Harnessing FDI

by Carlos Lopes

Dubbed the new investment frontier, Africa's attractiveness is becoming more visible to large corporations, institutions and investors.

Reflecting this, foreign investment (FDI) flows have grown exponentially since the turn of the millennium. Countries such as South Africa, Nigeria, Kenya, Egypt and Morocco are leading the way. High growth economies such as Zambia, Ghana, Tanzania and Mozambique are also becoming important investment destinations. In 2014, Mozambique and Ethiopia were among the star performers.

This trend is set to continue as more countries demonstrate sound economic policies and improved business environments. Major investors now include emerging economies such as China, India, Turkey, and the Gulf States.

Intra-African FDI is also on the rise. Financial services alone accounted for about 50 percent of intra-Africa greenfield investment projects between 2003 and 2014.

Manufacturing, a crucial trigger for industrialisation, was among the top business functions by capital investment in the region in 2014. Policymakers will no doubt be buoyed by this news. Capital investment in manufacturing accounted for 33 percent of announced FDI in 2013, confirming manufacturing output is finally expanding as quickly as the rest of the economy.

For a while, the commodity boom remained a key driver of the region's growth. The extractive sector still receives the bulk of FDI. Current trends call for a sober assessment of the sustainability of this path.

Moves towards diversification and increased value addition to the continent's abundant natural resources must be priorities. Africa's future will largely be determined by how well resource-rich countries harness natural wealth towards structural transformation.

It is encouraging to see that growth in the services sector is surging, bringing with it jobs and wealth creation. The sector is now Africa's largest sector in terms of FDI stock. FDI projects in real estate, hospitality and construction have also increased. Rising urbanisation and a growing middle class continue to create opportunities and reorient investors towards a burgeoning African consumer market.

Nonetheless, the various trends in FDI flows into the continent represent mixed fortunes for Africa's heterogeneous economies. Some of the top performers in terms of value addition, as measured by manufacturing value added, are also among its smallest economies, such as the Seychelles and Swaziland. Because of their small size, these successes are not widely known.

In light of Africa's pursuit for structural transformation, it is imperative that FDI contributes to the region's integration and sustainable development agenda. Africa's growth so far has not been accompanied by sufficient increases in productivity or job creation, nor has it significantly reduced poverty and inequality.

Getting a firm grip on the issue of industrialisation for inclusive growth will require answers to difficult questions: Who is benefitting? How will the capacity and empowerment of the local private sector be impacted? Is competitiveness enhanced?

While the risks of over-dependence on FDI are being debated in light of continuing global uncertainties, it is clear that it is a significant source of financing for development. But Africa's untapped savings as well as the quality of its regulatory environment and macroeconomic policies can liberate much bigger amounts in future.

Africa's future shared prosperity requires a new, ambitious vision with the right policies and incentives to back it up. Together with efficient institutions, this is as important as new infrastructure and access to capital. Some reformist governments are showing the way.

The hard work has just begun.

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