OECD DEVELOPMENT CENTRE

Working Paper No. 173
(Formerly Technical Paper No. 173)

FDI IN SUB-SAHARAN AFRICA

by

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Research programme on:
Integration and Co-operation in Sub-Saharan Africa

OECD OCDE

March 2001
CD/DOC(2001)5

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ACKNOWLEDGEMENTS

This paper has benefited from an earlier draft by Paul Kalenga, Development Policy Research Unit (DPRU), University of Cape Town, South Africa. Specific information contained in Mr. Kalenga's draft has been used in various parts of the paper. The author would also like to thank Mohammed Chiraz Baly at UNCTAD for his assistance in the statistical work and Andrea Goldstein for detailed comments on earlier drafts. The views expressed in this paper are solely the author's and do not necessarily coincide with those of UNCTAD.

PREFACE

The Development Centre's research on Africa since 1997 has centred on the theme of Emerging Africa. An in-depth examination of six countries showing some potential for take-off has identified three ingredients leading to high and sustainable growth:

1) access to external non-debt financial resources;

2) legitimate political leadership;

3) a long-term regional focus.

With these tentative conclusions in mind, in 1999 the Centre launched a research project to pass from country-specific to region-wide analysis, to improve the flow of information for the implementation of co-operation efforts, and to derive policy recommendations for donors and other non-governmental development partners. Regionalism may be fashionable but it is not a new phenomenon in Africa. Indeed, the world's oldest customs union exists in Southern Africa, and the list of both past and present multilateral economic agreements is probably longer than that of any other continent. However, while some successful examples of regional co-operation do exist**,** Africa's record of creating and sustaining regional frameworks is generally poor. The pressing need for high output growth, industrialisation, employment creation, increasing export trade, higher social and human capital development, and above all lower poverty, is giving regional integration a new lease of life.

A small number of experts from Africa and Europe have been asked to provide the elements to structure our thinking around two, complementary issues:

1) What is the scope for increased intra-regional trade in sub-Saharan Africa, in the context of current trends towards freer regional trade?

2) Which are the most promising areas of regional co-operation?

The studies included in this special series of Development Centre Technical Papers, together with one by Andrea Goldstein, published in 1999, (TP 154), provide updated analyses on the progress of regional integration in sub-Saharan Africa and will contribute to the debate on this key issue for its development. The papers are also published in anticipation of the Second International Forum on African Perspectives, on the theme of Regionalism in Africa, organised by the Development Centre and the African Development Bank.

Jorge Braga de Macedo
President
OECD Development Centre
March 2001

RÉSUMÉ

Il ressort de l'expérience des nouveaux pays industrialisés que la structure de l'avantage comparatif ne doit pas être rigide, mais au contraire potentiellement flexible, et que les pays moins développés peuvent progresser et converger vers les économies industrielles, tant en termes de revenus que de structure économique. Les relations entre échanges et développement dans l'économie mondiale mettent en évidence le rôle fondamental des facteurs historiques : des faisceaux de causes ont provoqué la concentration des activités industrielles en certains endroits, alors que d'autres restaient davantage dépendants des activités primaires. En modifiant la capacité d'attraction des pays au regard de la production industrielle, les accords commerciaux ont la possibilité de favoriser ou de ralentir le développement industriel. Dans le même temps, une concurrence acharnée pour attirer les investissements directs étrangers peut avoir des effets pervers inattendus dans les pays receveurs si elle pousse les gouvernements à offrir des subventions financières et fiscales excessives et à laisser pour compte la protection de l'environnement et des droits des travailleurs.

Ce Document technique passe en revue les travaux sur les politiques relatives à l'IDE adoptées en Afrique et leurs conséquences. Il étudie les relations entre les récents accords d'intégration régionale et l'évolution des flux d'IDE et examine les résultats des mesures destinées à attirer ce type d'investissement (comme les zones franches d'exportation, les allégements de droits de douane ou les exonérations fiscales). L'auteur évalue également dans quelle mesure les IDE complètent ou au contraire se substituent à l'investissement national et s'il existe des différences selon les secteurs. Il étudie la manière dont les pays en développement pourraient tirer parti des opportunités offertes par les zones franches pour acquérir des technologies plus avancées, améliorer les compétences de la main-d'oeuvre et de l'encadrement, et améliorer leur accès aux marchés étrangers. Enfin, ce Document examine le rôle que jouent les minorités locales, souvent considérées comme des étrangers résidents (par exemple les Asiatiques et les Grecs en Afrique de l'Est, les Chinois et les Indiens à Maurice, les ressortissants de l'ancienne puissance coloniale dans certains pays), ainsi que celui des nouvelles firmes multinationales africaines telles que Anglovaal, Ashanti ou SAB. L'auteur conclut par une série de considérations et de propositions pour l'orientation des politiques de développement des zones franches dans la région. Entre autres mesures, il insiste sur la nécessité pour l'Afrique subsaharienne de diversifier les activités industrielles d'exportation, de renforcer les liens avec les activités en amont et d'améliorer la législation relative aux investissements directs étrangers.

SUMMARY

The experience of newly-industrialised countries suggests the need for an analysis in which the pattern of comparative advantage is not set in stone but is potentially flexible, and in which less developed countries can develop and converge in both income and economic structure to industrial economies. The pattern of trade and development in the world economy clearly shows the key role played by history: cumulative causation has created concentrations of industrial activity in particular locations and left other areas more dependent on primary activities. By changing the attractiveness of countries as a base for manufacturing production, trading arrangements can potentially trigger or postpone industrial development. At the same time, cut-throat bidding war to attract FDI may have unintended negative consequences on recipient countries if they lead governments to offer excessive fiscal and financial subsidies and to disregard the protection of the investment and of workers' rights.

This paper reviews the literature on the policy towards FDI in Africa and on its effect; examine the relationship between recent RIAs and developments in FDI flows; investigate the results of policy measures introduced to attract FDI [such as export processing zones (EPZs), duty drawbacks, and tax holidays]; assess whether FDI and domestic investment are complement or substitutes and whether there are differences across sectors; explore to what extent developing countries can take advantage of the opportunities provided by EPZs for the acquisition of superior technology, upgrading of labour and managerial skills, and greater access to foreign markets; consider the role of local minorities that are often considered resident aliens (e.g. Asians and Greeks in East Africa, Chinese and Indians in Mauritius, ex-colonials in some countries) and of upcoming African MNCs such Anglovaal, Ashanti, or SAB. The paper ends with a series of considerations and policy proposals for EPZs development in the region. Among other policies, this paper focuses on the promotion of industry diversification of export-oriented activities, on the development of stronger backward linkages, and on the upgrading of the FDI legislation in sub-Saharan Africa.

I. INTRODUCTION

FDI has been one of the main engines of economic globalisation. FDI flows have expanded much more rapidly than, for instance, global trade flows or the globally aggregated GDP (Figure 1). At $865 billion, global FDI flows reached yet another record level in 1999 (UNCTAD, 2000). Although FDI flows traditionally take place between developed countries, the share of developing countries has steadily increased over the past three decades, despite a backlash in the aftermath of the Asian financial crisis in 1997. Today, developing countries account for approximately 24 per cent of total FDI flows (UNCTAD, 2000) and FDI has become the most important source of external finance for developing countries as a group, more important than commercial loans, portfolio investment, and official development assistance (Figure 2).

Figure 1. **Growth of Global FDI Flows, Trade Flows and of the Aggregated Worldwide GDP, 1990-99**
Percentage increase 1990-99

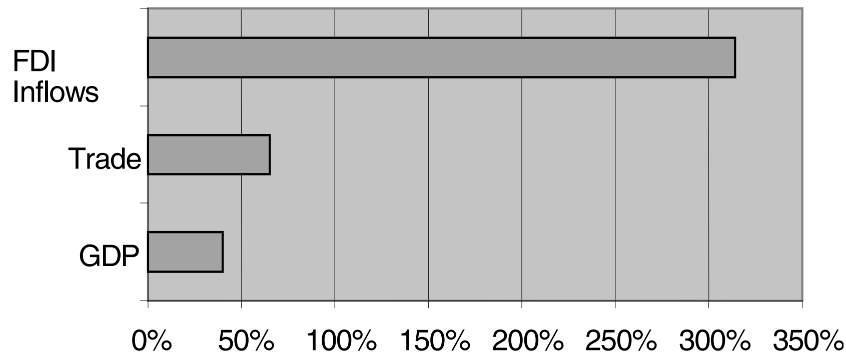
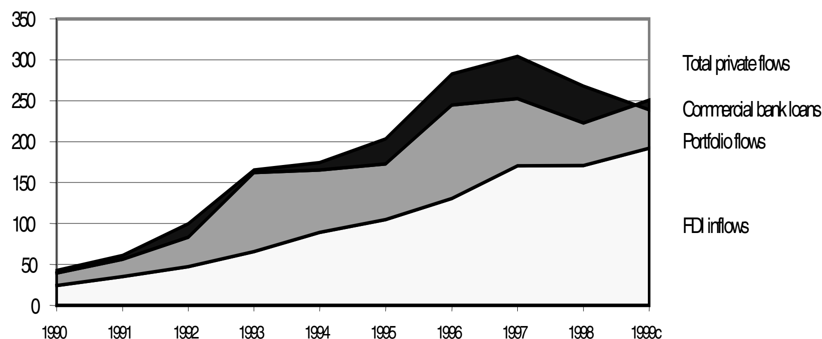


Figure 2. **Private Net Resource Flows[a] to Developing Countries[b], by Type of Flow, 1990-99**



Source: UNCTAD, based on World Bank, 2000.

Notes: *a)* Defined as net liability transactions or original maturity of greater than one year.
b) The World Bank's classification on developing counties is different from that of UNCTAD. Central and Eastern Europe is included in the former classification.
c) Preliminary.

Access to FDI can supplement domestic savings, which are usually low in developing countries, and fill the shortfall in capital needed to finance economic growth and development. Moreover, while the provision of additional capital is the most cited contribution to development in the host country, FDI can also work through a number of other, sometimes even more important, channels:

— FDI can lead to the transfer of new technologies and skills, upgrading local technological capabilities and thereby increasing competitiveness;
— FDI can lead to new employment opportunities, often with a content in terms of skills, value-added and remuneration which is higher than those prevalent in the local economy;
— transnational corporations (TNCs) increase access to world markets for goods and services produced in the host country; domestic companies may become suppliers to global TNCs and integrate into global production networks;
— entry of foreign companies into a domestic market can increase competition, thereby ensuring that local consumers have access to high quality goods and services at competitive prices;
— FDI, in particular when occurring in the form of a merger or acquisition of local firms by foreign companies, can help to restructure domestic industry and increase its competitiveness, e.g. by exploiting economies of scale (UNCTAD, 2000).

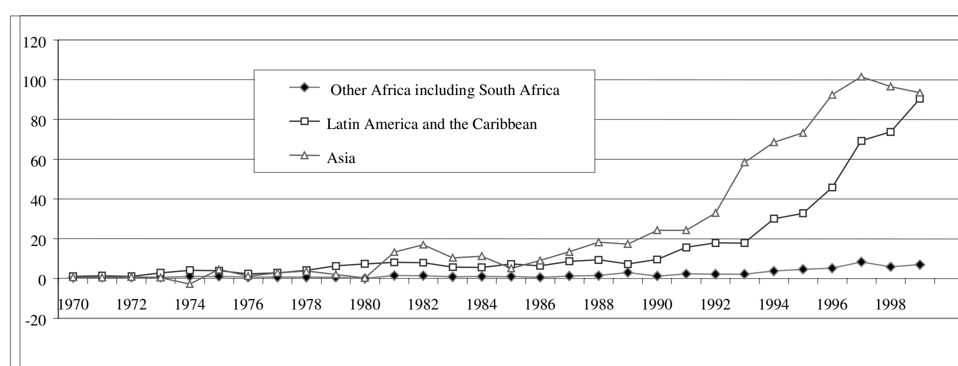
It goes without saying that FDI can also have — in all of the above-mentioned areas — negative impacts. In general, it is the domestic policy framework that is crucial in terms of whether or not the net effects of FDI are positive (UNCTAD, 1999*a*). Thus, it is largely in the hands of domestic policymakers to make the best out of FDI. Empirical evidence suggests that some countries have been more successful in this respect than others (UNCTAD, 1999*a*). Generally speaking, FDI — when handled properly — can make a positive contribution to development.

II. FDI TO SUB-SAHARAN AFRICA — AN OVERVIEW

II.1 Overall Trends

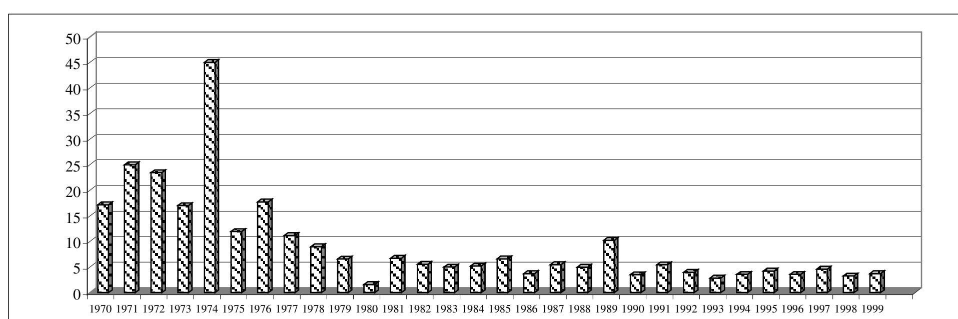
At first sight, the debate over the potential effects of FDI in most African countries seems largely academic, as the amount of investment during the past 20-30 years is so small — at least in absolute terms. Indeed, Africa as a whole, and sub-Saharan Africa in particular, has been on the sidelines of the FDI boom. Starting from similar levels in the mid-1970s, annual FDI flows into sub-Saharan Africa stagnated for a long time at around $5 billion, while the amounts received by Latin America as well as Asia, and in particular into East Asia, expanded impressively from the 1980s onwards (Figure 3). Consequently, Africa's share in FDI flows into developing countries decreased from 25 per cent at the beginning of the 1970s to just 5 per cent in 1999 (Figure 4).

Figure 3. **FDI Inflows to Sub-Saharan Africa, Latin America and the Caribbean and Asia, 1970-99**
($ billion)



Source: UNCTAD, FDI/TNC database

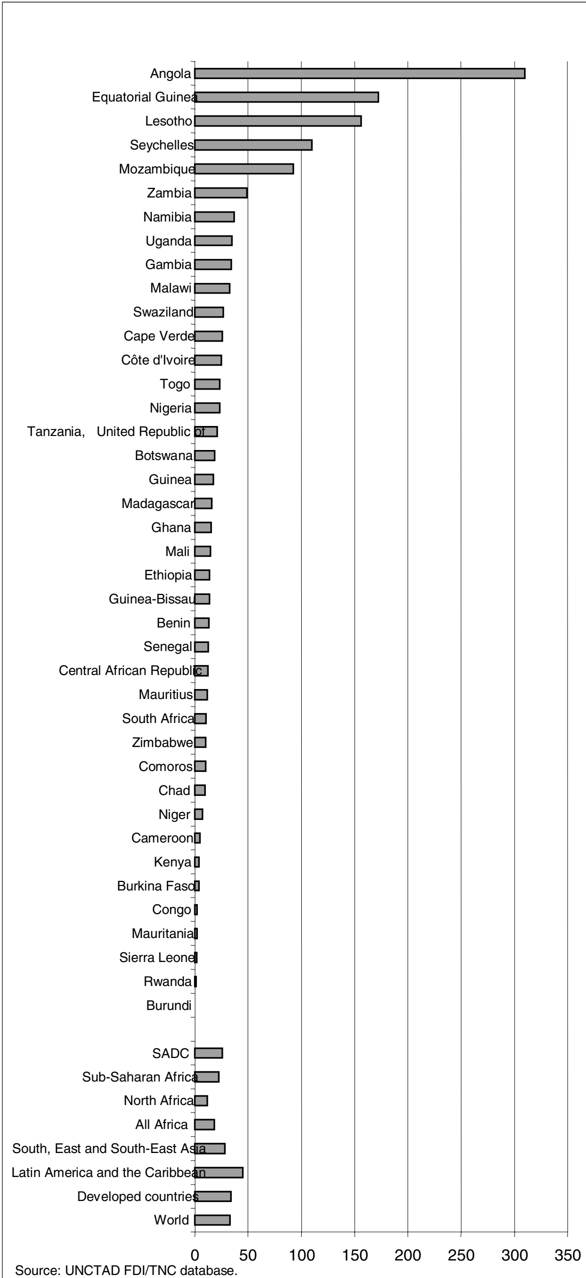
Figure 4. **Share of Africa in Total FDI Flows into Developing Countries, 1970-99**
(in percentage)



Source: UNCTAD, FDI/TNC database

The picture looks a bit less gloomy when FDI performance is related to the size of the economy. African economies are generally much smaller than those of other developing countries and would therefore quite naturally attract less FDI. This relative measure does indeed show that FDI inflows — although often minuscule in absolute terms — are much more important to the local economy than elsewhere (Figure 5). However, even from this relative perspective, sub-Saharan Africa has lost ground when compared to the other regions, even though less dramatically so (UNCTAD, 1999*b*).

Figure 5. **Sub-Saharan African Countries Ranked by FDI Flows per $1 000 GDP, 1999**



Source: UNCTAD FDI/TNC database.

What explains this disappointing performance? There is a general consensus that the 1970s, 1980s and the early part of the 1990s can be seen as lost years for sub-Saharan Africa. An extensive literature has developed aimed at explaining this poor performance (Collier and Gunning, 1998; Killick, 1983, 1992; World Bank, 1989). Although other factors have also played a role, most explanations point to the fault of national policies that supplanted markets rather than supporting them. Naturally, the precise set of causes varies significantly from country to country. Nonetheless, some problems are recurrent for a great number of countries on the continent:

- For a long time, many African countries stuck to rather hostile policies *vis-à-vis* private sector development in general, and FDI in particular. In some cases, this amounted to the outright barring of TNCs from entering into domestic markets. While this attitude could also be found in other regions, African governments, by and large, changed course later than policymakers elsewhere. In terms of privatisation, for example, large-scale programmes were initiated only in the second half of the 1990s, much later than in other developing regions (Liberatori and Pigato, 2000). Even today, government officials still can be found that denounce privatisation as "economic recolonisation" (Harsch, 2000).
- An unstable political environment, often characterised by civil wars and other armed conflicts, was also hardly conducive to FDI. Apart from the wars for independence against colonial powers, about 20 countries (or 40 per cent of all Africa) have experienced at least one period of civil strife and political instability since 1960 (Gelb, 1999).
- Due to a lack of economic dynamism and effective regional integration efforts, national markets remained small and grew at a modest pace, if they did not even contract.
- Deteriorating infrastructure facilities, in particular in the areas of telecommunications, transport, and power supply, severely hampered the attraction of FDI in labour-intensive industries. This especially concerned efficiency-seeking investment, for instance in textile and clothing (see Box 1). This form of FDI relies mainly on low wage costs, but is obviously deterred by red tape and administrative barriers, as well as inefficient infrastructure facilities that hinder quick and frequent access to overseas.
- Finally, until the 1990s, few African countries made an active effort to attract FDI. coherent policies promoting FDI have emerged only in recent years and remain confined to a still rather exclusive club of countries[1].

Box 1. **What Drives Foreign Direct Investment?**

The literature on FDI identifies three different motives for firms to invest across national borders (UNCTAD, 1998):

— Market-seeking investments, to access new markets that are attractive due to their size, growth or a combination of both.

— Efficiency-seeking investments that aim at taking advantage of cost-efficient production conditions at a certain location. Important factors that are taken into consideration are the cost and productivity levels of the local workforce, the cost and quality of infrastructure services (transport, telecommunication), and the administrative costs of doing business (resources needed in terms of finance and time to deal with government institutions). This motive is predominant in sectors where products are produced for regional if not global markets and competition is mostly based on price (such as in textiles and garments, electronic or electrical equipment, etc) and not on quality differentiation.

— Natural-resource seeking investment to exploit endowments of natural resources. Naturally, the production and extraction of these resource is bound to the precise location of the resources. However, given that most resources can be found in a relatively large number of locations, companies may usually choose on the basis of differences in production cost and conditions in different locations.

— Strategic-asset seeking investment, oriented towards man-made assets, as embodied in a highly-qualified and specialised workforce, brand names and images, shares in particular markets, etc. Increasingly, such FDI takes the form of cross-border mergers and acquisitions, whereby a foreign firm takes over the entire or part of a domestic company that is in possession of such assets.

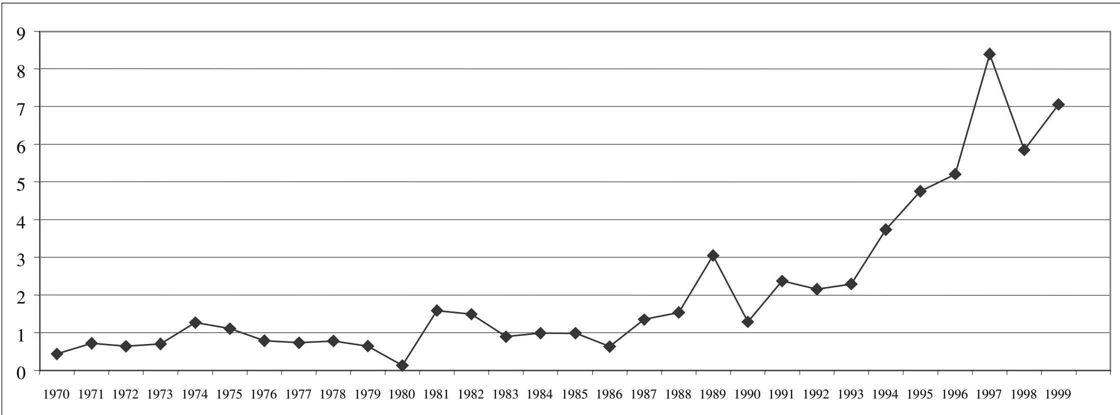
In reality, these moves are seldom isolated from one another. In most cases, FDI is motivated by a combination of two or more of these factors.

From the late 1980s onwards, African countries have embarked on wide-ranging reform programmes, including political and macroeconomic stabilisation, trade and investment liberalisation, privatisation, reduction of bureaucratic barriers to doing business, and so on. By 1988, more than 20 countries in sub-Saharan Africa had revised or introduced new foreign investment laws (Bennell, 1990). By 1997, 26 of the least developed countries (LDCs) in Africa covered by the UNCTAD survey had a liberal or relatively liberal regime for the repatriation of dividends and capital (UNCTAD, 1999*b*). Also, there seems to be a renewed interest in regional integration and liberalisation initiatives that seek to harmonise FDI policy frameworks. The best known example is probably the Southern African Development Community (SADC), aiming at the creation of a free trade zone among its 14 member countries by 2008 (Jenkins, 2001). Other examples include the

decision by nine of the 20 countries forming the Common Market for Eastern and Southern Africa (COMESA), in October 2000, to create a free trade area and negotiations within the Central African Economic Community and Monetary Union (CEMAC)[2] to adopt a regional investment charter. The draft charter recognises the role of the private sector and the need for a stable and secure business environment and provides for a common fiscal regime, including in the area of incentives. A similar initiative concerns the West African Economic and Monetary Union (UEMOA)[3]. When fully implemented, these regional integration processes may act as powerful tools to attract FDI.

As a consequence, since the mid-1990s, FDI flows to Africa have stabilised at significantly higher levels than before (Figure 6). Nonetheless, the continent's share in overall FDI flows has continued to decline. Africa only accounted for 0.7 per cent of the global FDI inflows in 1999, as compared to 0.9 per cent in 1998 and 1.8 per cent in 1997. Thus, the increase in FDI into sub-Saharan Africa has not been strong enough to gain ground *vis-à-vis* other regions, despite the Asian, Brazilian and Russian crises and their temporarily tampering effect on these regions' dynamism in attracting FDI. However, at least within the group of LDCs, sub-Saharan Africa has substantially improved its position since the mid-1990s. While in the first half of the 1990s the share of the 33 African LDCs in total FDI going into LDCs was 60 per cent, it has increased to around 80 per cent since 1996 (UNCTAD, 2000). In fact, African LDCs were the only LDCs that managed to increase FDI inflows during that period.

Figure 6**. FDI Inflows to Sub-Saharan Africa, 1970-99**
($ billion)



Source: UNCTAD/FDI/TNC database.

This broadly positive trend, for African LDCs and to a lesser extent for the region as a whole, masks the increasing differentiation in the performance of the individual countries. Some countries have not managed to reverse their stagnant or even negative trends of earlier decades. Eight countries recorded average annual FDI flows of less than $10 million in the 1994-99 period[4]. An additional three countries recorded negative inflows, i.e. divestments exceeding new investments, for at least two years[5]. On the other hand, a number of countries reversed earlier negative trends and became extremely successful. It should be noted that the most

dynamic countries were not necessarily those that received the largest FDI flows (Table 1). Rather, in many of the countries that received large FDI inflows in absolute terms, such as Nigeria or Angola, these inflows have been highly volatile, given continued dependence on one or two particular resources. On the other hand, the six most dynamic countries identified as "frontrunners" in Africa throughout the 1990s in the 1998 UNCTAD *World Investment Report* — Botswana, Equatorial Guinea, Ghana, Mozambique, Namibia and Uganda[6] — only started to attract large amounts of FDI in recent years. What these countries have in common is that they have beaten not only the average for Africa, but also that for developing countries in general, with regard to a set of indicators measuring success in attracting FDI[7]. The specific set of factors contributing to their success was not the same in all countries. Equatorial Guinea, for instance, owes its positive development almost solely to the discovery of vast petroleum reserves on its territory. In other countries, certain political reforms, such as large-scale privatisation programmes in Ghana or Mozambique, helped to stimulate FDI flows. In still other cases, the general stabilisation of the political or economic situation contributed to larger FDI inflows, as evidenced by Namibia, Mozambique or Uganda. The case of the latter two countries, both classified as LDCs, is particularly interesting as they show that the dividing line between successful and unsuccessful countries is not the income level *per se*. Also, other evidence suggests that some more countries in sub-Saharan Africa have recently managed to attract foreign investors by improving the investment climate (Morisset, forthcoming).

Table 1. **The Top 25 Recipients of FDI Inflows into Africa, 1998-99**[a]

	1998	1999
Angola	1 114	1 814
South Africa	561	1 376
Egypt	1 076	1 065
Nigeria	1 051	1 005
Morocco	329	847
Mozambique	213	385
Sudan	371	371
Tunisia	670	329
Côte d'Ivoire	314	279
Uganda	210	222
Gabon	211	200
United Republic of Tanzania	172	183
Zambia	198	163
Lesotho	262	136
Equatorial Guinea	24	120
Ghana	56	115
Namibia	77	114
Botswana	90	112
Ethiopia	178	90
Guinea	18	63
Malawi	70	60
Senegal	71	60
Seychelles	55	60
Zimbabwe	444	59
Madagascar	16	58

Note: *a*) Ranked on the basis of the magnitude of 1999 FDI inflows.
Source: UNCTAD*, FDI/TNC database*.

There are a number of other interesting trends in the region. First, the rise of non-traditional home country sources of FDI, both from the developing and the developed world. Traditionally, most FDI in Africa originated in a few OECD countries, including France, the United Kingdom and the United States. However, while investment from these countries has been growing again since the mid-1990s (and in particular with regard to the United States) (UNCTAD, 2000), there has been an even more notable increase in FDI inflows from other, non-traditional sources (Table 2). New OECD investors include Canada, Italy, the Netherlands, Norway, Portugal and Spain. Between 1989-93 and 1994-98, these six countries have increased their share in African inflows from below 10 per cent to almost 25 per cent, at the expense of some traditional home countries such as Japan and the United Kingdom (UNCTAD, 1999*a*).

Table 2. **FDI Outflows from Selected OECD Countries to Africa, 1984-98**
(cumulative in $ million)

Country	1984-88	Country	1989-93	Country	1994-98
United States	963	United Kingdom	2 861	United Kingdom	7 603
France	751	France	2 039	France	2 543
Germany	506	Japan	745	United Kingdom	2 464
United Kingdom	285	Switzerland	343	Netherlands	2 155
Sweden	208	Netherlands	167	Germany	1 480
Italy	156	Italy	143	Japan	678
Belgium	57	Germany	130	Canada	674
Netherlands	49	Canada	78	Italy	638
Finland	36	Norway	63	Spain	504
Austria	34	Belgium	55	Portugal	301
Denmark	34	Portugal	45	Norway	197
Norway	9	Austria	8	Austria	119
Portugal	0	Sweden	3	Sweden	85
Spain	0	Denmark	1	Denmark	58
Canada	-5	Finland	1	Finland	4
Switzerland	-88	Spain	0	Australia	0
Australia	-184	Australia	-24	Belgium	-66
Japan	-211	United States	-647	Switzerland	-105
Total	2 601	Total	6011	Total	19 333

Investors from other developing regions, particularly South East Asia, have also emerged on the African FDI scene. Fujita (1997) notes that FDI from developing Asia is growing in Africa, with the Republic of Korea as the largest investor, followed by China, India, Malaysia and Taiwan. Since the end of apartheid, Malaysia has emerged as a significant new source of FDI in South Africa, contributing about 21 per cent between 1994 and 1997[8]. Padayachee and Valodia (1999) argue that this phenomenon transcends traditional North-South FDI patterns and gives some

credence to arguments about emerging South-South development linkages[9]. Malaysia has also invested in other countries such as Ghana, Zimbabwe and Uganda. The 1990s have also witnessed growing cross-African FDI, notably by firms from South Africa and Mauritius (see Section IV).

Second, while the region's rich natural resources continue to be a critical factor in attracting FDI, diversification is increasing in some countries. As far as the largest "traditional" source countries are concerned, the biggest share of their FDI stock is still located in natural-resource related industries — more than half for the United States and around 40 per cent for France and the United Kingdom (UNCTAD, 1999*a*). However, FDI activity by new entrants, particularly South Africa, tends to be increasingly diversified. In addition to ongoing flows of primary-intensive FDI in mining and quarrying, investors also find interesting investment opportunities in food processing and beverages, textiles and clothing, financial and other services. Privatisation of banking institutions has also led to increased investment opportunities for foreign banks.

In this context, another interesting trend is also the increase in privatisation-related FDI. Foreign exchange revenues from privatisation deals jumped from $1.1 billion in 1991-94 to $3.2 billion in 1995-98[10]. It is estimated that between 1990 and 1998, approximately 14 per cent of FDI was privatisation-related (Liberatori and Pigato, 2000, p.1). The increase is mainly due to a structural shift in privatisation. As Liberatori and Pigato observe: "During the early phase privatisation concerned mainly loss-making, small and medium enterprises in the industrial and services sectors. As structural and capital market reforms took place during the 1990s, privatisation has involved larger enterprises, particularly utility industries: power, railways, electricity, water and especially telecommunications. […] During the 1990s FDI represented about 60 per cent of the foreign exchange [raised in all developing regions] and a higher proportion, 80 per cent in SSA." Thus, privatisation has not only triggered higher flows of FDI, but also contributed to its wider distribution among industrial sectors (Table 3). However, despite this recent increase, Africa continues to play only a marginal role on a worldwide scale. Its share in global privatisation revenues has not surpassed 3 per cent in the last decade. The almost $1.4 billion that were raised in 1998 in sub-Saharan Africa (the second-highest amount in the region's history) were dwarfed by the figures in most other developing regions: Latin America and the Caribbean, for example, raised $37.7 billion that year, while Eastern Europe and Central Asia registered revenues of $8 billion (Liberatori and Pigato, 2000)[11].

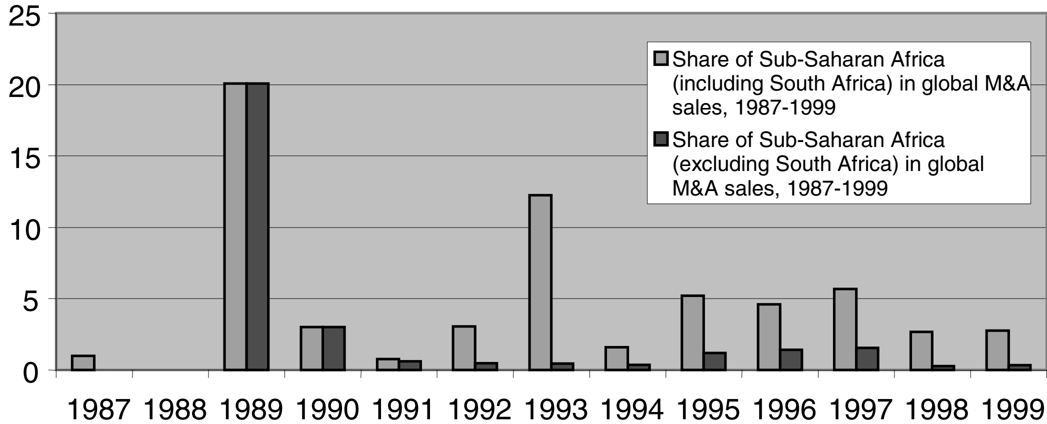
Table 3. **Privatisation Revenues in Sub-Saharan Africa by Selected Industries, 1988-93, 1994-97 and 1998**
($ million)

Industry	1988-93	1994-97	1998	Total
Infrastructure, of which:	*10*	*2 040*	*404*	*2 454*
Telecommunications	0	1 850	84	1 934
Power	..	..	65	..
Manufacturing, of which:	*102*	*72*	*246*	*420*
Steel	..	..	0	..
Chemicals	..	..	0	..
Construction/cement	..	..	48	..
Other manufacturing	..	..	198	..
Primary sector, of which:	*599*	*1 339*	*616*	*2 554*
Petroleum	533	18	..	551
Mining	8	876	515	1 399
Financial services, of which:	*80*	*158*	*55*	*293*
Banking	..	..	24	..
Other	*1 529*	*310*	*36*	*1 875*
Total	2 320	3 919	1357	7 596

Source: Liberatori and Pigato, 2000.

The increase in privatisation-related FDI has also nurtured cross-border mergers and acquisitions in Africa. Between 1997 and 1999, almost 40 per cent of FDI inflows into Africa came in the form of cross-border M&As. While this figure looks impressive at first sight, in other regions such as Latin America (where they account for almost 60 per cent of total FDI), M&As represent a much higher share (UNCTAD, 2000). Sub-Saharan Africa's share in total cross-border M&A in developing countries has not exceeded 5 per cent in recent years. Excluding South Africa, the share drops to less than 1 per cent (Figure 7). In fact, it even dropped slightly in the aftermath of the Asian financial crisis. On a global scale, Africa's share in cross-border M&As is negligible at less than 0.5 per cent in 1999 (UNCTAD, 2000). This low figure reflects the modest share of the region in global privatisation activity and the fact that very few domestic enterprises possess assets — e.g. in the form of new technologies, well-known brand names or strong presence in attractive markets — that could make them interesting targets for a take-over by foreign firms. The low figures for M&A deals involving firms from sub-Saharan Africa is of particular concern from a dynamic point of view as such forms of ownership transfer have been proven to play a crucial role in restructuring and improving the competitiveness of domestic industries (UNCTAD, 2000).

Figure 7. **Share of Sub-Saharan Africa in Cross-Border M&A Sales in Developing Countries,1987-99**
(in percentage)



II.2 Some Country Experiences

As pointed out earlier, the last decade has been marked by increasingly diverging trends in the FDI performance of individual countries. The following two sections analyse two countries whose experiences are somewhat representative of extreme failure and success, respectively, and then take a closer look at some country examples from Southern Africa.

Nigeria is representative for a number of African countries that have made little progress in attracting FDI. This might sound paradoxical at first sight. The country has traditionally been one of the biggest recipients of FDI flows. In the last decade, annual inflows oscillated around $1 billion. In 1997, for example, Nigeria was the top recipient with inflows of $1.5 billion. However, much of the inflows in recent years have been focused on the petroleum and natural gas sectors. When related to the size of its economy, it becomes apparent that the amounts of FDI received by Nigeria are rather small. During the 1990s, Nigeria only cautiously — if anything — embarked on a reform path, frequently interrupted by subsequent political shocks. A promising privatisation programme, for example, was started in the early 1990s, came to a halt at mid-decade, and was only resumed in 2000. Only after a pause of several years did the government announce its intention to resume with a new programme in 2000.

Nigeria has failed to unleash its FDI potential largely for self-inflicted reasons. Disastrous economic and political management sent the country into a long depression resulting in a dramatic decline of GDP per capita from $1 895 in 1980 to only $280 in 1998 (Ebuetse, 2000, p. 6). A state-driven, over-regulated economy achieved an unimpressive track-record in terms of ensuring a reliable business environment and enforcing the rule of law. Many sectors were forbidden for FDI, if not for private companies in general. Subsequent (military-run) governments built up an empire of more than a thousand state-owned enterprises, the vast majority of them permanently making losses (Harsch, 2000). In the 1990s, efforts began to improve the overall economic situation as well as the climate for FDI. Despite some progress in stabilising the economy — driving down the inflation rate from more than 70 per

cent in 1994 to around 11 per cent in 1999 — strong economic growth has remained elusive with annual GDP growth rates not exceeding 4 per cent. Overall economic developments remain dependent on the dominant sector, the oil industry[12].

On the FDI front, Nigeria initiated a number of liberalisation measures. Among the most important changes were the promulgation of the "Nigeria Investment Promotion Commission (NIPC) Decree No. 16" of 1995 and the "Foreign Exchange Monitoring and Miscellaneous (FEMM) Provision Decree No. 17" of 1995. The former opened up almost all industrial sectors for FDI[13]. In addition, it has considerably liberalised the legal framework governing the ownership structure of Nigerian firms. Foreigners can now fully own any business and are provided guarantees against expropriation. The latter decree establishes the free repatriation of foreign currency, dividends, and profit remittances as well as capital transfers of any sort without any prior approvals by government institutions. The decree also guarantees the right for Nigerians as well as foreigners to invest in securities traded on the Nigerian capital markets or by private placement in Nigeria (Ebuetse, 2000, p. 15). This provision should facilitate acquisitions of Nigerian firms by foreigners.

In addition, the government undertook various measures to liberalise the economy and to reduce the influence of the state. In July 1999, President Obansanjo announced a new privatisation programme. This ambitious programme foresees the privatisation of Nigerian SOEs in three stages. In a first phase, SOEs already listed on the stock exchange (mainly companies in the cement, banking and oil marketing industries) will be put on sale. In a second phase, manufacturing companies in the paper, sugar, and vehicle assembling industries will be offered alongside with various hotels. As these companies are far less attractive, it is expected that this phase will be particularly difficult for the government to implement. The final phase, scheduled to begin in 2001 and to end three years later, will include the partial privatisation of Nigeria's utilities. So far, the process has moved at a rather slow speed, resulting only in a privatisation of two cement companies that were sold for about $35 million to British Blue Circle Industries (Harsch, 2000; Hawkins, 2000).

While progress has been made to stabilise the economy and the political environment, much remains to be done to regain investors' confidence. The Obasanjo government has launched a high-profile campaign against corruption and fraud and had some — although limited — success in restoring the rule of law after years of military dictatorships. Recently, however, ethnic and religious strife shaking the country has partly offset efforts to establish a stable, predictable environment with calculable risks. On the economic front, structural reforms are being delayed by bad administration, slow implementation, and frequent policy reversals. The deregulation of the telecommunication sector and the issuing of licenses for private mobile phone operators resulted in chaos. Far too many licenses were given out, resulting in a system where too many providers operate, many of them being mutually incompatible. Cases of erratic policy reversals have occurred especially in the utilities sector. A prominent example is the row over the deal between Enron and the government to supply electricity in Lagos. Two weeks after the contract was

personally approved by the president in December 1999, the first of several committees was set up to review the contract. International lawyers advising the government, as well as the World Bank, argued that the contract was ill-balanced, providing the American company with a number of advantageous loopholes (Wallis, 2000). Renegotiating the terms so soon after a contract has been signed sends the wrong signals to foreign investors, and is unlikely to increase trust in the regulatory environment[14]. Weak regulatory and administrative capabilities have also tarnished the reform of the banking sector that was initiated almost 15 years ago. Following liberalisation, the number of private banks surged to 120 in 1993. However, many of these institutions were not viable and faltered in the financial crisis of 1997, leading to a much needed consolidation of the industry. However, of the remaining 82 banks only 30 are deemed serious and viable operators (Hawkins, 2000). The existence of financial companies with severe risks, paired with a lack of transparency in accounting, substantially reduces the interest of foreign investors. A competent regulatory and supervisory institution has yet to be established to ensure the stability of the sector. In sum, although Nigeria has made on paper some important steps towards improving conditions for FDI, in practice progress has been slow. Addressing problems related to corruption, inadequate infrastructure, and inconsistent regulations remain key elements for the country's future prospects of attracting more FDI.

Unlike Nigeria, since the mid-1980s, Uganda has experienced the highest growth rates in the whole of sub-Saharan Africa. The IMF-approved economic policies have markedly improved macroeconomic stability and the inflation rate has been kept within single digits. While average annual FDI inflows for the period 1988-93 stood at just $9 million, in 1994 Uganda received FDI worth $88 million and went on to increase FDI inflows to more than $100 million each year since 1995 (UNCTAD, 2000). The economic and political stabilisation has done much to improve investors' confidence. An important factor in this respect has been the role of the Asian business community. Many Asian families that were expelled by Idi Amin's regime in 1972 returned and are now rehabilitating and reconstructing dilapidated factories and farms. This was made possible by the bold steps that the Museveni administration undertook to return expropriated properties back to Asians. Most of them are now involved in large-scale agriculture and manufacturing concerns (UNCTAD, 1999*c*). For example, the Kakira sugar mill and Nile Breweries (in which South African Breweries hold a 40 per cent stake) are part of the Madhvani Holding Group, owned by an expatriate Asian businessman. This group has about 24 subsidiaries involved in the production of a range of products such as soap, glass, steel, matches, beer and sugar.

Although the country has a small manufacturing base, this sector attracted most FDI (Table 4) in particular into beverages, but also sugar, textiles, cement, footwear, packaging, plastics and food processing. In agriculture, forestry and fishing, FDI has gone mainly into coffee, tea and cotton plantations. Outside manufacturing, the liberalisation of the telecommunication sectors resulted in a major investment by a South African company (MTN) that was awarded the country's second license. American-owned AES Power Nile is completing a major power project. The country

has even attracted a foreign investor in the education sector (Vienna Academy), running a private secondary school. Consequent improvements in the provision of infrastructure services have further improved the climate for foreign investment.

Table 4. **FDI into Uganda by Industries, Accumulated FDI Flows, 1991-98**
($ million)

Industry	FDI
Manufacturing	422.8
Real estate	56.7
Transport, communication and storage	70.3
Mining and quarrying	47.7
Tourism (hotels, casinos)	52.0
Agriculture, forestry and fishing	57.2
Other business services	13.6
Water and energy	0
Trade	30.1
Financial services	31.2
Construction	18.1
Social services	12.1
Total	812.0

The evolution of the policy framework was conducive to FDI as summed up in a recent UNCTAD report: "There is no question that the evolution of major policy and primary legislation is towards an investment policy that is both internally consistent and in keeping with good international standards. With one surprising exception, it is difficult to think of a major law that has not benefited from rigorous review. Many are already on the statute books. That exception is the Investment Code itself, which has become a museum piece in the liberalised climate" (UNCTAD, 1999*c*). Nonetheless, the Investment Code, issued in 1991, is still a control-oriented regime for FDI, foreseeing until recently, for instance, mandatory licensing by the Uganda Investment Authority (UIA) of each foreign investment project. Fortunately, the Code has not been implemented to the letter, thus minimising its negative effects on FDI. Currently, the Code is under revision as part of a comprehensive government initiative to boost FDI. The initiative aims, *inter alia*, at turning the UIA into a promotion and service-oriented agency for foreign investors. It will also address the issue of incentives. There are currently no special fiscal or financial incentives favouring foreign investors, nor does Uganda have special industrial or export processing zones (EPZs). So far, there are only a number of tax incentives that apply to foreign as well as domestic investors. However, while the government is not expected to fundamentally change its policy stance on this issue, there are plans for further incentives that could be of particular interest to foreign investors: the UIA is considering the introduction of a linkage programme, providing special incentives for TNCs to establish or deepen up- or down-stream linkages with Ugandan firms. More advanced are the plans to establish so-called "Multi-Facility Economic Zones" (MFEZs), areas that would receive priority attention in upgrading infrastructure facilities. Inefficient logistics, in particular the transport sector, remain indeed one of the major bottlenecks for land-locked Uganda in attracting further FDI. Others are

shortages of a skilled workforce and the persistence of corruption and “red tape” in parts of the administration dealing with the private sector. Uganda has also made few inroads in terms of closer integration in regional markets. Although it is a formal member of the Common Market for Eastern and Southern Africa (COMESA), it has recently opted not to join the first group of countries that agreed in October 2000 to create a free trade area (Goldstein and Njugana, 2001). Although concerns about the negative consequences of too quick a market opening to foreign products are certainly worth some consideration, integration into regional markets is of particular importance to small countries with limited domestic local markets. In the light of the difficulties, Uganda has been advancing other regional integration efforts, such as planned membership in SADC, and the country might lose some FDI to countries that provide better access to other markets in the region.

To sum up, even a relatively successful country like Uganda has not got everything right, at least so far. However, despite the shortfalls, Uganda has won back the confidence of foreign investors by openly addressing problematic issues and making progress in terms of solving them, often via a close private-public sector dialogue that is indeed appreciated by foreign investors (UNCTAD, 1999*c*). Despite some remaining weaknesses, Uganda serves as a good example for a number of other African countries: adherence to reforms can make a difference in terms of FDI.

III. FDI TO THE SOUTHERN AFRICA DEVELOPMENT COMMUNITY (SADC)[15]

III.1 Overall FDI Trends in SADC

The 14 countries that make up the Southern Africa Development Community (SADC) have attracted increasing attention from the international business community since the early 1990s[16]. Their combined share in total FDI going into Africa rose from less than a third (32.5 per cent) for the period 1990-94 to more than a half (56.5 per cent) in 1995-99 (Figure 8). In 1999, inflows into SADC reached $4.5 billion, a figure that was only surpassed in the exceptional year of 1997 when the so-far largest privatisation deal in South Africa took place (Table 5). Eleven source countries were each responsible for at least 2 per cent of total FDI activity in SADC.

Figure 8. **Combined Share of SADC Member Countries in Total FDI Flows to Sub-Saharan Africa, 1981-99**

(in percentage)

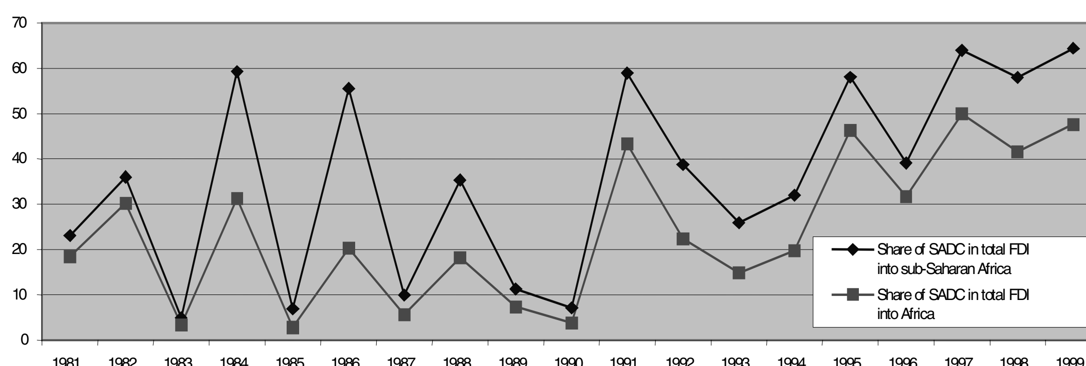


Table 5. **FDI into SADC, 1988-93 and 1994-99**

($ million)

	1988-93	1994	1995	1996	1997	1998	1999
SADC	634.9	1195.5	2759.0	2037.1	5363.6	3393.2	4544.8
Angola	208.5	170.1	472.4	180.6	411.7	1 113.9	1813.8
Botswana	-19.8	-14.2	70.4	71.2	100.1	90.0	112.0
Congo, Democratic Republic of	-3.2	1.0	1.0	2.0	1.0	0.5	1.0
Lesotho	126.9	272.9	275.3	285.6	269.1	262.5	136.2
Malawi	13.5	8.9	25.4	43.6	22.1	70.2	60.0
Mauritius	25.1	20.0	18.7	36.7	55.3	12.2	49.4
Mozambique	16.2	35.0	45.0	72.5	64.4	212.7	384.7
Namibia	53.5	98.0	153.0	129.0	84.0	77.0	114.0
Seychelles	18.9	29.5	40.3	29.8	54.4	55.0	60.0
South Africa	21.7	380.0	1241.0	818.0	3817.0	560.8	1376.0
Swaziland	64.9	63.3	51.7	21.7	-15.3	124.0	32.6
Tanzania, United Republic of	7.1	50.0	150.0	148.5	157.8	172.2	183.4
Zambia	98.5	40.0	97.0	117.1	207.0	198.0	162.8
Zimbabwe	3.2	41.0	117.7	80.9	135.1	444.3	59.0

Source: UNCTAD, *FDI/TNC database*.

South Africa accounts for about a quarter of FDI activity in the region, followed by the United States and the United Kingdom. With the exception of Australia and Canada — whose firms are mostly in the mining and quarrying sector, rather than manufacturing and Portugal (whose investment is targeted entirely at Mozambique) — the other major investor countries invest almost exclusively in South Africa.

The most important factor in the renewed interest of investors in the SADC region is the improved political situation following the independence of Namibia in 1990, the end of civil conflict in Mozambique in 1992, and the end of apartheid and international sanctions in South Africa in 1994. While admittedly mixed, SADC countries' economic performance during the 1990s has also been encouraging. The SADC region has recorded positive growth rates since the mid-1990s, Mozambique, Botswana and Mauritius recording growth rates of more than 5 per cent. With the exception of Angola, Malawi, Zambia and Zimbabwe, all countries have experienced declining levels of inflation. Balance of payments surpluses were achieved in Botswana, Lesotho, Mozambique, Namibia and Swaziland (FISCU, 1999: 12-13).

Secondly, in some industries, the policy framework governing FDI has been revised in a more liberal fashion. Almost all SADC mineral producers have reformed their legal and regulatory environment on mining with a view to facilitating foreign investment. The improvements of the legal frameworks had been complemented by reinforced investment promotion activities, including the introduction of a wide range of incentives in a number of countries. (Table 6).

Table 6. **Overview of Investment Incentive Schemes in Selected SADC Countries as of November 2000**

	Botswana	Mauritius	Mozambique	Namibia	South Africa	Tanzania	Zambia	Zimbabwe
Corporate taxes	Approved manufacturing companies taxed at 5-15%, basic company tax on additional 10% (can be set off by withholding tax); 25% non-resident company tax	35%; 25% for companies quoted on the stock exchange; 15% for clinics and agriculture other than sugar cane; none for freeport licensees	35%	35%; diamond mines — 55%: gold mining, oil and gas extraction companies are taxed on special formulae	30% (small and medium enterprise concession available)	30%, except for tourism (55%)	35%; 30% for companies listed on the stock exchange and 1% for exporters	36.8%
Withholding tax (per cent) (on dividends)	15- exemptions: IFSC approved projects	0	18	10	Secondary tax: 12.5% on dividends	10	10	Stock exchange listed companies: 15%; others 20%
Tax holidays/ exemptions on profits, dividends, interest and royalties	No sales tax for imported equipment and machinery for the production of exports		50% corp. and compliment. tax reduction for max. 10 years, from start of operations/ investment recovery period; regional incentives		2 years for industrialists	No tax holidays	5 years exemptions on dividends for farmers	Exemptions on productive machinery and equipment

Table 6 (continued)

Exemption from import	Exemption varies for the different types of enterprises		Exemptions on import duties on capital goods. Other import duties vary between 25% and 35%		Rebates	Lead sectors are exempted from paying import duty on capital goods, but investors in other sectors are subjected to a 5% tax. Sales tax not charged on capital goods	Exemptions for imported machinery; duty free import of certain raw materials; reduced rates for other imports	
Repatriation of profits	No restriction on the repatriation of profit, dividends and capital	No restriction of repatriation of profits, dividends and capital	Repatriation of profits subject to certain conditions	No restriction on the repatriation of profit, dividends and capital	No restrictions on repatriation of profits	Investors can transfer 100% of foreign exchange earned, profits and capital	No restriction of repatriation of profits, dividends and capital	..
Export processing zones (EPZs)	No	Yes	Yes	Yes	Industrial Development zones (IDZs) (similar approach) considered	In Zanzibar, under consideration	No	Yes
Allowances for depreciation	Annual allowance of: 10-25% of cost of plant and machinery. 25% for buildings, 15% for commercial royalties	-	120% capital allowances for infrastructure and utilities investments; other, between 2-33%, with losses being carried forward for 3 years	20% in the first year, then 4% thereafter for buildings, maximum of 25% intellectual property; other assets at 33.3%	Accelerated depreciation over three years for plant and machinery, and over 5 years for land and buildings	100% capital allowances in the first year, and losses carried over	Range between 2 and 100%, depending on sectors and assets	15% for assets (in the year of acquisition)
Other	25% capital gains tax. Training grants. Other special incentives for manufacturers	Different incentives for manufacturing (EPZ), financial (off-shore) and (regional) head offices of enterprises	Training costs deductable as expense of up to 5% of taxable income; additional benefits for investments over $500 million	Tax rates for mining companies between 25 and 50%. Special incentives for manufacturers and exporters	Various incentives for SMEs and exporters. (IDZs planned)	EPZs in Zanzibar (planned) with 10 year tax holiday and exemptions of imported raw material and equipment	Deductions for research and training/ education, special incentives for agricultural projects; no capital gains tax	Special incentives for growth point area and for mining leases; deduction for training

Source: *BusinessMap*, 2000.

Finally, considerable progress has been made in forging sub-regional integration, in particular through the SADC Trade Protocol, which aims to establish a free trade area (FTA) in the region by the year 2000. Furthermore, a SADC Finance and Investment Sector Co-ordinating Unit (FISCU), was established during 1995 to promote sound investment policies, financial harmonisation, and macroeconomic stability. Under South African co-ordination, the unit drafted a Protocol in March 1998, setting out basic principles on investment policy. This recognises that:

— the pace of privatisation in the region should be increased;

— private-public partnerships should be encouraged;

— foreign and domestic investors should be granted equal access in relevant areas;

— simple, transparent and non-discriminatory procedures for the approval, entry, and operation of investments should be established; and

— investment promotion agencies should shift attention from incentive measures towards policy and administrative reform in order to attract investment (FISCU, 1999).

Since then, a working group of a subcommittee on investment has been established. During its second meeting in September 1999, the group decided to draft memoranda-of-understanding (MOUs) on critical aspects of fostering regional co-operation, including the practical means of attracting and promoting investment.

As in sub-Saharan Africa in general, a large part of the FDI flows into SADC has traditionally been concentrated in natural resource extraction industries. Production costs in the region are reasonable by international standards, particularly as regards electrical power and labour (FISCU, 1999). The 1970s and 1980s saw some stagnation in FDI into mining. The only major projects that were realised were some diamond installations in Botswana. The early 1990s, however, have witnessed a boom in mineral exploration in Southern Africa and the sector is still a major foreign exchange earner for a number of SADC countries — South Africa, Angola, Botswana, Zambia, Zimbabwe and Namibia. Traditional South African mining houses had been at the forefront of this process[17], accompanied by Australian, Canadian and North American investors[18]. A firm from Ghana (Ashanti Goldfields) is also involved in some gold exploration projects in Tanzania. The SADC Mining Sector Co-ordinating Unit (MCU), based in Lusaka, was established to promote private-public partnerships and a SADC Mining Protocol, laying out the legal basis for co-operation and co-ordination, was issued. A Mining Industry Association of Southern Africa (MIASA) has been established to serve as a forum for discussion, co-ordination and engagement with governments at regional level, particularly on policy advocacy.

The limited amount of manufacturing FDI received in the past was in sectors that produced for local consumption (largely attracted by import substitution industrial policies), mainly breweries, dairies and other consumer goods such as shoes and clothing (Table 7). In the financial sector, South African financial institutions, which

could not operate directly in neighbouring states during apartheid years, have been the most important recent investors. The rise in FDI in this sector was facilitated by privatisation of state-owned banks and the increasing demand for public project financing (Table 8)[19].

Table 7. **FDI into SADC by Industry**
($ million)

Industries	1996	1997	1998	1999	Totals
Metal products & mineral beneficiation	0	2 824	2 753	1	5 578
Mining	234	1 306	1 356	329	3 226
Energy and oil	910	22	19	0	950
Food, beverages and tobacco	77	420	119	0	616
Agriculture, forestry and fishing	56	58	101	0	215
Telecommunication and information technology	0	5	105	95	206
Hotel, leisure and gaming	10	12	174	0	196
All other combined	29	204	257	1 600	2 090
Total	1 316	4 851	4 884	2 026	13 076

Note: Amounts include intentions and actual investments.
Source: *BusinessMap*, 1999.

Table 8. **The Largest FDI Projects in the Financial Sector in SADC by Industry, 1996-99**
($ million)

Target company	Target country	Source company	Source country	Volume	Year of transaction
Minco (Mozambique Investment Company Limited)	Mozambique	Banco Mello and(CDC) Capital Partners	Portugal and United Kingdom	38 (19 each)	1998
Housing Finance Corporation of Malawi	Malawi	International Finance Corporation (IFC)	International	30	1998
People's Development Bank	Mozambique	Southern Bank Berhad (SBB) of Malaysia	Malaysia	21	1997
National Bank of Commerce	Tanzania, United Republic of	Amalgamated Banks of South Africa (ABSA)	South Africa	15	1999
Standard Chartered Bank of Zimbabwe	Zimbabwe	Standard Chartered Bank	United Kingdom	11	1998
Barclays Bank of Swaziland	Swaziland	Standard Bank Group	South Africa	10	1998
Stanbic Bank Zimbabwe	Zimbabwe	Standard Bank Group	South Africa	10	1997
Commercial Bank of Zimbabwe (CBZ)	Zimbabwe	Amalgamated Banks of South Africa (ABSA)	South Africa	8	1998

Source: *BusinessMap,* 2000.

III.2 Selected Country Experiences in SADC

What has been said about the development of FDI flows in the 1990s to Africa as a whole applies also at the sub-regional level: while some SADC countries have experienced substantial increases in FDI inflows, others have stagnated or even suffered net divestment. Mauritius and Mozambique are examples of countries with a positive FDI trend. Mauritius illustrates the challenges facing countries with a good track record in attracting low-tech FDI as they try to upgrade to higher value-added FDI; Mozambique demonstrates that even an LDC can manage to rapidly increase FDI by providing the appropriate environment. Zimbabwe, *a contraris,* demonstrates in a negative sense how much policy can matter. South Africa, portrayed first, deserves a closer look because of its economic importance for the region and its role as springboard to the region.

In South Africa, the post-apartheid period has seen an immediate increase in FDI flows from an annual average of $22 million between 1988 and 1993 to $380 million in 1994. Since then, figures oscillate considerably from year to year, illustrating the limited confidence in the long-term development of the country as an investment location. FDI inflows have been mainly fuelled by cross-border M&As. Seven out of the 10 biggest FDI projects in South Africa in 1994-2000 have come in the form of a take-over of local assets. As demonstrated in Figure 7, South Africa accounted for the vast majority of M&As involving firms from sub-Saharan Africa as take-over targets. On the other hand, comparatively little greenfield FDI has been registered (BusinessMap, 2000). In terms of home countries, it is interesting to note that since 1994 a number of non-traditional countries such as Malaysia have appeared on the sub-regional investment scene (Table 9). However, traditional investors, in particular from the United Kingdom and the United States, remain the largest source for FDI. In terms of sectors, manufacturing and services account for a larger share of FDI in South Africa than in other SADC countries. Telecommunications, in particular, has been the top sector for FDI activity in South Africa (Table 10). This is attributable to the growth in the cellular phone industry, where investors include Cable & Wireless, SBC Communication, and Vodafone. The partial privatisation of Telkom also attracted significant Malaysian investment, as did energy and oil. Other important FDI sectors in South Africa are food, beverages and tobacco, motor and components, mining and quarrying as well as transport.

Table 9. **FDI Deals by Home Country in South Africa, 1994-99**
(number of deals)

Home country	Number of deals
United States	88
United Kingdom	64
Malaysia	31
Germany	21
Japan	17
Sweden	15
France	12
Switzerland	11
Australia	10
Korea	10
The Netherlands	9
Italy	8
Canada	7
Norway	6
Kuwait	5
Indonesia	4
Austria	3
Belgium	3
India	3
China	2
Denmark	2
Ireland	2
Other	9

Source: BusinessMap, On-Line SA FDI Database.

Table 10. **FDI into South Africa by Industries, Cumulated Flows 1994-99**
(million rand)

Industry	FDI flows
Telecommunication and information technology	8 768
Energy and oil	8 517
Food, beverages and tobacco	5 642
Motor and components	5 536.4
Transport and transport equipment	4 539
Mining and quarrying	3 958.5
Chemicals, plastics and rubber products	3 497.5
Hotel, leisure and gaming	2 936
Metal products and mineral beneficiation	2 704
Other manufacturing	2 608

Source: BusinessMap, 1999

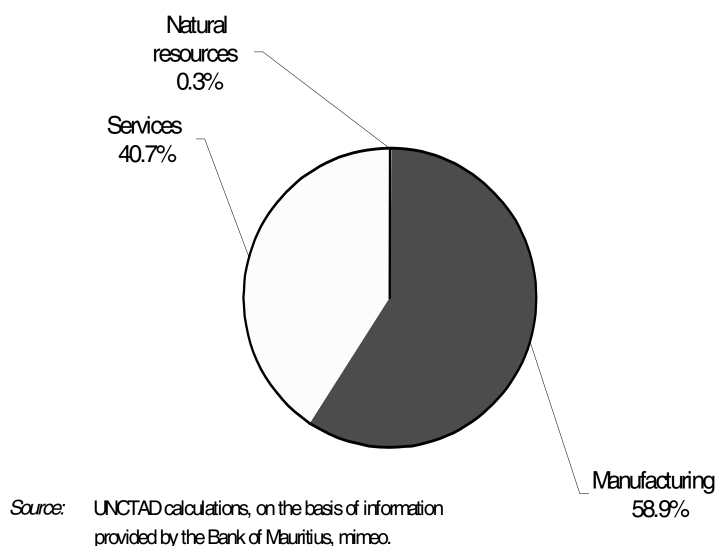
FDI inflows have been facilitated by the adoption of a liberal stance. There are no limitations in terms of industrial coverage nor on the take-over of local firms by foreign companies. South Africa has lifted all restrictions on the repatriation of profits and has signed many bilateral and multilateral agreements to ensure the protection of investments and avoid double-taxation. In addition, the country offers a number of interesting incentives to foreign investors, including accelerated depreciation periods for plant and machinery, as well as for land and buildings, rebates for import duties

and sales taxes on equipment and inputs, and tax holidays for up to two years. Furthermore, the government is considering the introduction of Industrial Development Zones with facilities and production conditions comparable to EPZs. Finally, the government has recently announced the acceleration of privatisation, in particular in the telecommunications, forestry and defence industries.

The acquisition of South African firms by foreigners has emerged as a matter of some concern (BusinessMap, 2000). It is argued that M&As contribute little to employment creation, and certainly less than greenfield FDI. The issue is also linked to the wider debate on the results and the modalities of the black economic empowerment programme put in place by the government to ensure that previously disadvantaged minorities increase their ownership of the country's assets. International experience, however, shows that in the long term the effects of M&A are rather sizeable and positive, as new owners restructure, deploy new technologies and organisational methods, and increase international competitiveness (UNCTAD, 2000). This aspect is of pivotal importance in a country like South Africa where enterprises, private as well as public, have remained highly protected for a long time and have only recently been exposed to global competition.

FDI has been an important factor in Mauritius economic development. Although the relatively low figures for FDI inflows in the recent past might suggest otherwise (average annual FDI inflows stood at $25 million in 1988-93 and at less than $35 million for 1995-99), foreign companies assisted in transforming this originally primary resource-based country into an economy with a strong manufacturing and services base. Since acquiring independence in 1968, Mauritius has maintained an open-door foreign policy, particularly on account of the strength of its large and influential French, Indian and Chinese business communities. These cultural ties promoted greatly the country's economic development and facilitated the attraction of foreign companies. For example, the textile manufacturing sector benefited from ethnic connections between Hong Kong investors and Mauritians of Chinese origin (Bhowon *et al.*, 1999). Policy has also played an important role. Mauritius in particular was one of the first countries to start an EPZ programme in 1970 (Lall and Wignaraja, 1998) and is often cited as an exception to their general failure in Africa. The main features of the EPZs included exemption from payment of import duty on capital goods and import and excise duties on raw materials, components and semi-finished goods, a tax holiday from corporate income, and tax free dividends[20]. In addition to industrial estates, individual firms could and can still get EPZ status, effectively making the whole country an EPZ. As a result, Mauritius attracted substantial FDI, largely concentrated in the textile and garment industries (Figure 9).

Figure 9. **FDI into Mauritius by Industrial Sectors, Accumulated Inflows 1988-97**



Mauritius' success may be explained by a variety of factors. First, its relatively cheap, adaptable and well-trained workforce. Labour relations have been stable and, since 1979, there had not been a major strike. Second, in contrast to other countries in sub-Saharan Africa, Mauritius has maintained a sound macroeconomic environment, making production for export profitable. In such an environment, it has been possible to offer a variety of incentives over a longer period of time, and investors have been reassured that they could safely count on them when investing in Mauritius. Third, favourable international conditions, such as duty-free access to the EU markets as well as basically unrestricted access to the US market, promoted the textile boom. Finally, Mauritius has good infrastructure facilities. When EPZ activity lost momentum during 1976-80, the government adopted a set of structural adjustment policies aimed at developing export competitiveness. Existing incentives for the EPZs were maintained, supported by exchange-rate liberalisation and wage restraint. Thanks to these measures, by 1988, EPZ employment had grown to 89 080 from 17 171 in 1976. By 1990, EPZ exports represented 67 per cent of total exports (Bhowon *et al.*, 1999). Manufacturing in Mauritius represented 24.7 per cent of GDP in 1998 compared to 14.6 per cent in 1977 (World Bank, 1999). Half of this is contributed by the EPZ sector and in particular by the 275 (out of nearly 500) EPZ companies that produce apparel.

However, since 1987, the manufacturing sector in Mauritius has proved vulnerable to a surge in wages, input prices, and unit labour costs. Unskilled labour became scarce, prompting government to allow some firms to import workers from Madagascar and Sri Lanka. The six-fold rise in the price for industrial land between 1988 and 1996, and increasing problems with energy supply and water and sewage systems, became serious bottlenecks[21]. Also, inadequate overseas transport facilities with infrequent sailings and high freight costs turned out to be a serious problem for investors. All of these problems pushed some investors (mainly textile companies) to move to lower cost locations in the sub-region such as Mozambique and

Madagascar. This development highlighted the lack of incentives for foreign companies to technologically upgrade their operations, increase local value-added, and promote linkages with local industries. This was aggravated by the limited targeting of specific industrial activities. The list of targeted industries was rather long and incentives were not tailor-made to specific flagship TNCs whose presence may have triggered the investment of competitors, thus facilitating the formation of industrial clusters[22]. Also, eligibility requirements for incentives where not sufficiently specified and their effectiveness was insufficiently monitored.

Mauritius is today faced with the challenge of losing traditional investments to lower-wage competitors in Asia and Africa, while struggling to attract new, higher valued-added FDI to the island. It has been argued that the country has to focus on few core areas of competitiveness, such as printing and publishing and the creation of an offshore financial centre. This structural transformation requires changes in trade and industrial policies, technology support, human resources, and the promotion of industrial districts[23]. In the area of FDI attraction and EPZ infrastructure, the most important measures refer to:

— review of the incentives regime to improve targeting;

— clarification of eligibility criteria for incentives and simplification of the approval process;

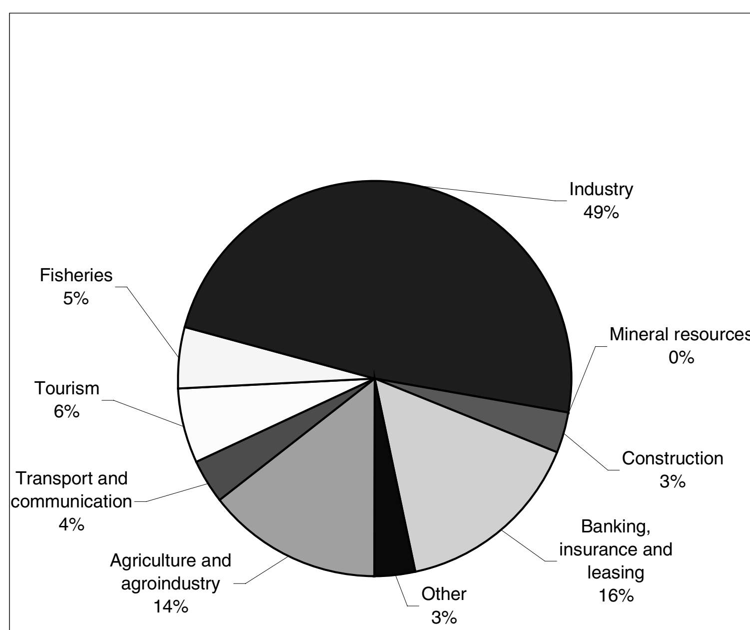
— the development of incentives that promote the formation of linkages between domestic and foreign companies.

On an institutional level, Mauritius would benefit from the establishment of a specialised investment promotion agency (IPA) that operates independently from the Mauritius Export Development and Investment Authority (MEDIA), which currently deals with trade and investment promotion as well as the management of industrial estates. This new agency should follow a targeted approach and function as a one-stop shop (Lall and Wignaraja, 1998).

Mozambique has become a synonym for a successfully-run LDC. Civil war and socialist-style government left a completely ruined economy. With a Gross National Product (GNP) per capita of $230 in 1999, it is one of the poorest countries in the world. Nonetheless, it is also one of the most dynamic African economies, with annual GDP growth rates averaging 5.7 per cent in 1990-98 (World Bank, 2000). The growth of GDP since the country's first election in 1994 has gone hand-in-hand with an impressive rise in FDI. While average annual FDI flows were a mere $16 million in 1988-93, they peaked at an impressive $384 million in 1999 (UNCTAD, 2000). The most important sources have been Portugal, South Africa, Mauritius and Malaysia (BusinessMap, 2000). In terms of composition, FDI has been rather diversified across different sectors: natural resources (the expansion of the Xinavane and the take-over of the Maragra sugar mill by South African investors, worth $70 million and $52 million respectively), textiles (the $55 million greenfield investment by Hong-Kong-based Agritex in 1996), metal and metal products (the $1.3 billion Mozal Aluminium smelter), beverages (the privatisation of two breweries yielding $40 million), as well as finance (privatisation of several banks, including the sale of the People's Development Bank for $21 million to Malaysian investors in

1997) (Figure 10).

Figure 10. **FDI into Mozambique by Industrial Sectors, 1995-99**



Source: Yehoue, 2000, based on information provided by CPI, Mozambique.

The government's commitment to private-led development, compounded by credible efforts to establish and maintain political and macroeconomic reforms, has created confidence on the part of investors. External liberalisation provides further evidence of the government's commitment. As noted by Franco (WEF, 2000): "Mozambique has followed a strong policy towards trade liberalisation. One key indicator is that the top tariff rate has been reduced repeatedly […] Among the Southern African countries, Mozambique is currently the country with the lowest import tariff rates". The country ranked third out of 24 African countries in the World Economic Forum's (WEF) *Africa Competitiveness Report 2000-01*, both on the overall "improvement index" for 1996-99, as well as on the "optimism index" for 1999-2001 that measures investors' medium-term expectations on a country's progress. Also, in a recent survey of TNCs and their views on FDI prospects in Africa in the next four years, Mozambique was ranked high on the list of countries that were expected to make most progress in creating a business-friendly environment (9th out of 53 African countries) (UNCTAD, 2000). A rapid privatisation process was initiated in 1996, leading to the sell-off of over 700 small enterprises and 37 large ones. While most small SOEs have been sold to domestic entrepreneurs, the best part of the larger projects went to foreign companies (Harsch, 2000) and the share of privatisation-related FDI in total FDI has in some years exceeded 35 per cent (Liberatori and Pigato, 2000).

This liberal stance has also prevailed in the legislation governing FDI. Mozambique has liberalised its economy to FDI in literally all sectors. Repatriation of profits is possible, although sometimes subject to certain conditions. Mozambique has ratified all major multilateral agreements providing for the protection of investments, such as the World Bank's Multilateral Investment Guarantee Agency

(MIGA) and the International Centre for Settlement of Investment Disputes (ICSID). It has also signed a number of treaties with some of the major FDI home countries. It founded the Centro do Promoção dos Investimentos (CPI) as the national one-stop investment promotion and facilitation agency. Special incentive packages are offered *inter alia* for financial (offshore) activities, for the establishment of regional headquarters, and for establishing companies in the country's EPZs. So far, one such zone has been established near the Mozal aluminium smelter to create linkages with foreign as well as domestic companies investing in the zone (Franco, 2000). Preliminary evidence suggests that this policy has already borne fruit (BusinessMap, 2000).

Despite the progress the country has made, a lot of work still remains to improve further the investment climate, in particular to ensure proper implementation of the liberal legislation. The legal system still suffers from a lack of transparency and a general shortage of institutional capacity to manage and implement policies properly (BusinessMap, 2000). As a result, investors complain about red tape and corruption, although the government has embarked on serious efforts to improve the situation (ERT, 2000). Moreover, despite pursuing most of the time a straightforward liberal policy, the government sometimes falls back into unnecessary interventionist policies. Investors in Mozambique (but also in South Africa) consider the issue of work and resident permits, for example, to be a major problem, given the shortage of skills. While authorities in both countries promote employment of nationals to fight widespread unemployment and poverty, TNCs depend at the same time on the access to expatriate personnel. A law that limits the number of foreign employees in Mozambique was met with resistance by foreign investors, who argued that it would hurt investment, facilitate bribes, and tighten the skilled labour market.

Zimbabwe, "perhaps more than any other country in the region, shows how poor investment performance can result from avoidable, self-inflicted injuries" (BusinessMap, 2000). During the 1990s, several attempts to restore macroeconomic stability, such an Extended Structural Adjust Programme (ESAP) and the sub-sequential Programme for Economic and Social Transformation (ZIMPREST) failed (WEF, 2000). The only positive impact these programmes had was the dismantling of the price control system and some reduction of trade barriers. Growth rates have continuously decelerated every year since attaining a record high of 7.3 per cent in 1996. In 1999, GDP growth rate was down to 0.6 per cent, with inflation reaching a new record high at almost 59 per cent (WEF, 2000). This inflationary trend was fuelled by expansionary budget policy. The budget deficit has never been below 6 per cent in the past ten years. In addition, increasing unbudgeted expenditures to please political allies and to finance Zimbabwe's participation in the war in the Democratic Republic of Congo have diverted scarce resources away from areas of need, including infrastructure and social services. It was only these instabilities, most recently the internal conflict over the farms owned by white Zimbabweans, that kept the country in the international headlines lately.

In the light of such problems, it is astounding that in terms of absolute flow figures, the country has still managed to attract some FDI. However, with an average

annual FDI inflow of less than $130 million in 1994-99, Zimbabwe, with its much more advanced and diversified economy, has received only slightly more than Mozambique. In addition, the trend is clearly downwards, with FDI inflows collapsing to a mere $59 million in 1999 (UNCTAD, 2000). FDI has concentrated in few areas. The main recipient was the mining sector, with investment in gold and platinum mining, mainly by South African, Canadian and Australian firms. South African institutions have also invested in the financial sector (Table 11). The only FDI in manufacturing took place in the textiles sector in the local EPZs.

Table 11. **The Ten Largest FDI Deals in Zimbabwe, 1995-98**
($ million)

Target company	Source of FDI	FDI	Year of investment
Harley Platinum Mines	Australia	550	1996
Aberfoyle Investments	South Africa	32	1995
Turk Mine	Canada	30	1995
Eureka Gold Mine	Australia	24	1998
J. Pelham	South Africa	22	1998
Commercial Bank of Zimbabwe	South Africa/ International investors	16	1998
Indarama Gold Mine	Canada	15	1998
Meikles Consolidated Holdings	South Africa	10	1995
Stanbic Bank Zimbabwe	South Africa	10	1997
Hunyani Holdings	South Africa	7	1998

Source: BusinessMap, 2000.

This lack of FDI in manufacturing — which Zimbabwe, in the past, used to receive to a greater extent than most of its neighbours — has added to the fears of deindustrialisation (BusinessMap, 2000). One reason for the lack of diversification is the slow speed of the privatisation programme. During the 1990-98 period, for instance, Zimbabwe raised much less foreign currency through sell-offs ($27 million) than South Africa ($1.4 billion), Tanzania ($198 million), or Uganda ($129 million) (Liberatori and Pigato, 2000). Also, the few deals concluded were hardly transparent. Although a new agency has been created that should guide the privatisation process, it is unlikely to have much of an impact since it reports directly to the President's office, which will make it hardly an impartial institution (BusinessMap, 2000).

Although the country is signatory to all relevant multilateral treaties guaranteeing investment protection and also to various bilateral investment treaties, these make little difference for investors, who are increasingly concerned with the lack of their enforcement[24].The government has not shown a serious commitment to creating favourable investment conditions by reducing corruption, increasing transparency in public decision-making processes and upholding the rule of law. The country's legal provisions for FDI are not entirely conducive to attracting further FDI either. Foreign investors are barred from a number of sectors. In others, such as various agricultural industries, road transportation, wholesale and retail trading, as well as public water provision and tourism, foreign ownership is restricted to 35 per cent. In addition, Zimbabwe has very strict controls on residency, providing

only for temporary residence permits of no more than two years for expatriates. Although the cost of capital has increased so much that raising money on the local market is hardly an interesting option anyway, foreign investors are even deprived of the theoretical possibility of taking loans on the local market for purposes other than financing working capital (ERT, 2000). As far as incentives are concerned, they "offer little effective encouragement to potential foreign investors, and in some cases fall short of international standards" (BusinessMap, 2000). It is therefore at the same time paradoxical and expected that investment incentives have remained virtually unchanged since their introduction. Already, in 1993, a law was passed that foresaw the creation of a supervisory board for the to-be-EPZs. The zones were to be privately owned and offer a number of incentives, such as 5-year tax holidays, a corporate tax rate of only 15 per cent, and exemption from import duties. However, to this date, no such zone is in operation (Madani, 2000). This inertia casts a shadow over the government's commitment to the attraction of FDI.

In terms of investment promotion, the country already has a specialised promotion agency, the Zimbabwe Investment Centre (ZIC). The lack of success in attracting FDI does not necessarily reflect the inefficiency of the Centre, but rather highlights the limits of investment promotion when the policy environment is *de facto* hostile. Insufficient or incoherent co-ordination between different institutions administering the incentive programmes for foreign investors is an additional problem. ZIC, for instance, is not involved in the programme run by the Confederation of Zimbabwe Industries (CZI) that provides special incentives to foster business linkages between (mostly foreign-owned) larger firms and small and medium enterprises. There is some evidence that this programme is actually functioning reasonably well. Initiated in 1986, it has helped to establish a total of 400 linkages and create an estimated 6 000 jobs in local small and medium enterprises (Muleya, 2000). Given that most of its neighbours do not even possess such a linkage programme, this is one area where Zimbabwe has done better than most other African countries. There can be little doubt, however, that the results of the programme would have been far more impressive had it been embedded in a stable confidence-inducing political and economic environment.

The SADC case studies, and in particular the last one, underline the necessity of understanding FDI promotion as a comprehensive task, involving the co-ordination of a wide range of policy areas. Singular measures, for example incentives as those described above, are unlikely to make up for shortcomings in policy areas that affect more fundamental determinants of FDI flows. The problems existing in Zimbabwe apply *a fortiori* to other countries, in particular the Democratic Republic of Congo where an unstable political environment, paired with a stagnant economy, sabotage all efforts to promote FDI. None of the countries portrayed in greater detail in this paper have done everything right. All of them have weaknesses in certain policy areas. The difference, however, comes in the approach and determination of the countries to deal with and solve their problems.

IV. THE ROLE OF EMERGING TNCs FROM AFRICA

IV.1 FDI Emanating from Southern Africa — The Dominance of South African TNCs

Historically, developing countries participated in international production as recipients of foreign investment from developed economies by hosting foreign affiliates of TNCs. This picture is gradually changing. FDI from developing countries, including Africa, was about 8 per cent of world FDI outflows in 1999, mainly to other developing countries (UNCTAD, 2000). Up to now, this development has largely been confined to Asia, Latin America and the Caribbean, as Africa represents with 0.2 per cent only a fraction of global FDI outflows. However, most African countries are now becoming hosts to foreign affiliates of TNCs from developing countries, not only from Asia, but also from within the continent. From a policy perspective, it is particularly interesting that regional integration — for a long time mainly understood as the liberalisation of trade flows and the promotion of joint infrastructure projects — becomes increasingly complemented by intra-regional private capital flows, especially in the form of FDI. This section analyses the extent and the impact of this new phenomenon.

FDI outflows from sub-Saharan African countries have increased considerably during the last decade (Table 12). Data on M&A deals also show a rise in intra-African investment activity (KPMG, 1999)[25]. South Africa is by far the most important continental source of FDI, with outflows dwarfing those of the other countries. South African FDI outflows have increased drastically since the end of apartheid: while average annual outflows were $740 million for the period 1990-94, since then they have constantly surpassed the $1 billion level (UNCTAD, 2000). Not surprisingly, the only three African TNCs to make it on the UNCTAD list of 50 largest TNCs from developing countries are South African, namely Sappi Limited ($4.6 billion in foreign assets in 1998), Barlow Limited ($1.8 billion) and South African Breweries ($700 million)[26] (UNCTAD, 1999*a* and UNCTAD, 2000). Last but not least, South African firms have been involved in 114 out of a total of 127 deals (for a value of $8.86 billion out of a total of $9.85 billion) recorded in KPMG's African M&A database. An Ernst & Young (1999) review of M&As in South Africa notes that outward investment from South Africa rose to 101 deals in 1998 from 73 in 1997[27].

Table 12. **FDI Outflows From Selected African Countries, 1990-94 and 1995-99**

Country	1990-94	1995-99
Cote d'Ivoire	461	186
Ghana	0	297
Kenya	0	87
Mauritius	89	30
Nigeria	2 558	403
Seychelles	18	51
South Africa	3 707	8 738
Zimbabwe	53	110
Memorandum		
Africa	7 783	12 037
Sub-Saharan Africa	7 753	10 658
Developing countries	130 037	274 640

Source: UNCTAD, FDI/TNC database.

Although there is a shortage of systematic evidence on the regional breakdown of FDI, much of South Africa's FDI goes to other African countries, and in particular to other SADC countries. South Africa has become a primary source of FDI flows for Botswana (80 per cent) or Lesotho (38 per cent). South African firms have also made inroads into other emerging and developed countries' markets, including in the OECD area. South African Breweries, in particular, is now the world's fourth largest brewer by volume. It operates in 11 African countries and has extensive interests in India, and Central and Eastern Europe. It was listed on the London Stock Exchange in March 1999 and soon after it acquired the two leading brewers in the Czech Republic, controlling 44 per cent of the domestic market, in a deal worth $629 million. Another example is the South African banking giant, Nedbank, with presence — in the form of either subsidiaries or associated companies — in Lesotho, Swaziland, Namibia, Zimbabwe, Malawi, Mauritius and Mozambique. Nedbank also has a 40 per cent shareholding in HSBC Equator Bank, based in London with representative offices in South Africa, Angola, Mozambique, Zambia, Kenya, Uganda, Côte d'Ivoire and Ghana. South African mining houses have also been active in the region even before the end of apartheid, but since 1994, their activities have further increased. Anglo American, for example, has acquired mining interests in the Democratic Republic of Congo (Kolwezi Tailings Project), Zambia (Nkana, Nchanga, Konkola and Nampundwe Copper Mines-ZCCM), and in Namibia (Navachab gold mine).

However, intra-African FDI is not only originating from South Africa. Although evidence for this exists only on an anecdotal, rather than systematic basis, firms from other SADC countries have begun to invest in neighbouring countries. Mauritius, for example, is emerging as an important investor in Madagascar, Seychelles, South Africa, Côte d'Ivoire and Mozambique (Table 12)[28]. The government has played a role by recently signing an agreement with the government of Mozambique securing an exclusive 100 000 ha economic zone near Beira to be developed by investors from Mauritius. Zimbabwean companies, partially driven by the stagnation in their home market, are exploring investment opportunities, in particular in the tourism industry

(BusinessMap, 2000). In a broader sub-Saharan African context, Ashanti Goldfields — Ghana's largest company, foreign exchange earner and employer — has gold operations in Guinea, Zimbabwe and Tanzania valued at $2 billion. The company has also been the first African company to be listed on the New York Stock Exchange.

IV.2 Motivations for, and Reactions to, Southern African TNCs

The changed political situation at home, the lifting of restraints on capital export, increased trade and investment opportunities in the rest of Africa, and the need to refocus business activities so as to be globally competitive, all combine to explain the emergence of South Africa as a leading source of FDI. Protection from import competition and a plethora of incentive schemes (such as subsidies, preference for domestic firms in public procurement, general export incentives, etc.) encouraged South African firms to organise themselves as conglomerates (Goldstein, 2000). International isolation under apartheid also obliged them to invest domestically in a wide range of economic activities, instead of strengthening their competitive position through specialisation. With the lifting of sanctions, such firms could divest from non-core business activities and concentrate on expanding their core activities across a number of regional and international locations. The relaxation of exchange control restrictions in South Africa, allowing South African companies to invest up to over $40 million per investment in any SADC country, acted as an incentive for such cross-border investments. The transition to a more open economic environment in South Africa and the pressing competitive scenario that resulted led firms to re-orient their corporate strategies.

Of course, there are also some sector specific reasons for cross-border investment. Financial institutions follow large South African manufacturing and mining companies when they invest abroad. According to Nedbank, for instance, the rationale of moving into Africa was to service South African corporate investors. Increasingly, however, the company is profiting from the shift from state-run to private-driven economic development in the whole continent to acquire formerly state-owned banks, independent of the moves of its South African customers (*Business in Africa*, 1999). The slow but gradual depletion of reserves at home is a powerful motivation for mining companies to seek cross-border investment opportunities. The need to reduce labour costs and the desire to diversify production portfolios across a number of locations so as to increase competitiveness and reduce vulnerability on conditions in any given country is a prime motive for the cross-border move of labour-intensive industries, such as garments and textiles. Some South African firms in clothing production have moved their production capacities to other SADC countries (mainly to Malawi and Mozambique) in response to increasing competition from Asian exporters. Malawi, whose labour costs are far lower, has become the biggest exporter of clothing to South Africa after China (IDC, 1998)[29].

FDI flows from South Africa to other SACU countries have also been encouraged by a free flow of goods, services and capital within the sub-region in SADC[30]. Indeed, the existence of SACU as a customs union arrangement of South Africa with Botswana, Lesotho, Namibia and Swaziland goes a long way in explaining the role of South Africa as a major investor in the other SACU countries. Within the wider context of the SADC Finance and Investment Sector Co-ordinating Unit, South Africa has also removed capital restrictions that have already contributed to the increased flows of FDI into the region.

While, in principle, most policymakers in Southern Africa would welcome intensified intra-regional FDI, in practice the reaction to fast-growing FDI from south of the Limpopo has not been unanimously positive. The reservations are a mix of concerns of turning domestic — often state-owned — companies into foreign hands and fears of market dominance by South African firms whose superior competitiveness would soon drive domestic competitors out of the market. This fear is compounded by a sentiment that the higher competitiveness partly resulted from unfair competition. Zimbabwe, Zambia and Mauritius have been quite vocal in favour of more market access in South Africa, particularly for their textile and apparel items.

V. POLICY CONCLUSIONS

V.1 Promoting of FDI as a Cross-Cutting Task

Current FDI data on sub-Saharan Africa suggests that the region still trails other developing regions in FDI performance. The 1990s have brought some optimism and a number of countries have been successful in attracting FDI, although there is a widening gap between those that rely mainly on their natural resources (mostly oil, minerals and gas) without major policy changes and those that have adapted their national policies to TNCs' global strategies. Still, many sub-Saharan African economies remain on the sidelines of the ongoing FDI boom. Even if domestic enterpreneurship remains the mainstay of the development process in all countries, it is nonetheless important — for the reasons mentioned earlier — to attract more FDI.

To achieve this, governments have to embark on, or continue with, reforms in a wide range of policy areas. Many of these reforms are not only conducive to FDI, but are by themselves crucial and necessary for the development process in general. The increasingly diverging trends in terms of FDI attraction by sub-Saharan countries makes broad "one-size-fits-all" policy recommendations more inappropriate than ever. Also, from the experience of the individual countries discussed, it becomes apparent that attracting more FDI deserves a comprehensive approach that transcends the narrow limits of investment promotion policies. It involves coherent policy measures on the macro, meso and microeconomic level. In its effort to attract further FDI, each country has to assess where it stands in the various areas and where further improvement is most needed.

Regarding the macroeconomic environment, the most obvious lesson to learn from successful countries, such as Uganda or Mauritius, is that stability is crucial. However, it has become increasingly evident that simply pursuing macroeconomic stability and enacting liberal FDI regulatory and legal regimes is not enough, although they remain basic pre-conditions. Therefore, the focus now increasingly shifts onto the meso-level of specific sectoral policies, from privatisation, competition, infrastructure and, finally, to investment promotion policies proper. Privatisation has emerged as a catalyst in attracting investors. Parallel liberalisation and deregulation of the service industries have offered enormous FDI opportunities. However, as the example of Nigeria shows, the professional administration of the privatisation process, as well as competent regulation of sectors once privatised, is paramount. As many African countries are still lagging behind in privatisation, this gives them at least a chance to learn from the experiences and the mistakes made in other continents or more advanced African countries. Moreover, the complexity of privatisation programmes is no reason to call them off, but rather to seek outside assistance whenever needed to ensure that the results are optimal from the country's point of view.

In this context competition policies and other policies geared at ensuring the proper functioning of markets become of paramount importance. Also, foreign companies can be deterred from investing in a country when they feel that domestic competitors are able to resort to unfair business practices to defend their market power. However, as of July 2000, only 11 sub-Saharan African countries have a competition law in place, with another 9 having one under preparation (UNCTAD, 2000). Part of a proper regulatory framework is also legislation to protect intellectual property rights (IPR). There have been cases, even among the success stories mentioned above, where insufficient protection in this area dissuaded companies from investing.

Finally, appropriate physical (transport and telecommunication), as well as social (education and health) infrastructure facilities, are important factors shaping the investment appeal of a country. In industries that are globally integrated, the state of the transport and telecommunication infrastructure is a key element. The cost, quality and reliability of logistics are important factors in the overall cost calculations that companies undertake when evaluating competing locations. Given the substantive investment needed, many African governments have rightly started to look increasingly at private provision of these services. It should be noted that most of the measures that play a role when attracting FDI are relevant for all companies, be they domestic-or foreign-owned.

V.2 Designing Appropriate Investment Promotion Policies

As countries gradually improve the general investment conditions, the design of appropriate investment policies and agencies gains in importance. Three areas should be of particular concern for policymakers:

— streamlining and simplifying bureaucratic processes;

— improving the overall promotion strategy; and

— designing and implementing specific promotion measures.

1) Streamlining and Simplifying Bureaucratic Processes

A core function of an IPA is to make investing in a country as simple as possible. To this effect, many IPAs have become “one-stop-shops”, ideally helping an investor with all bureaucratic paperwork needed to start operation in the country. In practice, however, many promotion agencies — sometimes due to a lack of resources — can only assist in certain areas. Therefore, it is important that agencies also intensify their collaboration with other government agencies in order to reduce the number of requirements imposed on prospective investors and put the agency in a better position to fulfil its role as a “one-stop-shop”. In this respect, it has proven useful in some countries — such as with the FIAS-led “red tape analysis” in Mozambique — to conduct a thorough review of bureaucratic regulations, not only to

identify problem areas, but also to sensitise the administration at large to the difficulties investors might face.

2) Improving the Overall Promotion Strategy

Most African investment promotion agencies have small budgets. Therefore, the effective use of these resources is crucial. Against this background, policymakers have to focus in particular on:

— developing an appropriate targeting strategy that, on the basis of a thorough analysis of the country's competitive advantages, concentrates scarce resources on a small number of industrial sectors;

— shifting resources from the regulatory to the service function. Many agencies still perform registration as well as licensing function together with promotion activities. The opportunity costs of employing more staff for registration than for promotion purposes are often significant.

— ensuring that an IPA motivates other institutions to co-operate, rather than being the only actor actively involved in investment promotion. The training of diplomats by the Uganda Investment Authority is a good example in this respect; other countries work closely with local private sector associations or banks to make them ambassadors for their country, as they often share an interest in increased inflow of FDI. Teaming up with other promotion agencies to pursue joint interests can also be an interesting option[31].

3) The Design and Implementation of Specific Promotion Measures

The effective design and implementation of specialised policy instruments can be complex even for sophisticated agencies, as the example of Mauritius has demonstrated. The administration of incentives has to take into account the following, more general points:

— any incentive packages should be based on a clearly defined targeting strategy. Investment incentives should not be general in nature, but tailor-made to the needs of specific industries. In the absence of such a strategy, it is unlikely that incentives will be successful. To this effect, it is also essential to define clear eligibility criteria, so that only companies that fit into the overall targeting strategy are supported.

— also, in this context, co-ordination between local agencies that administer different incentive packages is crucial. The example of Zimbabwe shows that in many countries incentive programmes exist side-by-side without pursuing joint objectives. In some countries, it has proved useful to give the local IPA a lead role in co-ordinating all incentive programmes.

— given scarce resources, introducing an effective and regular evaluation and monitoring process for all incentive programmes is essential. Although evaluating the success of individual instruments can often be difficult, it is

nonetheless important in order to identify and devise necessary changes in strategy or policies early on.

As for specific incentive instruments, some African countries have created special industrial zones or EPZs in order to attract FDI. The success of such zones is — not only in Africa — mixed, at best. Comparative analysis shows that they have seldom lived up to the high expectations put on them, as far as employment creation, technology transfer, creating linkages with local enterprises, etc. is concerned (Madani, 2000). A fully-fledged analysis of this particular policy tool is complex and beyond the scope of this paper. However, in general it should be noted that EPZs do not function in a vacuum: in other words, it is unlikely that an EPZ will yield sustainable results if no attempts are made to align the overall investment conditions in the country with the special conditions offered to investors in such zones. Otherwise, chances are high that countries will be left with “footloose” enterprises that have little contact with the rest of the economy and which will leave the country again as soon as another zone elsewhere offers better conditions. Therefore, such programmes should only be implemented in pair with specific incentives that make it attractive for companies to establish lasting linkages with the domestic economy outside the EPZs.

Such incentives could become part of an “aftercare” programme that ensures a continuing contact between the promotion agency and an investor. This aspect of investment promotion is often neglected by many African promotion agencies as they mainly focus on the attraction of new investment. The experience of successful promotion agencies shows that aftercare policies can sometimes be more effective in terms of triggering additional investment than efforts to attract new investors. In Africa, a continent that suffers from a general image problem, the cost of recovering credibility for those few countries that have managed to appear on the radar screen of international investors may be particularly high.

V.3 Internal Policy Dialogue and External Assistance

As pointed out before, attracting FDI takes a comprehensive approach. For policymakers, it is advisable to work closely and in a systematic way with the private sector, both foreign and domestic, so as to retrieve feedback on which issues represent the most serious obstacles to FDI. Such a private-public policy dialogue can take various forms. It is important, however, that it includes a wide range of actors, in particular on the public sector side. This refers not only to inclusiveness in terms of ministries and authorities whose actions somehow affect the investment climate. It also refers to an appropriate representation of different levels within the administrative hierarchy: the results of a dialogue at the highest level, i.e. ministers of secretaries of state, can be undermined if officials at lower levels are not actively involved.

Finally, it is up to policymakers to ensure that the results of such a dialogue are promptly translated into action to alleviate what problems are detected. In the end, policy success is determined by what has actually been done. In recent years,

many governments in Africa, as in other developing regions, have learned to "talk the talk" about "lean government", "public-private partnerships", etc. However, in many countries, promised changes have been deferred and have not been followed by action.

However, while most of the responsibility to improve investment conditions lies on the shoulders of the African countries themselves, outside assistance in this process is also needed. This refers to technical assistance in improving investment conditions, notably in the areas of infrastructure development, education and training facilities, as well as institution building in areas where the government's supervisory role is key to the functioning of markets; for example, in the case of competition policy. However, there is also a role for outside assistance in the area of investment promotion. As indicated before, many African countries have to overcome an overly negative image. Donor countries, and in particular those that are also major FDI sources, can contribute to overcoming this problem by providing more accurate and balanced information about investment conditions and opportunities to potential investors. Outward investment promotion agencies as well as chambers of commerce and other industrial associations can be instrumental in this approach. In this context, a good example is a joint UNCTAD/International Chamber of Commerce (ICC) project that foresees the production of impartial investment guides for a number of LDCs, most of which are located in Africa. Finally, conceding better access to markets for exports from sub-Saharan Africa cannot only result in increased exports but, in all likelihood, also lead to higher inflows of FDI as investors take advantage of improved trading opportunities.

A final word on regional integration and FDI: A number of South African firms are becoming transnational, either in search for hitherto inaccessible resources and markets in Africa or seeking for efficiency. As discussed in this paper, South Africa is emerging as a major investor in Southern Africa and is gradually moving North. It would be unwise to dismiss as old-fashioned nationalism the tensions that emerge in recipient countries, in particular within the SADC region, and which reflect the perceived lack of openness of the South African market. Neighbouring (and poorer) economies, however, are likely to gain from the capital, skills and technology spillovers that come with cross-border FDI flows. Evidence of the positive effects of such flows on the development of more peripheral economies in a regional integration area can be found in other regions. What is more, as regional investors are less likely to be deterred by wrong information about the investment conditions in the region, they can have an important "pioneering" function: non-African investors might be more easily attracted to a country when they find that other foreign companies have already invested there.

NOTES

1. In addition to the above listed points, in a UNCTAD/International Chamber of Commerce (ICC) survey regarding FDI medium-term prospects in Africa, respondant MNCs identified a number of other obstacles, including high levels of corruption, problems of accessing global markets from African countries, lack of finance as well as the administrative costs of doing business (UNCTAD, 2000).
2. CEMAC comprises of Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Gabon and Equatorial Guinea.
3. Members are Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo.
4. Those were the Central African Republic, Comoros, Congo, the Democratic Republic of the Congo, Guinea Bissau, Mauritania, Rwanda and Somalia (UNCTAD, 2000).
5. These included Gabon, Sierra Leone and Swaziland.
6. One North African country, Tunisia, has also been pointed out in UNCTAD (1998).
7. The classification was based on a two-step approach. First, a set of FDI indicators was analysed that included average absolute FDI inflows in 1992-96, average annual FDI/1 000 GDP, average annual FDI flows per capita, and the ratio of FDI inflows to Gross Fixed Capital Formation (GFCF). To be considered for further analysis, a country had to exceed, for at least one of the indicators, the developing countries' average. In a second step, such countries were benchmarked in terms of the increase of each of the aforementioned indicators between two periods, 1987-91 and 1992-96. Again, to qualify as "front-runner", a country had to surpass, on at least one indicator, the average increase for developing countries. The second step captures dynamic developments over time, while the first indicator ensures that the only countries that receive a minimum of FDI inflows are included, in order to minimise statistical biases (for further details on the methodology, see UNCTAD, 1998).
8. The two largest Malaysian investments in South Africa were the acquisition of stakes in Telkom (R2.2 billion) and Engen (R1.9 billion) by Telkom Malaysia and Petronas. Other investments are in the property, leisure and banking industries.
9. They argue, however, that insofar as political considerations appear to be a major determinant of the Malaysian investment in South Africa, their sustainability in the long-term remains a matter of concern.
10. Foreign exchange revenues do include not only FDI, but also portfolio investment. Since, portfolio investment flows have, however, substantially declined in the aftermath of the Asian crisis to a mere 10 per cent of total foreign exchange raised through privatisation in sub-Saharan, the bulk of

foreign exchange revenues comes in the form of direct investment (Pigato and Liberatori, 2000, p.1).

11. Of the major developing regions, only East Asia and the Pacific received less privatisation-related revenues in 1998. However, the $882 million represent — compared to earlier years — an exceptionally low figure. Since, 1992, the region had received each year considerably higher revenues than sub-Saharan Africa (Liberatori and Pigato, 2000).

12. Obtaining data of good quality on the distribution of FDI inflows across industrial sectors in Nigeria is difficult. The most reliable information at hand comes from the Nigeria Investment Promotion Authority (NIPC) that described in a questionnaire filled out as part of an UNCTAD survey of African investment promotion agencies in 1999, the sectoral distribution of FDI inflows into Nigeria in 1996 to 1998 as follows:

    i) sectors that received 10 per cent or more of total FDI inflows: petroleum, gas and related products;

    ii) sectors that received less than 10 per cent of total FDI inflows: agriculture, mining and quarrying, food and beverages, textile, leather and clothing, pharmaceutical and chemical products, metal and metal products, telecommunication, finance and insurance, transport and storage and tourism;

    iii) sectors that received no FDI: fishing and aquaculture, forestry, tobacco, mechanical and electrical equipment, motor vehicles, non-metallic mineral products.

13. The only exceptions are arms, dangerous drugs and military wares (Ebuetse, 2000, p. 14).

14. Amid the chaos surrounding the Enron deal, the government now accuses opposition forces of systematically sabotaging key electricity infrastructure facilities to weaken the government. See “Obasanjo hit by Nigeria energy crisis”, *Financial Times*, 29 November 2000, p. 16.

15. The Southern African Development Community (SADC) consists of the following member States: Angola, Democratic Republic of Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe.

16. The Democratic Republic of the Congo (DRC) and Seychelles are not included in this analysis.

17. Anglo-American has invested $40 million, Randgold ($15 million), Gencor and JCI (both $13 million) in mining exploration in Africa.

18. For example, Canadian and Australian firms invested $50 million in the Golden Pride Mine in the United Republic of Tanzania. Canada’s largest gold producer, Barrick, announced that its $280 million new gold mine in Tanzania would commence operation in early 2001. The construction of the Mozal aluminium smelter (estimated at about $1.3 billion) in Mozambique is perhaps the largest recent mineral beneficiation project in the region. The project is being financed from a number of sources including South Africa’s Industrial

Development Corporation (IDC) and the Commonwealth Development Corporation (CDC).

19. For example, the Standard Bank Group of South Africa bought banks in Swaziland, Lesotho, the United Republic of Tanzania, Mozambique and Zambia and expanded its operations in Zimbabwe. The group also started operations in other sub-Saharan African countries such as Nigeria and Kenya.

20. Other incentives included loans at preferential rates for importing raw materials, electric power at subsidised rates, export finance at lower interest rates, loans up to 50 per cent of total building costs for a ten-year period, priority in allocation of investment capital by the Development Bank of Mauritius, provision of reinforced factory buildings at subsidised rates, free repatriation of capital and remittance abroad of profits and dividends to companies with an approved status, as well as a guarantee against nationalisation and greater labour flexibility (Bhowon *et al.*, 1999).

21. This section is based on Lall and Wignaraja (1998).

22. The recent investment by Intel in Costa Rica is an example of such investments.

23. It should be noted that the government has already undertaken measures to meet the new challenges. In 1992, for example, the Export Processing Zone Development Authority (EPZDA) was set up to provide support to existing enterprises.

24. These include Italy, the United States, India, Jamaica, Sweden, Denmark, China, the Netherlands, the former Yugoslavia, Iran and Indonesia.

25. The KPMG survey has noted a declining number of non-African countries making acquisitions in Africa, and that South Africa was virtually the only African country involved in this process.

26. Figure for 1997. 1998 figure not available.

27. These include the acquisition by Investec Holdings of 93.8 per cent of UK-based Hambros Bank, the purchase by Anglogold of mining interests of Minorco (these interests include Independence Mining Company in the United States as well as mines in Brazil and Argentina); and acquisition by Pepkor of Australian Chain, Best & Less, the acquisition of manganese production facilities of the Australian company, Broken Hill Proprietary, by Billiton, to merge with its South African-based subsidiary, Samancor, a joint venture between Hunt Leuchars & Hepburn subsidiary, Robertsons Spices, and US food company, Bestfoods Europe, the increased stake of Metro Cash & Carry in Australia's grocery and liquor wholesaler group, Davids Limited, from 14.9 per cent to 58.1 per cent, the acquisition of an 80 per cent stake by Datatec in the US-based distributor of networking products, Westcon Group, making Datatec a major player across five continents, the acquisition by Pepkor of the Australian chain Best & Less and acquisition of the British stockbroker Albert E. Sharpe by Old Mutual.

28. In between 1988 and 1997, accumulated FDI outflows from Mauritius were $90 million. $67 million went into services while another $23 million were FDI in manufacturing activities (UNCTAD calculations, based on information provided by the Bank of Mauritius,).

29. South Africa has questioned Malawi's industrial capacity to export such an amount of clothing items into its market, citing that unofficial industry figures suggested that up to 30 per cent of all bills of entry from Malawi are fraudulent (Business in Africa, 11/1999). It is alleged that due to a preferential bilateral trade agreement that exists between South Africa and Malawi, illegal imports of mainly textile and clothing items are finding their way into the South African market via Malawi.

30. With the exception of Botswana, the four countries, Namibia, Lesotho, South Africa and Swaziland are members of the Common Monetary Area (CMA), guaranteeing free movement of capital.

31. To overcome the image of having small, unattractive markets, the Baltic Sea countries, for instance, worked together to develop a joint image of the Baltic sea region as an integrated regional market offering access to a larger number of consumers. This profile was used and helped each individual promotion agency in its own promotion efforts.

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