An Analysis of Trends in Foreign Direct Investment Inflows to Africa

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Abstract

This study examines the trends in Foreign Direct Investment (FDI) inflows to Africa, with the ultimate aim of proposing implications for policy action. The main source of data for this study is the UNCTAD (2018) database which at the time of the study contained FDI data from 1990 to 2016. The findings show that, although Africa is in dire need for FDI due to scarcity of capital, it is not able to attract as much FDI compared to advanced countries and other developing regions. The little FDI that comes to Africa is concentrated sub-regionally and country-wise. Region-wise, most FDI is concentrated on Southern Africa followed by Northern Africa with East Africa and Central Africa at the bottom. Country-wise, the two main recipients of FDI in each sub-region are Angola and South Africa (Southern Africa); Egypt and Morocco (North Africa); Nigeria and Ghana (West Africa); Tanzania and Ethiopia (East Africa) and Congo and the Democratic Republic of Congo (Central Africa). The FDI that comes into the continent is further concentrated in the primary (extractive) sector. As a result the benefits to the region have not been as significant as in East Asia where FDI was mainly into the secondary (manufacturing) sector. It is concluded that, FDI is a growth point that countries can count on as a source of resources for development, however, Africa need to change the approach adopted in promoting FDI, which focuses on providing incentives to creating a domestic environment conducive to entrepreneurship and business in general.

Keywords: FDI, foreign direct investment, Africa, trends, sectors, extractive

1. Introduction

This paper examines the major trends and patterns of foreign direct investment (FDI) inflows to the African continent. It is based on the widely recognized assumption that foreign direct investment FDI produces economic benefits to host countries. FDI offers capital, technology, foreign exchange, competition, enhances access to foreign markets (World Bank, 1999; Nuno & Fontoura, 2007; UNCTAD, 1991) as well as boosting domestic investment and innovation (Brooks, Fan, & Sumulo, 2003). It follows that developing countries, most of which operate in the poverty trap, with low savings rate and low investment rate may escape from the trap by attracting capital from abroad in the form of FDI (Hayami, 2001).

1.1 The Problem

African nations have very low savings rates because of absolute poverty. This makes it hard to finance investments needed for growth and development. Empirical evidence suggests that given the rate of population growth on the continent, to reverse the spread of poverty Africa would have to achieve rates of economic growth of between 7 and 8 percent, well above twice that of the population as a minimum requirement (Loots & Kabundi, 2012; Anyanwu & Erhijakpor, 2003). Such a growth rate needs investment of about 25 per cent of GDP per annum: however, with the current rate of about 9 per cent, the financing deficit amounts to 16 per cent of GDP (Ndulu, Chakraborti, Lijane, Ramachandran, & Wolgin, 2007). FDI can close this gap and arrest and reverse the spread of poverty.

The literature on FDI flows to Africa is scanty and focused on determinants (Cockcroft & Riddell, 1991; Rogoff & Reinhart, 2003; Bende-Nabenfe, 2002; Akinlo, 2003; Asiedu, 2002; Lemi & Asefa, 2003; Dupasquier & Osakwe, 2005) of FDI to the continent, with little discussion of how it is distributed. This paper attempts to overcome this limitation by studying trends that may help identify what needs to be done at the national, regional and international level in order to boost FDI flows to Africa.

1.2 Objectives of the Study

The broad objective of this study is to examine the trends in Foreign Direct Investment inflows to Africa, with the

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ultimate aim of proposing implications for policy action. In the light of this objective, the issues to be studied revolve around seeking answers to the following questions:

1. Where does Africa fit in the global foreign direct investment picture?
2. What is the continent's share of the global FDI?
3. Which regions attract most FDI in Africa?
4. In which sectors is the FDI invested?
5. Who are the African beneficiaries of these flows?
6. What should be done to ensure attraction of FDI to the Continent?

Answers to these critical questions should be helpful in unpacking the African-specific FDI trends in order to get a clearer and more substantiated understanding of the current trends, thereby facilitate formulation of turnaround strategies for the continent.

1.3 Background to the Problem

This section presents, in a nutshell, a historical evaluation of the African political-economic environment as it evolved from the 1960s to the present, which provides the context for the FDI issues discussed in this study. It should be of interest to the reader not familiar with the continent.

Following political independence of African countries during the 1960s, the new leadership, based on history, ideology and cold war politics, was sceptical about the value of free trade and foreign investment. This view reflected fears that FDI could push indigenous firms into liquidation due to competition and lead to the loss of sovereignty. Consequently, several countries in the continent imposed trade barriers and foreign exchange controls as part of a policy of import-substitution industrialization and protecting local entrepreneurs. The results were the exact opposite: this inward-looking strategy discouraged trade as well as FDI and had adverse effect on economic growth (Dupasquier & Osakwe, 2005; Rodrik, 1998). While GDP income increased in other developing regions, Africa on the other hand, experienced an average decline (World Bank, 2003).

After the unsatisfactory economic performance by African nations beginning in the late 1970s up till the mid-1990s, it became clear that economic reforms in favour of outward-looking development programs were needed to halt the deteriorating economic conditions. The reforms created incentives that generated more savings, domestic and foreign investment, exports, efficient functioning of markets with a view to unleashing private initiative and enterprise. Available statistics show that the average growth rate of real GDP per capita which was negative 0.9% over the period 1975-84 rose to positive 0.7% in the period 1995-2002 , average of 6.68% between 2002 and 2007, 4.37% between 2008 to 2015 before slowing down to 1.97% between 2016 and 2017 as per World Bank (2017) as indicated by Figure 1. It appears that the modest increase in FDI inflows to the African continent coincided with a turnaround in the declining economic growth.

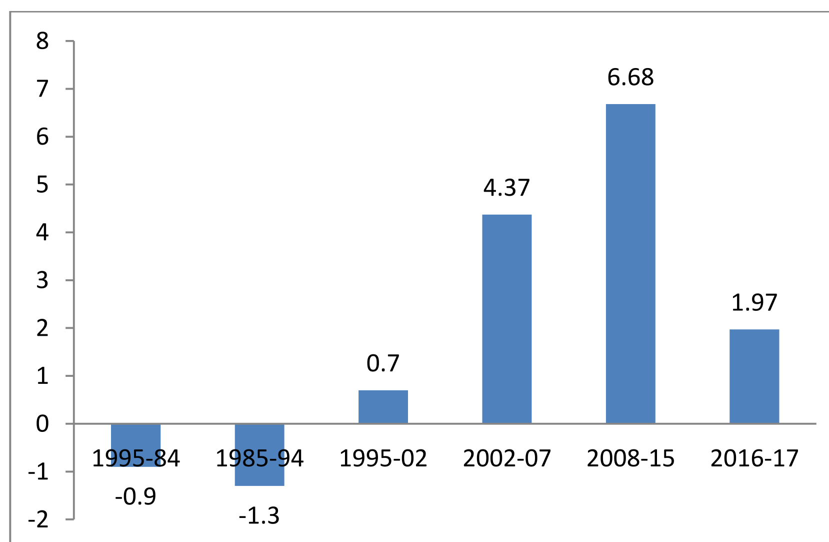

Figure 1. Mean growth rate of real GDP in Africa

Source: World Bank, world development indicators, 2017

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It should be emphasized, however, that the improved overall performance still falls short of fulfilling the needs of the continent. This is so because aggregate performance conceals differences in individual country circumstances and the modest good performance falls short of what is required to bring about visible gains in the living standards of a significant proportion of the population suffering from absolute poverty. The progress made so far is not enough for sustained growth and development because for most countries in the continent, the population growth rate is in excess of 2% every year (Population, 2018)

It is concluded that until recently FDI was not fully accepted by African leaders as a vital feature of economic development. They suspected that FDI would have negative consequences such as the killing of the infant local industry (Pavithra, 2012) and loss of sovereignty (Bezuidenhout & Kleynhans, 2015). These fears were not unfounded: it is now commonly accepted that foreign oil firms in Nigeria have had perverse effects on the local environment (EIA, 2003). Although most of the concerns of the African leaders are legitimate, experience has shown that if a host country has good governance and creates an environment conducive to investment, FDI can play a significant role in its development efforts (Dupasquier & Osakwe, 2005). Thus FDI can play several important roles (Anyanwu, 2003; Dupasquier & Osakwe, 2005) in Africa's development efforts, including:

- **Supplementing domestic savings:** Since African countries have low savings rates, which make it difficult to finance investment projects FDI can fill this resource gap.
- **Employment generation:** By providing additional capital to African countries, FDI can directly create new employment opportunities and indirectly through increased linkages with domestic firms.
- **Integration into the global economy:** Openness to FDI enhances international trade thereby contributing to the integration of African countries into the global economy.
- **Transfer of modern technologies:** Foreign firms typically make significant investments in research and development. As a result, they tend to have superior technology relative to firms in developing countries. FDI can provide African countries with cheap access to new technologies and skills thereby enhancing local technological capabilities and their ability to compete on world markets.
- **Enhancement of efficiency:** Opening up an economy to foreign firms increases the degree of competition in product markets hence inducing domestic firms to allocate and use resources more efficiently.
- **Raising skills of local manpower:** Through training of workers and learning by doing, FDI raises the skills of local manpower thereby increasing their level of productivity.

1.4 Theoretical Framework

The section presents two selected theories that would help suggest the motives or reasons for investing abroad. This should be helpful in inferring the implications of these theories for what one might observe on the ground in Africa.

Perhaps the early concept of foreign direct investments (FDI) can be traced back to Ohlin, (1933) who build on the Ricardo's classical theory of comparative advantage. Heckscher-Ohlin attempted to explain how and why FDI is attracted to some economies and not others. The theory is built on the development of the concept of international movements of capital for international trade due to differences in resource endowments among counties. The theory essentially says that a country would produce for local consumption and export products that utilize their abundant and cheap factor(s) of production and import products that utilize the country's scarce factor(s). The implication for FDI is that firms seek places where there is abundance of resources to invest their capital.

The second theory (Ohlin, 1933) is the eclectic theory (Dunning , 1977), popularly known as OLI, is an integration of three theories. The theory posits that firms undertake FDI when the advantages of Ownership, Location and Internalization combine to make it appealing to undertake FDI. Ownership advantage is the benefit that a company gets due to its ownership of some special asset, such as a powerful brand, technical knowledge or management ability. Location advantage is the benefit of setting an economic activity in a place because of the natural or acquired characteristics of the locale. Internalization advantage is the gain that arises from undertaking a business activity in-house rather than leaving it to a relatively inefficient market. According to Nayyar (2014), the theory therefore holds that FDI is the result of firms possessing **O**wnership specific (income generating) advantages (**O**) that they want to exploit in foreign **L**ocations (**L**), which they cannot profitably do except through **I**nternalization (**I**).

According to one author (Kurtishi-Kastrati, 2013) FDI will take place when Ownership, Location, and Internalization advantages come together to make it appealing to undertake FDI. The Ownership advantage mostly determines the "why" decision, Internalization advantages mostly determine the "how" decision and the Location advantage mostly determines the "where" decision. FDI is motivated mainly by the possibility of high profitability in growing markets,

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along with the possibility of financing these investments at relatively low rates of interest in the host country (Kalotay, 2006).

This theory further introduces the concept of a ‘seeker” (Dunning & Lundan, 2008) in which firms or an individual is described as a ‘seeker’ looking into investing and is normally driven by four motives. First, there are the “natural resource seekers”, who are looking for abundant natural resources at a lower cost than that of their home country. Second, there are “market seekers” who are interested in gaining access to larger markets. Third, there are “efficiency seekers”, who are looking for investment in different countries so as to gain economies of scale. Finally, there are “strategic asset seekers” who want assets that will help them strengthen their competitiveness in the global marketplace.

We therefore postulate that the trend of the flow of FDI in Africa follows a pattern, as dictated by the combination of seekers and eclectic concepts as indicated in Figure 2. Firms seek fresh supply of natural resources, attractive markets and advantages of internalization. Need for efficiency such as cheap labor, advance technologies and other strategic assets can also lead to FDI, seeking for comparative advantage. However not all locations or countries can offer comparative advantage of the same degree. As such firms seek locations or countries that own natural resource, market or efficiency advantages as destination for their FDI. They also look for sectors within those locations that can offer the maximum internalization benefit without compromising the integrity and patent capital, as safe sectors for investing FDI.

Figure 2. Determinants of FDI flow in Africa

Source: The Authors

It is postulated that countries attract FDI from those firms looking for market expansion, efficiency and natural resources. The rate and the amount of attraction is dependent on the availability of the above factors and that the sectors that attract the FDI in those countries are those that allow the internalization.

1.5 Research Methodology

1) **Research Design:** The paper adopted a quantitative desktop research approach.
2) **Sample:** To avoid sample selection bias, all 56 African countries were included.
3) **Data:** Data on FDI for the 27 year period 1990–2016 is used for the study. This was the latest data available at the time of writing. The measure used to gauge FDI in this study is FDI annual flows rather than the accumulated FDI stock.
4) **Data Collection Method:** The study is based on secondary data from UNCTAD, FDI/MNE database 2017 Annex Table 1 (UNCTAD, 2018). In this database FDI is described as an investment involving a long term relationship and reflecting a lasting interest and control by a firm based in one country, into a firm based in another country.
5) **Data Analysis Method:** The general approach for the data analysis was to undertake analysis that follows one another on increasing level of detail from the general or global, followed by regional analysis and eventually focus on Africa as a whole, African sectors and individual African countries. Specifically, data analysis involved taking 5-year averages from 1990 except for the last two years which is an average of 2015 and 2016 (two years).
6) **Data Presentation:** Data for the study were mainly presented in tabulated format and in a few circumstances graphs were employed to ensure pictorial elucidation.

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2. Findings

This section presents the salient findings of the study. The presentation is organized to flow systematically from global, regional, Africa, sub-regional, country and finally analysis by sector all in the context of Africa.

2.1 World FDI Inflows

In the 27-year period between 1990 and 2016, global inward FDI flows increased almost 8.8 times from an annual average of US$199,366.30 million in the period 1990-94 to an annual average of US$1,760,212.10 million in the two-year period 2015-16 (Figure 3). The tremendous increases in FDI may be explained by the rapid advances in technology especially in transport and communication (Dupasquier & Osakwe, 2005).

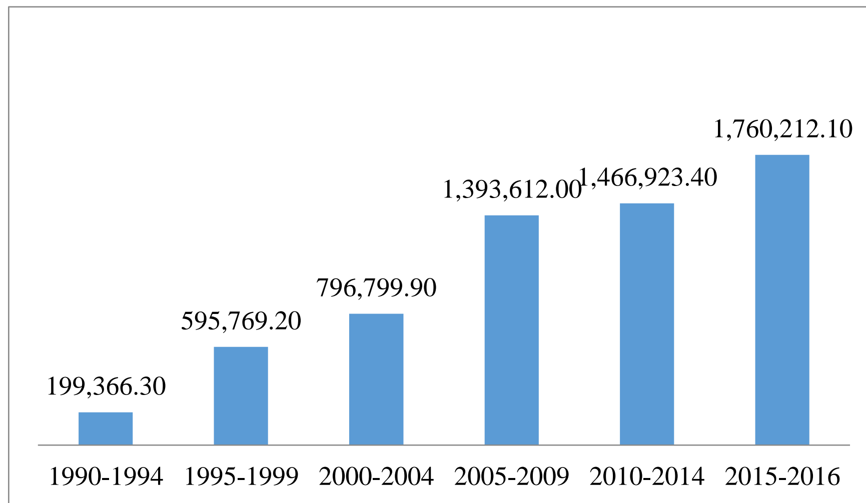

Figure 3. Average world FDI inflows (US$ Millions)

Source: Computed by Authors from UNCTAD (2018)

2.2 Regional Global FDI Inflows

In terms of global regional distribution, developed economies are the recipients of the bulk of world FDI inflows. Specifically, during the period 1990-2016 around 63% of world FDI flowed to advanced countries, 34% to developing countries and 3 per cent to transition economies (Table 1).

Table 1. Distribution of world FDI inflows

	1990-1994	1995-1999	2000-2004	2005-2009	2010-2014	2015-2016	**27-Year Average**
Developed economies	69%	71%	71%	61%	49%	57%	**63%**
Developing economies	31%	28%	27%	34%	46%	40%	**34%**
Transition economies	1%	1%	2%	5%	5%	3%	**3%**

Source: Computed by authors from UNCTAD, world investment report (2018)

2.3 FDI Inflows to World Developing Regions

Throughout the 27-year period covered by this study Africa has not been a major recipient of FDI and lags behind other regions of the world (Table 2). On an annual average basis, Africa's share of global FDI inflows is small, averaging 3%, throughout the period. It should be noted that this figure is below the average for LA&CA which stands at 9% and way below that for Asia & Pacific Region which stands at 22%. Therefore, Africa currently attracts a relatively small share of global FDI.

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Table 2 also covers the share of inflows among the main developing regions. Africa's share within the group is again relatively small averaging 6%. Again it should be noted that this figure is below the average for LA&CA which stands at 20% and way below that for Asia & Pacific Region which is 64%. The main beneficiary of FDI inflows in the developing world in the study period is Asia.

Table 2. Share of FDI inflows to developing economies

	% share of World FDI			% share of Developing Countries FDI		
Period	Africa	LA&CA	Asia	Africa	LA&CA	Asia
1990-1994	2%	8%	21%	7%	25%	67%
1995-1999	1%	10%	17%	5%	36%	59%
2000-2004	2%	8%	17%	4%	13%	61%
2005-2009	4%	7%	23%	4%	14%	67%
2010-2014	5%	12%	29%	8%	15%	63%
2015-2016	3%	9%	27%	10%	14%	69%
AVERAGE	**3%**	**9%**	**22%**	**6%**	**20%**	**64%**

LA&CA = Latin America and Caribbean

Source: Computed by authors from UNCTAD, world investment report (2018)

2.4 FDI Inflows to Africa

Within the context of the low global FDI share and tremendous increases in world FDI, flows to Africa display an exponential increase over the 27 years covered in this study. Whereas the global inward FDI flows increased almost 8.8 times, the corresponding figure for Africa displays an exponential increase of almost 14 times; from an annual average of US$4355.4 million in the 1990-94 period to US$60433.9 million in the 2015-16 period (Figure 4).

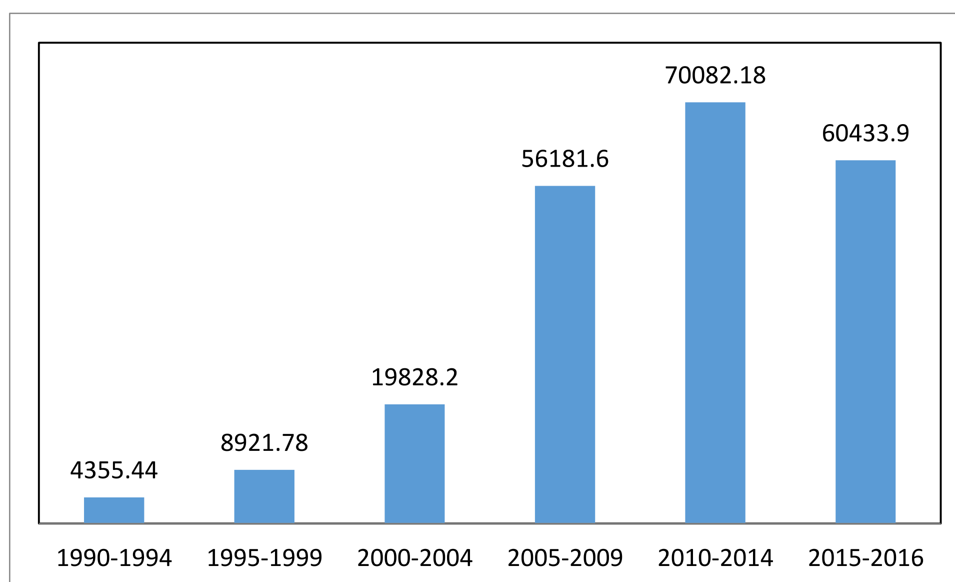

Figure 4. Africa: average flows in US$ millions

Source: Computed by authors from UNCTAD, world investment report, 2018

2.5 FDI Inflows to Sub-regions of Africa

Most FDI that goes to the continent is concentrated in a few sub-regions. Analysis of the FDI into Africa reveals that the small amount of inflows to the continent is not equally distributed among the five sub-regions. Table 3 shows that on average, Southern Africa followed by Northern Africa have been the most popular FDI destinations, receiving 35%

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and 27% respectively, of all flows to the continent during the period 1990-2016; East Africa and Central Africa are at the bottom, receiving only 7% each of the FDI that was attracted to the continent.

Table 3. Share of FDI inflows among African sub-regions

	1990-1994	1995-1999	2000-2004	2005-2009	2010-2014	2015-2016	Overall Average
Southern Africa	15%	37%	47%	34%	40%	39%	**35%**
North Africa	38%	26%	24%	34%	18%	23%	**27%**
West Africa	42%	27%	14%	18%	21%	18%	**23%**
East Africa	3%	8%	6%	7%	9%	11%	**7%**
Central Africa	2%	2%	9%	6%	12%	9%	**7%**

2.6 FDI Inflows to Resource Rich or Large Countries

Analysis of the FDI in sub-regions reveals that the FDI is further concentrated on a few countries within that sub-region (Table 4), primarily the large or resource-rich economies, while smaller and resource-poor countries have been largely unable to attract significant FDI inflows. For example, a glance at the two main recipients of FDI in each sub-region reveals that in Southern Africa Angola and South Africa account for 78% of the FDI that goes into that sub-region; in North Africa Egypt and Morocco account for 59% of the FDI into that region; in West Africa Nigeria and Ghana take 68% of the FDI; in East Africa Tanzania and Ethiopia account for 43% of the FDI into the sub-region; and finally in Central Africa Congo and the Democratic Republic of Congo account take 58% of the FDI.

Table 5 presents the 15 top FDI recipients in Africa, ranked in descending order of their 27 year mean annual FDI inflows. In addition the country FDI figures are expressed as a percentage of the total FDI into Africa. The rankings for the entire 56 African countries are presented in Appendix 1. The rankings produce several interesting revelations:

1. First, FDI is concentrated within the top 15 recipients which received 81% of all inflows into the continent during the period 1990-2016; while the remaining 41 countries shared the remaining 19% of the inflow.

2. Within the context of the top 15 countries, FDI is also concentrated on four FDI destinations, namely, Angola, Nigeria, Egypt and South Africa which received approximately 51% of all flows to African countries in the study period.

3. The main conclusion from this analysis is that most FDI that goes to the continent is highly concentrated in a few countries, while the majority of countries have been largely unable to attract significant FDI inflows.

2.7 Sources of FDI Inflows to Africa

Table 6 shows the cumulative FDI inflows from developed countries to Africa in the period 1981 to 2000, arrayed in descending order of their cumulative totals**.** Most of the FDI flows during this period came from a small number of investor countries. The United States was the largest investor, followed by the United Kingdom, and France. During this period the United States alone accounted for more than 28 per cent of the total flows from OECD countries, the United Kingdom for 20 per cent and France for 20 per cent. Germany is relatively small investor at a far distance with 9% of the flows from developed countries. Data for more recent years were not available.

Table 4. Share of FDI inflows among African sub-regions (US$ Millions)

Region	Average 1990-2016	Per cent of Sub-Region FDI
Southern Africa	**12935.0**	**100%**
Angola		55%
South Africa		23%
Mozambique		9%
Zambia		5%
Namibia		3%
Botswana		2%
Malawi		1%
Zimbabwe		1%
Lesotho		0%
Swaziland		0%

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Region	Average 1990-2016	Per cent of Sub-Region FDI
North Africa	**8574.8**	**100%**
Egypt		40%
Morocco		19%
Algeria		11%
Sudan		11%
Tunisia		11%
Libya		8%
South Sudan		0%
West Africa	**6752.1**	**100%**
Nigeria		53%
Ghana		16%
Côte d'Ivoire		4%
Liberia		4%
Mauritania		4%
Niger		4%
Benin		2%
Guinea		2%
Mali		2%
Senegal		2%
Sierra Leone		2%
Burkina Faso		1%
Cabo Verde		1%
Togo		1%
Gambia		0%
Guinea-Bissau		0%
Saint Helena		0%
East Africa	**2754.6**	**100%**
Tanzania		25%
Ethiopia		18%
Uganda		15%
Kenya		14%
Madagascar		11%
Mauritius		6%
Seychelles		4%
Somalia		3%
Djibouti		2%
Eritrea		1%
Comoros		0%
Mayotte		0%
Central Africa	**2972.8**	**100%**
Congo		32%
DR Congo		26%
Equatorial Guinea		17%
Gabon		8%
Cameroon		7%
Chad		6%
Rwanda		3%
Central African Republic		1%
Sao Tome and Principe		1%
Burundi		0%

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Table 5. Top 15 FDI recipients and share of inflows to Africa

Rank	Country	Mean Annual FDI 1990-2016	As a % of FDI to Africa
1.	Angola	7103.7	21%
2.	Nigeria	3580.9	11%
3.	Egypt	3402.5	10%
4.	South Africa	2962.6	9%
5.	Morocco	1598.5	5%
6.	Mozambique	1215.9	4%
7.	Ghana	1100.7	3%
8.	Algeria	972.3	3%
9.	Tunisia	965.3	3%
10.	Sudan	949.7	3%
11.	Congo	938.1	3%
12.	DR Congo	766.5	2%
13.	Libya	711.5	2%
14.	Tanzania	696.7	2%
15.	Zambia	622.5	2%
16.	Others (41 Countries)	6399.8	19%

Table 6. Accumulated FDI flows from developed countries 1981-2000 (Millions of dollars)

Country	1981-1985	1986-1990	1991-1995	1996-2000	TOTALS	%
US	1866	404	278	9249	**11797**	**28%**
UK	882	2193	2376	3269	**8720**	**20%**
France	1239	1001	2066	4362	**8668**	**20%**
Germany	504	332	402	2475	**3713**	**9%**
Japan	350	1143	201	340	**2034**	**5%**
Portugal	-	-	96	1560	**1656**	**4%**
Italy	455	217	213	678	**1563**	**4%**
Netherlands	94	153	297	816	**1360**	**3%**
Canada	27	37	146	626	**836**	**2%**
Switzerland	-6	73	452	69	**588**	**1%**
Spain	-	-	50	476	**526**	**1%**
Sweden	177	48	4	197	**426**	**1%**
Denmark	19	24	1	340	**384**	**1%**
Belgium	99	40	-47	242	**334**	**1%**
Austria	72	33	7	221	**333**	**1%**
Norway	99	12	145	-148	**108**	**0%**
Finland	-	38	3	8	**49**	**0%**
Australia	-13	-149	-33	-99	**-294**	**-1%**
TOTALS	**5864**	**5599**	**6657**	**24681**	**42801**	**100%**

Adapted from: UNCTAD (2002:51) quoted as based on unpublished data from members of the OECD's Development Assistance (DAC) Committee.

2.8 Sectorial Distribution of FDI in Africa

Data from OECD investor countries shows that the primary or extractive sector has been the main recipient of FDI, with a share of 55% in the accumulated FDI to Africa during the period 1996-2000 while the secondary or manufacturing sector was the least at 20% (Table 7). According to UNCTAD (2002:52) oil and petroleum are largely responsible for the performance of the primary sector. Data for the recent period 2010-2017 shows that the tertiary or services sector has gained in importance and outstripped primary sector inflows, to reach 55% of the total FDI inflows, thus reversing the previous trend. In this period the primary sector is receiving the least FDI at 16% (Table 8). In the services sector, the largest FDI goes in the financial sector, infrastructure such as electricity, telecommunications and water as well as business services, real estate, gas and water (UNCTAD, 2008:42). In general in both periods the manufacturing sector has not been leading in FDI intake and in fact in most cases the continent lags behind in the other two sectors.

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Table 7. FDI outflows from OECD investors to Africa, by sector, 1996-2000 (millions of dollars and per cent)

Sector	1996	1997	1998	1999	2000	1996-2000	%
Primary	3133	4369	5056	2726	2029	**17314**	**55%**
Secondary	1085	1114	1233	1812	1297	**6541**	**20%**
Tertiary	624	255	52	308	1931	**7871**	**25%**
Total	**4842**	**7639**	**6341**	**7647**	**5257**	**31726**	**100%**

Source: UNCTAD (2002:52): world investment report 2002

Table 8. Announced Greenfield FDI projects by industry 2010-2017 (US$ millions)

Sector	2010	2011	2012	2013	2014	2015	2016	2017	2010-2017	%
Primary	20237	22824	7479	5735	21974	15841	3713	10574	**108377**	**16%**
Secondary	39506	31205	21129	13851	29270	18819	19357	21060	**194197**	**29%**
Tertiary	29175	28286	18847	34010	37890	36687	94039	85305	**364239**	**55%**
Total	**88918**	**82315**	**47455**	**53596**	**89134**	**71347**	**117109**	**116939**	**666813**	**100%**

Source: UNCTAD (2012, 2014, 2016, 2018): world investment reports

3. Discussion and Conclusions

3.1 Discussion

This section presents discussions and conclusions of the study. There is evidence to show that in the 27-year period between 1990 and 2016 there has been an astronomical increase in global FDI. This may be explained by increasing globalization trends especially rapid advances and diffusion of technology in transport and communication. There is also evidence to suggest that when African countries pursued inward-looking strategy that discouraged FDI it had adverse effect on economic growth. On the other hand there is evidence to show that when Africa had a regime shift in favor of outward-looking development strategies including encouraging FDI, this coincided with a relative improvement in economic performance in several African countries. The improvement is most likely as a result of the change in policy framework. This suggests that African countries should take FDI policies as an important component in their macro-economic planning for it seems to have a significant positive impact on economic development.

On a global and regional level of distribution, FDI flows into the developed countries were disproportionately high when compared to the developing countries. It is ironical that developing nations who are most in need of FDI because of having scarcity of capital and resources are not able to attract as much FDI compared to advanced countries. It is therefore important for developing countries to study the aspects of their economy or government that are heavily scrutinized by firms that are considering a possible long-term investment. A good understanding of these factors would help attract and retain FDI.

Analysis of FDI into Africa shows that although FDI to Africa has been growing, the continent's share of global FDI is very small. Even when compared with other developing regions, Africa still remains a marginal player in attracting FDI. The implication of this finding for Africa is that the continent has to work harder than the rest of the developing world in improving the aspects of their economy or government that are heavily scrutinized by firms that are considering a possible long-term investment.

The little FDI that comes to Africa is concentrated sub-regionally and country-wise. Most FDI that goes to the continent is concentrated on Southern Africa followed by Northern Africa. East Africa and Central Africa are at the bottom. The FDI is further concentrated on a few countries within each continent's region. For example, in Southern Africa Angola and South Africa account for 78%. The pattern is the same in the other sub-regions of Africa. In this context, one of the challenges facing African countries is how to reduce the geographic concentration of FDI flows in order to maximize the developmental impact of FDI on the whole continent.

Apart from sub-regional and country-wise concentration, the FDI that comes into the continent is further concentrated sector-wise. Past data shows that Africa used to receive FDI mostly in the primary (extractive) sector, as a result the benefits to the region have not been as significant as in East Asia where FDI was mainly into the secondary (manufacturing) sector. On the other hand, more recent data shows that FDI is coming mostly into the tertiary (services). The main conclusion is that the secondary or manufacturing sector has never been the main

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recipient of FDI for a sustained period of time. This fact also explains why, despite impressive growth trends, African countries have not made effective use of FDI to support development, as evidenced by the fact that FDI has generated few linkages in African economies, and has not led to significant technology transfer as expected. In this regard, a key challenge facing Africa is how to attract more FDI in dynamic sectors with high income elasticity of demand. On the positive note, although FDI flows to Africa go mostly to the extractive sector, there are indications that a sectoral shift is occurring particularly into services. In fact, data on greenfield projects over the past few years indicate that the relative importance of the extractive sector is declining. Much of the FDI is invested in locations that have natural resources such as gas, oil and other minerals. Countries such a Nigeria, Angola, Ethiopia and DRC Congo offer a combination of markets, strategic assets and natural resources advantages allowing ownership and internalization. Countries such as South Africa, Egypt, Kenya and Algeria provide market and efficiency advantages. On the other hand countries that offer less advantages on combination of natural resources market efficiency or strategic asset have attracted minimum inflow of FDI; a phenomenon that can be addressed by change of policy and business climate.

FDI does not only flow vertically from developed economies to less developed economies but also horizontally among developed economies as well as among less developed economies depending on the advantages accrued. Countries like South Africa, Egypt and Libya were sources of FDI to several African countries over the last decades of the 90s and 2000s with their firms seeking market and natural resource advantages. This is consistent with the eclectic theory. There is evidence of concentration in the investor countries. Most of the FDI flows during the 1996-2000 period came from a number of investor concentrated in few countries led by the United States, followed by the United Kingdom and France. This conclusion must be treated with caution for two reasons: the data is based on data from OECD countries only and it is outdated; more recent data were not available.

3.2 Conclusions

The overall conclusion is that global and African FDI trends show that FDI is a growth point that countries can count on as a source of resources for development. It is ironic that Africa, the continent which is in dire need for FDI, attracts a very small share of FDI inflows in relative terms. It may be speculated that one of the reasons for the low share in global FDI flows to Africa and the limited impact of FDI on the continent is the approach adopted by African countries in promoting FDI, which focuses more on providing incentives and less on creating a domestic environment conducive to entrepreneurship and business in general. The experience in Asia has shown that the most effective way to attract market-seeking or efficiency-seeking FDI is to have a dynamic and growing private sector and a policy environment attractive to both domestic and foreign investors. There is, therefore, a need for African countries to rethink their investment promotion strategy to ensure that it yields maximum benefits to the continent.

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Appendix 1. Mean FDI 1990-2016 and as % of inflow to Africa

Country	Mean 1990-2016	Percent of FDI to Africa
1. Angola	7103.7	21%
2. Nigeria	3580.9	11%
3. Egypt	3402.5	10%

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Country	Mean 1990-2016	Percent of FDI to Africa
4. South Africa	2962.6	9%
5. Morocco	1598.5	5%
6. Mozambique	1215.9	4%
7. Ghana	1100.7	3%
8. Algeria	972.3	3%
9. Tunisia	965.3	3%
10. Sudan	949.7	3%
11. Congo	938.1	3%
12. DR Congo	766.5	2%
13. Libya	711.5	2%
14. Tanzania	696.7	2%
15. Zambia	622.5	2%
16. Ethiopia	503.2	1%
17. Equatorial Guinea	496.2	1%
18. Uganda	410.4	1%
19. Kenya	393.4	1%
20. Namibia	384.1	1%
21. Madagascar	308.6	1%
22. Côte d'Ivoire	302.3	1%
23. Botswana	269.4	1%
24. Niger	248.8	1%
25. Mauritania	248.1	1%
26. Liberia	246.7	1%
27. Gabon	234.5	1%
28. Cameroon	213.7	1%
29. Chad	191.8	1%
30. Senegal	168.4	0%
31. Mauritius	165.8	0%
32. Mali	164.6	0%
33. Sierra Leone	151.6	0%
34. Zimbabwe	148.9	0%
35. Guinea	128.3	0%
36. Malawi	109.5	0%
37. Benin	108.1	0%
38. Seychelles	101.4	0%
39. Burkina Faso	99	0%
40. Rwanda	94.5	0%
41. Togo	86.5	0%
42. Cabo Verde	76	0%
43. Somalia	72.9	0%
44. Djibouti	61.6	0%
45. Lesotho	60.9	0%
46. Swaziland	57.5	0%
47. Eritrea	34.8	0%
48. Gambia	32.4	0%
49. Central African Republic	19.2	0%
50. Sao Tome and Principe	15	0%
51. Guinea-Bissau	9.9	0%
52. Comoros	3.6	0%
53. Burundi	3.3	0%
54. Mayotte	0	0%
55. Saint Helena	-0.1	0%
56. South Sudan	-25	0%
AFRICA	**33 987.2**	**100%**

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