http://www.weforum.org/s?s=africa+competitiveness+report

This presentation answers three questions.

What are the determinants of FDI to Africa?

Can small countries or countries that lack natural resources attract FDI?

How important are natural resources and market size vis-à-vis government policy and host country’s institutions in directing FDI ﬂows to the region?

**Foreign Direct Investment in Africa: The Role of Natural Resources, Market Size, Government Policy, Institutions and Political Instability**

* **WHEN it comes to foreign direct investment (FDI) in Sub-Saharan Africa(SSA), the common perception is that FDI is largely driven by natural resources and market size.**
* **This perception seems to be consistent with the data:**
* **the three largest recipients of FDI are Angola, Nigeria and South Africa these countries absorbed about 65 per cent of FDI ﬂows to the region (World Bank, 2004b).**
* **, FDI in resource-rich countries are concentrated in**
* **natural resources, and investments in such industries tend not to generate the positive spillovers (e.g. technological transfers, employment creation) that are often associated with FDI (Asiedu, 2004)**
* **minerals and oil as a determinant of FDI**
* **the effect of corruption, political risk and**
* **investment policies on FDI.**

Determinants of FDI

Natural resources,

market size,

physical infrastructure,

human capital,

the host country’s investment policies,

the reliability of the host country’s legal system,

corruption and political instability

, good infrastructure, an educated labour force, macroeconomic stability, openness to FDI, an efﬁcient legal

system, less corruption and political stability also promote FDI

A benchmark speciﬁcation shows that a decline in corruption from the level of Nigeria to that

of South Africa has the same positive effect on FDI as increasing the share of

fuels and minerals in total exports (NATEXP) by about 34.84 per cent

Also, an improvement in the host country’s FDI policy from that of Nigeria to that of

South Africa has the same positive effect on FDI as increasing NATEXP 23.01

per cent.

A similar change in corruption and FDI policy will have the same effect

as increasing GDP by 0.37 per cent and 0.25 per cent, respectively. These results suggest that countries that have small markets or countries that lack natural resources can attract FDI by streamlining their investment framework and improving their institutions. The remainder of the paper is organised as follows: Section 2 provides a summary of the results from four surveys on the factors that constrain FDI to

SSA.

Trends in NEWS:

Western companies from the U.S. and Europe are flocking to countries in [sub-Saharan Africa](http://atlantablackstar.com/2012/10/07/africa-continues-growth-despite-global-economic-woes/) looking for opportunities and recruiting more managers willing to relocate to Africa.

* Companies like J.P. Morgan now view Africa as a much less risky investment than they did a few years ago—J.P. Morgan just added Nigeria to its government-bond index for emerging markets. Morgan predicts this will bring an extra $1.5 billion to Nigeria.
* Earlier this week, Standard Chartered, a London-based bank that specializes in emerging markets, announced that [it will invest $100 million](http://atlantablackstar.com/2012/10/15/london-based-standard-chartered-to-invest-100-mil-in-africa-over-3-years/)in Africa over the next three years. The bank, which makes about 90 percent of its income in Africa, Asia and the Middle East, hopes to double the $1.3 billion in income it derives from Africa, 8 percent of company profits. Standard Chartered’s move is part of a pattern of companies seeing enormous opportunity for growth on the African continent. The strategy of concentrating on emerging markets has paid off in a big way for Standard Chartered, allowing it to avoid the economic woes that have plagued Western markets in recent years.

According to the *Economist*, foreign direct investment in Africa has increased by about 50 percent in the last 7 years, as companies are looking at Africa the same way they did China and India a decade ago.

“In recent years investors have been piling into Lagos and Nairobi as if they were Frankfurt and Tokyo of old,” says a story in the Economist. “Anemic growth in the rich world has made sub-Saharan Africa an attractive destination for money and its managers.”

**With a land mass equivalent to that of China, India, Japan, United States, Mexico and Europe combined, Africa can start using these new funds to build a desperately needed infrastructure**.

The International Monetary Fund predicts that the continent’s GDP will grow by 5 percent this year and in 2013 may rise to 5.7 percent, which is faster growth than anywhere else in the world.

But, of course, despite all the growth and excitement, one inescapable fact remains: Africans are still extremely poor, and most will probably stay that way for a long time. Of the 11 countries in the world at “extreme risk” of having a food crisis, 9 are in Africa.

But one of the World Bank economists, Wolfgang Fengler, identified four causes of Africa’s rise:

1. The continent has the right kind of population growth: most Africans live increasingly longer while having fewer children, rather than the other way round. The UN says that Nigeria may overtake the United States by 2055 as the third-most-populous country after India and China, yet simultaneously reduce its birth rate.

2. Rapid urbanization is creating efficiency gains and luring investors to capital cities that have begun to thrive and where growing population density cuts transport times and fosters small-scale industrialization.

3. Technology is having a bigger effect on Africa than anywhere else, because it started from such a low base. In the past decade the use of telephones went from 0.7 percent of the population when land lines were rotten to 70 percent with the advent of mobile phones; Africa is a global pioneer in banking on mobile devices, not least since most people have no access to conventional banking.

4. Governance and economic management by officials have got better, again from very modest beginnings. The growing popularity of African sovereign debt is a good indicator.

“If current trends continue, most of Africa will be middle-income by 2025,” Fengler says.

But in order for it to happen, Africa will need skilled workers and capital.

“Both are available in abundance in the West, where interest rates are low and job prospects grim,” the *Economist* says. “Hence the proliferation of African investment conferences in London and New York. There is much talk of where in Africa factories can be built and bonds bought. But equally high on the agenda is hunting talent from all parts of the world, Africa included. Managers search lunch tables for staff to poach and for investment professionals with experience in other emerging markets that could be useful in Africa.”

As a result of this demand, an executive from a big Wall Street firm said salaries for Africa positions have gone up by 30 percent in the past year.

“The continent is taking off but it’s still a tricky place to make money,” he told the *Economist*. “Political risks are high and contracts hard to enforce. Success often depends more on the quality of your people than on the attractiveness of the local market.”