Economist Intelligence Unit | The Economist

THE COLUMBIA PROGRAM ON INTERNATIONAL INVESTMENT
A JOINT PROGRAM OF THE COLUMBIA LAW SCHOOL AND THE EARTH INSTITUTE AT COLUMBIA UNIVERSITY

Press release

FDI in sub-Saharan Africa: Record Performance in 2005, but Set to Decline in 2006

More investment promotion needed

September 5, 2006—FDI inflows into sub-Saharan Africa reached a record US$18 billion in 2005, according *to World Investment Prospects to 2010: Boom or Backlash?*, released today by the Economist Intelligence Unit and the Columbia Program on International Investment. Flows are expected to fall back to US$17 billion in 2006. They are forecast to stay at this level for the next two years, before reaching US$19 billion in 2010. To improve this performance, active investment promotion efforts are needed.

Flows reach a plateau

A large part of the 2005 record is on account of several mergers and acquisitions in South Africa, especially the purchase of the South African bank ABSA by Barclays (UK), which accounted for more than one-quarter of all flows to the region. FDI also increased in many other countries in the region, stimulated by a growth pick-up: real GDP in the region rose by an estimated 5.2% in 2005. The bulk of FDI remains concentrated in resource-based industries.

FDI flows are likely to fall in 2006. In nominal terms, they are not expected to regain the 2005 level until 2009-2010 (see table below). Over the medium term, the region's share in global FDI will remain modest, at only about 1.4% on average in 2006-2010

Three countries are likely to continue to dominate FDI in sub-Saharan Africa: South Africa and Nigeria (the two largest economies in terms of GDP), followed by Angola. In the case of Nigeria and Angola, development of the oil and gas sector has been the driving force. The attraction of South Africa is more diverse: in addition to mineral wealth, there is also the appeal of relative financial sophistication and closer integration into the world economy.

FDI inflows into sub-Saharan Africa (US$ bn)

	2005	**2006**	**2010**
In current US$ terms			
Inflows	18.0	17.3	18.8
% of world total	1.9	1.5	1.3
South Africa*	6.3	5.7	7.4
Nigeria*	2.7	2.2	2.1
Angola*	2.2	2.5	2.1

Source: *World Investment Prospects to 2010: Boom or Backlash?*
**Top three recipients of FDI in region in terms of 2006 performance*

Most countries miss out – hence the need for active policies to attract FDI

South Africa and the oil economies apart, the poorest countries in sub-Saharan Africa get less than 1% of global FDI flows, although they account for some 10% of the world's population.

To attract more FDI in the interest of advancing the region's economic development, pro-active policies must be pursued, writes Jeffrey D. Sachs, director of The Earth Institute at Columbia University, and contributor to the report: "Governments should (and do) look askance at the World Bank and IMF orthodoxy that a good investment climate is all that is needed to attract FDI [since] a good investment climate is a necessary condition, but it is not sufficient" to be successful in this respect. In particular – and learning from successful Asian countries – investment promotion matters a great deal. Direct and aggressive campaigning for investment projects is needed. The specific promotional tools depend, among other things, on a country's stage of development, its physical geography and the sectors targeted. Tools to be considered include special economic zones, export processing zones, industrial zones and favorable incentive schemes.

Donors can help

Donors can help the poorest countries in various ways to attract more FDI. Sachs proposes three:

- "They can do more to ensure that the international financial institutions offer sound views on FDI promotion."
- "They should deliver on their long-standing but unmet promises of aid, since aid is urgently needed to build the infrastructure required for FDI to operate. Donors need to replace the tired and false slogan of "trade, not aid" with the much more accurate slogan "aid for trade". Specifically, aid is needed to finance the roads, power, ports, and telecoms that will be needed to make the poorest of the poor economies into profitable destinations for FDI."
- "The rich donor countries can and must open their markets to exports from the low-income countries."

The full version of ***World Investment Prospects to 2010*** is available from http://www.store.eiu.com and is priced at £50/$95

A **free Special Edition** is available from www.eiu.com/wip or www.cpii.columbia.edu

Copies are available for members of the press from the PR contacts below.

FDI Trends Webcast*: Visit www.eiu.com/world or www.cpii.columbia.edu for views and analysis from the authors of World Investment Prospects. Registration for the webcast will begin on September 1st. The webcast itself will begin at 11:00am EDT on September 5th.*

For further information please contact:

Economist Intelligence Unit	Columbia University
Sheila Allen: +44 (0)20 7576 8188 or sheilaallen@eiu.com Laza Kekic: +44 (0)20 7576 8320 or lazakekic@eiu.com	Clare Oh, Office: (212) 854-5479 or mobile: (646) 415-2479, coh@ei.columbia.edu Robert Hornsby, Office: (212) 854-9752 rh2239@columbia.edu Karl P. Sauvant: Office: (212) 854-0689 or mobile: (646) 724-5600, Karl.Sauvant@law.columbia.edu

About the Economist Intelligence Unit
The Economist Intelligence Unit is the business information arm of The Economist Group, publisher of *The Economist*. Through our global network of over 500 analysts, we continuously assess and forecast political, economic and business conditions in 195 countries. As the world's leading provider of country intelligence, we help executives make better business decisions by providing timely, reliable and impartial analysis on worldwide market trends and business strategies. More information about the Economist Intelligence Unit can be found on the Web at www.eiu.com.

About the Columbia Program on International Investment
The Columbia Program on International Investment (CPII), headed by Karl P. Sauvant, is a joint undertaking of the Columbia Law School, under Dean David M. Schizer, and The Earth Institute at Columbia University, directed by Jeffrey D. Sachs. It seeks to be a leader on issues related to foreign direct investment (FDI) in the global economy. The CPII focuses on the analysis and teaching of the implications of FDI for public policy and international investment law. Its objectives are to analyze important topical policy-oriented issues related to FDI, develop and disseminate practical approaches and solutions, and provide students with a challenging learning environment. More information about the Program can be found on the Web at www.cpii.columbia.edu.