

FDI in Africa shows steady increase

Africa continues to be a bright spot on the global foreign direct investment (FDI) landscape, even as investment into industrialised economies continues to struggle.



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This is according to William Blackie, deputy head of Corporate and Investment Banking at Standard Bank Group. He was speaking on the sidelines of the fourth annual Standard Bank Africa Investors' Conference, which was recently held in London. The conference is aimed at helping to promote and facilitate investment into Africa.

He said FDI into Africa has increased dramatically in the last decade and a half. In 2000 not a single African country attracted more than \$2bn year-on-year in FDI inflows, while by the end of 2012 no less than eight countries on the continent had attracted more than \$2bn year-on-year in FDI.

"FDI inflows to developed economies declined by 32% in 2012 to \$561bn, according to the World Investment Report. By contrast, FDI inflows to Africa rose for a second consecutive year in 2012, climbing by 5% year-on-year to \$50bn. That made Africa one of the few regions worldwide to register year-on-year growth in 2012," said Blackie.

Concentrated inflows

FDI flows to Africa have turned out to be more resilient than those directed to other regions of the world. Despite the ongoing global economic challenges, FDI to Africa increased by 9.6% year-on-year to an estimated \$56.6bn in 2013. Standard Bank estimates that FDI inflows to Africa will likely exceed \$60bn this year.

Despite the fact that the FDI outlook for Africa remains extremely positive, there are some challenges that should be addressed. FDI inflows into Africa remain concentrated among a relatively small number of countries. The continent's top six FDI beneficiaries in 2013 were South Africa (\$6.4bn), Nigeria (\$6.3bn), Mozambique (\$4.7bn), Morocco (\$4.3bn), Ghana (\$3.3bn), and Sudan (\$2.9bn).

"As the 2014 Africa Economic Outlook notes, the continent's top six FDI recipients in 2013 represent just a third of the continent's population and received the same amount of foreign direct investment as the remaining 48 countries combined. There is thus much scope to increase Africa's FDI opportunities and spread it away from last year's major recipients, who were also the largest beneficiaries in 2012," he explained.

"Africa's total FDI is also heavily skewed towards resource-rich countries. FDI, and indeed merger and acquisition activity on the continent, remains concentrated in the energy, mining, telecommunications, financial services and consumer sectors. It's the energy sector however, which is attracting the bulk of the interest at present. In 2013 a mere 12 energy transactions contributed about \$11.5bn in inward FDI to Africa. That compares to 11 mining and ten financial services transactions, which together contributed just \$400m in FDI flows to the continent," said Blackie.

Energy sector

He contended that Africa's rapidly developing energy sector is only likely to attract greater investment going forward given the rapid expansion of the sector. "In 2012 Africa had 21 countries with proven oil reserves while 24 nations on the continent had proven natural gas reserves. Given that it is estimated that Africa's oil production will increase from 9.4 million barrels per day (bpd) in 2011 to 12 million bpd by 2020, one can expect massive inward FDI flows into the continent's oil and gas sectors over the next six years.

"We estimate that upstream exploration and investments in Africa's energy sector is likely to attract approximately \$1.5 trillion by 2030. Add to this the fact that Africa has the highest concentration of minerals in the world coupled with the considerable investment taking place in upgrading roads, rail, ports and airports on the continent, and it's not difficult to see why Africa is likely to remain one of the world's foremost FDI destinations for some time."

"According to our research, South African investment into the rest of Africa has increased considerably with investment in new projects growing at a compound annual growth rate of about 65% since 2007. South Africa's total FDI stock in Africa has also increased from R15bn in 2001 to R122bn by 2010. Nigeria's emergence as the continent's biggest economy means it is also likely to become a major source of FDI flows to other African nations going forward," said Blackie.

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