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Foreign Direct Investment Flows into Sub-Saharan Africa

KEY MESSAGES

- Foreign direct investment (FDI) remains one of the most important forms of cross-border capital flow into developing countries. In Sub-Saharan Africa, where countries tend to have liberal policies favouring inward flows, FDI has grown nearly six-fold over the past decade.
- However, just 15 countries accounted for over 80 percent of total FDI flows into Africa in 2012. Further, the largest inflows are either in sectors in which the region has a comparative advantage (such as natural resources and agriculture) or where there is need for investment and returns are high, such as construction.
- Five emerging countries – Brazil, China, India, South Africa and, conspicuously, Malaysia, are becoming an important source of FDI into Africa, particularly as traditional OECD sources of FDI are shrinking, and South-South transfer of technology tends to be lower cost and more adaptable.
- There is a positive correlation between FDI and Human Development Indicator (non-income HDI); quality human capital can better help absorb the benefits of FDI. But FDI data by origin, destination and sector is not readily available; this constrains policy coordination across economic and social ministries.

FDI remains one of the most important forms of cross-border capital flow into developing countries. In 2012, FDI inflow into developing countries amounted to more than US$790 billion, exceeding by a wide margin the size of inward remittance (US$406 billion) and official development aid (US$126 billion) from traditional OECD donors.

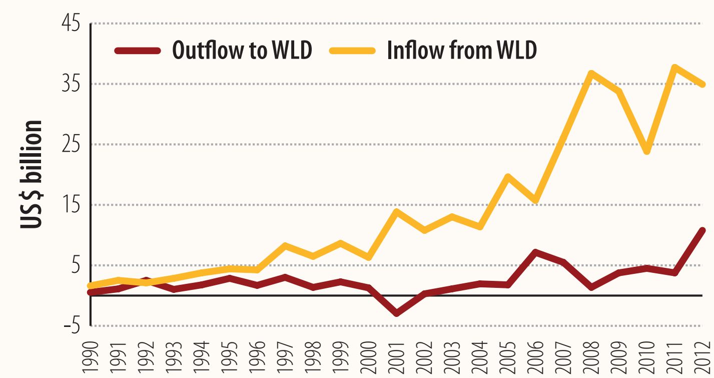
Outward FDI from developing countries, including South-South flows, are increasingly prominent. In 2012, US$481.6 billion of FDI flows (US$5 trillion of stock) originated in developing and transition countries. They accounted for about 40 percent of FDI into low-income countries (mainly in Africa) in 2010. The source of Southern FDI is dominated by Asia (64 percent), followed by Latin America (21.4 percent). Based on a World Bank/UNIDO survey of 713 potential investing firms from Brazil, India, South Africa, and South Korea, new market access is the most important motivation of Southern outward FDI (nearly 70 percent), followed by lower production costs (20 percent) and acquisition of natural resources and inputs (5 percent).

Trends in FDI into Africa

FDI flows into Sub-Saharan Africa have grown nearly six-fold over the past decade. The flows increased from about US$6.3 billion in 2000 to US$35 billion in 2012 (Figure 1). While this is still just 2.5 percent of total global flows, it represents an unprecedented size of investment capital in most African countries, much larger than remittances or official aid. Since the financial crisis, inflows into Africa have been less volatile than worldwide inflows. In 2012, FDI inflows globally were only about 60% of the pre-crisis level of 2007; however, in SSA, FDI quickly returned to the pre-crisis level of above US$35 billion.

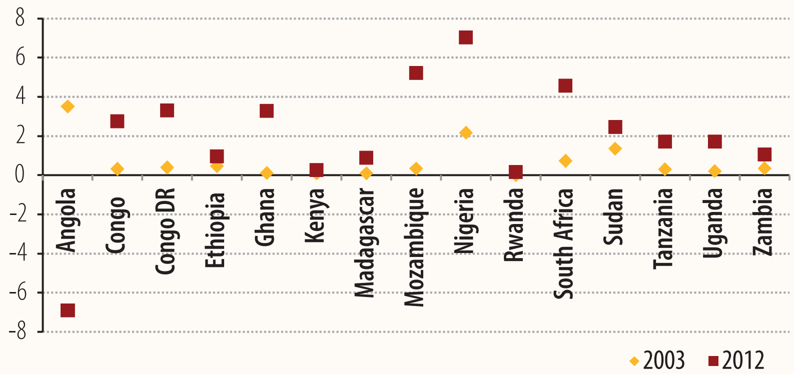
Africa today is a "bright spot" for FDI, according to UNCTAD (2013a), as it remains a fast-growing destination. Brazil, China, India, Malaysia and South Africa are now amongst the leading investors. However, the traditional OECD sources still

Figure 1. FDI in Sub-Saharan Africa



Source: UNCTAD (2014)
Note: FDI measured in US$ billions at current prices and exchange rate

Figure 2. FDI inflows in 2003 and 2012: A comparison



Source: UNCTAD(2014)
Note: Values in US$ billions, current price

remain important. In 2009 & 2010, they accounted for nearly 50 percent of flows into Africa, and in 2011, they contributed about one-third.

Just fifteen countries accounted for four-fifths of all inward flows into Africa in 2012. In 2012, Nigeria and Mozambique received the most FDI. They were followed by South Africa, Ghana, DRC, Congo and Sudan (all exceeding US$2 billion). There are nine countries in Africa that had FDI inflows (net) that were at least 5 percent of GDP between 2008 and 2012. FDI also constitutes a large share of gross fixed capital formation (GFCF) in several African countries. The share of FDI in GFCF was at least one-third in Congo, DRC, Ghana, Madagascar and Nigeria.

The influx into Africa is largely driven by extractive industries with influential contributions by manufacturing and service sectors in Central Africa. Among these countries, Mozambique and DRC were able to increase their share substantially in 2012 compared to 2011. Angola recorded the highest rates of return on FDI in 2011 with 87 percent, followed by Nigeria (36 percent) and Zambia (13 percent).

A substantial share of economic growth in Africa can be directly attributed to FDI (even from a single source country). Weisbrod and Whalley (2011) estimate that between 2003 and 2009, FDI from China contributed from 1.9 percentage points (pp) of economic growth in Zambia to 0.04 pp in South Africa. The contribution of Chinese FDI was found to be high in the Democratic Republic of the Congo (1pp), Nigeria (0.9pp), Madagascar (0.5pp) and Sudan (0.3pp).

OECD

OECD countries accounted for about one-third of all inflows into the top 15 African recipient countries on average between 2001 and 2011. The largest FDI inflows into Africa from OECD countries were France (US$4.9 billion), UK (US$4.1 billion), the Netherlands (US$2.7 billion), USA (US$1.8 billion) and Germany (US$1.3 billion). The largest recipient countries of FDI inflows from OECD were Nigeria (US$5.3 billion), South Africa (US$4.4 billion), Angola (US$2.2 billion), Liberia (US$2 billion) and Ghana (US$0.61 billion).

CHINA

China is the leading Southern investor in Africa by a wide margin. This is not surprising because globally, China (excluding Hong Kong) is the third largest investor after USA and Japan. Chinese FDI into the top 15 African recipient countries increased six-fold between 2004 and 2010. In 2010, African countries that received a sizeable inflow (more than US$100 million) in FDI from China include South Africa and Nigeria Angola, Kenya and the DRC (Table 1).

INDIA

For various reasons, India's outward FDI to the world has been decreasing since 2008. In 2008, FDI outflows from India to the world peaked at US$21 billion, and have declined since to about US$8 billion in 2012. Yet, a large share of Indian FDI continues to flow to least developed countries (LDCs) in Africa and elsewhere. In the immediate aftermath of the downturn in outward FDI from India in 2007-2008, Africa was the only region to which its FDI outflows increased. India's traditional focus has been Mauritius, but Ethiopia and Sudan are also significant recent recipients.

BRAZIL

Brazil's FDI to Africa has been rising in recent years with its main stock of investment being in the Portuguese-speaking countries of Angola and Mozambique. It has played a key role in the expansion of Brazilian multinationals into the new African ethanol industry in Angola, Mozambique and Ghana. South Africa and Zambia are also important destinations; the Brazilian mining company, Vale, is in a joint venture with the South African company, Rainbow, in copper prospecting and mining in Zambia. Brazil and Zambia have also signed technical cooperation agreements covering livestock and health, and so future FDI could branch out of the dominant minerals sector (UNDP 2013).

MALAYSIA

Malaysia's FDI outflow globally has increased nearly three-fold between 2006 and 2012 from US$6 billion to US$17 billion. UNCTAD recognizes Malaysia as the largest developing country investor in Africa. One-fifth of Malaysia's outward FDI stock was held in Africa, ahead of China and India. Data from the IMF Coordinated Direct Investment Survey (CDIS) indicates that Malaysia has invested in six of the SSA-15 for at least the past three years. The big Malaysian investors in Africa include companies like Petronas and Sime Darby.

Table 1. FDI outflows from China (US$ million)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total	**5498**	**12261**	**17634**	**26506**	**55907**	**56529**	**68811**	**74654**	**84220**
Africa	**317**	**392**	**520**	**1574**	**5491**	**1439**	**2112**		
15 SSA countries	**242.38**	**230.76**	**360.68**	**1178**	**5281**	**849.78**	**1388**		
Angola	0.18	0.47	22.39	41.2	-9.57	8.31	101		
Congo	0.51	8.11	13.24	2.5	9.79	28.1	34.38		
Congo DR	11.91	5.07	36.73	57.3	23.99	227.16	236.2		
Ethiopia	0.43	4.93	23.95	13.3	9.71	74.29	58.23		
Ghana	0.34	2.57	0.5	1.85	10.99	49.35	55.98		
Kenya	2.68	2.05	0.18	8.9	23.23	28.12	101.2		
Madagascar	13.64	0.14	1.17	13.2	61.16	42.56	33.58		
Mozambique	0.66	2.88	-	10	5.85	15.85	0.28		
Nigeria	45.52	53.3	67.79	390	162.6	171.86	184.9		
Rwanda	-	1.42	2.99	-0.41	12.88	8.62	12.72		
South Africa	17.81	47.47	40.74	454	4808	41.59	411.2		
Sudan	146.7	91.13	50.79	65.4	-63.1	19.3	30.96		
Tanzania	1.62	0.96	12.54	-3.82	18.22	21.58	25.72		
Uganda	0.15	0.17	0.23	4.01	-6.7	1.29	26.5		
Zambia	0.23	10.09	87.44	119	214	111.8	75.05		

Source: Statistical Bulletin of China's outward foreign direct investment; UNCTAD (2013)
Note 1: Values in US$ millions, current price

SOUTH AFRICA

South Africa is not only a major recipient of FDI, but also a major source of FDI in Africa. According to UNCTAD (2013), South Africa was the second-most important investor in Africa (from developing countries) in 2012 after Malaysia. The rise in outward FDI flows from Africa in 2012–to $14 billion–was mainly due to large flows from South Africa in mining, the wholesale sector and healthcare products. South Africa holds the fifth largest stock of FDI in Africa, with the largest proportion in Mauritius, followed by Nigeria, and its neighbors, Mozambique and Zimbabwe. According to the IMF's CDIS, in 2012, it also had a sizeable stock of FDI in Ghana, DRC, Tanzania and Zambia.

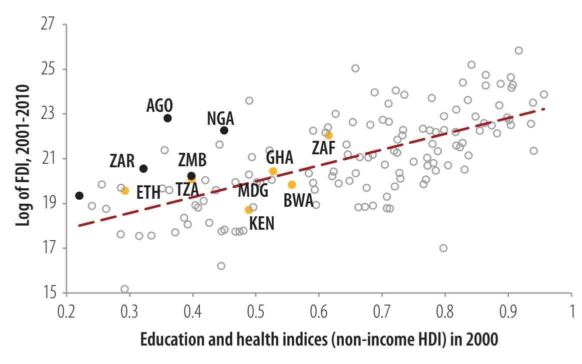
Sectoral Allocation of Greenfield FDI

Using data from fDi Markets, a fee-based service from the Financial Times newspaper, which collects data on cross-border greenfield investments covering most countries and sectors, we are provided with a useful glimpse of greenfield (not mergers and acquisition) projects that are being undertaken across countries. Table 2 shows the values of all greenfield investment by sector with a combined worth of more than US$50 million between 2009 & 2013.

Of the 13 SSA countries surveyed, South Africa attracted the most diversified portfolio of greenfield FDI with investments in new industries such as life sciences (healthcare), physical sciences (sectors such as metal processing and paints) and ICT as well as investment in traditional sectors such as construction, energy and food. Angola, Ghana and Kenya also show a fairly diversified portfolio of greenfield FDI. The most popular sectors for greenfield FDI appear to be aligned with either Africa's

Box 1. The Link between FDI and Human Development

There is a two-way link between FDI and education/health outcomes. FDI can foster growth that can then result in better education and health outcomes in the medium-term; at the same time, better education and health achievements can help absorb FDI better. However, of the numerous African countries that grew as a result of the FDI surge in the 2000s, many fell below the 25th percentile of the education and health components of the Human Development Index (HDI) in 2000. FDI in such countries is concentrated in the resources sector, with limited linkage to the rest of the economy. If FDI were more broad-based and not confined to resource enclaves, it could have a greater impact on development goals.



Source: UNDP, WDI and UNCTAD (2014)
Note 1: Resource-rich countries identified as those with rents>10% of GDP, or res. exports>50% of goods exports

comparative advantage or their need for critical investment, and therefore high rates of return. Energy (including oil, gas and mining) remains the largest sector. In food, beverages and tobacco, Ghana and Nigeria had the mammoth share (US$ 3.7 billion) of greenfield projects over the past five years. In construction, Mozambique, Nigeria, Kenya and Angola recorded the highest value of FDI greenfield projects between 2009 and 2013 (worth about US$500 million each). Given the growing importance of ICT and electronics, 7 of the 13 countries had substantial investments in this sector. In the more sophisticated sector of life sciences, Rwanda was the only major destination beyond South Africa. Life sciences include healthcare (general medical and surgical hospitals), whereas physical sciences include investments in sectors like metal processing, paints, etc.

In the fDi Markets database, there is hardly any major greenfield FDI in the services sectors such as retail, tourism, financial services, professional services, and creative industries. There could be three possible reasons for this: i) services sectors are more restrictive in terms of foreign equity ownership ii) they are more amenable to mergers and acquisition type of FDI and not greenfield, and iii) measurement error in terms of data collection. It is also worth noting, however, that according to UNCTAD (2013a) in least developed countries many of which are in Sub-Saharan Africa, financial services continued to attract the largest number of greenfield projects in 2012. With greenfield investments from developed countries shrinking almost by half, nearly 60 per cent of greenfield investment in low-income countries was from developing economies, led by India.

Table 2. Greenfield FDI inflows by sector, total between 2009 & 2013 (US$ million)

	AGO	COG	ETH	GHA	KEN	MDG	MOZ	NGA	RWA	ZAF	SDN	UGA	ZMB
Construction	485	200		68	480		578	456		226	253	59	
Consumer Goods					205					375			
Creative Industries													
Energy (includes oil, gas)	845			6337			3604	2273		315		7425	108
Environmental Technology	170		80	125	480				165	2081			500
Financial Services													
Food, Beverages & Tobacco	158		324	1687	175		117	2030		136		144	167
ICT & Electronics				561	69		60	4735	162	918		212	95
Industrial										229			
Life Sciences									108	238			
Physical Sciences		1490		4245		68				2268			2929
Professional Services													
Retail Trade													
Tourism													
Transport Equipment	460				95					1908			
Transportation, Warehousing & Storage	95												
Wood, Apparel & Related Products			72				2308						

Source: fDi Markets Database for Greenfield FDI
Note 1: Undiscounted project values summed by sector between 2009 and 2013 (past 5 years)
Note 2: Only sectors with combined project worth exceeding US$50 million highlighted
Note 3: Countries labeled using three letter codes from the International Organization for Standardization

MORE ON THE TOPIC

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