of Sappi's internationalisation. Indeed, it is a feature of South Africa's investor community to be almost scornful of SA corporates venturing abroad. MTN's venture into Nigeria caused a shaking of heads because of the perception of insurmountable difficulties of the business environment in that country, and the phenomenon is not limited to investment in African countries. The following comment from a columnist in the Financial Mail sums up the experience of SABMiller:

"When SAB paid US$5bn for Miller a couple of years ago, many an eyebrow was raised. Some even went so far as to suggest that the brewers may have been tucking into a couple of gallons more than the usual ration of their own product."

The writer goes on to congratulate management for its foray into the US market, showing that the commentators were wrong. Market reaction to Sappi's offshore expansion was also too sceptical – with hindsight. But other South African ventures into Europe and America in the past have failed. Indeed, Old Mutual's attempts at expansion have arguably not yielded great success.

Nor have the London listings led to a complete neglect of South African investment.

Writing in the Business Times, journalist Marcia Klein summed up the concerns of, for example the union movement: "A few years ago, there was panic in South Africa sparked by fears that the big companies who were moving to London heralded the start of a massive "chicken run" and vote of no-confidence, and that the effect on the country and stock exchange would be huge."

The writer comments that none of these fears had been justified, and that there had not been a "white flight".

Sappi's offshore expansion, while as determined as the London-listed companies, was below the radar screen because it did not move its head office. Yet it is an example of the same forces that led to the London listings, which might not have occurred had exchange controls on residents been lifted earlier.

The lesson seems to be that if the country is to follow an export-oriented, outward-looking economic policy it must expect outward FDI along with inward FDI.

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# VII. Intra-Africa FDI: Trends, Problems and Prospects: The Experience of Tanzania[18]

by

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Paper prepared for Workshop on 'Capacity building for promoting FDI in Africa: trends, data compilation and policy implications' InWent / UNCTAD meeting 22-24 November 2004, UNECA, Addis Ababa

[18] **DISCLAIMER**: This paper draws widely from a joint report by Tanzania Investment Centre (TIC), Bank of Tanzania (BOT) and National Bureau of Statistics (NBS) – forthcoming - written on the basis of a surveys of foreign private capital that were conducted in Tanzania in 2000 and 2002/03 with technical assistance from Development Finance International (DFI) based in London. That notwithstanding, the views expressed in this paper are solely those of the authors and should not be interpreted as reflecting those of BOT, TIC or NBS.

## Introduction

Since early 1980s, governments of developing countries have been supporting and implementing strategies of encouraging competitive free markets, privatisation of state owned enterprises (parastatals), moving from closed (no trade) to open (trading) economies and opening up the domestic economy through free trade and attracting foreign direct investment. This was done as a way of recognising the lead role that private sector can play in economic development.

Akin to other developing countries, Tanzania has since 1985 been steadily reversing most of its centrally planned policies of the 1970s and early 1980s towards market determined economy, thus giving unprecedented emphasis on the role of private investment. The economic recovery programme announced in mid 1986 has generated notable changes in all sectors of the economy. It has also attracted substantial financial support from bilateral and multilateral donors. Besides, The World Bank and the International Monetary Fund through various programmes have also provided funds to rehabilitate the then very weak economic structure and infrastructure. On the political front, Tanzania has continued to be politically stable (relatively) even after two multiparty elections done in 1995 and 2000. Since 1995, Tanzania had invigorated its efforts towards development of a stable macroeconomic environment, privatisation, the elimination of institutionalised corruption, the promotion of good governance, the support of multiparty democracy and the development of civil societies. These efforts have resulted in achieving its developmental objectives and have accorded the country high reputation among the international circles.

Achievements made in the macroeconomic environment can be summarised by the macroeconomic indicators shown in **Table 1**. The Table indicates that the macroeconomic environment has stabilised after a long struggle. The economy grew at a rising GDP growth rate, from about 3.6 percent in 1995 to 6.2 percent in 2002 but slowing down to 5.7 in 2003 due to low agriculture output occasioned by shortfall in rain during the 2002/03 season. This is relatively high achievement if compared by an average growth rate of 3.4 percent that Tanzania recorded for more than 35 years prior to 1995. It is also important to note that this growth was achieved at the time when World wide, GDP growth increased from 1.8 percent in 2002 to 2.6 percent during 2003 and that of Sub-Saharan Africa declined to 2.4 percent in 2003 from 3.3 percent in 2002. Inflation came down from about 30 percent in 1995 to a rate lower than 5 percent that the country has enjoyed since 2002.

**Table 1 Selected Macroeconomic Indicators 1995 - 2003**

| | *Year* | *1995* | *1997* | *1999* | *2000* | *2001* | *2002* | *2003* |
|---|---|---|---|---|---|---|---|---|
| 1 | GDP Growth % | 3.6 | 3.3 | 4.7 | 4.9 | 5.6 | 6.2 | 5.7 |
| 2 | Inflation rate (p.a) % | 28.4 | 18.1 | 7.9 | 5.9 | 5.1 | 4.6 | 4.4 |
| 3 | Inflation rate (e.p) % | 26.9 | 15.4 | 7 | 5.5 | 4.9 | 4.4 | 4.7 |
| 4 | Fiscal Deficit/GDP | -0.4 | -2.6 | -1 | -1.8 | 0.3 | -0.2 | -3.0 |
| 5 | Fiscal Deficit/GDP (excl grants) | -2.4 | 1.7 | -5.8 | -4.7 | -4.1 | -4.6 | -7.1 |
| 6 | Export/GDP | 0.24 | 0.16 | 0.13 | 0.14 | 0.15 | 0.17 | 0.17 |
| 7 | Imports/GDP | 0.41 | 0.25 | 0.26 | 0.23 | 0.24 | 0.23 | 0.27 |
| 8 | CAB/GDP | -9.6 | -3.1 | -9.6 | -5.5 | -5.1 | -2.2 | -4.4 |
| 9 | CAB/GDP (excl. grants) | -18.8 | -8.8 | -14.4 | -10.3 | -9.5 | -6.5 | -9.8 |
| 10 | FDI Flow/GDP | 0.03 | 0.02 | 0.09 | 0.03 | 0.07 | 0.05 | 0.05 |
| 11 | Exchange rate (p.a) | 574.8 | 612.1 | 744.9 | 800.4 | 876.4 | 966.6 | 1038.2 |
| 12 | Exchange rate (e.p) | 558.2 | 624.4 | 797.3 | 803.3 | 916.3 | 976.3 | 1063.5 |
| 13 | Gross Reserves (Mill USD) | | | 775.6 | 974.4 | 1,156.6 | 1,529.0 | 2,037.8 |
| 14 | Import cover (Months) | | | 5.7 | 3.1 | 6.3 | 8.4 | 9.0 |

Key: p.a = period average; e.p = end of period
*Source*: Bank of Tanzania

In addition to the improved macroeconomic and political environment, the government pursued specific purposeful measures aimed at reducing the degree of intervention in private business. As a result, FDI has performed very well in the past ten years. During this period, FDI increased from USD 12 million in 1992 to an estimated amount of USD 526 million in 2003, which is an increase of about 40 times. However, the increase has not benefited all sectors and administrative regions proportionately. FDI has been concentrated in the Mining sector, Communications, Manufacturing and Tourism leaving aside agricultural sector, which is a backbone of the economy contributing just below 50 percent of GDP. Regionally, FDI has concentrated in those regions that are endowed with natural resources (mining, fishing, natural attractions) or in major business cities like Dar es Salaam, Arusha and Mwanza.

The main focus of this report is to review the scale, composition and trends of FDI in Tanzania. This will be done with a view to demonstrate the relationship that exists between pro-FDI policy evolutions, FDI performance and FDI distribution in the country.

Given the size of the task, it has not been possible to provide a detailed review of foreign investments in all sectors of the economy. Accordingly, a detailed review of the mining sector has been done owing to the high and relatively conspicuous amount of FDI that the sectors have managed to attract. In addition, a special review of the investment profile of Tanzania Breweries Limited (TBL) will be done to reflect on the Intra-Africa FDI. TBL is one of the success stories of privatisation in Tanzania.

The rest of the paper is organised as follows. The next section describes the investment climate for FDI in Tanzania in terms of policy evolution and actions that the government of Tanzania has implemented in a bid to attract private investment. This is followed by an examination of foreign investors' response to policy incentives with regard to magnitude, composition and trends. In section four, a brief review of

FDI by country of origin is made with particular focus on intra-Africa. In section five, a detailed review of the performance of the mining sector is done whereas in section six the investment profile of TBL is provided. The last section summarises the main challenges that face FDI in Tanzania future prospects are then summarised in section seven.

**Investment climate for FDI in Tanzania**

*Market based economic management policies*

After almost two decades of operating under the central planning regime, Tanzania initiated a series of policy changes in 1986 with a view to shifting towards market based economic management. The broad measures that were pursued include

- trade and exchange rate liberalization which were introduced through; abolition of import and export licenses in 1993, elimination of all exchange controls on current account transactions in 1996, partial liberalization of inward financial transactions by allowing long-term investments, 1996 and partial participation of non-residents in the stock market 2002. Currently, investments abroad by residents are still restricted unless granted special approval by the Bank of Tanzania. Participation of non-residents in domestic capital market is partially allowed. Generally, Tanzania is moving cautiously towards full liberalization, avoiding speculative short-term capital flows.[19]
- parastatal sector reforms through privatisation of state owned companies and institutional reforms. The government adopted a privatisation programme whereby about more than a half of 400 public entities that existed prior to 1993, had been divested by the end of 1999.
- tax reforms aimed at streamlining the tax structure, broadening the tax base, and establishing a sound institutional framework (establishment of Tanzania Revenue Authority (TRA) and introduction of Value Added Tax (VAT)), in 1997,
- financial sector reforms done by way of privatisation of state owned banks, allowing foreign banks to operate alongside local banks, establishment of the Capital Market and Securities Authority (CMSA) and the Dar es Salaam Stock Exchange (DSE).
- civil service reforms[20] through restructuring the public service, pay reform, instating a sound information system and capacity building.

The implementation of these measures necessitated undertaking specific actions that went a long way into creating conducive environment for private investment.

*Evolution of pro-FDI policies*

The government of Tanzania formally resolved to open up productive and commercial sectors of the economy to private investors by adopting a National Investment Promotion Policy in February 1990 and enacted an investment code known as the

[19] For more Details see Foreign Exchange Regulations, 1998 and Foreign Exchange Circular no. 6000/DEM/EX.REG/58 OF 24th September, 1998.

[20] URT (2001), Public Service Reform Programme 2000-2011.

National Investment (Promotion and Protection) Act No. 10 of 1990 (NIPPA). The policy and the code resulted into the formation of the Investment Promotion Center (IPC), an institution that was responsible for promotion, approval, monitoring and facilitation of private investment (local and FDI) in the country. However, by the mid-1990s there were signs that the investment policy and the code did not conform well to investor requirements. This was particularly due to conflicts between the code and other laws governing investments besides escalating bureaucracy[21].

To reverse this trend, which would otherwise hinder development objectives of the country, the government, in mid 1990, initiated a review of both the investment policy and the code and shortly adopted a new National Investment Promotion Policy in 1996. This was followed by Tanzania Investment Act, 1997 that effectively repealed NIPPA, 1990. Key features of the new investment framework included:

- Establishment of the Tanzania Investment Center (TIC) with expanded mandate as "one stop centre"[22] to promote and facilitate all investments and to advise the Government on investment matters
- Set-out measures to reduce bureaucracy[23]
- Established investment incentives and investor's rights[24]

*Sectoral investment policies and regulations*

In addition to the regulatory measures to attract investors contained in TIC Act 1997, a number of sectoral policies and regulations were also reviewed in favour of private investment in Tanzania. For example, the mining policy in 1996, tourism policy in 1997 and Agriculture policy 1997. Each of these policies clearly describes the importance and commitment by the Government to ensure that conducive environment for attracting investments is in place[25]. Moreover, as pointed earlier, the Government enacted the Banking and Financial Institution Act in 1991, which liberalised financial sector thus increasing efficiency in the provision of banking services.

[21] Madete (2000), identified several weaknesses in policy and legislations that necessitated review of National Investment Promotion Policy during mid-1990s. These weaknesses were *inter alia*: reduced credibility of both the IPC code and policy as a result of frequent changes that were being made to its provisions, existence of contradictions and disputes between the investment code and other legislations/laws or other government executing agencies and administrative weaknesses that limited effective promotion and facilitation of private investors.

[22] The TIC through the minister responsible for investment can request for officers from key ministries, agencies or departments dealing with registration/approval processes to be stationed at TIC office. According to TIC Act 1997, "that request shall be complied with" by relevant ministry.

[23] To minimize bureaucracy, the investment code also set a maximum period of 14 working days within which relevant government agencies were to have processed applications sent to them by TIC and that "where the centre does not receive a written objection from the relevant authority within the specified time, the necessary license or approval shall be deemed to have been granted"

[24] As a guarantee to investors, TIC Act of 1997 states categorically that business enterprises shall be guaranteed unconditional transferability of dividends, loan servicing, remittance of proceeds in the event of liquidation and a guarantee against nationalization. The liberal policy with regard to foreign Direct Investment is also stated in BoT, 1998 Foreign Exchange Regulations as well as Foreign Exchange Circular no. 6000/DEM/EX.RE/58 of September 1998

[25] For more details see Tourism Policy 1997; Mining Policy 1996.

*Other measures to attract investments*

- In 1999 commercial courts were established to speed up hearing of commercial disputes thus building investor's confidence.
- Tanzania has signed a number of bilateral and multilateral international treaties including Multilateral Investment Guarantee Agency (MIGA), the International Centre for the Settlement of Investment Disputes (ICSID), and the Convention for the Protection of Industrial Property and Convention on Recognition and Enforcement of Foreign Arbitration Award. These arrangements guarantee the security of FDI against losses arising from armed conflict or international disorder, and protection against nationalisation. Further, they ensure transfer of profit, dividends and capital.
- The government is engaged in advertisement of its investment opportunities in the country and abroad. In this regard, Tanzania has participated and hosted many international investment fora. These fora provide foreign investors with the opportunity to explore investment potentials in the country and to meet with their potential domestic counterparts.
- The Government in 2002 established Export Processing Zones (EPZ) aimed at attracting investments in agribusiness, textiles and electronics. EPZ are tax free zones and therefore expected to attract significant FDI.
- Ownership of land in Tanzania is vested in the government and only availed on leasehold. This has been a major constraint to the development of commercial agriculture in Tanzania and constraining the use of land as collateral. The government has made a major stride towards resolving this problem by enacting new land laws. Preparations of necessary regulations are in final stages.

*Institutional arrangement for attracting FDI*

Private investments in Tanzania are registered through three institutions namely, TIC, The Parastatal Sector Reform Commission (PSRS) and the National Development Corporation (NDC).

The Tanzania Investment Centre (TIC)

TIC is a key agent of the government co-coordinating and facilitating investment in Tanzania, and to advise the government on investment policy and related matters. The Centre is required to assist all investors, including those who are not bound by the provisions of the 1997 investment Act, to obtain the necessary permits, licenses, approvals, consents, authorizations, registrations and other matters required by law to set up and operate an investment. During the period between 1990 and May 2003 TIC was able to register 2,288 projects with total investment of TZS 8,180.3 billion (or USD 11.86 billion).

Parastatal Sector Reform Commission

This is an institution charged with the functions of coordinating and overseeing the privatization aspect of the reform process. The PSRS is therefore vested with the responsibility and powers of implementing restructuring activities in respect of specified state owned enterprises (parastatal), and specifies government minority shares in privately owned companies.

National Development Corporation (NDC)

The NDC has been mandated by the government to mobilize and channel investment resources into the industrial sector with the aim of increasing activities that will add value to Tanzania's resource base for domestic and export markets. As such NDC is overseeing the implementation of two distinct although complementary programmes: the Export Processing Zones (EPZ) and Spatial Development Initiatives (SDI). Through the EPZ Act of 2002, the government has mandated NDC to be its agent responsible for initiating, developing and managing operations under the EPZ programme. For the latter initiative, NDC will also initiate, implement and coordinate plans to develop various development corridor programmes.

Ministry of Minerals

Exploration and exploitation of all mineral resources in Tanzania falls under the ministry of energy and minerals. This is a key agent of the government in coordinating and facilitating investments in the mining sector on the basis of mining policy 1997 and the mining act 1998.

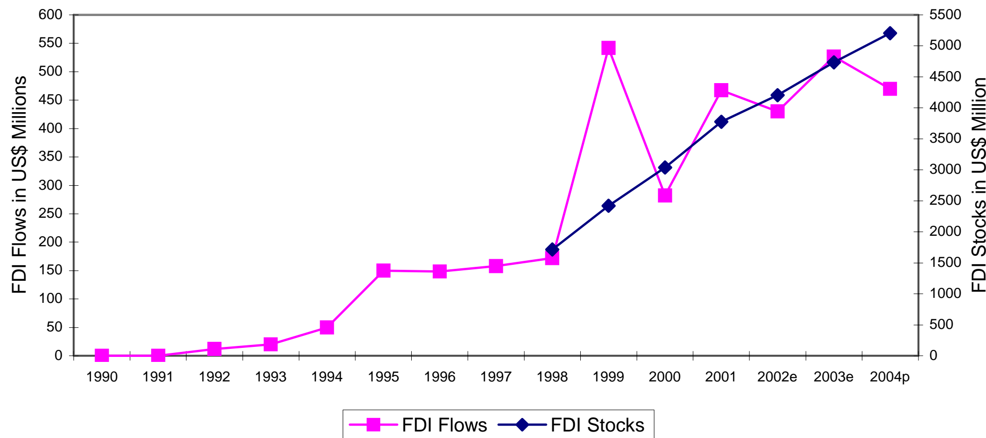
## Magnitude, trends and composition of FDI in Tanzania

### *Magnitude and trends*[26]

Available information from the Bank of Tanzania indicates that in the recent past, FDI has been growing both in absolute terms and as a share of GDP.

**Figure 1** shows considerable rise in annual FDI flows between 1990-2004 and a continuous increase in annual FDI stocks from 1998-2004.

[26] Up to 1998, The Bank of Tanzania estimated FDI data from TIC approval records and privatization data from PSRC.. Since 1999, FDI data have been estimated from periodic surveys of FDI companies (done in 2000 and in 2002/03). A survey to capture actual data for 2002 and 2003 is planned to be completed by March 2005. Estimates presented here for 2002 and 2003 will therefore be reviewed to reflect reality as actual data become available from the Bank of Tanzania.




Key: e=BOT estimates; p=BOT projections
*Source*: IFC (1997) for 1990-1991 and Bank of Tanzania for 1992-2004.

As a share of GDP, results of a survey conducted by NBS, BOT and TIC show that the scale of accumulated stock of private capital in relation to GDP increased from 25 percent in 1998 to about 50 percent in 2001. The same survey shows that foreign private capital flows in relation to GDP for the period 1999 to 2001 have declined from 9 percent in 1999 to 7 percent in 2001 but they are still considered high by regional standards[27]. Furthermore, other studies point to the fact that the role of foreign private investment as a source of development finance in Tanzania has been increasing[28].

The progressive increase in FDI stock and flows revealed in **Figure 1**, correspond with the investment policy evolution and promotional efforts that the Government undertook since early 1990s as discussed in the previous section. It is evident here that investors are sensitive to domestic policy actions. After the establishment of IPC in 1990, for example, the value of FDI rose sharply and stagnated after 1995 in response to administrative weaknesses in the IPC. Similarly, the positive effects of Mining Policy of 1996, the invigorated investment policy and Act of 1997, and other promotional efforts including investors forums are noticeable through the sharp increase of FDI transactions from 1998 up till now. Political shocks related to October 2000 general elections may have affected the FDI inflows during that year.

The recorded performance of FDI compares favourably to other countries in the region. An analysis by Matthew Martin and Cleo-Rose Innes (2004) of selected African countries revealed that in relation to GDP, both stocks and flows of foreign private capital in Tanzania are high, and match or at times surpass the scale of FDI stocks and flows of most other African countries[29]. In the same study, of foreign investments stocks measured as a proportion of GDP, Tanzania was ranked third after Ghana and Zambia and second after Guyana in attracting foreign private capital flows. It is worth noting that overall FDI accounts for over 85 percent of total stock of

[27] See NBS, BOT and TIC 2004.
[28] See for example Kimei and others 1998, Noni and others 1999
[29] See Matthew Martin and Cleo Rose-Innes, Canadian Development Report, 2004.

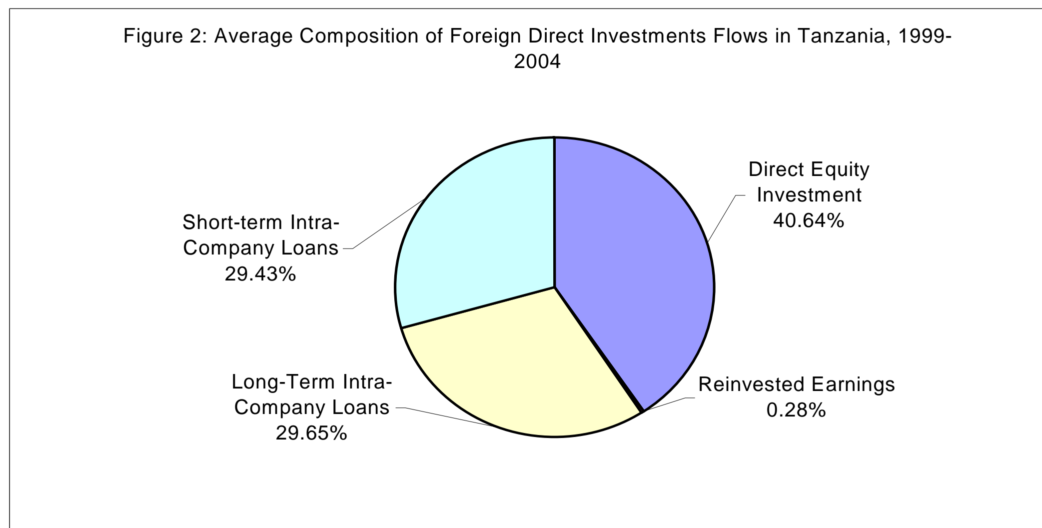
foreign private capital and over 75 percent of foreign private capital flows in Tanzania.

*Composition by sources of financing and sectors*

FDI by sources of financing

On the basis of international standards, Tanzania categorizes FDI in terms of direct equity investments, reinvested earnings and intra-company loans (both long and short term). Surveys on private investment that cover the entire country revealed relative dominance of direct equity investment in the financing of FDI as shown in **Figure 2**.

- On average, new direct equity investment represents 40 percent of the total FDI financing for the period 1999-2004.
- Reinvested earnings, which were previously not known, are still insignificant (less that a percentage)
- Intra-company loans (long and short term), which were also previously less known, constitutes a very significant financing source accounting for about 60 percent of FDI financing. It is important to note that short and long term loans account for almost the same weight in the intra-company loans financing source. It is also important to note that, the report by NBS, BOT and TIC referred to earlier show that short-term intra company loans are largely made-up of suppliers' credits from related companies (over 75 percent of short term loans).



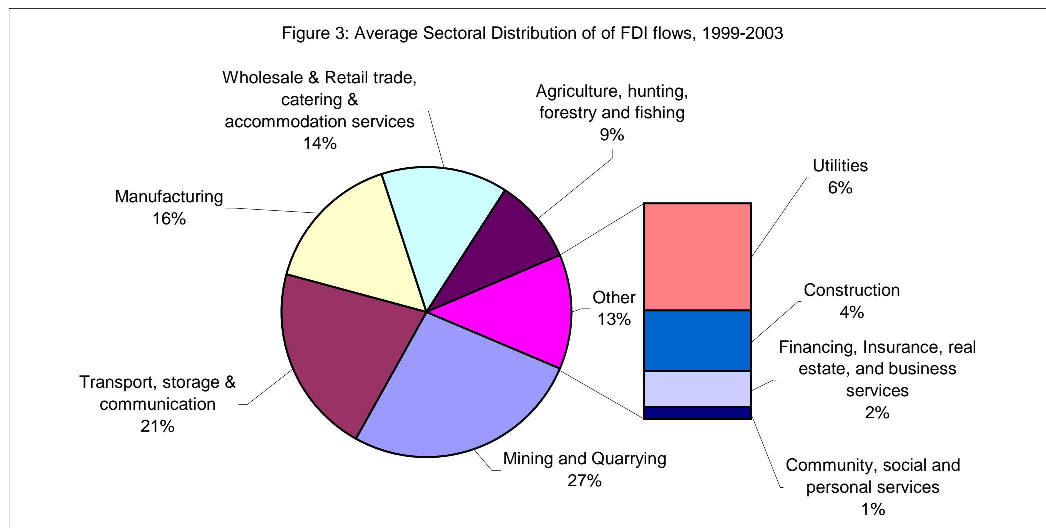

*Source*: NBS, BOT and TIC (2004)

These results raise some policy concerns. First, foreign direct investors in Tanzania rely on intra-company loans as a source of financing; implying that private sector external debt is becoming significant with increased foreign investments in Tanzania. Monitoring of private sector external debt in Tanzania should therefore be a matter of policy watch. This is important learning from the South East Asian financial crisis. Second, the fact that short-term intra-company loans are dominated by suppliers'

credits indicates that Tanzania is susceptible to transfer pricing behavior. Companies involved in such behaviour usually under-declare their profits, which in most cases affect the level of net profit and re-invested earnings. As will be shown below, manufacturing sector in Tanzania is shown to have attracted substantial losses contrary to what common reasoning (based on the share of manufacturing in total FDI) would suggest. Third, transfer pricing may have also been the cause of insignificant re-invested earnings of only 0.3 percent shown in **Figure 2**. Noting that re-invested earnings are being officially recorded for the first time, the challenge may be to focus on fully capturing these flows in future surveys in Tanzania.

FDI by sector

The increasing FDI in Tanzania is not homogeneously shared across sectors. The most attractive sectors between 1999 and 2003 have been mining, communication and manufacturing accounting for an average of 27 percent, 21 percent and 16 percent of total FDI flows respectively **(Figure 3)**. This distribution is attributed to the mining act of 1997, which is considered to be "the best of its kind" (UNCTAD 2001), and privatization of the telecommunication sub-sector which was done in 2000.




*Source*: NBS, BOT and TIC (2004)

The increase of FDI to the manufacturing sector is generally associated with its short-term profitability. However, results from the surveys show that manufacturing and agriculture are two loss-making sectors in Tanzania (NBS, BOT and TIC 2004). It may therefore be concluded that there could be some flawed reporting of the profitability of manufacturing sector. This may be another point of concern to be taken up during future surveys.

**Figure 3** also shows that, the average contribution of FDI directed towards agricultural sector has been marginal at only 9 percent. This happened despite its significant contribution to the total GDP of just below 50 percent in recent years. In addressing this weakness, the government is working towards creating a conducive investment environment that will attract more investments into the sector. For

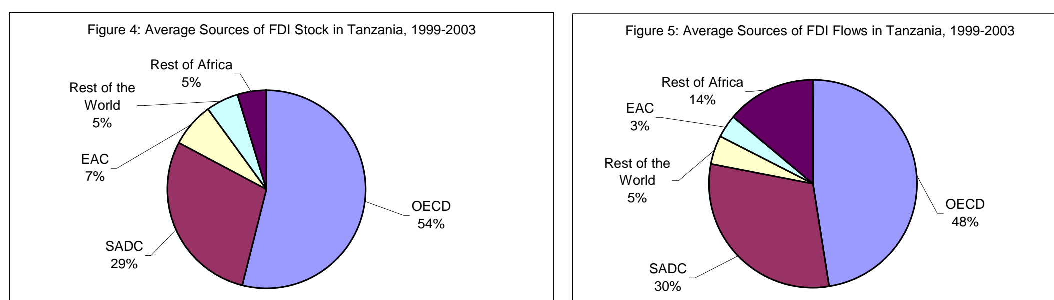
example, the government is finalizing preparations of regulations related to implementation of the land law which has taken onboard most of investors concerns.

**Intra-Africa FDI**

Foreign direct investment in Tanzania originates from a wide range of countries. Results of the two surveys referred above, indicate that OECD countries were major contributors to FDI in Tanzania for the years 1999 to 2001. This represents an average of 54 percent of FDI stock. The rest comes from non-OECD countries including Africa and the rest of the world.

For convenience of analysis intra-Africa FDI are categorised from SADC, East Africa and the rest of Africa. SADC countries, with the major influence from South Africa, contributed about 30 percent of both stocks and flows of FDI as shown in Figure 4 and 5. In recent years, the influence of investments from South Africa has grown in the financial sector (70 shares in NBS Limited, Stanbic limited), in manufacturing (e.g. a South African firm bought Tanzania Breweries Limited) and Telecommunication (South Africa has shares in Vodacom-the leading mobile service provider). South Africans have also hold top management position in various firms especially in the mining sector, telecommunication and in the financial sector. The government also contracted South African management firm to supervise Tanzania Electricity Company Limited (TANESCO), the sole supplier of hydro electricity in Tanzania.

EAC countries (Kenya and Uganda) contributed about 7 percent of the stocks and 3 percent of the flows, most of which are from Kenya due to historical links.




*Source*: NBS, BOT and TIC (2004)

That not withstanding there has not been much links with the rest of Africa, except for Ghana and Mauritius. However, information from the NBS, BOT and TIC report shows that FDI stock originating from the rest of Africa have been generally declining possibly due to crisis in the Ashanti Goldfields of Ghana. The crisis was widely reported by international press and is referred by M. Martin and Cleo-Rose Innes (2004) as the cause of currency crisis in Ghana in 2000.

In absolute terms, Appendix I shows that in the Non-OECD group of countries, the major sources of FDI are South Africa, contributing 24.2 percent, Kenya, contributing 7.3 percent, Ghana contributing 4.6 percent and Mauritius contributing 4.5 percent of total FDI stock as at end 2001. South Africa leads as a source of FDI stock in Tanzania with a total contribution of USD 640.6 million (or 21.1 percent) and USD

912.2 million (or 24.2 percent) for 2000 and 2001, respectively. With these amounts of stock of FDI, South Africa is also ahead of the United Kingdom, which contributed USD 534.5 million (17.6 percent) in 2000, and USD 559.9 million (14.8 percent) in 2001 as well as Canada which contributed USD 406.7 million (13.4 percent) and USD 430 million (11.4 percent) in 2000 and 2001 respectively.

## Prosperity of mining sector in Tanzania

*Background*

Tanzania is well endowed with a wealth of minerals including gold, gemstones, coal and base metal. Notwithstanding mineral endowments, economic policies hostile to private investment that were adopted by the government in the late 1960s deterred investment in the sector and thus only a few investors were willing to venture under those circumstances. However, from early 1990s the Government began to encourage private investment in mining gemstones, gold and other minerals. As a way to encourage investments in this sector, the Bank of Tanzania established a unit to deal with purchase of gold from private miners, but this was discontinued in 1993 due to limited technical know-how. Efforts to promote investment in mining sector resulted into establishment of Mineral Policy of Tanzania in1997, followed by enactment of a new Mining Act of 1998 (which repealed the Mining Act of 1979). The rules of the game for the sector were then set out in the mining regulations released in 1999. As pointed out earlier, the Mineral policy of Tanzania is generally considered as "best of its kind in terms of providing a positive supporting environment with attractive taxation and capital allowances"[30].

| | *Duty* | *VAT* |
|---|---|---|
| All Capital Goods* | 0% | Relieved |
| Spare Parts* | 0% | Relieved |
| Explosive & Other Supplies | 0% | Relieved |
| Fuel &Oils | 0% | Relieved |
| Corporation Tax | 30% | |
| Capital Allowance | 100% | |
| Resident and non-resident withholding tax on technical services | 3% | |
| Royalty | 3% except for diamonds, which is 5% | |
| Income tax on dividend | 0% | |
| Capital gains tax | 0% | |
| Losses carried forward for unrestricted period | | |
| Yearly appreciation of unrecovered capital in investment | | |

*Source*: Tanzania Investment Centre

In addition to the fiscal incentives, the government also allowed international companies in this sector to maintain their operating accounts for their Tanzania activities in dollars, and to pay their Tanzania taxes and charges in dollars at the prevailing exchange rate. In addition, major mining companies are allowed to operate an offshore account upon approval by the Bank of Tanzania.

[30] UNCTAD, 2001

*Duty rate of 5% and VAT will be charged after the first five years of commercial production

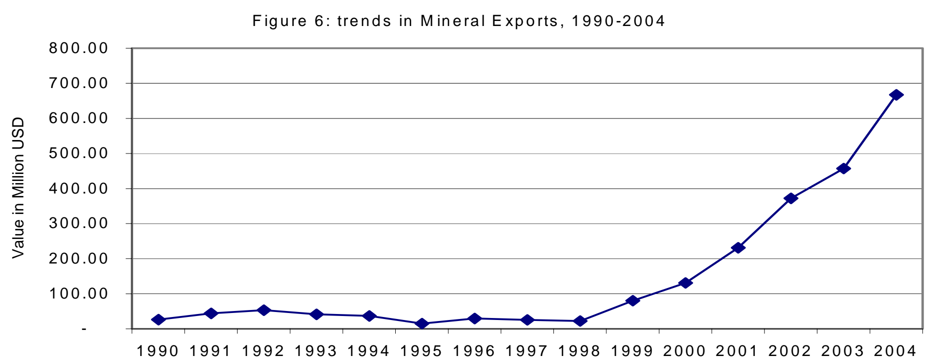
These endeavors by the government outlined above constitute the basis of the rebirth of the mining industry in Tanzania which of recent has become an investment destination for some of the world's biggest mining companies e.g., Resolute (Australia), Ashanti Goldfields (Ghana), Barrick Gold Corporation (Canada), Pangea Goldfields (Canada), Anglo American (South Africa) for Gold; De Beers (South Africa) for Diamonds and Anglo American (South Africa) for nickel and Cobalt to mention a few.

The mining sector is currently regarded as one of the fastest growing sectors of the Tanzania economy in absolute terms and in its contribution to the economy and export activities. The sector has been growing at an average annual rate of 16.2 percent between 1997 and 2001. Its annual contribution to GDP rose from 1.7 percent in 1997 to 2.5 percent in 2001 (BOT Economic and Operations Report) and it is expected to grow to about 10% by 2025.[31] In nominal terms, export earnings generated by the sector increased from USD 29.7 million in 1996 to over USD 600 million in 2003/04 (about 50 percent of total exports).

*Increased investment and production in the mining sector*

Investments in the mining sector have been growing in number and in value. Data from the Ministry of Energy and Minerals show that licences given to mineral explorations increased from 9 in 1990 to more than 500 in 2002. Foreign Investment through exploration funds increased from US$ 0.63 million recorded 1990 to about US$ 95 million in 1997 while foreign investment received through mine development by different companies is estimated to have been more than US$ 1.3 billion between 1998 and 2002[32]. Results of the study by NBS, BOT and TIC on foreign private capital flows shown in Appendix II indicate an increasing trend in the FDI stocks between 1999 and 2001.

Response of investors to policy incentives is also evident in Figure 6. Mineral exports increased after 1990s following BOT involvement in buying gold but fall immediately after discontinuation of the exercise. Sharp increase in mineral export is also noticed immediately after the government adoption of investors' friendly mining policy in 1997.




*Source*: Bank of Tanzania

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[31] Mineral Policy 1997

[32] Nyelo Godwin. M (2002), A paper presented in a workshop on Taxation of Mining Sector, ESAMI, August

Figure 7 shows that the increase in mineral exports is almost wholly explained by gold production and export.

Figure 7: Composition of Mineral Exports, 1990-2003

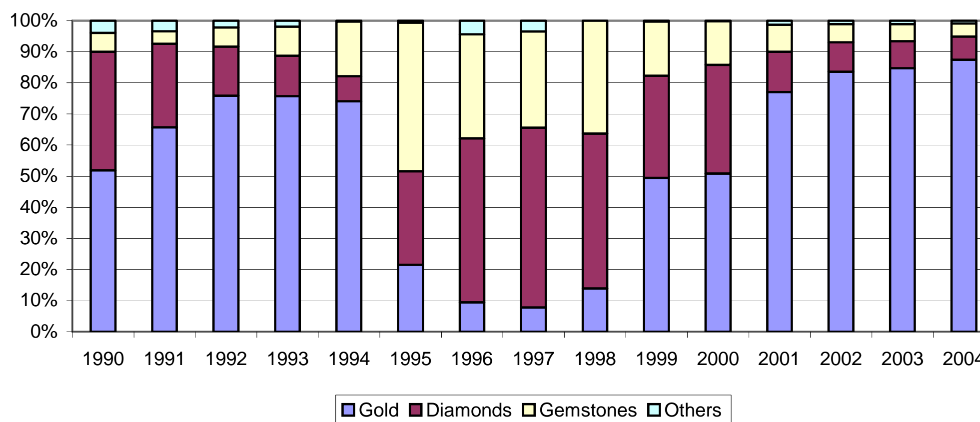



Table 1 below further illustrate the influx of mining companies in response to the implementation of mineral policy. Except for Williamson diamond, that was in the country since 1940s, all other mining companies started production around 1998 or thereafter following the enactment of the new legislation for the sector.

**Table 1: Major Mining Operations in Tanzania**

| | *Company Name* | *Owner* | *Country of Origin* | *Mineral* | *Date of Commencement of Production* |
|---|---|---|---|---|---|
| 1 | Kahama Mining Corp | Barrick Gold | Canada | Gold | |
| 2 | Golden Pride | Resolute | Australia | Gold | April 2001 |
| 3 | Geita | Ashant/Anglogold | Ghana/RSA | Gold | February 1998 |
| 4 | Africa Mashariki<br>East Africa Mines | Afrika Mashariki<br>Spinifex | Tanzania | Gold<br>Gold | August 2000<br>Feasibility |
| 5 | Merelani | AFGEM | RSA | Tanzanite | August 2000 |
| 6 | Williamson | Debeers & Tz. Gov. | RSA/Tanzania | Diamonds | 1940 |
| 7 | Kabanga Nickel Project | Barrick Gold | Canada | Nickled | Exploration |

*Source*: URT, Tanzania Investor's Guide 2002 and Beyond

It is also important to note from this analysis that intra-Africa investments is substantial in the mining sector.

*A critical look at the contribution of mining sector in Tanzania*

The rationales for offering generous incentives in the mining sector have included: the desire by the government to attract key multinational companies that can then act as a catalyst for broader expansion of economic activities in the country and the acute need for financial resources and services that have to come from outside. Other reasons include: the need for modern technology in the mining sector, creation of an employment axis, training and human capital development, and access to oversees

markets. Some of these benefits have already started to accrue into Tanzania. An example of Kahama Mining Corporation is summarized in **Box 1**.

Another argument for generous incentives in the mining sector is related to the structure of the fiscal regime. With the regime characterized by complex tax administration, high tax rates and multitude of taxes (nuisance taxes) very few investors would be attracted to the mining sector in Tanzania without assurance on exemptions. Finally, the sector is faced with extremely unreceptive infrastructure right from start of business (no roads, no utilities) that make the cost of doing business exceptionally high and hence incentives would make the country competitive as others who are already in the market, some of which already had good infrastructure."[33]

**Box 1: Corporate responsibility: the Barrick way at Bulyanhulu**

Barrick embraces its community-building responsibilities at each new mine it brings on line. At the Bulyanhulu Mine in Tanzania, which began production in the second quarter of 2001, Barrick's impact is already significant.

**Employment impact**
Barrick's operating subsidiary at Bulyanhulu employs more than 1,000 men and women directly and 600 more as contractors, the overwhelming majority drawn from the Tanzanian community.

**Training and Economic Development**
Barrick's operating subsidiary has invested more than $US6 million in job training for Tanzanians. The focus is not solely on preparing the mining workforce: The Company also provides training for local entrepreneurs in sustainable jobs unrelated to mining.
Community Infrastructure

Barrick's Bulyanhulu subsidiary built a 47 km water pipeline from Lake Victoria to the mine to meet the water needs of 30,000 villagers along the route. It also partnered with the Tanzania Electric Supply Company, investing more than US$15 million to bring electric power to the region, as well as investing in the upgrade of regional roads.

**Health Care**
As well as building new medical facilities for community use and refurbishing existing ones, the Company is funding a sustainable program of health promotion, disease prevention and improved community health in cooperation with a respected African non-governmental organization.
*Source: www.barrick.com*

Despite these valid arguments there have been concerns that incentives have been too generous to the extent that the economic benefit of mining activities in Tanzania are reaped elsewhere that is, in the home countries of the owners of the multinational companies. This is because of the inability of the government to monitor the operations of the offshore accounts of these multinational companies. In addition, the government is losing substantial revenue through tax exemptions that are granted to these companies.

Following these criticisms the government has appointed a reputable international accounting firm to monitor the operations of offshore accounts of all mining companies in the country. In addition, the government has initiated a study to assess critically operations of these companies. The result of the study will assist the

[33] As cited in www.mineweb.com

government to understand how best it can benefit, especially on future investments in the sector.

**Box 2 Case study - Tanzania Breweries Limited**

**Introduction**

Tanzania breweries Limited in its current form is a result of the general government resolve to privatize all state owned companies. This decision was made after it became clear that the government was no longer able to run state owned companies profitably due to mismanagement, corruption and the general changes in the world economies that necessitated governments to pull out of productive sectors.

Up to 1990, there were nearly 400 State owned enterprises in the country, which had accumulated over TZS 300 billion (equivalent to about USD 750 million) in losses, and were heavily indebted to the Government and other creditors. The Government was spending over TZS 100 billion (about USD 250 million) annually to subsidize these loss-making parastatals. Rather than receiving a sustained flow of dividends from its investments, Government suffered explicit and implicit fiscal losses that may have exceeded 7% of GNP. As a result, the structure and performance of these parastatals could not assure the economy of any substantial growth and revitalization in the long run. The government had to make a decision to privatize these parastatals as it had become clear that the previous policy of nationalization had delivered very disappointing results.

Given the foregoing problems, the overall objectives of privatization was to achieve the following:

- Improve efficiency
- Increase capacity utilization
- Offer new employment opportunities
- Enhance production
- Bring in new skills and technology
- Open up foreign markets
- Increase government revenues through taxes and dividends
- Generally cut public losses incurred through the parastatals sector

**Privatization of Tanzania Breweries Limited**

On November 15th 1993, the Government of the United Republic of Tanzania entered into a Joint Venture Agreement with Indol International B.V; a fully- owned subsidiary company of the South African Breweries Limited (SABL) in respect of Tanzania Breweries Limited (TBL). At the time of privatization, TBL operations were almost at halt. Like many other parastatals, it had accumulated huge losses and thus relying on government subsidies. This situation was attributed to mismanagement, inefficiency, over employments, worn-out machine & equipment and thus producing well under capacity. At this time, Tanzania was a net importer of beer mainly from Kenya and was then producing only one brand of beer, namely Safari Beer.
The joint venture aimed at resolving the above weaknesses and achieving the following:

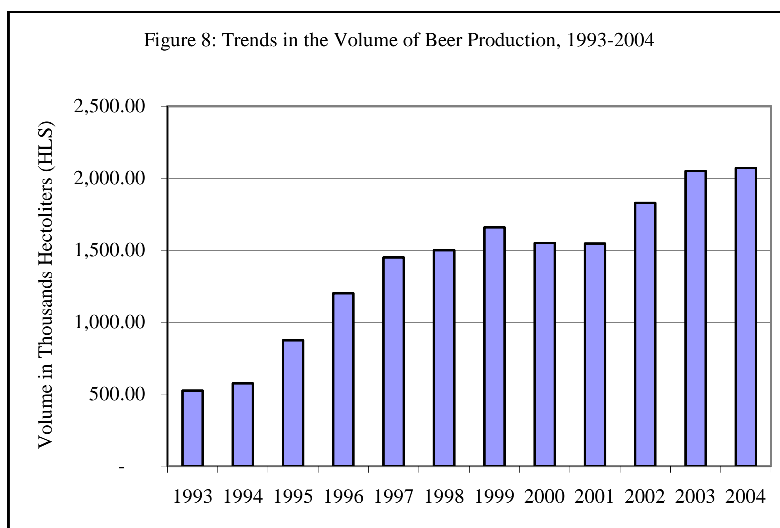
- To increase beer production
- To raise plant capacity utilization
- To improve beer quality
- To reduce production costs
- To make profit and pay dividends to shareholders

At time of privatization, SABL acquired 45.9 percent of share in TBL for a consideration of US $ 22.5 million. This amount was agreed to be injected in cash, spares, and equipment. The government retained 40.3 percent and the rest was shared by other minority foreign shareholders each with less than 10 percent shares. The agreement also included a management contract.

However, with time the government relinquished most of its shares through public offer at Dar es Salaam stock Exchange. Currently, the government owns only 4 percent of shares while SABL owns 52 percent. The rest of the shares are owned by East African Bank (20 percent), United Trust of Tanzania (9.3 percent), and Tanzania investors (8 percent).

**Achievements and Challenges**
Tanzania breweries have recorded remarkable achievements in the following areas:

**Increase beer production**
As shown in **Figure 8**,the volume of beer increased from as low as 500,000 HLS in 1993 to over 2,000,000 in 2004.

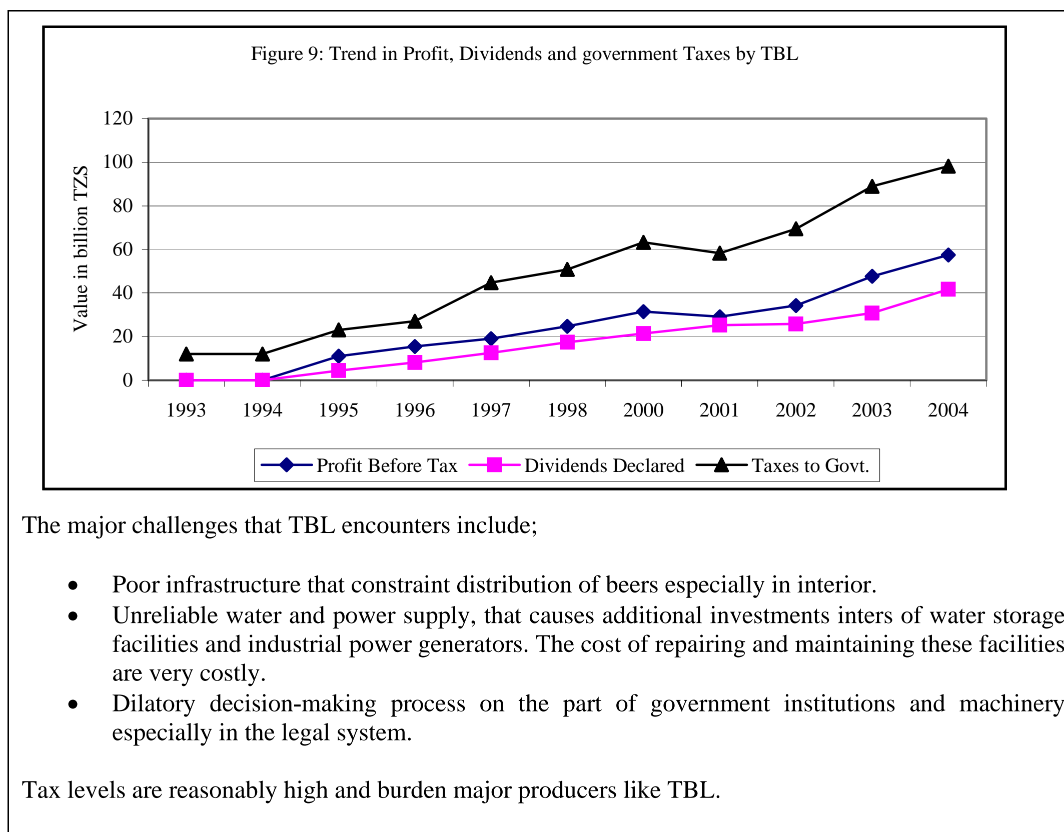



This has reduced the proportion of imported beer from 70 percent at privatisation in 1993 to only 2.5 percent currently. The company also export about 2 percent of its total beer output to neighbouring countries.

**Improve beer quality and brands**
Beer quality has also improved significantly over period mainly due to improved brewing technology, employees training and availability of quality inputs. In recognition of the improved beer quality, SAB licensed TBL to produce under license their product Castle Lager, Castle Milk Stout and Redds.

**Increase profit, dividends to shareholders and Government revenue**
Figure 9 show the success of TBL over years in increasing its profits, paying dividends to shareholders and contributing significantly in government revenue generation.

At the time of privatization the company was operating in loses. By 2004 it was able to generate about TZS 57.5 billion and paying dividends amounting to 41.7 billion to its shareholders. With respect to government taxes generation, it increased from 12 billion in 1993 to 98.2 billion in 2004.




The major challenges that TBL encounters include;

- Poor infrastructure that constraint distribution of beers especially in interior.
- Unreliable water and power supply, that causes additional investments inters of water storage facilities and industrial power generators. The cost of repairing and maintaining these facilities are very costly.
- Dilatory decision-making process on the part of government institutions and machinery especially in the legal system.

Tax levels are reasonably high and burden major producers like TBL.

## Challenges to FDI and future prospects

Despite major progress made in Tanzania in creating investor-friendly environments, major challenges still exist that need to be addressed. However, with the ongoing initiatives by the government towards attracting more FDI and the support that the country has from the international community, the future prospects of FDI in the country are very promising.

*Main challenges*

Poor infrastructure

The state of infrastructure in the country particularly inland transport, electricity and water supply and reliability are major concerns of investors in Tanzania calling for an urgent need to address these weaknesses.

Negative bureaucracy

Despite major progress made in fighting negative bureaucratic behaviors in various government institutions, a report by NBS, BOT and TIC indicates that some investors are still concerned with slow decision-making process in some government institutions especially the judiciary system. The Government is working towards eliminating remnants of bureaucratic tendencies through Business Environment Strengthening (BEST) Programme that aims at among others instituting better regulations and changing the culture of the government.
*High Transaction costs* resulting from corruption, trade procedures, business regulations, fiscal regulations, legal system and bureaucracy

*Future prospects*

The Future of FDI in Tanzania hinges on the operating environment that the country is creating as well as natural resource endowments that the country is proud of. As observed earlier, Tanzania has made major strides towards macroeconomic stabilization and creation of investor's friendly environment. This coupled with natural resources endowments in mining, tourism sites, forestry, favourable rainfall, extensive water bodies, make the future of FDI very promising.

In the recent past, big multinational companies have invested in Tanzania. These include reputable companies such as Barrick Goldmine, Resolute and big projects like the recently inaugurated Songas project to supply natural gas for electricity and industrial use. Another big project, which is ongoing, is Mlimani City, a shopping complex that is being built at about 10 kilometres from Dar es Salaam city centre. Normally, big investors can cause herding effect and therefore pull other investors to follow their destination.

Based on the results of NBS, BOT and TIC survey, 72 percent of foreign investors in Tanzania expect to expand their business in the next 3 years. Only 5 percent indicated that they are intending to contract and about 23 percent indicated they will remain at the current level of investment.

Tanzania has generally acquired international reputation all around the world. For instance, in April 2004, Tanzania was rated by UNCTAD survey of as the 2nd most attractive destination in Africa, just behind South Africa. In 19th November 2004 TIC was chosen as the Africa's best Investment Promotion Agency of the year (http\\www.Africa-investors.com)

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## List of Appendices

**Appendix I: FDI stock by country of origin**

| Country/Country Group | 1999 | Percentage | 2000 | Percentage | 2001 | Percentage |
|---|---|---|---|---|---|---|
| **EAC Countries** | **61.2** | **2.5** | **115.2** | **3.8** | **277.1** | **7.3** |
| Kenya | 55.8 | 2.3 | 113.7 | 3.7 | 275.5 | 7.3 |
| Uganda | 5.4 | 0.2 | 1.5 | 0.0 | 1.6 | 0.0 |
| **SADC Countries** | **244.7** | **10.1** | **827.9** | **27.2** | **1089.8** | **28.9** |
| South Africa | 140.3 | 5.8 | 640.6 | 21.1 | 912.2 | 24.2 |
| Mauritius | 89 | 3.7 | 175.8 | 5.8 | 171.4 | 4.5 |
| Other SADC Countries | 15.4 | 0.6 | 11.5 | 0.4 | 6.2 | 0.2 |
| **Rest of Africa** | **431.7** | **17.8** | **157.5** | **5.2** | **182.4** | **4.8** |
| Ghana | 418.7 | 17.3 | 149.9 | 4.9 | 174.9 | 4.6 |
| Other Rest of Africa | 13.0 | 0.5 | 7.6 | 0.3 | 7.5 | 0.2 |
| **OECD Countries** | **1487.3** | **61.5** | **1769.4** | **58.2** | **2032** | **53.8** |
| United Kingdom | 495.4 | 20.5 | 534.5 | 17.6 | 559.9 | 14.8 |
| Canada | 184 | 7.6 | 406.7 | 13.4 | 430.6 | 11.4 |
| Japan | 3.7 | 0.2 | 190.9 | 6.3 | 172.2 | 4.6 |
| USA | 161.7 | 6.7 | 177.2 | 5.8 | 170 | 4.5 |
| EU | 0 | 0.0 | 14.8 | 0.5 | 146.9 | 3.9 |
| Switzerland | 30.1 | 1.2 | 127.5 | 4.2 | 115.5 | 3.1 |
| Netherlands | 117.2 | 4.8 | 47.1 | 1.6 | 105.4 | 2.8 |
| Italy | 57.9 | 2.4 | 57.5 | 1.9 | 63.6 | 1.7 |
| Germany | 51 | 2.1 | 22.4 | 0.7 | 52.6 | 1.4 |
| Australia | 177.7 | 7.3 | 43.4 | 1.4 | 49.8 | 1.3 |
| Denmark | 47.6 | 2.0 | 36.3 | 1.2 | 35.5 | 0.9 |
| France | 47.1 | 1.9 | 20.5 | 0.7 | 33.6 | 0.9 |
| Sweden | 34.2 | 1.4 | 24.6 | 0.8 | 29.7 | 0.8 |
| Norway | 36.9 | 1.5 | 31.7 | 1.0 | 26.2 | 0.7 |
| Luxembourg | 27.3 | 1.1 | 9.9 | 0.3 | 9.8 | 0.3 |
| Other OECD Countries | 15.5 | 0.6 | 24.4 | 0.8 | 30.7 | 0.8 |
| **Rest of the World** | **194** | **8.0** | **168.3** | **5.5** | **195.5** | **5.2** |
| Malaysia | 48.5 | 2.0 | 41.2 | 1.4 | 41.5 | 1.1 |
| China | 10.6 | 0.4 | 23 | 0.8 | 23.7 | 0.6 |
| United Arab Emirates | 3 | 0.1 | 17.7 | 0.6 | 17 | 0.5 |
| India | 5.6 | 0.2 | 11.1 | 0.4 | 15 | 0.4 |
| Russia | 2.1 | 0.1 | 16.7 | 0.5 | 14.3 | 0.4 |
| Other Rest of the World | 124.2 | 5.1 | 58.6 | 1.9 | 84.0 | 2.2 |
| **Grand Total** | **2418.9** | **100.0** | **3038.3** | **100.0** | **3776.8** | **100.0** |

*Source*: NBS, BOT, TIC 2004

**Appendix II: Sectoral Distribution of FDI Stocks (USD Millions**

| Sector & Sub-sector | 1999 | Percentage | 2000 | Percentage | 2001 | Percentage |
|---|---|---|---|---|---|---|
| **Agriculture, Hunting, Forestry and Fishing** | **154.1** | **6.4** | **272.6** | **9.0** | **252.4** | **6.7** |
| Agriculture (Crops) | 140.6 | 5.8 | 223.1 | 7.3 | 216.7 | 5.7 |
| Hunting and forestry | 5.3 | 0.2 | 36.7 | 1.2 | 23.1 | 0.6 |
| Agriculture (Livestock) | 0.4 | 0.0 | 9.8 | 0.3 | 8.5 | 0.2 |
| Fishing | 7.8 | 0.3 | 2.9 | 0.1 | 4.1 | 0.1 |
| **Mining and Quarrying** | **817.8** | **33.8** | **814.2** | **26.8** | **1,056.9** | **28.0** |
| Mining and Quarrying | 817.8 | 33.8 | 814.2 | 26.8 | 1,056.9 | 28.0 |
| **Manufacturing** | **501.6** | **20.7** | **1,031.8** | **34.0** | **1,264.6** | **33.5** |
| Other Manufacturing | 151.1 | 6.2 | 449.7 | 14.8 | 574.0 | 15.2 |
| Food and beverages | 168.7 | 7.0 | 298.8 | 9.8 | 413.1 | 10.9 |
| Chemicals and petroleum | 31.8 | 1.3 | 154.4 | 5.1 | 162.7 | 4.3 |
| Agro-industry | 133.5 | 5.5 | 125.6 | 4.1 | 111.0 | 2.9 |
| Machinery, motors and equipment | 16.5 | 0.7 | 3.4 | 0.1 | 3.8 | 0.1 |
| **Utilities** | **37.1** | **1.5** | **36.7** | **1.2** | **127.4** | **3.4** |
| Gas | 0.0 | 0.0 | 0.0 | 0.0 | 90.1 | 2.4 |
| Electricity | 37.1 | 1.5 | 36.7 | 1.2 | 37.3 | 1.0 |
| Water | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Construction** | **136.9** | **5.7** | **79.2** | **2.6** | **100.5** | **2.7** |
| Construction | 136.9 | 5.7 | 79.2 | 2.6 | 100.5 | 2.7 |
| **Wholesale & retail trade, catering & accommodation services** | **518.1** | **21.4** | **378.0** | **12.4** | **400.3** | **10.6** |
| Accommodation, tourism and catering | 352.4 | 14.6 | 275.1 | 9.1 | 306.9 | 8.1 |
| Wholesale and retail trade | 165.7 | 6.9 | 102.9 | 3.4 | 93.4 | 2.5 |
| **Transport, storage & Communication** | **50.2** | **2.1** | **145.4** | **4.8** | **284.8** | **7.5** |
| Communication | 27.2 | 1.1 | 92.0 | 3.0 | 238.5 | 6.3 |
| Transport and storage | 23.0 | 1.0 | 53.4 | 1.8 | 46.3 | 1.2 |
| **Financing, Insurance, real estate, and business services** | **197.4** | **8.2** | **219.0** | **7.2** | **225.2** | **6.0** |
| Financing, insurance | 172.5 | 7.1 | 177.0 | 5.8 | 179.7 | 4.8 |
| Other business services | 21.8 | 0.9 | 22.2 | 0.7 | 24.5 | 0.6 |
| Real estate | 3.2 | 0.1 | 19.7 | 0.6 | 20.9 | 0.6 |
| **Community, social and personal services** | **5.6** | **0.2** | **61.4** | **2.0** | **63.6** | **1.7** |
| Health | 1.4 | 0.1 | 53.6 | 1.8 | 54.0 | 1.4 |
| Other Community, social and personal services | 2.0 | 0.1 | 5.2 | 0.2 | 5.5 | 0.1 |
| Media | 1.7 | 0.1 | 1.5 | 0.0 | 2.9 | 0.1 |
| Education | 0.4 | 0.0 | 1.1 | 0.0 | 1.2 | 0.0 |
| **Total** | **2,418.7** | **100.0** | **3,038.3** | **100.0** | **3,776.6** | **100.0** |

*Source*: NBS, BOT, TIC 2004

# VIII. Trends in foreign direct investment in Uganda[34]

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Paper prepared for Workshop on 'Capacity building for promoting FDI in Africa: trends, data compilation and policy implications' InWent / UNCTAD meeting 22-24 November 2004, UNECA, Addis Ababa

[34] Disclaimer: The views expressed and remaining errors contained in this paper are those of the author only.

## Introduction

Before Uganda's independence (1962), development projects were funded by the British who were the colonial masters. The funding was channeled through the Uganda Development Corporation (UDC) founded in 1952. The corporation together with a few rich Asian families[35] were the key investors in the economy. After independence the new government took over UDC and continued to invest in industries through the UDC. A few years after independence, the legitimate government was overthrown by the military and replaced with a dictatorship government led by Idi Amin. Among the first things he did was to "outlaw FDI" through the popularly known "economic War". This involved the expulsion of all Asians from Uganda and the takeover of their property by the UDC, custodian Board and a few indigenous businessmen. Subsequently, there was a collapse in both the industrial and commercial sectors of the economy due to the lack of skills and experience among the Ugandans who took over the management of the industries and businesses left behind.

In 1979, Amin's regime came to an end and in 1980, a new government led by Apollo Milton Obote took over power. In response to the economic crisis at the time, efforts were made to create some incentives and to draw up developmental programs. These were successful at the beginning until about 1984, when they failed partly due to insufficient and unpredictable donor flows upon which they depended. By 1986, Obote's government was no more and in came Museveni. Backed by donor support, the economic recovery of the country was embarked upon. As a first step towards reassuring potential investors, all previously confiscated Asians' properties were returned to their original owners. This act together with successful implementation of a number of reforms in the economy such as trade liberalization, foreign exchange liberalization, freeing of the current and capital accounts, privatization, creation of the Investment code and the Uganda Investment Authority etc were important in the initial attraction of FDI inflows.

This exemplary trend in attracting FDI within Africa mainly due to political and economic stability has been maintained by Uganda. In 2003, Uganda was cited in the World Investment Report 2002, to be the 11th top investment spot in Africa, out of 53 countries. Uganda is pursuing prudent macro economic policies and has its GDP growing at more than 5 percent per annum in real terms. The infrastructure developments in Uganda have similarly maintained an upward trend over the last decade especially the transport and communication sectors. The high growth rate in these sectors is mainly driven by the liberalization and privatization of large public corporations by government. Recent global developments such as the American trade package to Africa - African Growth and Opportunity Act (AGOA) initiated by the U.S. Congress to enhance accessibility to U.S. markets has further stimulated FDI flows to Uganda and Africa as a whole.

The Uganda Investment Authority (UIA) has kept Uganda's competitiveness on track by constantly refining its investment promotion strategy. The authority's operations

[35] Prominent among these families were the Madhvani's and the Mehta's.

have evolved in a focused approach of investor targeting as opposed to general investment promotion. UIA's strategy is to target investors by sector, investment opportunity and market. This paper briefly examines recent trends in foreign direct investment in Uganda, in the context of the recent performance. It also outlines the characteristics of foreign direct investment in relation to sector and origin of investment and cites a case of FDI by transnational corporations.

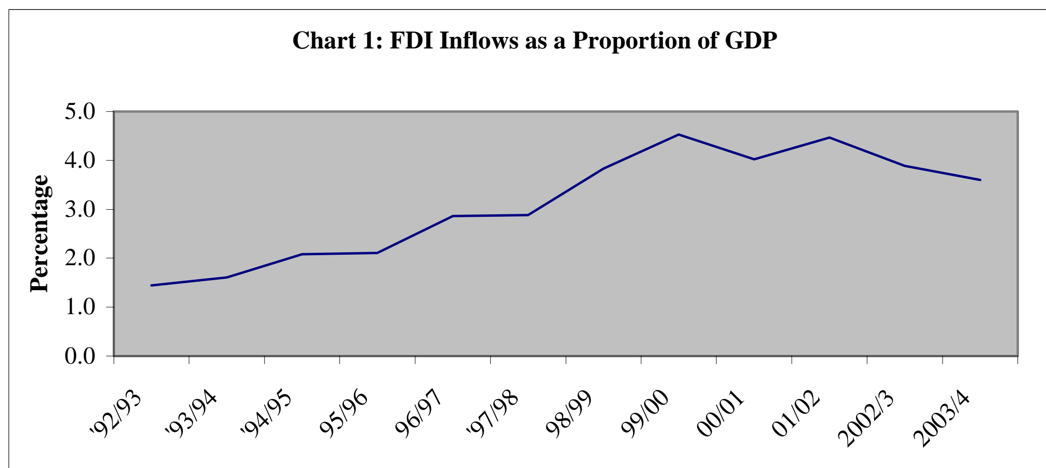
**Overall investment trends**

Business investment growth has strengthened since the early 1990s, with the result that in constant price terms investment as a share of Gross Domestic Product (GDP) reached a record level of 17.5 percent in 1998/99 driven mainly by the private sector. The high number of licensed projects and the continuing favorable economic fundamentals point to ongoing strong growth in the future. As a result, capital stock growth in recent years has risen to above average rates, and is forecasted to continue strengthening. This strong growth coupled with improvements in the efficiency of capital stock utilization has provided the foundation for sustained strong growth in activity and employment. Uganda accesses foreign saving through either borrowing (debt) or greater foreign ownership of Ugandan activities (equity). Foreign direct investment (FDI) is the main form of the latter in the case of Uganda. For official measurement purposes, FDI is regarded as an equity interest of 10 per cent or more in a resident enterprise.

During the last five years, FDI in Uganda has been equivalent to around ***20*** per cent of gross fixed capital expenditure. FDI has in the past followed a similar trend to total business investment, reflecting the fact that the same basic factors are needed to give good rates of return on foreign and domestic investment — macroeconomic stability, privatization of public corporations, high GDP growth, regional integration, increased market access, etc. Consequently, the factors currently creating a favorable environment for strong domestic investment growth are also likely to attract foreign investment.

Uganda has traditionally drawn on foreign saving to fund higher levels of investment than domestic saving alone would allow and to promote faster economic growth and higher living standards. As a result, Uganda usually runs a current account deficit (which, over time, equals the excess of national investment over national saving) and this has meant growing net foreign debt and growing foreign ownership of Ugandan assets as non-residents contribute to capital formation. The widening in the current account deficit since the late 1990s into the 2000s has resulted in a faster build-up of net foreign debt and ownership.

Over the past decade, FDI inflows as a share of GDP have risen to levels much higher than those of the early 90's (Chart 1) and have levelled off in the first three years of this decade. In 1992-93, FDI inflows were 1.2 per cent of GDP (and amounted to $43.58 million). Annual FDI inflows since then have been on an upward trend.

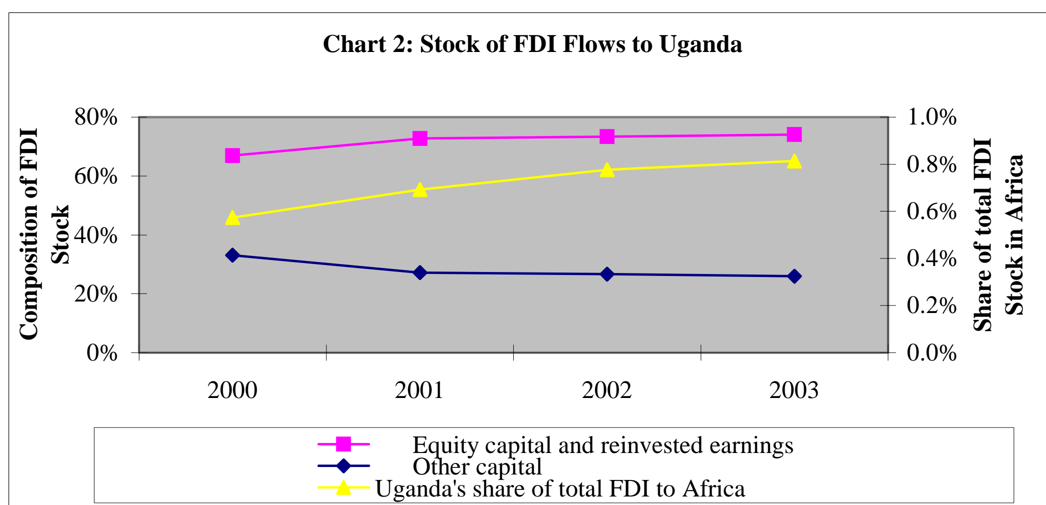



*Source*: Bank of Uganda

FDI inflows reached an exceptionally high proportion of GDP in 1999/00 and 2001/02 coinciding with a massive increase in official and private transfers leading to an appreciation of the domestic currency in the later year. The subsequent decline has therefore to be looked at in that context. FDI inflows are also influenced by Uganda's political cycle - It fell as a share of GDP in the period 2000/01 when the Presidential elections were held.

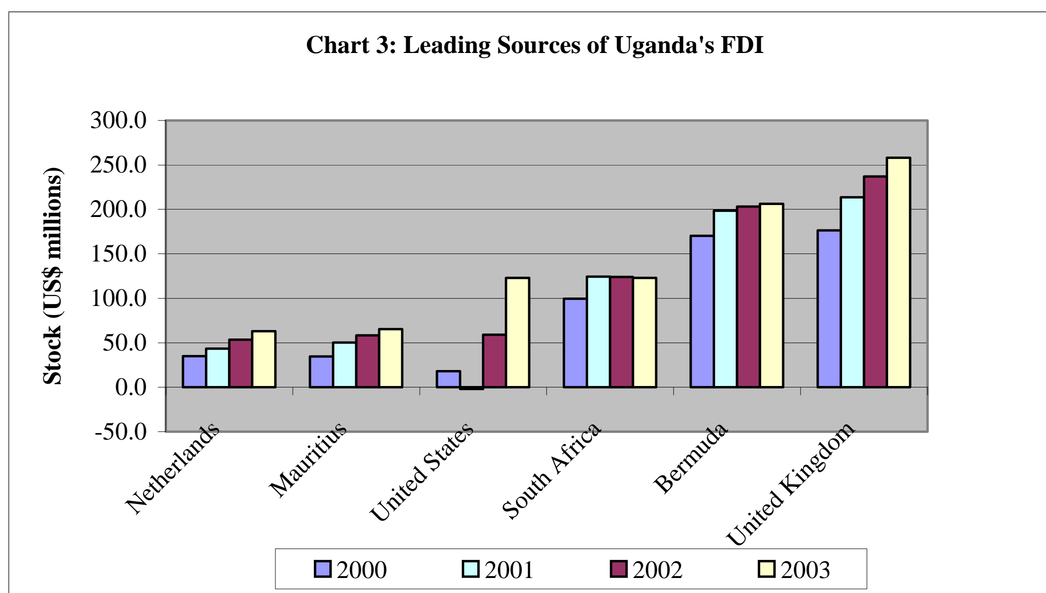
## Uganda's share of FDI inflows to Sub-Saharan Africa

Uganda's share of Africa's stock of FDI has marginally increased since 2000 from 0.57 percent to 0.81 percent in 2003. Initially, the growth in the FDI stock was driven by faster growth in other capital (intercompany loans), which contributed to 33.1 percent of total FDI stock in 2000 but has since declined to 26.0 percent in line with the rise in intercompany loan repayments. The decline in other capital FDI Stock has been matched by a rise in equity capital and reinvested earnings. Chart 2 below depicts the evolution of Uganda's FDI stock.



## Origin of FDI to Uganda

As illustrated by chart 3 below, United Kingdom has the highest share of FDI stock in Uganda and it has shown no sign of declining over the past four years. Next to the United Kingdom is Bermuda although in the last two years the stock of FDI has leveled off. South Africa is by far the leading source of FDI from Africa to Uganda (although the stock has stagnated over the last two years) followed by Mauritius and Kenya. The combined contribution to the total stock of FDI in Uganda from United Kingdom, Bermuda, South Africa, United States, Mauritius and Netherlands was 66 percent of total FDI in 2003.




## Sectoral composition of Uganda's FDI

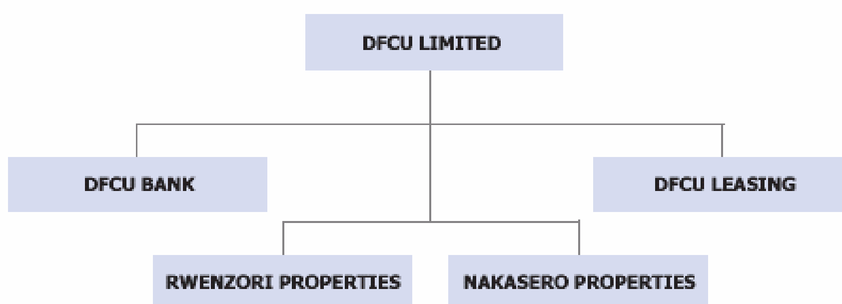
While sectoral data on FDI are limited, the majority of the FDI is attracted to the manufacturing sector. The remainder has been shared almost equally with the exception of the agricultural and real estate sectors, which receive minimal FDI inflows partly due to difficulties in securing land ownership. Similar observations are drawn from the Uganda Investment Authority (UIA) data on newly licensed projects. These relate to foreign investment applications received by UIA for licensing which serve as indicators of investment intentions and later actual FDI in Greenfield projects although these are usually subject to a discount factor for licensed projects that don't take off. Nevertheless, they indicate brisk growth in applications in the manufacturing and service sectors (particularly transport storage and communication, financing, insurance and real estate and wholesale and retail trade, catering and accommodation). While the manufacturing sector remains the single largest sector attracting FDI, initial investment in this sector was propelled by the repossession of defunct industries by Asians expelled from Uganda during Idi Amin's regime in 1972. The mining and quarrying sector where there is a lot of potential for FDI inflows remains the lowest recipient sector of FDI. This is partly due to the lack of geological data on the availability and magnitude of minerals at the potential mineral sites in the country.

### TNCs in Uganda

Transnational Corporations (TNCs) have contributed significantly to the allocation of FDI by sector as they constitute the largest share of FDI in each of the sectors in which they are located (with the largest contributions in the manufacturing sector – Coca Cola, South African Breweries, British American Tobacco, Hima Cement etc, tertiary – MTN, Uganda Telecom etc and in Finance and Insurance – Stanbic Bank, Standard Chartered bank, Barclays Bank and DFCU bank.). The activities of DFCU bank limited and British American tobacco Uganda Ltd are discussed below as case studies on inward FDI projects.

**Box 1 DFCU Bank Ltd**

DFCU Bank Limited was set up in May 2000, through the acquisition by DFCU Limited of Gold Trust Bank Limited. It is a wholly owned subsidiary of DFCU Limited that provides commercial banking services. DFCU Limited, which has been in existence since 14th May 1964 is a leading financial institution, which provides mortgage and term finance, and through its subsidiaries, commercial banking services, and lease finance for the development of businesses in Uganda. The Company also holds a number of property investments (see group structure below).




Prior to 2003, four shareholders owned the Group: CDC Group plc (35.3 percent), DEG (24.7 percent), International Finance Corporation (21.5 percent) and Government of Uganda (18.5 percent). However, in 2003, the German Government decided to exit from a number of its investments in developing countries, which had matured and achieved sustainable development objectives and would continue with the development role in the economy. DFCU was amongst DEGs 21 business units across Africa. CDC was willing to purchase the shares from DEG and all the shareholders approved the purchase of DEG shares by CDC. From April 2003, there remained 3 shareholders: CDC Group plc (60.0 percent), International Finance corporation (21.5 percent) and Government of Uganda (18.5 percent) respectively who own the group and therefore the bank.

DFCU bank is regarded as one of the fastest growing commercial banks in the country, with 7 branches. The Bank's core business is the accepting of deposits from the public to whom the Bank provides a wide range of financial products and services, including the advancing of loans and overdrafts on a sustainable basis. As at 31st December 2003, the Bank had approximately 12,000 customers and was employing a total of 135 permanent and 3 temporary staff.

By 31st December 2003, DFCU Bank on the basis of customer deposits and total assets was ranked 8$^{th}$ in the country. Loans and Advances grew by 210% from Ushs 12.79 billion to Ushs 39.60 billion from 2000 to 2003. The table below shows the top 10 commercial banks' asset levels, return on average assets, customer deposits and the loans and advances position as at 31st December 2003.

| Figures in Ushs'000 | Total Assets | Return on Assets-% | Deposits | Loans & Advances |
|---|---|---|---|---|
| Stanbic Bank | 833,970,974 | 5.45 | 663,184,801 | 166,925,456 |
| Standard Chartered | 746,594,413 | 5.84 | 588,982,572 | 169,276,743 |
| Barclays Bank | 289,156,233 | 7.41 | 212,976,067 | 159,306,689 |
| Citibank | 205,859,555 | 3.92 | 132,413,201 | 34,982,804 |
| CERUDEB | 145,629,855 | 5.23 | 115,053,861 | 66,357,667 |
| Bank of Baroda | 135,889,771 | 6.48 | 106,724,590 | 25,057,304 |
| Crane Bank | 0127,655,395 | 2.90 | 107,434,811 | 47,853,845 |
| **DFCU Bank** | **124,129,466** | **3.00** | **77,223,658** | **39,600,981** |
| Orient Bank | 87,213,272 | 4.50 | 61,012,902 | 28,351,750 |
| Nile Bank | 69,669,260 | 7.02 | 44,347,060 | 21,849,733 |

*Source:* *2003 Bank Published Accounts*
*Note:* *Past performance is not necessarily an indication of future performance*

Total Assets of the bank grew by 255% from Ushs 34.98 billion in 2000 to Ushs 124.13 billion in 2003, while total liabilities increased by 294% from Ushs 28.19 billion to Ushs 111.20 billion over the same period. A significant portion of total liabilities is in the form of Customer Deposits, reflecting deposit growth. Total Income grew by 217% from Ushs 4.01 billion in 2000 to Ushs 12.70 billion in 2003. Total Expenses over the same 5-year period increased by 231% from Ushs 2.95 billion to Ushs 9.77 billion.

The significant risk factors affecting DFCU Limited as a financial institution and its subsidiaries are enumerated below:
_ Monetary Policy Risk
_ Interest Rate Risk
_ Funding and Liquidity Risk
_ Credit Risk
_ Operational Risk
_ Competition and Business Risk
_ Regulatory Risk
_ Legal Risk
_ Foreign Exchange Risk

**Box 2 British American Tobacco Uganda Ltd**

BAT history dates back to 1927 when commercial farming was introduced in Uganda. In 1928, the company built the first cigarette factory in East Africa, in Jinja Uganda. In 1949, it acquired the East African Tobacco Limited. This ultimately led to the formation of BAT Uganda Ltd. In 1972 BAT left Uganda when Idd Amin's Government nationalized it and it became Uganda National Tobacco Ltd. In 1984, BAT returned as BAT Uganda Ltd in a joint venture with Uganda Government with a 70-30 percent shareholding respectively. In 1998, BAT 1984 Limited changed its name to British American Tobacco Uganda Limited and launched a new corporate identity. In 1999, the Government of Uganda divested 20 percent to BAT and 10 percent was made available to the public through share offers. In 2000, BAT was listed on the Uganda Securities Exchange.

BAT activities include tobacco growing, leaf processing, leaf export and cigarette manufacture. BAT grows tobacco in 14 districts of Uganda. It also manufactures Rex, Sportsman, Safari and Crescent and Star cigarettes at the Jinja factory. BAT imports Benson & Hedges, Embassy and SM from Kenya. It provides employment to over 570 permanent employees and during peak season to 2500 casual employees. Cigarette sales have been on the decline since 1997. The sales in billion sticks have gone down from 1.78 billion to 1.01 in 2002. However, for 2003 the sales went up to 1.2 billion sticks and tobacco leaf exports earnings amounted to US$38 million up from about US$24 million in 2000.

BAT contributed Ugsh 43.4 billion in 1997, 44.5 in 1998, 46.8 in 1999, 43.3 in 2000, 37.3 in 2001, 39.9 in 2002 and 43.7 in 2003 to the treasury in terms of taxes. Dividends amounted to Ugsh 1.8 billion in 1997, 2.3 billion in 1998, 2 billion in 1999,and 1.7 in 2000. BAT's Capital Expenditure was $ 4.2 million in 1997, $ 2.4 million in 1998, $ 4.6 million in 1999, $ 4.8 million in 2000, $ 2.0 in 2001 and $ 2.0 million in 2002.

Challenges facing the business

1. Excise rates
2. Smuggling
3. Consumer Purchasing power
4. Social Concerns
5. Non enforcement of the Tobacco Act
6. Local Government taxation policy (Arua tax)
7. Infrastructure Up country
4. More investment in the growing areas
5. Improve distribution
6. Generate more revenue for the Government

**Determinants of FDI to Uganda**

The key determinants of FDI inflows to Uganda can be grouped into three categories; Policy Framework; Business Facilitation and Economic Factors.

The policy framework has dramatically improved since Museveni took over power. The democratization process in Uganda, which was initiated by the enactment of a new constitution in 1995, debated and passed by representatives referred to as Constituent Assembly Delegates, voted by all Ugandans under universal suffrage, was instrumental in increasing investor confidence. In addition, the successful conduct of the 1996 Presidential elections and the 2001 presidential elections and the general freedom of press reinforced the government's commitment to democracy and the rule of law. The predictability and reliability of the regulatory framework have also shown that government is keen on attracting investment.

Business facilitation has generally played a major role in reducing the constraints faced by investors in securing licenses and access to infrastructure, registration etc. Government reforms in the public sector through the Public Service Review and Reorganization Commission of 1989 addressed a number of issues in the public sector including the improvement of efficiency among civil servants. The creation of the UIA and its continued effort towards the easing of the process for setting up enterprises in Uganda particularly for Greenfield investment together with the creative incentives provided by government have significantly contributed towards the attraction of FDI inflows. Uganda's ascent to international agreements in the realm of foreign investment such as the MIGA and the ISCID are reassuring to potential investors.

The economic factors that have contributed to attracting FDI in Uganda include abundant resources for resource seeking FDI and the advantageous location within the great lakes region for market-seeking FDI. The abundant availability of natural resources such as minerals and tourism attractions have contributed towards the attracting of resource-seeking FDI in mining, quarrying and petroleum and in hotels and restaurants.

While Uganda has a large population with a high growth rate, the large disparity in income narrows the size of the domestic market. Nonetheless, Uganda is centrally located within the great lakes region and neighbors five countries (Sudan, Congo, Rwanda, Tanzania and Kenya). This ideal location within the region has attracted

investment from strategic investors with the long-term objective of exploiting the large market. In addition efforts by government to participate in regional integration have also widened the market for such investment.

Uganda has not been successful in attracting efficiency-seeking FDI partly due to insufficient and in some instance very poor infrastructure. The land locked nature of the country has also rendered transportation costs to be very high. In addition, there are delays in transporting goods to and from Uganda by transportation means other than air. Despite Uganda having a highly educated labor force[36], there are no specialized skills. However, the large educated labor force, which is also English speaking, has high potential for training and can play a significant role in attracting efficiency-seeking FDI

**Conclusion**

Despite the various efforts Uganda has made in attracting FDI, there still remain a number of constraints which include poor quality infrastructure, corruption and the need to further improve the institutional support. Although most investors are more than happy to take advantage of the generous incentives offered by government, incentives alone are rarely sufficient to secure FDI. Consequently, the government should continue enhancing the business environment by a further improvement in institutional support. The UIA, which is the institution charged with the duty of promoting private sector investment, should be given the authority to carry out its duties as a fully-fledged one-stop shop for investors to enable it carry out its duties more efficiently. Improvement of the Risk Coverage Schemes on both a bilateral and multilateral basis is another area where more work needs to be done to encourage foreign investment. This would further attract FDI to Uganda particularly for high value investments. The existing investment insurance schemes are perceived as distant and unfriendly and yet foreign investors have continued to show interest in attaining some protection against non-commercial risk.

Overall Uganda has done well in attracting FDI given the obstacles that have been overcome such as the historical and inherent impediments. There is hope for further strides in this direction as long as political and macroeconomic stability is maintained or even improved where possible.

[36] Every year about 10,000 students graduate at University level.

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# IX. Investissements directs étrangers dans l'UEMOA: tendances et implications de politique economique

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## Introduction

La mondialisation des économies, impulsée par les progrès enregistrés ces dernières décennies dans le domaine des Nouvelles Technologies de l'Information et de Communication (NTIC), s'est traduite par le développement de l'internationalisation des entreprises, l'intensification de la concurrence et le développement continu de nouveaux marchés. En atteste, l'augmentation du nombre de firmes multinationales, qui est passé selon la CNUCED de 6000 en 1960 à 63000 en 2001. Ce mouvement s'est accompagné d'une progression importante des flux d'Investissements Directs Etrangers (IDE). Toutefois la répartition géographique de ces flux de capitaux n'est pas homogène et des régions entières sont exclues des arbitrages géographiques, signe tangible de leur difficile insertion dans l'économie mondiale.

Ainsi, au niveau du monde en développement, une quinzaine de pays situés en Asie orientale (Chine, Corée du Sud, Hong Kong, Inde, Indonésie, Malaisie, Philippines, Singapour, Thaïllande), en Amérique du Sud (Brésil, Mexique, Chili, Argentine avant la crise) et en Afrique (Afrique du Sud) ont reçu 90% environ du flux du total des investissements directs en direction du tiers-Monde, alors que les pays d'Afrique subsaharienne accueillaient seulement 0,50% du stock de l'investissement étranger dans le monde en 2000.

Cette inégale répartition des IDE dans les pays émergents et pays en développement explique en grande partie la forte croissance enregistrée dans le premier groupe de pays, eu égard au rôle clé des investissements comme source de croissance.

La mobilisation des IDE constitue en conséquence un défi majeur pour les pays d'Afrique subsaharienne, pour leur permettre d'atteindre des taux de croissance élevés et de lutter efficacement contre la pauvreté. A cet égard, le suivi des IDE devrait bénéficier d'une attention particulière dans leur évaluation statistique et dans leur mobilisation.

La présente communication décrit le dispositif de collecte et de suivi des flux de capitaux étrangers mis en place par la BCEAO dans le cadre de l'élaboration de la balance des paiements des pays de l'UEMOA[37]. Elle fait le point de l'évolution des investissements directs étrangers en Afrique de l'Ouest, plus précisément dans la zone UEMOA. Elle insiste sur les principaux obstacles à leur essor et enfin retrace les politiques de promotion mises en œuvre dans l'Union.

[37] Les pays membres de l'UEMOA sont au nombre de huit : le Bénin, le Burkina Faso, la Côte d'Ivoire, la Guinée-Bissau, le Mali, le Niger, le Sénégal et le Togo.

## 1. Cadre methodologique de confection des statistiques sur les IDE

Les statistiques sur les IDE sont confectionnées dans le cadre de l'élaboration des comptes extérieurs.

*Cadre institutionnel d'élaboration des comptes extérieurs*

La Banque Centrale est chargée de l'élaboration des états de balance des paiements des Etats membres de l'UEMOA. A cet égard, selon les dispositions réglementaires, les résidents sont tenus, sous peine de sanction, de rendre compte à la BCEAO, de toutes les opérations effectuées avec l'extérieur.

Au plan national, le Comité de balance des paiements est l'organe de validation de la balance des paiements. Ce Comité est composé des représentants de la Direction de la statistique, du Ministère chargé du commerce, de la Poste et des Télécommunications, de la Direction chargée des finances extérieures, de la Direction chargée de la dette extérieure et de la Direction des douanes. Le Comité de balance des paiements, présidé par le Ministère chargé des Finances, arrête périodiquement les statistiques de balance des paiements et de la position extérieure globale.

Dans le cadre de ses attributions, la BCEAO a adapté régulièrement le dispositif de collecte et d'analyse des statistiques de balance des paiements aux normes internationales. Les méthodologies de collecte actuellement utilisées sont conformes aux principes et règles édictés dans la cinquième édition du Manuel de la balance des paiements publié par le FMI. Elles s'appuient également sur le Guide pour l'établissement de la balance des paiements, paru en 1995 pour compléter le Manuel.

Les comptes extérieurs sont actuellement produits annuellement, avec un délai d'un an après la fin de l'année sous-revue. Ils sont publiés pour chacun des Etats membres de l'Union sur support papier (bulletin annuel) et sur le site Internet de la Banque. Ils sont également transmis au FMI pour publication. A cet égard, l'ensemble des Etats membres de l'Union participe, depuis janvier 2001, au Système Général de Diffusion des Données (SGDD) du FMI.

*Questionnaire*

Les données sur les flux de capitaux privés sont collectées au même titre que les autres informations nécessaires à l'élaboration des comptes extérieurs. Elles sont collectées à partir d'une enquête annuelle auprès des principaux opérateurs économiques ayant des relations avec l'extérieur, en l'occurrence les entreprises, les banques, les institutions internationales et divers organes de l'Etat.

Le questionnaire actuellement utilisé, dont la contexture répond aux besoins nés de l'adoption de la méthodologie de la cinquième édition, permet d'appréhender, pour les entreprises commerciales et industrielles notamment, les transactions portant sur les marchandises, les services et les revenus, réalisées au cours de l'année avec des non-résidents, ainsi que les encours de créances et de dettes vis-à-vis des non-résidents en fin d'année.

Les formulaires ont été conçus selon la nature de l'entité interrogée. Le questionnaire permet de recueillir les statistiques relatives au nombre d'employés et à la masse salariale en distinguant notamment le personnel expatrié. Il retrace également les investissements directs et les investissements de portefeuille de l'étranger dans l'entreprise et de l'entreprise à l'étranger. A ce titre, les opérations sur le capital social et la contrepartie des bénéfices réinvestis sont renseignées. De même, les titres de participation, les obligations, les instruments du marché monétaire, les produits financiers et les prêts des entreprises, y compris les crédits commerciaux sont demandés aux entreprises au titre des investissements de portefeuille et des autres investissements.

Pour la première année de l'enquête (1996), les encours de début de période, pour les variables financières, ont été recueillis. Par la suite, sur une base annuelle, les participations, les dotations, les emprunts et les crédits sont déclarés en encours de fin de période résultant des opérations effectivement réalisées durant l'année, quelle que soit la date des contrats, des couvertures de crédit ou des souscriptions de capital. Ces informations en termes de stock permettent de renseigner directement la position extérieure globale, ainsi que la balance des paiements en termes de transactions par variation d'encours.

Le questionnaire est simple et convivial et les variables retenues sont entièrement codifiées par nature économique, facilitant le traitement informatique des informations. Toutefois, en dépit des efforts fournis pour faciliter la compréhension des questionnaires, certaines notions techniques, relatives notamment aux opérations financières, restent difficilement accessibles aux interlocuteurs non initiés à la balance des paiements. A cet égard, une note technique est jointe aux questionnaires pour expliquer, en particulier, la spécificité des variables d'investissement. Par ailleurs des séances de travail et des séminaires sont également organisés à l'intention des agents chargés de renseigner les questionnaires.

*Echantillonnage*

L'échantillonnage a été effectué sur la base de l'existence de relations avec l'extérieur et de la taille de l'entreprise, en vue de couvrir l'essentiel des transactions avec l'extérieur du pays. Il répond à l'impossibilité de la collecte exhaustive des informations et est pratiqué dans tous les Etats membres de l'Union à l'exception de la Guinée Bissau où la collecte est exhaustive et porte sur une vingtaine d'entreprises. L'échantillon initial, consigné sur un registre informatisé, est régulièrement mis à jour sur la base de la consultation de l'annuaire téléphonique, d'archives, de la Centrale des Bilans, des publications des actes notariés sur la vie des entreprises ou de toute autre base de données. En raison de l'utilisation concomitante des informations communiquées par les banques (les Comptes Rendus de Paiements notamment) et des questionnaires directement retournés par les entreprises dans le cadre de l'établissement de la balance des paiements, les entreprises ont été codifiées afin d'éviter les doubles emplois.

La stratégie de collecte repose sur une enquête par correspondance écrite, apparue plus adéquate. Cependant, les contacts personnels directs et par téléphone sont également établis entre les intermédiaires déclarants et la BCEAO. L'échantillonnage est complété par une méthode d'extrapolation.

Les questionnaires sont adressés aux déclarants à la fin du mois de mars de chaque année. Certains ont pris des dispositions internes pour anticiper la demande, en intégrant dans leur système comptable des indicateurs permettant de collecter les données requises à temps réel.

*Autres sources d'information*

Les informations provenant des Ministères notamment ceux chargés de la planification (Institut National de la Statistique) ou de la dette extérieure et de l'investissement, ainsi que les structures d'appui à l'investissement privé ou chargées notamment de la coordination des investissements du secteur privé au niveau national constituent des sources complémentaires.

La source bancaire renseigne sur la nature des opérations, en particulier la contrepartie des règlements effectués par l'entremise des banques. Des rapprochements sont alors effectués par les agents chargés de l'élaboration de la balance des paiements, avec certains documents transmis par les banques, notamment les Comptes Rendus de Paiements (CRP) et les états relatifs aux mouvements en comptes de correspondants étrangers (les états BP1, BP2 et MCE).

Les informations publiées par la Banque des Règlements Internationaux (BRI) donnent des indications sur les montants et les sources des investissements privés réalisés par les pays partenaires.

*Contraintes identifiées*

Les résultats des contrôles de cohérence révèlent que la partie du questionnaire réservée aux investissements étrangers privés n'est pas souvent correctement renseignée par les entreprises déclarantes, du fait d'une maîtrise insuffisante de la définition des variables demandées. Cette situation constitue une contrainte à prendre en compte et ne permet pas d'assurer une couverture exhaustive des investissements directs. Des échanges complémentaires entres les Services chargés de l'élaboration de la balance des paiements et les entreprises enquêtées sont nécessaires pour pallier les insuffisances relevées dans certains cas.

En outre, le questionnaire comporte une ventilation géographique limitée (UMOA, France et reste du monde) qui ne permet pas d'identifier et de vérifier la provenance ou la destination des flux déclarés par les entreprises enquêtées. L'exploitation des statistiques de la Banque des Règlements Internationaux est par conséquent limitée.

A l'instar des questionnaires, les Comptes Rendus de Paiements (CRP), utilisés comme source complémentaire d'information, ne sont pas toujours correctement renseignés par les banques. Les procédures de déclaration ont été simplifiées et le répertoire économique a été allégé pour limiter les codes des opérations. Toutefois, des insuffisances ont été relevées et portent sur certaines rubriques qui ne sont pas bien renseignées. La plupart des opérations financières sont déclarées comme des approvisionnements de compte ou des crédits commerciaux dans les CRP, donnant ainsi une importance disproportionnée à ces types d'investissement. En particulier, les investissements directs et les investissements de portefeuille du secteur privé sont insuffisamment identifiés dans les CRP.

Il convient également de relever le poids du secteur informel dans les économies des Etats membres de l'Union. Ce secteur, difficile à cerner, opère également dans les opérations de change et les transferts de fonds par correspondance, en dehors du système bancaire. Les échanges avec l'extérieur par ce canal prennent de l'importance et mériteraient qu'une attention particulière leur soit accordée. En tout état de cause, les difficultés relevées dans la production des statistiques de balance des paiements ne relèvent pas entièrement de l'application de la méthodologie d'élaboration des comptes extérieurs. Elles sont également liées à la structure des économies.

## 2. Evolution des Investissements Directs Etrangers dans l'UEMOA

*Analyse de l'évolution des IDE*

Les investissements directs étrangers reçus par les pays de l'Union se sont légèrement accrus depuis le milieu des années 90, passant de 522,4 millions USD en 1996 à 1228,6 millions USD en 2002, soit une progression de 4,5% en moyenne par an. Cette hausse pourrait s'expliquer par l'amélioration globale de la situation macroéconomique de la zone après la modification de la parité du FCFA en 1994, la libéralisation et la dérégulation des marchés financiers internes et la diversification des instruments financiers.

Par pays, il ressort que les flux d'investissements directs ont connu des évolutions très souvent erratiques, dictées par les programmes de privatisation et la restructuration des entreprises publiques (Cf. graphiques en annexe). Ainsi, l'accroissement des IDE au Bénin entre 1996 et 2000 s'explique par le relèvement progressif des prises de participation des non résidents dans les entreprises béninoises. Au Burkina, le pic observé dans l'évolution des IDE en 2000 est lié à l'ouverture du marché de la téléphonie mobile aux opérateurs privés. En Côte d'Ivoire, les IDE ont évolué en dents de scie, sans afficher de tendance particulière. L'année 1997, au cours de laquelle les IDE ont atteint leur valeur maximale, correspond à l'année de la privatisation de la Compagnie Nationale des Télécommunications. Au Mali, contrairement à la tendance erratique observée dans les autres pays de l'Union, les IDE ont connu une évolution plus régulière avec une tendance haussière plus marquée sur la période 2000-2002, imputable aux investissements étrangers dans le secteur minier. Au Niger, la hausse marquée des investissements étrangers, entre 1999 et 2001, est liée à la privatisation de la Société Nigérienne de Télécommunications (SONITEL) intervenue en 2001. Au Sénégal, le programme de privatisation explique les pics observés en 1997 et 1999 ; il s'agit notamment de la privatisation de la SENELEC et de l'élargissement du capital des Industries Chimiques du Sénégal (ICS) aux investisseurs étrangers. Au Togo, les investissements dans les secteurs énergétique, manufacturier et hôtelier expliquent la tendance globalement à la hausse des IDE dans ce pays.

**Tableau: Evolution des flux d’Investissements Directs Etrangers reçus par les pays de l’UEMOA**
*(en millions de USD)*

| | *1996* | *1997* | *1998* | *1999* | *2000* | *2001* | *2002* |
|---|---|---|---|---|---|---|---|
| Bénin | 45,8 | 37,8 | 43,9 | 61,1 | 96,3 | 72,2 | 48,3 |
| Burkina | 17,0 | 14,4 | 9,7 | 12,3 | 23,2 | 6,6 | 17,7 |
| Côte d'Ivoire | 301,9 | 449,9 | 314,5 | 380,7 | 171,3 | 293,7 | 259,8 |
| Mali | 56,8 | 74,3 | 35,8 | 51,3 | 106,4 | 151,9 | 370,9 |
| Niger | 56,8 | 74,3 | 35,8 | 51,3 | 106,4 | 151,9 | 370,9 |
| Sénégal | 16,7 | 155,3 | 75,0 | 136,3 | 88,0 | 103,0 | 100,4 |
| Togo | 27,4 | 23,0 | 42,0 | 69,7 | 57,2 | 74,1 | 60,7 |
| Total | 522,4 | 829,0 | 556,6 | 762,6 | 648,8 | 853,3 | 1228,6 |

*Source*: BCEAO

Au total, il apparaît que la privatisation et la restructuration des entreprises publiques, engagées dans la plupart des Etats de l’Union sur la période sous-revue ont joué un rôle important dans la mobilisation des IDE dans les pays de la zone UEMOA. Par ailleurs, il ressort que les investissements directs dans l’Union ont été orientés vers les pays riches en ressources naturelles (Mali, pour ce qui concerne l’or) ou dotés d’un tissu industriel relativement soutenu (Côte d’Ivoire et Sénégal).

Une analyse plus fine permet de relever que ce sont les firmes multinationales, ayant principalement leur siège en France, mais de plus en plus en Amérique et en Asie, qui ont assuré la part substantielle de ces investissements. Les principales opérations enregistrées concernent les prises de participations dans le capital social des entreprises installées dans l’Union depuis la campagne de privatisation engagée dans les années 90. Les secteurs principaux vers lesquels les capitaux entrent dans l’Union sont les mines et les services modernes tel que les nouvelles technologies et l’exploitation de bois.

En comparaison avec le continent asiatique, il apparaît que l’Afrique subsaharienne et singulièrement l’espace UEMOA est resté à l’écart des flux d’investissements directs étrangers. En effet, au cours de l’année 2000, les IDE reçus par l’Union sont estimés à 648,8 millions de dollars contre 141 milliards pour le continent asiatique, soit à peine 0,4%. Cette faiblesse des IDE dans les Etats membres de l’Union Economique et Monétaire Ouest Africaine et en Afrique subsaharienne de façon générale, pourraient s’expliquer par l’existence d’obstacles à leur développement.

*Obstacles à l'évolution des IDE*

Bien que l'espace UEMOA présente des avantages au développement des IDE, notamment l'abondance des ressources naturelles et une main d'œuvre abondante, les contraintes sont malheureusement plus nombreuses.

Les contraintes les plus fréquemment citées par les investisseurs sont :

- la géographie (taille réduite des marchés internes; éloignement des grands centres commerciaux des pays industrialisés; enclavement de certains pays de la zone ; risques de santé, etc.) ;
- l'instabilité ou le risque politique ;
- des économies insuffisamment libéralisées, dominées par un Etat encore fortement interventionniste, et/ou au degré d'ouverture vers l'extérieur encore limité ;
- les pesanteurs bureaucratiques et le manque de transparence (y compris des pratiques de corruption) ;
- une insécurité juridique et judiciaire encore trop prononcée ;
- des services d'infrastructures coûteux ou de qualité insatisfaisante ou irrégulière (eau, électricité, transport, télécommunications) ;
- la rigidité du marché du travail également caractérisé par une main d'œuvre abondante certes mais peu qualifiée (ou dont les qualifications ne répondent pas réellement aux besoins des entreprises) ;
- une fiscalité encore trop pénalisante, discrétionnaire ou complexe (malgré des régimes d'incitations souvent très généreux) ;
- les difficultés d'identification et d'exploitation d'opportunités d'investissements rentables.

Afin de réduire ces obstacles qui constituent un frein au développement des IDE, les Etats membres de l'UEMOA ont progressivement mis en œuvre des mesures visant à rendre l'espace communautaire plus attractif.

## 3. Politique de promotion des IDE dans l'UEMOA

Les politiques mises en œuvre dans l'Union pour promouvoir les investissements dans la zone s'articulent globalement autour du renforcement de l'intégration sous-régionale, de la mise en place d'un environnement macroéconomique stable et harmonisé, de la libéralisation des relations financières des pays de l'Union, de la mise en place d'un environnement juridique et institutionnel porteur pour les investissements et du développement des infrastructures physiques de base.

*Renforcement de l'intégration sous régional*

Dans le cadre du renforcement de l'intégration sous-régionale, les pays de l'Union Economique Ouest Africaine ont harmonisé leurs tarifs douaniers. La mise en œuvre de cette politique, effective depuis l'année 2000, a pour objectif de lever les

contraintes liées à l’exiguïté des marchés de la sous région en favorisant la libre circulation des biens dans l’espace UEMOA. Cette politique devrait permettre d’accroître les économies d’échelle et d’assurer une plus grande rentabilité des investissements dans la zone.

Par ailleurs, l’adoption par les Etats membres de l’UEMOA du Pacte de Convergence, de Stabilité, de Croissance et de Solidarité, entré en vigueur depuis le 1er janvier 2000, vise à renforcer l’intégration dans la sous-région en assurant la convergence des économies afin de consolider les fondements de la monnaie commune. En outre, les critères de convergence couvrant le secteur réel, les finances publiques et le secteur extérieur définis par ce pacte concourent à l’assainissement du cadre macroéconomique des pays de l’Union.

*Mise en place d’un environnement macroéconomique stable et harmonisé*

L'UEMOA a mis en place un mécanisme de surveillance multilatérale des politiques macroéconomiques qui comporte la définition de politiques macroéconomiques et budgétaires communes et la création d'un système d'information dans le but de créer un environnement macroéconomique stable et harmonisé dans la zone. Les critères de convergence choisis à cet égard visent:

- **la maîtrise de l'inflation dans l’Union** pour préserver et consolider la compétitivité internationale des économies de la sous-région ;
- **l'assainissement de la situation budgétaire des Etats** ;
- **la relance de l'investissement** qui constitue une condition de croissance économique durable ;
- **l'apurement des arriérés intérieurs** qui contribue à la relance de l'activité économique.

*Libéralisation des relations financières des pays de l’Union*

Les Etats membres de l’UEMOA ont entrepris un assouplissement de leurs relations financières intérieures et extérieures, couplé avec « l’ouverture financière », c’est à dire l’introduction d’une concurrence avec les intermédiaires financiers non-résidents.

Les réformes mises en œuvre depuis 1989 dans le cadre de la libéralisation et de l’approfondissement du système financier traduisent, d’une part, l’engagement pour une libéralisation totale des opérations courantes pris par les Etats de l’Union en adhérant au régime de l’Article 8 des statuts du FMI, et, d’autre part, leur volonté de poursuivre une libéralisation progressive des opérations en capital.

A cet égard, les nouvelles dispositions comportent, au titre des opérations en capital, les assouplissements suivants : (a) le libre transfert à l’étranger du produit de la liquidation des investissements réalisés par les non-résidents (le transfert des bénéfices et dividendes étant autorisé dans le cadre des opérations courantes) ; (b) la possibilité de conclure des contrats d’options sur les marchés étrangers et de procéder librement aux règlements y afférents ; (c) l’autorisation à titre général de l’achat par les résidents, des valeurs mobilières étrangères dont l’émission ou la mise en vente auront été préalablement acceptées par le Conseil Régional d’Epargne Publique et des Marchés Financiers (CREPMF).

Le mouvement de libéralisation, ainsi imprimé par la réglementation actuelle, situe l'UEMOA dans une position comparable à celle des pays en développement les plus avancés en matière de libéralisation des changes.

*Mise en place d'un environnement juridique et institutionnel porteur*

Afin de contribuer à la mise en place d'un environnement juridique et institutionnel porteur pour le développement des investissements dans la sous-région, tous les Etats membres de l'UEMOA ont signé le Traité de l'Organisation pour l'Harmonisation du Droit des Affaires en Afrique (OHADA). De ce fait, l'UEMOA souscrit aux Actes Uniformes de l'OHADA sur le droit commercial général, le droit des sociétés commerciales et du groupement d'intérêt économique, l'organisation des sûretés, les procédures simplifiées de recouvrement et les voies d'exécution, et les procédures collectives d'apurement du passif.

En outre, Les pays de l'UEMOA réfléchissent ensemble aux méthodes les plus adéquates pour maximiser leurs recettes fiscales, sans entraver l'activité économique et sans créer de nouvelles distorsions qui freineraient l'investissement et les échanges commerciaux. A cet égard, l'élargissement de la base d'imposition, la fiscalisation de secteurs et d'opérateurs jusqu'à présent exemptés, la lutte contre la fraude et la corruption, la réduction des exonérations, la simplification des régimes et l'harmonisation des taux sont quelques-unes des mesures pour atteindre cet objectif.

Par ailleurs, un code communautaire des investissements est en cours d'élaboration. Il prévoit entre autres:

- la généralisation de Centres de Promotion des Investissements (CPI) dans tous les Etats membres de l'Union, afin de simplifier les procédures de création d'entreprises et de diligenter l'octroi des agréments,
- les garanties diverses à l'investisseur et la sécurité juridique et juridictionnelle dont tous les Etats ont souscrit à travers la Convention créant le Centre International pour le Règlement des Différends relatifs aux Investissements.

*Développement des infrastructures de base*

Le développement des infrastructures de transport, de télécommunications, de production énergétique constitue une composante majeure de la politique de compétitivité industrielle de l'Union. Les coûts et la qualité des services actuels handicapent quelque peu cette compétitivité. Par ailleurs, la politique de développement des infrastructures de base dans l'Union met l'accent sur le développement des infrastructures trans-régionales, afin de favoriser le développement des échanges et de donner à toutes les économies de l'UEMOA les mêmes possibilités d'accès au marché communautaire (désenclavement de certaines zones) et réduire les coûts de certains facteurs de production. Le Nouveau Partenariat pour le Développement de l'Afrique (NEPAD) s'inscrit lui aussi dans cette optique.