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Foreign Direct Investment in Africa—Some Case Studies

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Foreign Direct Investment in Africa—Some Case Studies

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Abstract

This paper reviews the experiences of a few countries in Sub-Saharan Africa that have succeeded in attracting fairly large amounts of foreign investment. The review indicates that sustained efforts to promote political and macroeconomic stability and implement essential structural reforms have been the key elements contributing to the success that certain countries in Africa have achieved in attracting a substantial volume of FDI. Strong leadership, which has helped promote democracy and overcome social and political strife, and a firm commitment to economic reform have been important determinants. The adoption of sound fiscal and monetary policies, supported by an appropriate exchange rate policy, and a proactive approach to removing structural impediments to private sector activity have had a positive bearing on investor sentiment. The analysis underscores the importance of relying on stability and a broad-based reform effort to encourage foreign investment in Africa.

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Contents

I. INTRODUCTION

1. The stock of foreign direct investment (FDI) in Africa increased significantly between 1980 and 2000 (Table 1).[2] FDI inflows to the region gained momentum in the second half of the 1990s, and after increasing to a record US$10.5 billion in 1999, declined to US$9.1 billion in 2000 (Table 2). These volumes represent a significant increase relative to the flows that averaged about US$3 billion per annum at the beginning of the decade. Despite the decline in overall FDI flows to Africa in 2000, and notwithstanding the fact that about 70 percent of the total was concentrated in selected countries, including Angola, Nigeria, and South Africa, a number of smaller countries, including Lesotho, Namibia, and Uganda, continued to receive fairly large amounts of FDI, which as a share of their GDP or gross capital formation is quite significant.

2. Notwithstanding the sharp increase in the absolute stock of FDI over the period 1980–2000, Africa's share of the global stock of FDI has declined from about 5.3 percent in 1980 to about 2.3 percent in 2000 (Table 1). In other words, although there has been an increase in the volume of FDI flows to Africa, they have not kept pace with flows to other regions of the world. FDI flows to Africa that averaged about 2 percent of annual global FDI flows in 1989–94, have gradually declined to about 0.7 percent in 2000, while as a share of FDI flows to developing countries, Africa's share has declined from an annual average of 6.7 percent in 1989–94 to about 4–5 percent through the second half of the nineties (Table 2). Despite the decline in Africa's share of global FDI flows, and notwithstanding the perception that Africa has suffered from recurrent problems of political and economic instability, social strife, and weak governance, it is heartening to note that over the past decade or so, some countries in Africa have done fairly well in attracting foreign direct investment.[3] Moreover, the share of the 34 least developed countries in total FDI inflows to Africa increased from an average of about 22 percent over 1989-94 to about 43 percent in 2000 (Table 2).[4]

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[2] South Africa is by far the largest market in Africa. Foreign investment flows after increasing rapidly in the period immediately following the lifting of economic sanctions, have remained rather sluggish. FDI flows to South Africa gained significant momentum in 1997, to reach almost $3.8 billion, attributable, in large part, to the faster pace of privatization. Since then, however, FDI flows to the country have been modest with flows unrelated to privatization not gathering significant momentum. A major share of FDI in South Africa originates from just five countries: Germany, Japan, Malaysia, the United Kingdom, and the United States.

[3] To some extent, the diminishing share of African countries in global FDI inflows has been offset by an increase in cross-border mergers and acquisitions.

[4] Among the LDCs of Africa, Angola has by far been the largest recipient of global FDI inflows. The World Investment Report (WIR), 1999-2000, provides further detail.

Table 1. Foreign Direct Investment Inward Stock by Host Region, 1980 - 2000

	1980	1985	1990	1995	1999	2000
	Million of U.S. dollars					
World	615,805	893,567	1,888,672	2,937,539	5,196,046	6,314,271
Developed countries 1/	358,449	537,257	1,388,762	2,036,723	3,301,924	4,157,640
Developing countries 2/	257,357	356,262	496,915	864,392	1,792,154	2,031,916
Africa	32,714	33,854	48,648	75,914	140,548	148,035
Latin America and the Caribbean	49,960	79,673	116,678	201,616	520,282	606,907
Developing Europe	156	286	1,131	3,262	9,455	11,461
Asia	173,347	241,266	328,232	580,697	1,118,416	1,261,776
The Pacific	1,180	1,183	2,226	2,903	3,453	3,737
Central and Eastern Europe	0	0	2,996	36,424	101,968	124,715
	Share of global stock of FDI, in percent					
Developed countries 1/	58.2	60.1	73.5	69.3	63.5	65.8
Developing countries 2/	41.8	39.9	26.3	29.4	34.5	32.2
Africa	5.3	3.8	2.6	2.6	2.7	2.3
Latin America and the Caribbean	8.1	8.9	6.2	6.9	10.0	9.6
Developing Europe	0.0	0.0	0.1	0.1	0.2	0.2
Asia	28.1	27.0	17.4	19.8	21.5	20.0
The Pacific	0.2	0.1	0.1	0.1	0.1	0.1
Central and Eastern Europe	0.0	0.0	0.2	1.2	2.0	2.0

Source: World Investment Report (WIR).

1/ For expositional purposes, excludes South Africa; WIR includes South Africa in the list of developed countries.

2/ For expositional purposes, includes South Africa; WIR includes South Africa in the list of developed countries.

Table 2. Foreign Direct Investment Inflows by Host Region, 1989 - 2000

	1989-94 (Annual average)	1995	1996	1997	1998	1999	2000
	Millions of U.S. dollars						
World	200,145	331,068	384,910	477,918	692,544	1,075,049	1,270,764
Developed countries 1/	137,064	202,221	218,870	267,561	482,604	828,316	1,004,301
Developing countries 2/	59,638	114,580	153,310	191,168	188,933	223,511	241,045
Africa	4,012	5,935	6,440	10,970	8,274	10,473	9,075
Of which least developed countries	890	1,659	1,657	2,170	3,207	4,774	3,894
Latin America and the Caribbean	17,506	32,311	51,279	71,152	83,200	110,285	86,172
Developing Europe	232	477	1,085	1,699	1,608	2,723	2,035
Asia	37,659	75,293	94,351	107,205	95,599	99,728	143,479
The Pacific	229	564	155	142	252	302	284
Central and Eastern Europe	3,444	14,268	12,730	19,188	21,008	23,222	25,419
	Share of global FDI inflows, in percent						
Developed countries 1/	68.5	61.1	56.9	56.0	69.7	77.0	79.0
Developing countries 2/	29.8	34.6	39.8	40.0	27.3	20.8	19.0
Africa	2.0	1.8	1.7	2.3	1.2	1.0	0.7
Of which least developed countries	0.4	0.5	0.4	0.5	0.5	0.4	0.3
Latin America and the Caribbean	8.7	9.8	13.3	14.9	12.0	10.3	6.8
Developing Europe	0.1	0.1	0.3	0.4	0.2	0.3	0.2
Asia	18.8	22.7	24.5	22.4	13.8	9.3	11.3
The Pacific	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Central and Eastern Europe	1.7	4.3	3.3	4.0	3.0	2.2	2.0
	Share of FDI inflows to developing countries, in percent						
Africa	6.7	5.2	4.2	5.7	4.4	4.7	3.8
Of which least developed countries	1.5	1.4	1.1	1.1	1.7	2.1	1.6
Latin America and the Caribbean	29.4	28.2	33.4	37.2	44.0	49.3	35.7
Developing Europe	0.4	0.4	0.7	0.9	0.9	1.2	0.8
Asia	63.1	65.7	61.5	56.1	50.6	44.6	59.5
The Pacific	0.4	0.5	0.1	0.1	0.1	0.1	0.1
	Share of FDI inflows to Africa, in percent						
Least developed countries	22.2	28.0	25.7	19.8	38.8	45.6	42.9

Source: World Investment Report (WIR), 2001
1/ For expositional purposes, excludes South Africa; WIR includes South Africa in the list of developed countries
2/ For expositional purposes, includes South Africa; WIR includes South Africa in the list of developed countries

3. A joint survey by United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce (ICC) in 1999/2000 of 296 of the world's largest multinational corporations suggests that FDI flows to Africa could increase on a sustained basis over the medium term. More than one-third of the respondents planned to increase investment in Africa over the next 3–5 years, while a majority of the remainder expect their investment to remain stable. Mozambique, South Africa, Tanzania, and Uganda were viewed as being the more attractive FDI destinations. Furthermore, a survey of investment promotion agencies (IPAs) in Africa, conducted by UNCTAD for the World Investment Report, 1999, reveals a sense of optimism regarding prospects for FDI inflows to the region. A number of countries, including Botswana, Mozambique, Namibia, Nigeria, South Africa, and Uganda are viewed by IPAs as having strong prospects over the near term in attracting large volumes of global FDI flows. The optimism is arguably reflective of macroeconomic stability and the creation of a business-friendly environment in these countries.[5] In addition, a number of these countries have also been singled out as being among the most competitive countries in Africa according to the competitiveness index published by the World Economic Forum (1998a).

4. In this paper, we seek to provide an explanation for why some countries in Sub-Saharan Africa have succeeded in attracting fairly large amounts of foreign investment, while others have not. The analysis is confined to case studies, because the availability of reliable and consistent data on FDI and of adequate information on the policies implemented to promote FDI is relatively limited for various African countries. An attempt has also been made to focus attention on countries that have been successful in obtaining reasonable amounts of FDI that is diversified across the various sectors of the economy.

5. The analysis indicates that sustained efforts to promote political and macroeconomic stability and implement essential structural reforms have been the key elements contributing to the success that certain countries in Africa have achieved in attracting a substantial volume of FDI.[6] Strong leadership, which has helped promote democracy and overcome social and political strife, and a firm political commitment to economic reform have been important determinants. The adoption of sound fiscal and monetary policies, supported by an appropriate exchange rate policy, and a proactive approach in removing structural impediments to private sector activity have had a positive bearing on investor sentiment. In particular, the adoption of a framework of investor-friendly policies, tailored to the prevailing circumstances in the country, has provided incentives for multinational firms to locate their

[5] Investor interest in Africa has been uneven. Largely because of geographical proximity and post-colonial ties, Western European investors have always been more active compared with Japanese and, to a lesser extent, U.S. investors. Within Western Europe, France, Germany, Italy, and the United Kingdom have been the main investors in Africa.

[6] In some countries, such as Angola and Nigeria, high rates of return in the petroleum sector have been the dominant factor attracting large FDI.

affiliates there. Such a framework has included both specific investment incentives and more broad-based structural measures, including (but not limited to) privatization, trade liberalization, and investment in human capital. Indeed, although many countries have tried to provide special incentives targeting foreign investors, there is little evidence that these special incentives alone have helped to attract well-diversified foreign investment. This underscores the importance of relying on stability and a broad-based reform effort to encourage foreign investment location decisions in Africa.

6. Apart from the political and economic policy environment, certain initial conditions such as the endowment of abundant natural resources or specific "locational" advantages (such as proximity to an important regional market) or the stage of economic development have also been key considerations influencing foreign investors' decisions to locate in some African countries (Box 1). To be able to distinguish between these initial conditions and influencing factors and to assess the extent to which a balanced strategy of relying on investor-friendly policies was important, we adopted a simple taxonomic classification of the sample countries, based on the most plausible guess of the dominant factor affecting the decisions of foreign investors in each country. In Section II, we develop this simple framework for classifying the sample countries according to various categories of dominant factors that have influenced FDI inflows. In Section III, we carry out a brief review of the literature on the determinants of FDI and discuss some of the recent policy actions undertaken by countries in Africa in their quest for a larger share of global FDI flows. Based on the framework elaborated in Sections II and III, in Sections IV through VII we analyze the experiences of seven African countries in attracting FDI, with a view to assessing the relevance of investor-friendly policies in a variety of different country situations. We conclude the paper in Section VIII with some policy implications that arise from our analysis.

Box 1. Salient Features of Foreign Direct Investment in Africa

Investment linked to exploitation of natural resources:

- Four countries—France, Japan, the United Kingdom, and the United States—hold approximately three-quarters of the total FDI stock in Africa. In volume terms, the oil-exporting countries, Angola and Nigeria, top the list of countries receiving FDI. As a share of GDP (or capital formation), however, smaller countries, including Lesotho, Namibia, Seychelles, and Swaziland, have also done fairly well in securing FDI. Table 3 provides some evidence of this.

- A significant share of FDI is directed towards the primary sector. Almost 40 percent of the total stock of FDI accumulated between 1989 and 1999 was in the primary sector. Over the same period, the share of the manufacturing sector has remained constant at about 30 percent, while that of the services sector has declined gradually to about 27 percent.

- Within the primary sector, oil and other natural resources have been a major factor in attracting foreign direct investment. The nine oil-exporting countries account for about 75 percent of FDI flows into Africa.

- Rates of return from FDI are highest in the petroleum industry, although profitability in both the manufacturing and services sectors is quite significant when compared to FDI in Latin America and Asia. Most risky investments are in mining, agriculture, and public utilities where there have been large variations in profitability.

Investment linked to locational advantages

- Owing to very specific locational advantages, some non-oil exporting countries attracted relatively significant amounts of FDI during the 1990s (Côte d'Ivoire, Morocco, Namibia, Swaziland, etc.).

Investment linked to specific investment incentives

- There has been some FDI in export-related industries (other than oil) with the host-country being used as an export platform. This process has been aided by export processing zones (EPZs) and special opportunties to export to the EU or South Africa. Mauritius has had notable success in developing EPZs.

Investment driven by broad-based economic policy reforms

- Privatization of state-owned enterprises has been, and is increasingly becoming, a lucrative avenue for foreign investment and many countries have used this channel to attract FDI (Ghana, Mozambique, South Africa, and Uganda).

- The influence of multinational corporations (MNCs) in Africa goes beyond the equity investments captured in FDI data. Many MNCs are involved in the region through nonequity arrangements, such as management agreements, technical assistance agreements, technology transfer agreements or the licensing of technology.

Source: World Investment Report (1998-2001); and IMF staff estimates

Table 3. Indicators of Relative Magnitude of FDI Inflows to Selected Countries in Africa, 1987-99
(In percent)

	FDI/GDP			FDI/GDFI			FDI/EXPORTS		
Country	1987-90	1991-94	1995-99	1987-90	1991-94	1995-99	1987-90	1991-94	1995-99
Botswana	2.81	-1.93	1.65	8.57	-7.41	6.86	4.03	-4.06	3.38
Lesotho	2.9	1.57	17.1	5.05	2.06	22.1	18.23	8.04	13.03
Mauritius	1.3	-0.07	0.75	4.94	-0.26	2.91	2.06	-0.13	1.21
Mozambique	0.25	1.32	2.92	1.75	8.07	15.3	3.23	10.02	23.09
Namibia	0.3	3.04	3.93	2	15.25	18.47	0.62	5.65	7.13
Swaziland	7.42	4	1.53	35.56	14.97	5.72	8.63	4.78	1.78
Uganda	0.01	0.08	1.78	0.04	0.57	11.69	0.06	1.08	15.8

Source: Miria Pigato (World Bank); and IMF staff estimates.
Notes: GDP = gross domestic product, and GDFI = gross domestic fixed investment.
Data on FDI may not be strictly comparable to those provided in the World Investment Report (WIR).

II. Categorizing Foreign Investment in Africa

7. Within Africa, a set of countries, almost all of which are located in Southern and Eastern regions of the continent, have made successful inroads in securing relatively large volumes of well-diversified FDI (Tables 4 and 5). The balance of evidence indicates that one of the unifying factors backing the success of these countries in securing FDI is their attaining a higher level of economic development relative to other countries in the region. This is reflected by higher per capita incomes and the availability of good quality infrastructure. While the abundance of natural resources is a factor common to much of Africa, it is a critical mass of favorable economic, social, and political factors—including a record of fewer episodes of macroeconomic crises and political instability—that have enabled selected countries in Africa to gain access to global investment flows, while other countries continue to struggle in their efforts to attract foreign investment. Not surprisingly, it is this critical mass of mutually-reinforcing factors, which in the context of serious efforts to carry forward economic reform, has enabled some countries, including Mozambique and Uganda, to reaccess FDI after devastating crises.

8. All other things given, there is compelling evidence that in Africa FDI flows may have been attracted largely by one or more of the following four categories of considerations: (i) investment which is intensive in natural resources; (ii) investment driven by "specific" locational advantages; (iii) investment driven by host country policies that actively target foreign investment; and (iv) investment in response to recent economic and structural reforms (Box 1). While FDI inflows in individual African countries may have been driven by some combination of the above four considerations, there is strong evidence that one or a limited subset of them was predominantly important in most countries. For this reason, this paper examines the experiences of selected countries under each of the above four categories. While this categorization provides a simple framework to analyze FDI in Africa, it is recognized that the underlying commonality across the countries is the critical mass of a broader set of favorable factors that has appealed to the discerning investor.

Table 4. Stock of FDI Inflows to Selected Countries in Africa, 1980-2000
(Millions of U.S. dollars)

Country	1980	1985	1990	1995	1999	2000
Botswana	698	947	1,309	1,126	1,387	1,226
Lesotho	5	26	155	1,343	2,296	2,519
Mauritius	20	37	163	251	404	681
Mozambique	15	17	42	202	933	1,072
Namibia	1,935	1,951	2,047	1,708	1,520	1,644
Swaziland	243	104	336	535	559	414
Uganda	9	7	4	272	1,000	1,255

Source: World Investment Report, 2001.

Table 5. Foreign Direct Investment Inflows to Selected Countries in Africa, 1989-2000
(Millions of U.S. dollars)

Country	1989-1994 (annual average)	1995	1996	1997	1998	1999	2000
Botswana	-29	70	70	100	96	37	30
Lesotho	169	275	286	269	262	136	223
Mauritius	24	19	37	55	12	49	277
Mozambique	21	45	73	64	213	382	139
Namibia	70	153	129	84	77	111	124
Swaziland	67	44	22	15	165	90	37
Uganda	23	121	121	175	210	222	254

Source: World Investment Report, 2001.

- Given the abundance of natural resources in Africa, a large share of FDI (almost 40 percent) has been in the primary sector. A number of countries, including Angola, Botswana, Namibia, and Nigeria, have received foreign investment targeted at the oil and minerals sectors of the economy, where, notwithstanding significant risk, profit rates have been high.

- Investment driven by "specific" locational advantages relates to FDI in countries such as Lesotho and Swaziland. In the late 1980s and early 1990s, investors wishing to cater to the large market in South Africa circumvented economic sanctions against the country through location of manufacturing subsidiaries in these countries. The opportunity to serve the South African market enabled these countries to receive substantial well-diversified investment. These countries also benefited from a common monetary area, as well as from opportunities for exporting both to the region (as members of the Preferential Trade Area) and the EU (as signatories to the Lomé Convention).

- A few countries in Africa have actively sought foreign investment by tailoring policies specifically for this purpose. Countries such as Mauritius and Seychelles, being small in size and lacking significant amounts of natural resources, realized early on that to reap the benefits of an expanding world market they would need to compete as *export platforms* with East Asian economies that had set the trend in this area. In this context, in addition to ensuring political and economic stability, explicit measures targeting foreign investors were taken. The measures included the creation of export processing zones (EPZs) and the provision of specific tax incentives to foreign investors.

- Finally, there are a few countries in Africa that were shunned by investors in the past but that have recently attracted significant investor interest in response to their implementation of far-reaching economic and structural reforms. Mozambique and Uganda have experienced considerable success in attracting FDI in recent periods mainly because economic reforms have been fairly successful.

III. Determinants of FDI and Recent Policy Innovations in Africa

A. Determinants of FDI

9. A number of studies have examined the determinants of FDI. We review below some of the factors that have been identified to be important.

- Some studies[7] have argued that host country market size plays an important role in attracting FDI, especially when the host-country market allows the exploitation of economies of scale for import-substituting investment.[8]

- Numerous studies have identified the cost of local labor as significantly important in location considerations, and in particular when investment is export-oriented [Wheeler and Mody (1992) and Mody and Srinivasan (1998)]. Studies and surveys have also found that investors would also like to operate in countries where the government maintains liberal policies for the employment of expatriate staff.

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[7] Scaperlanda and Balough (1983), Kravis and Lipsey (1992), Wheeler and Mody (1992), and Mody and Srinivasan (1998).

[8] However, many African countries are too small to provide foreign investors an opportunity to exploit economies of scale to cater to the host-country market. There are only 5 countries with a population of more than 30 million, while 15 are landlocked.

- Country risk, a summary measure of economic and political stability, is also found to have a strong bearing on FDI flows. [Wheeler and Mody (1992), Mody and Srinivasan (1998).] Some have argued that political stability is one of the most important determinants of foreign investment location in Africa (Sachs and Sievers, 1998). Given that countries compete actively for foreign investment, an investor would prefer locating his affiliate in a country where market uncertainty is lower.[9]

- A high level of economic development, as reflected in the availability of adequate infrastructure, both physical and human, and a relatively high per capita income would be expected to be beneficial for foreign investors. [Kravis and Lipsey (1992), Wheeler and Mody (1992), Mody and Srinivasan (1998)].

- Openness of an economy has also been found important in attracting investment.[10] Some studies (Wheeler and Mody (1992)) also indicate that removal of exchange controls has an important bearing on investor location decisions.

- Surveys of investors conducted by various business institutions have indicated that a supportive institutional environment, such as the existence of an effective and equitable legal system, and the presence of an efficient and well-functioning banking and financial system, is important for investment location decisions.

10. In an econometric analysis of panel data on FDI in Africa, Elbadawi and Mwega (1997) argue that while market size—measured by regional GDP—is relatively unimportant in explaining FDI flows to Africa, economic growth is an important determinant. They also argue, based on their findings, that a depreciation of the real effective exchange rate, an increase in a country's openness to trade, and the expansionary effects of fiscal balance have a positive impact on FDI flows. It is also shown that an improvement in removing restrictions and providing good conditions for private sector initiative have an important bearing on FDI inflows, while the number of political upheavals has a negative bearing. Terms of trade shocks and the level of schooling are found to have little impact on FDI into Africa.

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[9] There are different measures of country risk (see Table 6). Besides the use of country risk indicators compiled by business institutions (Business International (BI), Institutional Investor), some studies have used volatility in economic variables (exchange rate, fiscal imbalance) as measures of risk.

[10] This is evidenced by the success of the East Asian economies that have experienced strong export-led growth over the past two decades. Lipsey (1988), Wheeler and Mody (1992), Barrell and Pain (1996), Belderbos and Sleuwaegen (1996), and Mody and Srinivasan (1998).

Table 6. Political and Financial Risk Ratings for Selected Countries in Africa, 1987-98

	Political Risk			Corruption			Country Risk		
Country	1987-90	1991-94	1995-98	1987-90	1991-94	1995-98	1987-90	1991-94	1995-98
Botswana	69.4	72.6	74.5	72.9	62.5	50	35.5	40.7	50.2
Mauritius	na	na	na	na	na	na	30	38.6	50.4
Mozambique	47.1	43.4	58.6	66.7	66.7	66.7	7.4	9	14.8
Namibia	37.8	67.2	83.7	50	75	66.7	na	na	na
Swaziland	na	na	na	na	na	na	18.2	22.6	31.2
Uganda	38.5	45.6	53.1	50	50	41.7	5.3	7.6	17.3

Sources: ICRG scores for political risk and corruption, and Institutional Investors for country risk rating.
Notes: The scale runs from 0-100, with a higher number representing lower risk or corruption.
The abbreviation "na" denotes that data were not available.

Surprisingly, too, other things given, incidents of civil war and African regional integration arrangements are found to have had limited impact on FDI flows.

11. The paucity of data on FDI in Africa and serious doubts regarding the quality of available data have impeded a rigorous analysis of investor behavior and have raised questions concerning the reliability of current findings. For example, other things being equal, one would expect the lack of stability and the incidents of civil war and social strife to be an important reason for the lack of significant FDI in Africa. Empirical results, as indicated above, however, suggest that these factors have a limited impact. Similarly, given the size of African economies, one would expect regional integration schemes to have a positive bearing on investor sentiment, both because they enhance the size of the market and also signal a country's commitment to openness and reform. Once again, there is little empirical support for this proposition. In this sense, existing data limitations necessitate caution in analyzing the results based on empirical estimations.

12. To summarize, it can be argued that while a number of host-country factors bear heavily on investor sentiment and on their decision to locate affiliates abroad, some are clearly recognized as being critical. While factors, such as host country market size and cost of local labor arouse investor interest, stability, both macroeconomic and political, openness of the economy, availability of infrastructure, both human and physical, and economic reforms that remove major structural or institutional impediments to private sector activity are clearly key determinants of investment location decisions.

B. Recent Policy Innovations in Africa

13. Over the years, and especially in the eighties and nineties, several African countries have tried to overcome the perception of Africa being a risky location for FDI, largely by addressing investors' concerns about the risk of "expropriation" of investment. In a recent

survey of investors, conducted by the World Economic Forum (1998a), a number of African countries were perceived to offer significant protection, both explicit and implicit, for FDI.[11]

14. In their quest to attract a larger share of global FDI flows, many countries in Africa have opened up their economies to foreign investment by reducing various types of regulatory barriers applicable to foreign investment. In general, countries have designed policies to shift away from targeting specific sectors or foreign investors, and have sought to promote broad-based private sector participation in economic development. Ghana, for example, has expanded the scope for foreign investment by reducing the sectors (industries) previously closed to foreign investment. Bearing in mind that the petroleum and minerals sectors of the economy are the focus of foreign investors in Africa, and the fact that such focus could be translated into investor interest in other sectors of the economy, in the late 1980s, a number of countries, including Ghana, Kenya, Nigeria, Tanzania, Uganda, and Zambia, overhauled the laws governing foreign investment in these sectors. A major thrust of this initiative was to allow greater private sector participation by either abolishing or reducing requirements for government equity participation in joint ventures in these sectors. For example, Nigeria has lowered government participation in equity holding by moving away from mandatory joint ventures. In addition, a large number of countries, including Ghana, Kenya, Malawi, and Namibia, have incorporated more expedited approval procedures by setting up one-stop investment centers. Furthermore, in contrast to the 1970s and the 1980s, in many countries and across most sectors of the economy, alliances between foreign firms and their domestic counterparts, which involved the transfer of technology, are now subject to less restrictive compliance criteria, while the protection of intellectual property rights has improved considerably (Botswana, Malawi, Mauritius, and Nigeria).

15. Capital controls, which in the past have been a significant deterrent to FDI flows, have been relaxed in many countries. Measures to allow the repatriation of profits, retention of export proceeds, and the liberalization of currency markets have significantly contributed to the improvement in the environment for FDI. In the survey conducted by the World Economic Forum (1998a), 17 countries in Africa secured good scores (between 5 and 7, with 7 indicating minimum restriction on repatriation of profits and dividends and 1 indicating the contrary) on the issue of controls on the repatriation of profits and dividends.[12]

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[11] The country rating based on protection of FDI, which assigns a maximum value of 7 and a minimum of 1, indicates that Burkina Faso (5.20), Cameroon (4.92), Côte d'Ivoire (5.25), Ethiopia (5.20), Ghana (4.94), Mauritius (5.13), and Namibia (5.61) have done well in assuring investors of the safety of their investment, while a number of other countries have obtained scores above the 3.5 mean rating.

[12] The countries are Botswana (6.65), Burkina Faso (5.35), Cameroon (5.69), Côte d'Ivoire (5.75), Ethiopia (5.33), Ghana (6.09), Kenya (5.51), Malawi (5.13), Mauritius (6.58), Mozambique (5.33), Namibia (6.00), Nigeria (5.42), South Africa (5.63), Tanzania (5.82),

(continued...)

16. Besides relaxing the regulatory constraints on foreign investors, a number of countries have taken significant steps to make them attractive hosts for FDI, primarily by granting various fiscal and financial concessions or incentives. In an expanding world economy where countries compete with each other for investment, fiscal incentives, including tax holidays and subsidies, have become a potentially important policy instrument to attract FDI (see Box 2). Almost all countries in Africa have sought to lure FDI, albeit with limited success, by offering various kinds of tax concessions tailored to meet specific objectives. Tax concessions have been provided to locate FDI in certain regions of the country (Guinea and Kenya), in certain sectors of the economy (Côte d'Ivoire and Senegal) and sometimes to promote labor-intensive investment (Lesotho). In those countries seeking to promote export-oriented growth, tax concessions have almost become a norm. In addition to providing tax concessions, many African countries have sought to promote FDI by creating EPZs. Mauritius is a good example of a country that has succeeded in receiving well-diversified investment through the setting up of EPZs, and although many other countries (Botswana, Cameroon, Ghana, Kenya, Madagascar, etc.) have had limited success in attracting FDI through EPZs, the concept is still quite popular in Africa.

Box 2. Tax Incentives and Foreign Direct Investment

In the context of competition to attract larger shares of global FDI flows, it has become quite common for countries, and to smaller extent states or provinces within a country, to offer tax incentives. Tax incentives from governments to foreign investors have taken the form of up-front subsidies, subsidized loans linked to purchase of land or other inputs, and tax holidays.

Despite the widespread practice of offering tax incentives, most research indicate that the impact of tax incentives on investment location decisions is quite minimal relative to other host-country determinants. Factors such as market size, cost of local labor, availability of infrastructure, economic and political uncertainty, and the legal and regulatory framework in the host country, have been assigned much higher weights by investors seeking to locate their affiliates abroad. In a survey of 30 MNCs covering 74 investment projects in four industries—automobiles, computers, food processing, and petrochemicals—many companies reported that incentives were frequently not even considered and simply made an already attractive country more attractive (World Investment Report, 1998, pp.103)[13]. Investment decisions were made mainly on the basis of economic and long-terms strategic considerations concerning inputs, productions costs, and markets. Academic research note that tax incentives are motivated by the need to signal favorable investment conditions, and that they are likely to be used by host country authorities when investment risk is large, market size is small, and/or when the existing stock of FDI in that country is small (Raff and Srinivasan (1998)). Another study (Vallanchain and Satterthwaite, 1992) concludes that while fiscal and financial incentives do not influence investment location decisions, the establishment of enterprise zones and research parks do.

Notwithstanding the lack of empirical evidence to support the role of tax incentives in influencing investment decisions, one could argue that when investors narrow their choice of investment location, tax incentives may have an impact on the final decision at the margin.

Uganda (6.04), Zambia (5.90), and Zimbabwe (5.22). The average for all other countries was 5.70.

[13] This is based on the analysis by Guisinger, 1983, 1989, and 1992.

17. Furthermore, realizing that the overall investment climate and the credibility of investor-friendly policies have an important bearing on FDI flows, many countries have sought to enhance credibility through negotiations of various bilateral and multilateral investment and trade treaties.[14] Investment treaties, often encompassing a most-favored nation clause, seek to provide foreign investors assurances on various aspects of policy that affect investment decisions, including expropriation, repatriation of profits, and settlement of disputes. Trade treaties, on the other hand, while stimulating freer flow of goods and services, often through most-favored nation clauses, serve as a conduit for a free flow of capital, which complement trade flows.[15]

18. Privatization of state-owned enterprises has provided countries pursuing structural reform another channel to attract FDI. While it has been accepted by many African countries that privatization of state-owned enterprises reduces the burden on the budget and could serve as a signal of government's commitment to economic reform, the objective of empowering the native population, while fully justifiable, has often delayed the process. This said, however, a number of countries have attracted FDI through this channel (Box 3).

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[14] Through the end of 1999 about 1,857 bilateral investment treaties were concluded.

[15] By 1998, 41 African countries had signed the Convention establishing the Multilateral Investment Guarantee Agency (MIGA) along with the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. A number of African countries (40) have adopted the Paris Convention for the Protection of Industrial Property, while 41 countries have signed one or more agreements in the WTO relating to FDI, such as the Trade Related Propsects of Intellectual Property Rights (TRIPS) or Trade Related Investment Measures (TRIMS) Agreements. [See World Investment Report, 1998–2001.]

Box 3. Privatization and Foreign Direct Investment

Steadily expanding privatization programs in many countries have paved the way for foreign investment in Africa. A significant share of privatization-related FDI, in large part in the telecom and mining sectors, in the 1990s were channeled to selected countries, including Angola, Ghana, Kenya, Mozambique, Nigeria, and South Africa, and there were significant differences across the regions. For example, in 1996, almost 50 percent of privatization proceeds in sub-Saharan Africa were raised through sales to foreign investors, while foreign exchange earnings from privatization in North Africa are estimated to have been less than 10 percent of the value of total sales. It is estimated that privatization-related FDI amounted to about 14 percent of FDI inflows to Africa from 1990 through 1998 (Pigato and Liberatori (2000)). According to the World Investment Report (2000), in sub-Saharan Africa, South Africa ($1.4 billion), Ghana ($769 million), Nigeria ($500 million), Zambia ($420 million), and Côte d'Ivoire ($373 million) were the most important recipients of privatization-related FDI over this period, with the bulk of the privatization taking place in the telecommunications and mining sectors. [1]

Despite a slowdown in privatization-related FDI in 1999, in large part because of fewer privatization projects, the effort to attract more foreign investment through privatization is likely to gain momentum over the next several years. The Government of Mauritius in November 2000 completed the sale of 40 percent of Mauritius Telecom to France Telecom for about US$260 million, while many other countries have ambitious plans to further the process of privatization over the near to medium term. Ghana, for example, plans to privatize a cocoa buying company, an oil refinery and an oil company, pharmaceutical and bottling companies, and a palm oil plantation, while other countries, including Kenya, Lesotho, Nigeria, and South Africa are preparing for large-scale privatization in the power, telecom, and transportation sectors.

[1] Source: World Investment Report, 2000

19. As argued above, although there have been numerous policy innovations (Box 4), macroeconomic instability, red tape, the threat of civil unrest and conflicts are still a large source of concern, and can to some extent explain why Africa's share in global FDI inflows has declined and remains small. There is now a growing awareness that investors are very sensitive to economic and political stability, and in addition would prefer to invest in countries where the macroeconomic, legal, and regulatory frameworks are conducive to foreign investment. Policy makers are becoming increasingly aware of the fact that tax incentives and EPZs will not do the trick, and if the overall macroeconomic picture appears grim and structural impediments are pervasive, investors will look askance.

Box 4: Summary of Main Policy Measures in Africa to Attract FDI

- Protection against expropriation of investments
- Opening more sectors and industries to FDI
- Lower government participation in equity holding; abolition of mandatory joint ventures
- More expedited approval procedures and creation of one-stop investment centers
- Measures to protect property rights and facilitate technology transfer
- Reduce controls on capital outflows
- Privatization
- Signing of bilateral and multilateral trade and investment agreements
- Provision of tax incentives and creation of EPZs

20. Using the taxonomic classification elaborated in Section II, we will analyze the experience of seven countries in securing relatively large amounts of FDI. For each country case, in addition to elaborating the determinants of FDI, we have identified in text boxes some of the more prominent factors influencing investor sentiment.

IV. Foreign Investment and Natural Resources

21. As mentioned above, a large share of FDI in Africa has been in countries that are abundant in natural resources. It is in mining of high-value minerals and petroleum where Africa is particularly prominent as a host to FDI and where great potential for future FDI exists. In terms of the volume of FDI received, Angola, Botswana, Côte d'Ivoire, and Nigeria have consistently been among the top ten countries in Africa. While there are quite a few countries abundant in some type of natural resources, only some have been successful in obtaining *diversified* FDI. We analyze the experience of Botswana and Namibia, where the abundance of natural resources along with economic and political stability has led to FDI across the major sectors of the economy.

A. Botswana

22. Botswana's ecology is very delicate. With only 5 percent of the land being arable and inadequate availability of water being a perennial constraint, agriculture-based growth is almost impossible, and the country has been forced to rely on its mining sector to generate economic growth. Its resource endowment comprises mainly of diamonds in the Kalahari Desert, copper deposits at Selebi-Phikwe, coal, and soda ash. The mining sector accounts for more than 50 percent of GDP, government revenues from mineral taxes and royalties account for more than 50 percent of the total revenue intake, and diamond exports account for almost 75 percent of total exports. Relying on FDI for the development and export of its natural resources, Botswana advanced from the group of the world's poorest countries at its independence to the group of middle-income countries by 1990.

23. GDP growth has averaged about 7 percent per annum between 1985 and 1999. Over the same period, inflation has averaged about 12 percent per annum, with a sharp decline in the second half of the nineties. Over the entire period, significant surpluses have been registered in the fiscal and external current accounts. In trying to strengthen macroeconomic fundamentals, the government has built up substantial foreign reserves (US$6 billion at end-2000, with an import cover of about 30 months) to provide an adequate cushion against exogenous shocks, while an appropriate monetary policy stance has helped contain inflation and allowed the exchange rate to stabilize (Table 7).

24. Official data indicate that about two-thirds of total foreign private investment in Botswana originates from Europe, a fifth from the United States, and most of the remainder from South Africa. Investment by the United Kingdom is mainly in construction companies, financial services, and manufacturing, while U.S. investment is mainly concentrated in mining, manufacturing, and tourism. The European total includes a number of offshore centers, such as Liechtenstein and Luxembourg, which obscures the ultimate source of the investment funds.[16] Over two-thirds of private investment is in the mining sector, followed by trading (16 percent of the total), reflecting the establishment of subsidiaries in Botswana by many South African retailers. There is also significant participation by South African companies in the transport sector.

[16] Estimates of the Bank of Botswana.

Table 7. Macroeconomic Indicators for Seleceted Countries in Africa, 1985-99

	Botswana	Lesotho	Mauritius	Mozambique	Namibia	Swaziland	Uganda
Real GDP growth (percent per annum)							
1985-89	13.1	6.4	8.6	6.8	2.9	10.7	4.9
1990-94	4.5	4.3	5.5	2.8	8.3	3.9	6.3
1995-99	5.8	3.9	5.3	8.5	4.8	3.7	7.6
1985-99	7.4	4.8	6.3	6.0	5.5	5.8	6.4
Inflation (CPI; percent per annum)							
1985-89	14.6	14.0	5.6	76.3	13.5	14.1	164.2
1990-94	12.8	13.5	8.9	45.5	12.2	11.1	29.0
1995-99	8.6	8.8	6.6	21.8	8.3	8.0	5.4
1985-99	11.8	12.0	7.1	45.8	11.2	10.8	59.2
Gross fixed capital formation (percent of GDP)							
1985-89	26.8	37.0	22.2	13.1	14.9	20.4	8.6
1990-94	29.1	53.8	28.5	22.5	20.5	24.1	15.2
1995-99	26.0	51.3	26.7	24.5	21.2	33.6	16.7
1985-99	27.3	47.4	25.8	20.1	18.9	26.0	13.5
Exchange rate (end of period)							
1985-89	1.86	2.31	14.00	339.14	2.29	2.27	53.08
1990-94	2.22	3.05	16.13	2,891.26	3.00	3.00	909.15
1995-99	3.72	4.97	20.34	11,253.76	4.83	4.82	1,103.02
1985-99	2.60	3.44	16.83	4,828.05	3.37	3.36	688.42
Overall fiscal balance excluding grants (percent of GDP)							
1985-89	15.1	-20.7	-3.7	-12.4	-9.4	-0.6	-17.4
1990-94	6.3	-4.3	-2.4	-15.2	-3.6	-0.8	-9.6
1995-99	2.1	-6.7	-5.4	-11.6	-4.9	-0.2	-6.1
1985-99	7.9	-10.6	-3.8	-13.1	-5.7	-0.5	-11.0
Government spending on education (percent of GDP)							
1985-89	13.2	14.5	12.8	7.7	na	na	na
1990-94	16.8	21.3	14.0	7.4	21.4	na	6.1
1995-99	22.9	23.0	15.4	3.4	23.8	na	16.7
1985-99	17.6	19.6	14.1	6.2	22.6	na	11.4
External current account balance excluding grants (percent of GDP)							
1985-89	10.4	-6.7	-0.7	-6.1	-13.9	5.6	-1.1
1990-94	3.7	-9.2	-2.5	-0.6	-10.2	0.2	-12.1
1995-99	5.4	-6.1	-2.2	-0.1	-8.5	-2.2	-9.4
1985-99	6.5	-7.4	-1.8	-2.3	-10.8	1.2	-7.5

Source: IMF staff estimates
Note: The abbreviation "na" denotes that data were not available.

Box 5. Botswana: Main Determinants of FDI

- Political stability
- Strong macroeconomic fundamentals
- Good governance and low levels of corruption
- Investment in human and physical capital
- Low cost of local labor
- Low tax rates

25. In response to the slump in world market prices for diamonds (1992–1994) that had led to a fall in export earnings, government revenue, and economic growth, the government focused on efforts to diversify the economy and has taken steps to broaden the production base by encouraging more broad-based FDI. Botswana has recently succeeded in attracting investment in manufacturing activity linked to the mining sector. For example, the private sector has shown considerable interest in cutting and polishing diamonds, and the single biggest firm to arrive is from the United States (Lazare Kaplan International), which has formed a joint venture with the government (share 15 percent). Botswana has also succeeded in attracting export-oriented foreign investment in textiles (mainly from Malaysia, South Africa, and Zimbabwe), auto (assembly of Volvo from semi-knocked down (SKD) kits), and the beef industries. Being a member of SACU has also helped. It has been observed that Volvo established an assembly plant in Botswana to cater primarily for the South African market and also to tap the emerging car markets of neighboring Namibia and the Democratic Republic of Congo (Corporate Location, 1994).

26. A favorable macroeconomic environment arising from the adoption of sound fiscal and monetary policies, liberalization of exchange control, the deregulation of interest rates, as well as institutional development such as the establishment of a well-functioning stock market and the restructuring of the National Development Bank, have been important in promoting the private sector as the engine of growth. A stable multiparty parliamentary democracy and an efficient functioning of political institutions have allowed good governance, and have contributed towards transparency and accountability in the operations of the government. It has been argued that one of the reasons why Hyundai decided in 1993 to establish its car assembly plant in Botswana, mainly to serve the South African market, was because it was perceived as a stable country with a strong economy and fewer uncertainties than other potential locations (Corporate Location, 1994). According to the Africa Competitiveness Report, 1998, corruption was the lowest in Botswana among all African countries, and was comparable with many OECD countries. All these factors have been instrumental in providing foreign investors a congenial environment to invest.

27. Bearing in mind the importance of the mining sector, and its ability to attract substantial private investment, the government has sought to reduce its direct participation in the mining industry. In addition, it has actively redirected expenditure towards improving human capital and health-care provision. Labor in Botswana is relatively cheap, while labor productivity is high compared with most other countries in the region, in large part because of the substantial investment in human capital. The market is largely free of rigidities, and tax rates are the lowest in the region. The tax regime has been overhauled over the past three years to provide appropriate incentives to attract FDI. These factors have played an important role in attracting export-oriented FDI into the country.

28. More recently, in order to further promote private sector initiative, the government has formulated the Financial Assistance Policy (FAP) as one of the vehicles to promote investment through the reduction of the cost of establishing a business. The setting up of the Selebi-Phikwe EPZ to attract export-oriented FDI, and the establishment of the National Productivity Center and the Accelerated Land Servicing Program, both of which were created to remove structural bottlenecks faced by foreign investors, provide further evidence of the government's interest in promoting private sector initiative and FDI. Furthermore, the government has stepped up its efforts to promote domestic and foreign private investment in the industrial sector. The reorganization of the Trade and Investment Promotion Agency (TIPA), the government's main industrial promotion body, is an important factor in this regard.

29. Notwithstanding the governments' recent efforts to promote manufacturing activities by attracting FDI, foreign investment in manufacturing and services is less than 10 percent of the total stock of FDI inflows. Moreover, the result of the ongoing renegotiation of SACU could also affect adversely the future of Botswana's manufacturing sector. In light of this, the efforts to sustain economic growth through FDI will need to focus on removing impediments that deter further inflows of FDI. In the future, provided key policy impediments are eliminated, Botswana could exploit benefits of agglomeration economies that the mining sector can potentially generate for the manufacturing and services sectors. Efforts to eliminate overregulation, including through cumbersome industrial and trade licensing procedures, restrictions on the issuance of work permits, and price controls, and to address the scarcity of skilled labor would promote diversification of investment activity. While the quality of infrastructure is reasonably good, the problems of very high utility rates compared with other countries in the region and of slow progress in privatization of public enterprises need to be addressed to encourage foreign investment.

B. Namibia

30. Namibia is endowed with substantial natural resources. The country is among the top twenty mining countries in the world, with diamonds and uranium ore being the leading commodities. Besides mining, the country derives significant growth from marine fishing and agriculture, both of which serve as important sources of exports. Relative to other countries in Africa, Namibia is a reasonably rich country with an average per capita income of around US$2,000, although income distribution is highly skewed. GDP growth has

averaged about 5.5 percent per annum between 1985 and 1999, while inflation, which averaged about 11 percent over the same period, has been contained to single digits in the second half of the nineties. FDI inflows to Namibia have increased significantly over the past few years—averaging about 4 percent of GDP per year in the second half of the 1990s.

31. Based on a multiparty system, the existing government was elected democratically, and political stability has been established. The presence of an independent judiciary has allowed an effective means to protect property and contractual rights, while an ombudsman has power to investigate wrongdoing by the government. Despite its revolutionary origins, the government has pursued a mixed economy. Foreign investors have access to all industries. Investors have generally regarded the local court system as an effective means to enforce property and contractual rights. As indicated above, in the country rating on protection of FDI, Namibia scored high points (see footnote 9). The London Economic Intelligence Unit in 1997 awarded Namibia a Country Credit Risk rating in the B category, while the World Economic Forum (1998) awarded Namibia fourth place ranking in the Competitiveness Index for the whole of Africa.

Box 6. Namibia: Main Determinants of FDI

- Political stability
- Favorable macroeconomic environment
- Independent judicial system; protection of property and contractual rights.
- Good quality of infrastructure.
- Easy access to South Africa

32. Macroeconomic stability has been a cornerstone of Namibia's relative success in attracting FDI. Despite a relatively large civil service and the associated wage bill, the overall fiscal balance (excluding grants) has been manageable—it has averaged about 5.7 percent between 1985 and 1999, although there has been some weakening in the second half of the nineties. The external current account deficit (including grants) has continuously registered a surplus. Infrastructure, both human and physical, is good by African standards, and has been important in attracting FDI into the country.

33. As in Botswana, FDI in Namibia seems to have been influenced by its membership in the Southern African Customs Union (SACU), which has allowed investors to have easier access to the large market in South Africa. Moreover, as an active member of the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the SACU, Namibia has pursued cooperation in the fields of cross-border trade and investment to enhance regional prosperity. Furthermore, it has concluded bilateral Investment Promotion and Protection Treaties with France, Germany, India,

Malaysia, and Switzerland, while negotiations with South Africa, the U.K., and many other countries are ongoing.

34. In general, the government has focused on addressing two principal concerns of large investors: protection of property rights and guarantees about the availability of foreign exchange to meet essential investment requirements. Under the law, if investment is expropriated, fair value would be assessed and the investor reimbursed without delay. It also allows for international arbitration when dispute arises between the state and the investors. Foreign exchange is also freely available, while there are few restrictions on the repatriation of capital and profits. In the area of restrictions on repatriation of dividend and profits, Namibia has scored favorably with investors (see footnote 9).

35. The Namibia Investment Center serves as a one-stop information center, capable of providing a full range of investment-related facilitation services, including immigration and customs assistance, incentives evaluation and other approval processes. In close cooperation with the Investment Center, the Offshore Development Company (ODC), which was established in 1996 as a private sector company with a minority government shareholding, monitors, regulates, and promotes Namibia's EPZ status, and ensures that a properly completed application form is processed within a minimum of one week and a maximum of one month. The government has also provided special guarantees for specified types of investment. More recently, an EPZ based on the successful model adopted in Mauritius has been set up to attract export-oriented foreign investment.[17] The government's commitment to attracting FDI is further evident, as it has located offices of its investment promotion agency abroad. To complement and diversify the EPZ regime, Namibia is currently drafting legislation for the establishment of an Offshore Financial Services Industry. This industry has as its objectives, the provision of financial support to EPZ enterprises, the creation of high value-added employment, the diversification of the financial services sector, and the integration of Namibia into the global economy.

36. Under a new investment policy regime, foreign investors receive national treatment. The corporate tax rate is low, although, unlike some other countries in Africa, the country has relied less on tax incentives or concessions to attract foreign investment.[18] The government has adopted the approach that if other economic conditions are favorable, then tax incentives are wasteful.

[17] The extremely generous incentives of the EPZ offer a totally tax free environment, including exemption of tax on corporate profits, zero import duty on machinery and raw materials, and a zero sales tax.

[18] However, the existence of double taxation treaties and the unilateral double taxation relief offered by many capital exporting countries make it hard to analyze the impact of tax incentives.

37. Despite the relative soundness of the macroeconomic position, areas of concern remain, which in turn could affect investor sentiment. In particular, in light of the weakening of the fiscal performance in the second half of the 1990s, efforts need to be made to place the public finances on a sustainable path over the medium term, including through measures to contain the public sector wage bill and transfers to inefficient state-owned enterprises. This is particularly important since fiscal revenues that originate from the SACU common revenue pool are likely to decline considerably over the medium-term. In addition, government needs to reorient expenditures to *inter alia* improve the skills base of the labor force, expedite the privatization of state-owned enterprises, and improve competitiveness through eliminating regulations that undermine the smooth functioning of labor markets.

38. To summarize the experiences of Botswana and Namibia, one could argue that in addition to having access to abundant natural resources, the pursuit of good economic policies within the framework of a stable democratic political system has allowed both countries access to a relatively large share of FDI flows to Africa. In addition, FDI in these countries, rather than being concentrated solely in activities intensive in natural resources, has been quite diversified across the major sectors of the economy. This is in contrast to other countries, such as Angola and Nigeria, which are rich in natural resources (such as oil and gas), and have been able to attract FDI mainly in activities intensive in these resources, where the risk-adjusted returns are rather high, while other sectors of the economy have attracted much less attention by investors.

V. Foreign Investment Triggered by Locational Advantages

39. The imposition of global sanctions on South Africa had a positive externality for certain countries, such as Lesotho and Swaziland, which served as the conduit of trade between South Africa and a number of third countries. Multinational firms that wished to serve the large market in South Africa in the face of economic sanctions, located their subsidiaries in Lesotho, which is landlocked by South Africa, or in neighboring Swaziland to produce goods that were primarily exported to South Africa.

A. Lesotho

40. In Lesotho, a rather robust overall macroeconomic situation through most of the 1990s has contributed to economic stability, which in turn has been partially responsible for political and social stability. Real GDP growth has averaged about 4.8 percent per annum between 1985 and 1999. Over the same period, inflation averaged 12 percent per annum. The overall fiscal deficit (excluding grants) averaged 20 percent of GDP per year in 1985–89, but declined sharply to about 5 percent of GDP per year in 1990-99. This allowed the current account balance to improve and helped strengthen the balance of payments position substantially, thereby allowing the exchange rate to remain relatively stable (Table 7).

41. The manufacturing sector's contribution to GDP has increased from an average of 12.5 percent in 1991–1995 to about 15 percent in the period thereafter. Almost 30.5 percent of total value added in this sector originates in textiles and clothing, where most of the FDI

coming from South Africa and the Far East has concentrated. Labor-intensive manufacturing of textiles, leather goods, electronics, and light-manufactured products has also increased rapidly.

42. The Lesotho Highlands Water Project (LHWP), which was set up to exploit and export water, accounted for about 90 percent of total foreign investment in the five years ended in 1995/96. The project resulted in an increase of foreign-financed construction activity. As indicated above, Non-LHWP investment has been concentrated mainly in the clothing, electronics, and footwear industries.

43. Foreign private investment has played an important role in Lesotho following the authorities' gradual shift toward a more outward-looking strategy, supported by a broad range of efforts and incentives to attract foreign investors. The beneficial effects of proximity to South Africa when it faced economic sanctions and the preferential trade access available to firms located in Lesotho also contributed significantly to its success in attracting foreign investment.

Box 7. Lesotho: Main Determinants of FDI

- Political stability
- Sound macroeconomic stance
- Cheap, disciplined, and skilled labor force.
- A proximate entry point for investors to cater to the South African market
- Generous provision of tax incentives and a strong investment promotion program.

44. Investors have been attracted by the authorities' strong investment promotion program, which included significant tax incentives. Under the export-financing scheme established in 1988, the Central Bank of Lesotho provides collateral for pre- and postshipment export credits on concessional terms for nontraditional exports. Also, incentives in the form of income tax holidays for a period of ten years were provided for certain manufacturers approved by the Pioneer Industries Board under the Pioneer Industries Encouragement Act. Further incentives were provided through the Investment Promotion Center, which offers coordinated "one-stop" investment advisory services to large domestic and foreign investors, and undertakes an active promotional program of visits, advertising, and contacts to attract potential investors.

45. A relatively cheap, but disciplined and skilled labor force, preferential access to important world markets (including South Africa, the Far East, and the European Union), and proximity to the port of Durban have all been significant in channeling foreign investment into the country.

46. Notwithstanding the success it has achieved in attracting FDI, a number of issues need to be addressed before Lesotho can continue to receive FDI on a large-scale and sustained basis. Operations of the local utilities are not very efficient. For example, the price of electricity, provided by a state monopoly Lesotho Electricity Corporation (LEC) to industrial users, is estimated to be about 40 percent higher than in South Africa, while the availability of telecommunication and water facilities is a source of serious concern. To foreign investors, the high cost of utilities detracts from the advantage stemming from the relatively low cost and high productivity of labor in Lesotho. Most of the foreign-owned companies' fixed assets are small, in part because foreign investors are not allowed to acquire land. Moreover, most materials used in the production process are imported and local value added is therefore modest. Linkages between the manufacturing industry and other sectors of the economy continues to remain weak.

B. Swaziland

47. Economic development in Swaziland, a small country with a population of 900,000 and bordered on three sides by South Africa, is largely determined by developments in the agriculture and manufacturing sectors, whose combined share averaged about 48 percent of GDP in 1990–95. As a result of the limited size of the local market, the bulk of the output from the agriculture and manufacturing sector is exported, while a considerable share of inputs and final consumption goods are imported. Four export industries specializing in processing agricultural and forestry products, that include wood pulp production, soft drink concentrate, fruit canning, and sugar processing, dominate the manufacturing sector. The Swazi economy has remained closely linked to that of South Africa, which accounts for some 90 percent of Swaziland's imports and about 75 percent of its exports.

48. The country's political stability and large-scale foreign investment sustained rapid economic growth, averaging about 6 percent between 1985 and 1999. Inflation over the same period, averaged about 11 percent, and has declined sharply in recent years. The strong fiscal position sustained over a number of years—overall fiscal deficit (excluding grants) has averaged about 0.5 percent per year in 1985–99—in conjunction with an appropriate monetary stance, has allowed a strengthening of the external position and has helped stabilize the exchange rate (Table 7).

49. The historical pattern of GDP growth in Swaziland suggests a strong contribution of investment flows to growth. Over 1991–94, net FDI averaged about 4 percent of GDP per year, below the average 7 percent of GDP per year achieved during 1987–90; the contribution has declined somewhat since then. Similar to the case of Lesotho, economic sanctions on South Africa helped Swaziland's efforts to attract investment that targeted the large market of the former. In addition to the access to South Africa, FDI in Swaziland was influenced by the strong macroeconomic position, low cost of local labor, and the generous provision of tax incentives.

Box 8. Swaziland: Main Determinants of FDI

- Political stability.
- Sound macroeconomic stance.
- Strong ties to the South African market.
- Cheap and productive work force.
- Generous provision of tax incentives.

50. Labor in Swaziland is cheap and very productive. Over the period 1985–94, Swaziland's ULCI in manufacturing (defined as the ratio of the average nominal wage index to the labor productivity index) declined by 62 percent. In particular, the significant cost improvement in 1986 was attributed to productivity gains caused by the inflows of new FDI, following the imposition of economic sanctions on South Africa. In contrast, the ULCI for South Africa and Botswana rose sharply over the period under review, by 234 percent and 30 percent, respectively, owing to a rapid growth in labor costs. Furthermore, Swaziland's profitability-based competitiveness for the period 1985–94 (estimated by Swaziland's ratio of CPI to the ULCI, divided by that of South Africa), improved much faster than the same competitiveness indicators of other countries in the region.

51. In recent years, however, economic growth has been adversely affected by a lack of manufacturing expansion following a marked slowdown in the growth of new FDI following the peaceful political transition in South Africa. Since 1991, Swaziland has not experienced new large investment inflows, particularly in the form of equity capital participation. Also, during the latter part of 1990–95, the source countries for equity capital inflows into Swaziland shifted from other countries (excluding South Africa) to South Africa. With the exception of a continued increase in equity capital from South Africa to the paper industry, the declining trend in FDI since 1991 has continued through 2000. Existing foreign firms, however, continue to reinvest their earnings in the country.[19]

52. The major short-term risk to the outlook facing the economy of Swaziland is that the prospects for FDI in the export sector and export expansion could be adversely affected, partly because of continuing wage pressures leading to a loss in competitiveness and a weakening market confidence that could follow delays in implementing the necessary structural reforms. Factors affecting the slow growth of FDI include the cumbersome approval system for new investment, problems with work permits for expatriates,

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[19] For example, reinvestment inflows accounted for more than 90 percent of total FDI inflows in 1994–95.

deteriorating public utilities (severe infrastructure problems exist, especially in telecommunication and electricity supply), lack of an investment code, shortage of skilled labor, and more recently, the dampening effect of political uncertainty in the wake of mounting pressures for political reform.

53. To summarize the experiences of Lesotho and Swaziland, it can be noted that in addition to very specific locational advantages the two countries enjoyed through their relationship with South Africa, political stability, the adoption of reasonably sound macroeconomic policies, the presence of a cheap and productive labor force, and, to a smaller extent, the provision of generous tax incentives helped influence investment location decisions. While it would be difficult to speculate on the volume of FDI flows in these countries in the absence of factors complementing the specific locational advantage, it would be fair to argue that such complementary factors were quite critical in influencing investor sentiment.

VI. Foreign Investment Triggered by the Provision of Specific Incentives

54. In the absence of access to natural resources, a few countries in Africa have successfully competed with other countries for FDI to serve as export platforms. In addition to providing a stable economic environment, the governments in these countries have provided special incentives to foreign investors, and have been actively involved in the creation of export processing zones. In addition, investment in education and physical infrastructure has been undertaken. A striking example of such a country is Mauritius. Using this approach, Mauritius has been successful in obtaining diversified foreign investment, while other countries, such as the Seychelles, have succeeded in promoting specific sectors of the economy (such as tourism).

A. Mauritius

55. At independence, the Mauritian economy was almost entirely reliant on sugar. In contrast to most countries in Africa, the absence of mineral resources necessitated significant investment in human capital to achieve economic progress. Sustained policies of economic diversification, liberalization, and export orientation, coupled with the country's political stability and bilingual labor force, have succeeded in attracting foreign investment.

56. Real GDP growth averaged 6 percent per annum between 1985 and 1999. Economic growth is currently well balanced around four main sectors of the economy, namely agriculture, led by the sugar industry, tourism, manufacturing for export, mainly through EPZs, and more recently, offshore financial services. Inflation has been contained to single digits for many years, while a commitment to fiscal discipline has allowed a strengthening of the external current account—the overall fiscal deficit (excluding grants) has averaged about 4 percent per year in 1985–99, while the external current account (excluding grants) has averaged about 2 percent per year over the same period (Table 7).

Box 9. Mauritius: Main Determinants of FDI

- Political stability
- Sustained economic reform and macroeconomic stability
- Bilingual, skilled, and cheap labor force
- Good quality of infrastructure
- Creation of EPZs
- Preferential access to EU and the United States

57. In Mauritius, while the sugar sector remains an important source of foreign currency, accounting in 1998/99 for about 14 percent of earnings from exports of goods and services, its prominent position in this regard was surpassed by the EPZ (nearly 45 percent) and tourism (18 percent) sectors. Reflecting the ongoing diversification of the Mauritian economy, beginning in 1993/94, tourism emerged as the second most important source of foreign currency, behind the EPZ sector, but ahead of the sugar sector.

58. During 1993–95, the manufacturing sector accounted for approximately 23 percent of GDP, about half of which was attributable to the EPZ sector. Indeed, the non-sugar sector's share of manufacturing continued to increase from slightly less than 89 percent in 1989 to almost 93 percent in 1994. The EPZ sector, which is dominated by textiles and wearing apparel, represents a steadily growing share of merchandise exports, reaching more than 68 percent during 1997–98, up from some 60 percent in 1989. Thus, over a period of 15 years or so, EPZ exports grew more than six-fold in foreign currency terms to reach almost US$900 million in 1995. More than 90 percent of the EPZ sector's exports are destined to the EU and the United States.

59. Since the early 1980s, Mauritius has enjoyed remarkable success in expanding its manufacturing industry and export base, because a strategy of export-oriented manufacturing was introduced and subsequently pursued with a high degree of commitment and consistency. Having unsuccessfully pursued a policy of import-substitution in the immediate years following independence, which did not address large-scale unemployment, the government focused attention on promoting exports and free trade zones. There was a major effort to attract FDI from Hong Kong, especially in the textile industry, and later on from Europe, and investors were given various incentives, such as import duty exemptions and zero taxation of dividends, if they located their subsidiaries in the country. Furthermore, unlike in many African countries, investors were not required to form joint ventures with the government. As a result, Mauritius was successful in attracting significant export-oriented foreign investment.

60. Furthermore, after the recessionary phase between 1977–82, the new government formed in 1983 took additional liberalizing measures to phase out exchange controls. The government also set up the Mauritius Export Development and Investment Authority (MEDIA) to provide support to investors, while new fiscal measures, which led to a further reduction in real wages, encouraged export-oriented investment. This new phase also resulted in further diversification of investor interest in other areas of the economy. Investment trickled into the capital-intensive production of plastics, computers, electronics, watches, and motorcycles.

61. Mindful of the risks of too high a dependency on textiles, the authorities also pursued a number of initiatives to encourage diversification of the EPZ sector into other industries. Thus, the MEDIA is promoting investments in nontextile industries, including plastics, leather, jewelry, computer software, electronics, and pharmaceuticals. In an attempt to further diversify the Mauritian economy and establish the so-called fourth pillar, enabling legislation for offshore services was passed in 1992, including the Freeport Act and the Mauritius Offshore Business Activities Act. The offshore business in Mauritius consists of offshore banking, which comes under the supervision of the Bank of Mauritius, and non-banking activities, which are licensed and supervised by the Mauritius Offshore Business Activities Authority (MOBAA). MOBAA was established in 1992 as a one-stop shop for foreign investors and as an advisory agency for the government on offshore business matters. The licensing and promotion of offshore business in Mauritius has recently undergone some further modernization. With the passage of the Financial Services Development Act in 2001, a new supervisory agency was created for all nonbank financial services, which will also take over the licensing and supervisory functions of MOBAA. However, the offshore business sector employs only about 500 persons, albeit in high-paying jobs, such as in legal and accounting fields, and its contribution to GDP is still very small.

62. A host of factors has contributed towards the success Mauritius has achieved in attracting diversified foreign investment. To begin with, a clear consensus has evolved over time among the main political parties on the broad thrust of economic reform and liberalization and on clearly articulated policies favorable to FDI. Several factors have contributed to keeping the costs of doing business low, including the low cost of skilled labor, an efficient physical infrastructure, a sound legal system for dispute settlement and transparent accounting practices geared to annual reporting. Moreover, investors have benefited from preferential access to the European Union and the United States markets. Furthermore, the complete removal of exchange controls has facilitated FDI inflows; it has also resulted in Mauritius investing in other African countries, including Mozambique and Seychelles.

63. Despite the success achieved in promoting foreign investment and economic growth, both investment and growth continue to be constrained by the lack of an adequately qualified labor force with the necessary skills to operate increasingly sophisticated technology. The conclusion of the Uruguay round of trade negotiations and the accompanying agreement to phase out the Multi-Fibre Agreement over the ten-year period 1995–2005 has added to the challenges facing the EPZ sector, as Mauritius's trading partners liberalize their textile and

clothing markets, thereby eroding the country's preferential access to these markets. There is an urgent need to promote technological upgrading and facilitate research and development, while investment in education and skills-building needs to be enhanced.

64. To summarize, Mauritius has attracted significant amounts of FDI, a large part of which is export oriented, through the creation of EPZs and the provision of tax incentives. This should, however, not distract attention from the essential elements of an investment-enabling framework that has been critical to Mauritius's success in securing FDI. In the context of global competition for export-oriented foreign investment, including from the newly-industrialized Asian economies, political stability, the adoption of a disciplining macroeconomic framework, the availability of bilingual and cheap labor, and the presence of good quality infrastructure have been factors critical in channeling FDI flows into Mauritius.

VII. Foreign Investment Triggered by Broad-Based Economic Reforms

A. Mozambique

65. Mozambique has benefited from political stability, following the end of the civil war. It has allowed policy makers to focus attention on measures to promote macroeconomic stability, achieve rapid economic growth and alleviate widespread poverty. Economic growth has averaged about 8.5 percent per annum in 1995–99, while inflation, which averaged about 75 percent per annum in the eighties, has declined to single digits in recent years. A significant reduction in the government's fiscal deficit, allowing an improvement in the external current account, reflects the government's long-term commitment to macroeconomic stability and a market-friendly environment for investors to do business. The exchange rate has appreciated and has remained relatively stable over the past few years (Table 7).

Box 10. Mozambique: Main Determinants of FDI

- Political stability
- Sustained economic reform that has led to macroeconomic stability
- Protection of investment and enforcement of property rights
- Tax holidays and fiscal incentives
- Privatization
- Liberal policies on remittances of profits and dividends.

66. Between 1989 and 1994, annual FDI flows into Mozambique averaged US$21 million. Over the period 1995–2000, however, annual FDI flows increased rather sharply to average US$153 million, and the outlook looking ahead is positive (Table 5). Official data indicate that between 1985 and 1997, the Investment Promotion Center (IPC) approved 901 projects worth US$3.4 billion. In 1997 alone, 184 projects worth US$1.8 billion were approved, and of this, one mega project targeting the aluminum industry was worth US$1.3 billion.

67. To establish an environment conducive to foreign investment, the government implemented a strong economic and structural reform program. In this context, by opening up its economy to competition, the government has been encouraging private investment in most sectors of the economy and has sought to eliminate discrimination between foreign and domestic investors. The law provides equal treatment to foreign and domestic investors and requires the government to make full and fair compensation for investment that is expropriated for any reason.[20] Besides the availability of low cost labor and cheap sources of energy (natural gas, solar energy, and hydro-electricity), the security and legal protection of investment, and the provision of numerous tax incentives have made Mozambique an attractive venue for investment. The government has also redirected expenditure towards improving infrastructure facilities, and aided by private investment, improvements in telecommunications facilities, roadways, and port facilities are ongoing. The regulations governing the Industrial Free Zones, which were designed to attract investors with a minimum investment of $5 million and a required minimum export content of 85 percent of production, came into effect in January 1998. Preferential access to EU and other markets under the Lomé Convention and the Generalized System of Preferences have provided further incentives for investment location.

68. Privatization has taken off in Mozambique at a more accelerated pace than in many other countries in Africa. According to the Africa Competitiveness Report (World Economic Forum, 1998), through its privatization program, Mozambique has moved from an economy with a nearly omnipresent state sector to one where nearly all commerce is in private hands. More than 1,200 companies, comprising largely small units and retail outlets, have been privatized, while the government has recently approved a schedule for the privatization of larger companies. Despite the fact that most companies have been sold to Mozambican entrepreneurs, about 50 percent of equity capital for privatization until 1998 came from foreign sources (Portugal, South Africa, and the United Kingdom).[21]

[20] Mozambique scored relatively high points (4.68) for protecting foreign investment in the study conducted by the World Economic Forum (1998 a).

[21] See SADC Finance and Investment Sector Co-ordinating Unit (FISCU), 1998.

B. Uganda

69. Since the mid-eighties, Uganda has achieved sustained economic growth accompanied by a significant reduction in inflation. Reining in the fiscal deficit and adopting a tight monetary stance and a flexible exchange rate regime have allowed the country to reap the benefits of a market-oriented reform agenda. Openness to trade has allowed investment in economic activity in which the country possesses comparative advantage, while concessional donor financing has funded the overall external deficit.

70. Between 1989 and 1994, Uganda experienced an average annual FDI inflow of only US$23 million. Over the period 1995 and 2000, however, annual FDI inflows increased rather sharply to average US$184 million (Table 5). To a large extent, the impressive strides made by Uganda in attracting foreign investment can be attributed to the strong leadership provided by the President in establishing significant political stability, and his government's commitment to adopting a macro-economic stabilization and market-friendly reform program.[22]

Box 11. Uganda: Main Determinants of FDI

- Political stability
- Sound macroeconomic fundamentals
- Protection of investment; enforcement of property rights
- Relaxation of capital controls
- Privatization

71. Along with the adoption of a disciplining macroeconomic framework and economic reform measures, the government has actively sought to reassure investors of the safety of their investment. The government has been active in signing international agreements governing investment protection. Uganda is signatory to MIGA, the International Convention for the Settlement for Investment Disputes between States and Nationals of other States (ICSID), and the Convention on the Recognition and Enforcement of Foreign Arbitral Awards. As a result, the legal and regulatory environment has been conducive to FDI and Uganda has scored high marks in investor perception of investment protection and of a

[22] The National Resistance Movement (NRM) headed by President Museveni took control in 1986.

favorable policy toward the remittance of profits and dividends.[23] Investor's recognition of Uganda's commitment to attract foreign investment is further evident from the fact that its agency for investment promotion received an award for being the best African investment promotion agency in 1997 and is comparable, in some respects, even with the top agencies in the world.

72. In comparison to most other countries in Africa, the pace of privatization has been faster in Uganda (Corporate Location, 1998) and this has facilitated rapid inflows of FDI. In 1995, Uganda's Public Enterprise Reform and Divestiture (PERD) Secretariat was restructured into two units, with one unit being completely in charge of matters related to divestiture. A Minister of State for Privatization was appointed and a mandate of three years was stipulated by which 85 percent of public enterprises were to be transferred to the private sector. As per the PERD statute, 107 public enterprises were identified to be transferred to the private sector, and through end-1998, 51 enterprises had been divested. Divestiture has taken the form of direct sale of government shares, wholly or partly, in the public enterprises, auction or debt/equity swap, joint ventures, and management contracts.

73. Foreign investors wishing to participate in the privatization process and/or invest elsewhere in the country have been accorded special incentives under the Investment Code. The incentives include tax holidays of up to 5 years, tax exemption on plant and machinery, and repatriation of up to 100 percent of dividends. Double taxation agreements have also been reached with major western countries. The adoption of liberal foreign exchange policies, a stable currency, a well-functioning stock exchange, and macroeconomic discipline have served to enhance investor interest in the country.

74. In sum, it can be argued that Mozambique and Uganda, in addition to being rich in natural resources, have pursued economic reforms on a consistent and sustained basis, and this in turn has aroused investor interest. After witnessing economic decline in the context of political instability, civil strife, and ill-conceived policies over a long period of time since independence, the progression towards political stability and the pursuit of market-oriented economic reform has allowed private sector activity to become increasingly important in the economic expansion of these countries. A reduced role for the state, the prioritizing of government spending to improve the quality and availability of physical and human capital, and the removal of impediments to foreign investment have yielded results in terms of larger access to global capital flows.

[23] Uganda received a rating of 4.96 and 6.04 with regard to FDI protection and policy pertaining to remittance of dividends and profits, respectively, in the recent survey of investors conducted by the World Economic Forum (1998a).

VIII. Concluding Observations

75. It may be noted that there are many countries in Africa today that are at the same stage of development that some of the countries in Asia were prior to their rapid rise to economic growth and prosperity. For example, GDP per capita in Korea, Malaysia, the Philippines, and Thailand was in the range of US$200–US$400 in 1970. This compares with the current levels in many of the countries in Africa. Similarly, some of the social indicators relating to education and health indicate that some African countries, including Ghana, Tanzania, Zambia, and Zimbabwe, are better placed than some of the Asian countries prior to their take-off. So what can countries in Africa do to replicate the phenomenal export- and investment-led growth achieved by the Asian nations?

76. While Africa is undoubtedly a region rich in natural resources, it is quite clear from the above analysis that a critical mass of mutually reinforcing measures needs to be in place before countries in Africa can secure a larger share in global FDI flows. Progress towards conflict resolution is essential, because an important determinant of investment location is political stability[24]. It is clear from the analysis that all the seven countries were able to attract reasonably large volumes of foreign investment only after some measure of political stability was established. Political stability is, however, a necessary, though not a sufficient condition to ensure access to large FDI flows. Within Africa, and in other regions of the world, political stability in tandem with macroeconomic stability has been the key to attracting FDI. While African countries rich in natural resources or endowed with locational advantages have been well positioned to attract FDI, even these countries have sought to strengthen investment prospects by fostering political and economic stability, implementing sound macroeconomic policies and far-reaching structural reforms. Even countries that are not richly endowed with either natural resources or special locational advantages have been successful in attracting FDI by establishing a policy environment conducive to investment. Some of the sample countries succeeded in attracting FDI despite their relatively low levels of income and development and a recent prior history of conflict.

77. African countries that have sought to contain inflation and stabilize the exchange rate, through the adoption of sound fiscal and monetary policies, have fostered growth, stimulated wider participation of the private sector in economic activity, and secured significant FDI. Moreover, a pro-active approach to removing regulatory and other structural impediments to private sector participation in economic activity has had a further positive impact on investor sentiment. To promote the diversification of investment activity, efforts have been made to reduce excessive regulation of private sector activity, by reducing cumbersome industrial and trade licensing procedures, restrictions on the issuance of work permits, the use of price controls, and the scarcity of skilled labor. In this context, reducing the role of the state sector, through privatization, opening up the economy to competition, including through trade

[24] We define political stability more broadly to include the absence of civil strife, social chaos, and ethnic warfare.

liberalization, improving the availability of infrastructure, through higher investment in education and a reorientation of government spending towards capital investment, and phasing out capital controls have been some of the steps taken to boost investor confidence and foreign investment. In the presence of political stability, a sound macroeconomic stance, and efforts to remove structural impediments, the need for providing tax incentives and creating EPZs has diminished. Therefore, there is good reason to believe that a well-designed policy framework to attract FDI into Africa could be productive and successful.

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