

Forms and performance of foreign direct investment in sub-Saharan Africa

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Abstract

The yearly „World Investment Report“ of UNCTAD is currently the most frequently cited source for the measurement of flows and stocks of foreign direct investments (FDI) into sub-Saharan Africa (SSA). Accordingly, the global financial crisis has not spared SSA. FDI inflows have declined by 19 per cent from 72 billion USD in 2008 to 59 billion USD in 2009. The data is derived from the balance of payment statistics of Central Banks in Africa which are making an effort to capture FDI flows and stocks according to the official definition of OECD and the IMF. Despite considerable difficulties and gaps related to the collection and coverage of such data in Africa, its relevance for macro-economic comparisons of countries and the identification of global FDI trends is undisputed.

Apart from the macroeconomic perspective, there was, until recently, no other study available on FDI in SSA which would look at the foreign subsidiary as the main subject of analysis. In its series of “Foreign Investor Surveys” in Africa, UNIDO attempts to fill this vacuum and sheds light on various aspects of the foreign investor operating in Africa that range from the firm’s primary motive of investments (in terms of Dunning’s classification of natural-resource seeking, market-seeking, efficiency seeking or strategic asset seeking), investor performance and investor impact on the local economy. The study confirms the thrust of Panel 67 which describes Africa as a dynamic business location where major shifts and trends in the African FDI landscape happen virtually simultaneously and often largely unobserved by policy makers.

The objective of the paper is to undertake a classification of different foreign investor types in Africa with regard to the main sector (service vs. manufacturing), investor origin (developed vs. developing country), market entry strategy (greenfield vs. M&As), ownership mode (JVs or fully foreign-owned) and the degree of internationalization. The rationale for such a classification is to identify successful combinations between the characteristics of investors and the host country’s objective to maximize the development impact of FDI in terms of technology transfer and “spillover” effects. To this end, the study re-iterates various measures of subsidiary performance in terms of sales growth, employment growth, capacity utilization and for these different groups of investors.

Keywords: Sub-Saharan Africa, FDI, performance, trends, determinants

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1. Introduction

Since the global financial crisis in 2008, the world has witnessed a drastic decline of foreign direct investments (FDI) inflows at two-digit rates. Global FDI inflows fell by 37 per cent from \$1,771 billion in 2008 to \$1,114 billion in 2009. Developed countries were relatively less affected by the global financial crisis and recorded a decline of 24 per cent in 2009 as opposed to 44 per cent in developed countries (UNCTAD, 2010a).

In times of crisis, multinational enterprises are applying risk-averse investment strategies to mitigate the most severely perceived risk factors such as exchange rates fluctuations, the price volatility of petroleum and raw materials and a further a worsening of the economic crisis (UNCTAD, 2009a). While North African countries and South Africa have recorded impressive FDI inflows over the past years, the FDI business environments in a large number of Sub-Saharan African countries have been perceived to be economically and politically unstable and FDI inflows, in particular outside the natural-resource extraction sector, remained relatively sparse (MIGA, 2011). This is also re-confirmed by the latest World Investment Prospect Survey conducted by UNCTAD in 2009, in which multinational investors indicated that they continue to have low preference in sub-Saharan Africa as a future investment location (UNCTAD, 2009a). The financial crisis might, however, prompt multinational enterprises to undertake a business risk re-assessment which could result in closing the perceived risk gap between sub-Saharan Africa and hitherto “low”-risk locations in developed countries.

The contraction in global demand and the resulting financial constraints of large multinationals had negatively impacted the volume of FDI inflows into sub-Saharan Africa, albeit to a much lesser extent than most other regions in the world. In 2009, sub-Saharan Africa recorded FDI inflows of \$43.3 billion, which is a decline of 14.5 per cent compared to \$50.7 billion in 2008. When South Africa is excluded, the decline of FDI inflows in sub-Saharan Africa was 9.7 per cent from \$41.7 billion in 2008 to \$37.6 billion in 2009. The Economic and Monetary Community of Central Africa (CEMAC) was the only region within sub-Saharan Africa that recorded an absolute increase of FDI inflows primarily due to large FDI investments into the petroleum sector of Equatorial Guinea.

2. Statistical constraints

Statistics on FDI flows and stocks in Africa are produced in an environment where National Central Banks, National Statistics Offices or Investment Promotion Agencies suffer from serious resource and capacity constraints. This precludes in most cases the regular and accurate collection of country-level FDI statistics. African countries have been advised to improve efforts to report FDI statistics according to the Balance of Payment (BoP) Definition of the IMF (IMF, 1993; Patterson et al., 2004; OECD, 2008; IMF, 2009). Nearly half of all African countries have no system in place for capturing FDI at the level of the BoP (Patterson et al., 2004). Countries that have attempted to

collect information on FDI stocks and flows through specific surveys are Cameroon, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Nigeria, South Africa, Tanzania and Uganda. Most of the information collected is, however, relatively outdated and the latest reporting years are from the early 2000's (UNCTAD, 2008a). Moreover, the data provided by African host institutions like Investment Promotion Agencies or Registrars Offices is in most cases based on *approved* investments which is often inflated and does not reflect *implemented* investment, which is in most cases much lower (UNCTAD, 2008a).

In theory, outward FDI flows recorded by the economy of the direct investor should match with the corresponding FDI inflows in the statistics compiled by the respective African host economy. In practice, different classification systems and accounting practices have contributed towards a widening of reporting discrepancies and this “has been a cause of concern to the IMF in connection with the analytical implications”(Patterson et al., 2004). FDI definitions are usually not applied consistently amongst African countries since different attention is given to composite character of FDI flows including equity flows from abroad, undistributed profits and inter-company loans (Bellak, 1998). For example, the US FDI inflows in 2004 reported by the National Bank of Ethiopia accounts for \$123.1 million, whereas the FDI outflows from the US into Ethiopia accounted for meagre \$6 million in the same year (UNCTAD, 2008a). Table 1 below gives a sample of the most extreme discrepancies for selected economies.

Table 1: Discrepancies between FDI inflows in 2006, reported at aggregated levels and according to geographical origin

	Aggregated FDI inflows, 2006, in USD million	FDI inflows, by geographical origin, reported by investor economies, 2006, in USD million	Unspecified portion of FDI inflows, according to country of origin, in USD million
Angola	9063.7	Denmark: 58.4 France: 44 Portugal: 165 US: - 206	9002.3 (99.36%)
Botswana	486.4	Sweden: -1.9 US: 5	483.3 (99.36%)
Ethiopia	545.3	France: 1.3 US : 6	538 (98.66%)
Senegal	210.4	Denmark: - 0.3 France: 22.8 Germany: - 12.5 US: - 60	260.4 (>100%)
Sudan	3,541.4	France: 13.8 Germany: 1.3 US: 1	3,525.3 (99.55%)
Uganda	644.3	Denmark: - 0.8 France: 1.3	643.8 (99.92%)
Zambia	615.8	Germany: 11.2 Sweden: 14.4 US - 8	598.3 (97.14%)
Source: Author's own calculations based on (UNCTAD, 2008a).			

The reported yearly FDI inflows do by no means reflect the amounts reported by the largest capital exporting countries. The breakdown according to country of origin

explains only a fraction of the total FDI inflows for most African economies in 2006, except for the Central African Republic (11%), Cape Verde (14%), Mauritania (18.9%), Congo (28.6%), Benin (29.1%), Cote d'Ivoire (29.8%), Gabon (46%), Burkina Faso (67.2%), Cameroon (70.1%) and Mozambique (100%). Another type of discrepancy can be observed for Equatorial Guinea and Togo, whose total FDI inflows in 2006 are by far less compared to what France and the US reported as FDI outflows for the same year.

These deviations contribute to asymmetries in FDI aggregations and makes meaningful cross-country comparisons extremely difficult (UNCTAD, 2005a). In spite of these problems and in an attempt to overcome the general paucity of FDI data in Africa, the majority of FDI inflows and stocks continue to be approximated by outflows from the largest capital-exporting countries (UNCTAD, 2008a). This practice neglects the increasing role of transition and developing countries as new sources of FDI into Africa, mainly because they do not record FDI outflow statistics that are broken down by African destination countries.

The identified methodological weaknesses and discrepancies underscore the need for a harmonized approach of measuring FDI data in Africa which should include, among others, the execution of frequent company-level FDI surveys in Africa to test the validity of macro-economic estimates and to add an enterprise-level perspective to the discussions on emerging FDI trends and their impact on the African continent. Apart from the financial crisis that has led to dwindling developed country FDI, the continent is being affected by further and often inter-related trends, some of which have been addressed by recent studies. These revolve around the main topics of FDI from developing countries and the emergence of Southern multinationals (Akyut and Ratha, 2003; Aykut and Goldstein, 2006; UNCTAD, 2006; UNCTAD, 2007a; Cuervo-Cazurra and Genc, 2008; Henley et al., 2008; Saunders, 2008; Draper et al., 2010), the new engagement of China in Africa (Sheridan, 2007; Wang, 2007; Zafar, 2007; Besada et al., 2008; Foster et al., 2008; Bräutigam, 2010a) and the emergence of agriculture investments in Africa (Woertz et al., 2008; Cotula and Vermeulen, 2009; Cotula et al., 2009; UNCTAD, 2009b).

Two multilateral institutions, namely the World Bank and UNIDO, have recently implemented enterprise-level surveys at a cross-country scale in Africa in an attempt to complement macro-economic FDI statistics and overcome some of the identified shortcomings (UNIDO, 2007; World Bank, 2011).

In the early 1990s, the World Bank started to carry out firm-level surveys in Africa within the framework of its Regional Programme for Enterprise Development. The first round of surveys, conducted during the consecutive years 1992-1995, generated panel data on a range of performance and competitiveness variables from manufacturing companies in a total of eight sub-Saharan economies. The second round of surveys was conducted in the early 2000s and shifted focus towards firm perceptions of the regulatory business environment (costs of doing business, level of institutional and government support, red tape, etc.) in about 10-15 sub-Saharan African economies (Bigsten and Söderbom, 2006). In 2006, the World Bank standardized its global methodology for conducting enterprise-level surveys which resulted into the design of one core

questionnaire and a sampling strategy that is representative of the country's private sector, including the services sector¹. This greatly facilitates cross-country comparisons between African countries but reduces the ability of performing time series analysis for the data collected before and after 2006. The data is stratified according sector of activity, firm size, and geographical location. The World Bank Surveys covered 38 African economies since 2006 and the total sample comprises 14,400 companies with country samples varying from 150 companies in small African economies and 1,900 companies in large economies such as Nigeria. Panel data exists for two years exist for Burkina Faso, Cameroon, Cape Verde, DRC, Malawi, Mali, Niger, Senegal, Sierra Leone, South Africa and Zambia.

The World Bank data is not stratified according to investor ownership, which leads to the caveat that the proportion of foreign subsidiaries is not representative for the FDI population in the respective African economy. There are 2,230 firms with more than 10 percent foreign ownership which equals a proportion of 16 per cent FDI firms among all surveyed firms in Africa (see Annex 1). It is important to note that this database of FDI firms is significantly larger than UNCTAD's database on affiliates of transnational corporations (TNCs) which forms the basis for most estimates of FDI flows and stocks. In this sense, the likely over-reporting of FDI flows due to discrepancies between FDI registration and implementation could be offset by the fact that the real population of FDI companies and their associated flows is much larger than what is currently known and published.

In 2001, UNIDO started to carry out Surveys of foreign subsidiaries in Africa with the objective to gain new insights into determinants, motives and performance of FDI and to help African Investment Promotion Agencies in the enhanced execution of their mandates (UNIDO, 2002; UNIDO, 2003; UNIDO, 2007). The analyses in Chapter 4 will be based on the raw data from the UNIDO FDI Survey that was carried out in 2005 and covered 1,216 firms from 15 countries in sub-Saharan Africa (UNIDO, 2007).

¹ www.enterprisesurveys.org/methodology

3. Forms of foreign direct investment (FDI) in Africa

Issues related to firm-level performance of FDI and its related impact on host country growth and spill-overs need to be analyzed against a well-defined classification of different forms of FDI. The extant literature finds a multiplicity of factors that determine the flows and success of FDI flows for a given host country context. Countries that seek to improve their business climates and accordingly adjust their policies may do so with a notion of attracting investors in specific sectors, from specific host countries, with specific entry modes or ownership forms. In the case of Africa, scholars have found political factors and the quality of institutional support systems to have crucial influence on FDI inflows and its performance (Pigato, 2000; Pigato, 2001; Asiedu, 2002; Bende-Nabende, 2002; Kratzsch, 2005; Mlambo, 2005; Anyanwu, 2006). Common to these studies is that certain types respond differently to location factors with investor groups being relatively more vulnerable to policy constraints while others seem to be more resilient (UNIDO, 2007). Besides policies, there are other determinants, mainly economic ones, that influence FDI flows to Africa, such as the natural resource availability, market size, market growth, wage levels or infrastructure (Onyeiwu and Shrestha, 2004; Asiedu, 2006).

FDI theory posits that location factors are only one out of at least three dimensions that determine whether an FDI project is implemented and remains successful over time (Buckley and Casson, 1976; Hymer, 1976; Buckley and Casson, 1985; Dunning, 1993). One further dimension is derived from resource-based theories and describes the foreign enterprise as an efficient bundle of assets including technologies, codified and non-codified process and product knowledge, financial capital and organizational networks (Caves, 1971; Hymer, 1976). The extent to which the firm succeeds to leverage and augment such firm-inherent knowledge and technologies will determine its FDI success. Another dimension derives from transaction-cost theory which discusses the choice of international firms to carry out business transactions through external markets (e.g. international trade) as opposed to the internalization of market transactions to overcome costs related to market failures and information asymmetry (Williamson, 1975; Buckley and Casson, 1976). The combination of these three dimensions has led to the ownership (O), location (L) and internalization (I) or “eclectic” paradigm (Dunning, 1993). It rests on the notion that FDI can take very heterogeneous forms due to the fact that motives for investments are also very different. Investment may be primarily driven by raw materials and natural resource endowment of the host country (natural-resource seeking FDI), the size and growth potential of the market (market-seeking FDI), the availability of low-cost work force and favourable infrastructure conditions for exports (efficiency or export-seeking FDI) or assets that strengthen the firms market position and enhance its knowledge (strategic-asset seeking FDI). The classification of different forms of FDI in Africa will therefore be a necessary first step before the firm-level performance will be assessed in greater detail.

3.1 Sectors

In terms of overall volume, FDI in Africa continues to be driven by resource-seeking motives and remains mainly concentrated in the primary sector, especially in oil and minerals (UNCTAD, 2005a; UNCTAD, 2008a). UNCTAD estimates that approximately 50-80% of FDI in Africa is directed towards natural-resource exploitation (UNCTAD, 2004a). Between 1996-2000, cumulated outflows of seven large investor home countries indicated that 54.6 per cent went into the primary sector, 20.6 per cent in the secondary sector and 24.8 per cent in the services sector (UNCTAD, 2002). Reliable statistics on FDI flows or stocks by sub-sector are scant and exist for only a few economies. Table 2 below shows estimates of FDI stock disaggregation into main sectors for eleven sub-Saharan African countries.

Table 2: Estimated dis-aggregation of FDI stocks in selected sub-Saharan African countries according to main sectors for different reporting years

	Year	Primary	Secondary	Tertiary	Unspecified	FDI stock, in USD Million
Botswana	2003	68.3%	3.9%	28.0%	-0.2%	1,720.0
Cape Verde	1995	25.5%	24.1%	50.4%	0.0%	0.1
Madagascar	2006	44.1%	11.8%	43.4%	0.7%	503.0
Malawi	2001	13.1%	41.8%	44.7%	0.4%	491.0
Namibia	1994	76.6%	5.3%	18.1%	0.0%	1,712.0
Nigeria	2005	74.8%	0.0%	0.0%	25.2%	27,270.0
South Africa	2005	34.5%	27.8%	37.7%	0.0%	77,362.0
Swaziland	2005	11.5%	72.3%	13.5%	2.7%	813.0
Tanzania	2001	34.7%	33.5%	31.8%	0.0%	3,777.0
Uganda	2003	0.7%	26.6%	64.6%	8.1%	724.0
Zambia	2001	33.9%	13.2%	51.6%	1.3%	1,085.0

Source: UNCTAD, 2008a

The recent spike of global commodity prices has triggered FDI flows into agriculture and this resulted into large-scale land acquisition. These comprise state-driven investments of Gulf countries into staple crops such as rice, wheat, barley, corn, sugar to ensure food security but also increasing investments into bio fuels (Woertz et al., 2008; Cotula and Vermeulen, 2009; Cotula et al., 2009). Large-scale investments into oil extraction have focused on Sudan, Angola and Nigeria and were mainly driven by Chinese, Korean, Russian and Brazilian investors (Foster et al., 2008; De la Fontaine and Seifert, 2009; UNCTAD, 2010b; White, 2010). Especially Chinese investors are providing sizeable lines of concessional credit that trigger further investments into related infrastructure projects (Foster et al., 2008; Bräutigam, 2010b).

Foreign direct investments into the manufacturing sector have slowed down in many African economies. In South Africa, for instance, the share of FDI in the manufacturing sector has gone down from 41 per cent in 1996 to 28 percent in 2006. A similar downward trend is visible in Botswana, Madagascar and Uganda (UNCTAD, 2008a).

The share of FDI in manufacturing in Africa rarely exceeds 30 per cent in terms of overall investment value. In terms of *number* of greenfield investment projects, however, the share is somewhat higher and reached about 41 per cent of the total between 2003-2009 including metals (9 per cent of the total), transport equipment (7 per cent) and food and beverage (6 per cent) (UNCTAD, 2010a).

The majority of African countries are eligible for the generalized system of preferences (GSP) under the European Union's "Everything but Arms (EBA)" Agreement and the African Growth and Opportunity Act (AGOA) of the United States. The prospect of exporting duty-free to the EU and US markets has attracted some FDI inflows in export-oriented manufacturing industries, particularly in textile, apparel and horticulture and has contributed to positive export growth effects (Brenton, 2003; UNCTAD, 2003; UNIDO, 2007; McLure, 2008; Phelps et al., 2008). Studies in Kenya and Lesotho indicate a rapid accumulation of FDI due to AGOA. This changed after the expiry of the Multifibre Arrangement (MFA) in 2005, which eliminated garment and textile quotas on a global scale and eroded the specific privileges granted to Africa through AGOA and EBA. As a result, many foreign investors relocated production into lower-wage host countries in Asia. The attempt by African governments to retain AGOA/EBA investors through granting of incentives and tax holidays did not reverse this general trend and textile and garment FDI in Africa remains under severe pressure (Lall, 2005; Kaplinsky and Morris, 2008; Phelps et al., 2008).

The tertiary sector has shown a noticeable increase and accounted for the largest share of cross-border M&As in Africa. Most of the recent mega-deals in the financial and telecommunication sector were undertaken by multinationals from developing countries which appear to be more resilient than developed country MNEs in the aftermath of the financial crisis. These mega-deals comprised, for instance, the acquisition of the mobile phone network of Kuwait's Zain by India's Bharti Airtel for 10.7 billion USD or the acquisition of a 20 per cent share in South Africa's Standard Bank Group for 5.6 billion USD by Chinese investors (UNCTAD, 2010a). The FDI Global Outlook Report 2011 indicates financial services to be the top sector of African FDI inflows in 2010 (Financial Times, 2011). On a global scale, multinational companies in the services sector are relatively more bullish with regard to future internationalization plans than manufacturing companies because the local demand structure for financial services, telecommunications and business services exhibits smaller fluctuations (UNCTAD, 2009a).

3.2 Countries of Origin

Existing data on FDI flows according to country of origin is relatively outdated with the latest reporting year being 2004 or 2006. In 2004, the total FDI inflows from eleven key investor countries (China, India, Malaysia, Pakistan, Korea, Taiwan (Prov. of China), South Africa, France, Germany, UK and US) accounted for USD 14.3 billion whereas the total FDI flows of that year into Africa were USD 21.7 billion, leaving approximately 34 per cent of the flows unspecified (see Table 3).

Table 3: FDI inflows to Africa, from 1995-2006, by different investor countries of origin

	China	India	Malaysia	Pakistan	Korea	Taiwan (Prov. of China)	South Africa (c)	France	Germany	UK	US
1995	17.7		72.3	6.9	38.4	28.8	214	259	319.3	1115.7	352
1996			496	5.8	8.1	20.9	97	740.1	314.5	875.2	1678
1997			147.5	5.5	87.7		1062	596.4	801.9	1019.9	3436
1998			77.5	4.4	81.2	36.2	1988		1362.7	-41.4	3075
1999	42.3		222.2	3.9	19.9	41.3	114	901.3	463.4	1901.1	596
2000	85	243.3	77.7	4.3	23.8	7	281	1300.9	651.4	2119.7	716
2001	24.5	184.8	49.4	4.1	14.3	6.1	1585	1796	-259.5	1658.4	2438
2002	30.1	883.4	340.1	2.1	-6.5	17.4	1884	855.4	-328.4	3291.3	-578
2003	60.8	338.4	411	0.1	2 (b)		932	1095.9	-319.4	5639.4	2697
2004	317 (a)	22.1	175.6	-0.1	51 (b)		597 (d)	1028.1	181.3	10588.1	1325
2005	392 (a)				249 (b)						
2006	520 (a)										

Compiled from (UNOSAA, 2010); (UNCTAD, 2007a); (UNCTAD, 2006) and (UNCTAD, 2005b).
(a) Chinese Statistical Bulletin
(b) Korea Export Import Bank
(c) Business Map Foundation Database of Announced FDI reported in UNCTAD, 2005b; only SADC countries
(d) 1st half of 2004

In terms of volume, the UK remains by far the most important investor country with cumulated FDI inflows between 1995 and 2004 of USD 28.2 billion. The UK is the largest investor in South Africa, Madagascar and Zambia. For instance, affiliates of UK's HSBS Bank, Barclays Bank or Unilever are present in many African economies (UNCTAD, 2008a). Other important developed countries investors are from France (telecommunication, banking, transportation), Germany (wholesale, transport, chemical industry), Switzerland (food and beverages, utilities) and the US (petroleum, wholesale). Many of these firms have been founded during colonial times and dominate the domestic market in terms of services or branded fast-moving consumer goods. A recent trend is that of divestments by developed countries investors in the manufacturing sector which had already started before the financial crisis and which is likely to continue. Large multinational firms attempt to consolidate capital commitments in a smaller number of locations and focus on a few production hubs in Africa in e.g. Kenya or South Africa with regional distribution outlets as the spokes (UNIDO, 2007).

Broadman depicts a scenario where European and US multinationals start losing their first-mover advantage to investors from developing and emerging economies. He criticizes that many developed country multinationals lack a clear corporate vision with regard to Africa and that this has often led to a lethargic "wait and see" approach (Broadman, 2009). This is, in fact, somewhat corroborated from available data which shows increasing shares of developing countries FDI to Africa from 17.7 per cent over the period 1995-1999 to 20.8 per cent for the period 2000-2008. The most visible engagement of emerging country FDI is in the natural resources sectors through state-owned investors like Brazil's Petrobras (Brazil), the China National Offshore Oil

Corporation, India's Oil and Natural Gas Corporation or Malaysia-based Petronas (UNCTAD, 2007a). Notwithstanding these recent mega-investments, more than 90 per cent of the estimated cumulating inward FDI stock in Africa still remains to be controlled by developed countries investors. When referring to number of investment projects as opposed to investment volume, developing country investors are more prominent. There has been a steady increase of greenfield investments from 29 per cent in 2003 to 39 per cent in 2008. These investment projects exhibit a certain level of diversification beyond natural resource exploitation and comprise infrastructure, finance, agriculture or light manufacturing. Out of 2720 greenfield investment projects carried out between 2003-2008, 931 were attributable to developing country investors (32.2 per cent) and, more specifically, by Asian investors (576 projects, 21.2 per cent), African investors (275 projects, 10.1 per cent) and investors from Latin America (21 projects, 1 per cent) (UNCTAD, 2010b).

There is a wide array of studies that has focused on Chinese FDI in Africa. Chinese FDI in Africa very often takes the form of M&As in natural resource-seeking and infrastructure investments carried out by medium and large state-controlled enterprises and closely bundled with aid and trade (Corkin, 2007; Konings, 2007; Sheridan, 2007; Broadman, 2008; Foster et al., 2008; Ajakaiye and Kaplinsky, 2009; Kaplinsky and Morris, 2009; Bräutigam, 2010a; UNOSAA, 2010). By far less attention is given to the fast-growing group of small private Chinese investors in Africa that are led by a highly entrepreneurial mindset and that invest in different service and manufacturing sectors to serve mainly local markets. (UNIDO, 2007; Wang, 2007; Wang and Bio-Tchané, 2008; Gu, 2009). The preferred mode of entry is that of greenfield investment. It is characterized by a large proportion of Chinese employees among the company's workforce and a relatively shallow integration with other local business actors (UNIDO, 2007; Wang, 2007; Wang and Bio-Tchané, 2008; Gu, 2009). While these firms are usually incorporated in China, there is yet another category of "foreign" investment that operates at the borderline to informality and that is usually run by independent Chinese "migrants" (Ajakaiye and Kaplinsky, 2009). This group of Chinese investors has sparked some xenophobia among Africans who suffer from stiff competition especially in retail and small scale construction (Kragelund, 2008).

India is another very important source country of foreign investments in Africa. Its evolution is somewhat different from Chinese FDI, in that the relations between India and Africa have grown over many decades. FDI has been primarily carried out by the well-integrated Indian diaspora in Mauritius and further expanded into other East African economies. Indian investments are concentrated in the chemical, wholesale, food and beverages sectors (UNCTAD, 2005c; Henley et al., 2008; Prabhakar, 2008). Indian investors are relatively better integrated than Chinese investors, which is reflected in higher levels of local content and a higher proportion of mixed Indian-African joint ventures with a strong entrepreneurial orientation (UNIDO, 2007; Broadman, 2008; Prabhakar, 2008). Recently, there are signs of a more overt strategy to secure India's access to Africa's natural resources and commodities, which converges to that of Chinese state-driven FDI in Africa. The Indian government offers nowadays a wider array of mechanisms (e.g. through greater activities of the Indian Export-Import Bank) to bundle

together the objectives of FDI, trade and aid (UNOSAA, 2010). A case in point are greenfield investments like horticulture in Kenya and farming in Ethiopia by the Indian MNE Karuturi Global Limited or the successful acquisition of a large share in the Greater Nile Petroleum Operating Co. in Sudan by the Indian state-owned multinational ONGC (UNCTAD, 2007b; UNCTAD, 2009b; UNCTAD, 2010a).

South Africa has become another important source country of FDI in Africa, and particularly in Southern Africa. Reliable statistics on FDI flows and stocks are difficult to obtain and the discrepancy between different data sources is sizable. Between 1994 and 2003, estimates suggest that South Africa's FDI accounted for an average of 25 per cent of all FDI flowing into the SADC region. During that period, South Africa was the top investor in Lesotho with 86 per cent of cumulated FDI inflows, Malawi (80 per cent), Swaziland (71 per cent), DRC (71 per cent) and Botswana with 58 per cent (Rumney and Pingo, 2004; Saunders, 2008). In 2004, its accumulated assets in SADC were close to 40 billion (UNCTAD, 2005b). Different data indicates that cumulated FDI inflows from South African companies into Africa were 16.6 billion USD between 2003-2007 (Draper et al., 2010). South African firms prefer joint ventures or M&As over greenfield investments as the mode of entry (Bhaumik and Gelb, 2005; Henley et al., 2008). Privatization programmes and financial liberalization boosted South African FDI through its state-owned companies Eskom (energy generation), Transnet (transportation) and the Industrial Development Corporation (infrastructure) in countries like Mozambique, Zambia and Tanzania. Private firms have heavily invested into the services sector ranging from banking, telecommunication, retail, tourism and other areas (Naidu and Lutchman, 2004; Henley et al., 2008; Saunders, 2008; UNCTAD, 2008b). Flagship firms such as MTN (telecommunication) or Stanbic (Financial services) expand their investment portfolio to increasingly involve Western African economies as well (Games, 2004; UNCTAD, 2005b). The share of African countries outside SADC has nearly reached 50 per cent of the entire South African FDI stock in Africa (Draper et al., 2010).

3.3 Market-entry strategy and ownership mode

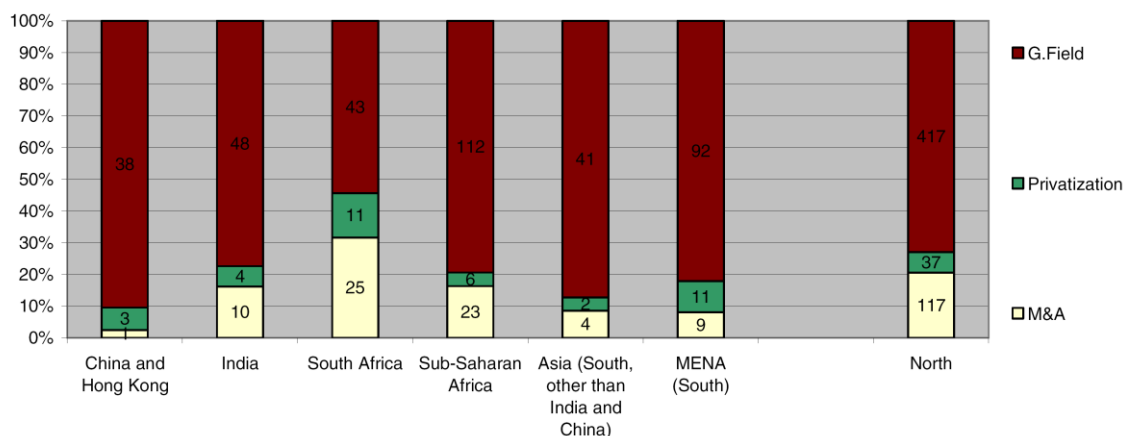
Another important feature of the structure of foreign investment in Africa is the choice of the entry mode which can take the form of a merger & acquisition or a greenfield investment (Brouthers and Brouthers, 2000; Slangen and Hennart, 2007).

Large investments into mining, quarrying and petroleum in Africa have traditionally taken the form of M&A and were the result of large-scale privatization programmes in the 1990's and the beginning of 2000's (UNCTAD, 2000). M&As are the expression of an active strategy by MNEs to secure access to strategic assets to expand or secure market power (Hennart and Park, 1993). In the case of Africa, such assets are currently concentrated in sectors like non-metallic mineral products, mining and transportation. In 2009, M&A sales plummeted and accounted for 5.1 billion USD compared to a total FDI inflow of 58.6 billion USD.

The share of cross border M&As in FDI inflows to Africa is one of the lowest of all world regions and oscillates between 25 to 45 per cent of yearly FDI inflows. This coincides with the thinking that greenfield investments are the preferred alternative entry mode to M&As in countries where investment risk and growth potential is perceived to be higher than elsewhere (Tatoglu and Glaister, 1998; UNCTAD, 2000). In a survey among Investment Promotion Agencies in Africa, nearly half of the respondents confirmed that greenfield was the preferred FDI entry mode (UNCTAD, 2004b). In 2008, there were 820 greenfield projects in Africa out of which 469 were recorded in sub-Saharan Africa. The largest number of greenfield projects were realized in South Africa, Nigeria, Uganda and Angola (UNCTAD, 2009b).

‘The “cultural distance” theory further posits that investors from culturally distant economies avoid entry modes of M&As where they would have to accommodate the target firm’s national and corporate culture into their own specific and more distant firm culture (Kogut and Singh, 1988; Padmanabhan and Cho, 1995; Barkema and Vermeulen, 1998; Shenkar, 2001). In fact, Asian investors have a high preference for greenfield entry modes as a circumvention and cost-saving strategy. Contrastingly, South African investors show a higher propensity towards M&As, presumably because they are culturally more rooted in other African economies (Henley et al., 2008). Figure 1 below gives an overview of entry modes for FDI investors of different origin. The small proportion of M&As in Africa is confirmed by UNIDO’s 2005 FDI Survey, where 25 per cent of the responding foreign investors entered through an M&A (UNIDO, 2007). The author’s own calculations on the World Bank sub-sample of foreign firms in Africa (see Annex 1) indicate a percentage of 30 per cent of M&As.

Figure 1: FDI entry mode in Africa according to investor’s home country



Source: Henley et al, 2008

Besides the selection of the entry mode, the foreign investor takes a decision on the level of equity participation along a continuum of partial ownership through a joint venture or a wholly foreign-owned subsidiary (Gomes-Casseres, 1989; Makino and Neupert, 2000; Brouthers and Hennart, 2007; Slangen and Hennart, 2007). Consequently, there are four forms i.e. partial acquisitions, full acquisitions, greenfield joint ventures and greenfield wholly-owned subsidiaries (Brouthers and Hennart, 2007). The latter category is preferred by almost half of the foreign investors in Africa (UNIDO, 2007).

A reliable classification of the types of ownership/mode of entry can be carried out on the basis of large numbers of firm-level data as those collected by UNIDO or the World Bank. Based on the author's own calculations, the share of foreign ownership of FDI in Africa is 81 per cent, according to UNIDO's data, and 84 per cent according to data of the World Bank. When the selected mode of entry is greenfield FDI, the share in foreign ownership seems to be somewhat higher than for M&As in the case of UNIDO data, but this is not confirmed by the more recent World Bank data where foreign ownership is virtually similar for both greenfield FDI and M&As. Foreign investors exhibit a clear preference for the combination of greenfield/full ownership in the case of textiles, garments, wood, construction, wholesale and distributions.

3.4 Size of foreign investments

The limitations of macro-economic data on FDI stocks and flows become particularly blatant when foreign investors are classified according to their size of operations. The compilation of macro-economic data according to FDI size poses serious caveats and is skewed towards reporting of mainly larger investments, which may be announced with some public fanfare but subsequently not or only realized in parts. The mostly referred databases are UNCTAD's cross border M&A database or the "Financial Intelligence" database of the Financial Times. There can be some doubt whether enough justice is done to the many small-scale investments that are carried out by foreign investors in Africa and that, in most cases, are not captured by the host country's registration offices, investment promotion agencies or private sector associations. The pertinent literature has recently recognized the relevance and contribution of rapidly internationalizing SMEs, so called "born-global" or international new ventures (INV) firms, which challenge the established notion that foreign direct investment (FDI) is the prerogative of larger and well-experienced multinational companies (Oviatt and McDougall, 1994; Coviello and McAuley, 1999; Lu and Beamish, 2001; Beamish and Lee, 2003; Zahra, 2004; Knight and Cavusgil, 2005; Lu and Beamish, 2006). For instance, inner-African FDI is likely to be undertaken by mostly small enterprises, except for a few large multinationals that are based in South Africa, Egypt, Nigeria, Morocco and Kenya (UNCTAD, 2008a). For example, there are prominent signs of an increasing relevance of small and entrepreneurial businesses, many of which emanated from non-indigenous family businesses like Indians in Eastern Africa, Europeans in South Africa or Lebanese or Syrians in Western Africa (Ramachandran and Shah, 1999; UNIDO, 2007; Prabhakar, 2008; Bewayo, 2009).

Some foreign investors may be returning members of the Africa diaspora holding foreign passports (African Courir, 2010; Nanda and Khanna, 2010). Not all would be recorded as foreign investment because they are unlikely to register as subsidiary of a company with headquarters in another country. They may have a competitive edge over larger foreign investors since they are not facing the "costs of foreignness" that are incurred by non-diaspora investors while, at the same time, being able to tap into formal and informal cross-border networks that may not be open to purely domestic entrepreneurs (Buckley

and Casson, 1976; Hymer, 1976; African Courir, 2010; Nanda and Khanna, 2010). These entrepreneurial enterprises seek to diversify their sources of revenue through an involvement in a range of unrelated and disparate enterprises that are solely linked by the company owner and that can take the organizational form on an “octopus” with capital flows that are often convoluted and non-transparent (Kiggundu, 2002). These companies are involved in cross-border regional FDI and their cumulative impact in terms of sales and employment generation may be significant, but their relevance and volume in terms of capital flows remains outside of existing macro-level reporting systems.

In its 2005 Africa Foreign Investor Survey, UNIDO undertook a classification of large transnational corporations (L-TNCs) which have global group sales of over \$200 million, subsidiaries of small trans-national corporations (S-TNC) with global group sales below \$200 million, and foreign-owned and operated firms that are not subsidiaries of a foreign based enterprise but are owned and operated by a “foreign entrepreneur” (UNIDO, 2007). Generally, the extent of a firm’s overall conglomerate says relatively little about the size of the subsidiary e.g. a large multinational firm can have small distribution outlets with relatively few employees. In the case of Africa, however, large multinational corporations operate larger subsidiaries than smaller transnational corporations or foreign entrepreneurs regardless of whether the size is measured in terms of annual sales, average employment or invested capital. Only 25 per cent of surveyed subsidiaries belonged to such large multinationals but the cumulative contribution in terms of employment (43 percent of total sample) and sales (62 per cent) was proportionally larger than for smaller foreign investor types. More than two thirds of these large multinationals are currently headquartered in developed countries, in particular in the former colonial powers UK and France. The recent emergence of large multinationals from developing countries is also confirmed. Fifty per cent of FDI projects carried out after the year 2000 pertained to large multinationals from developing countries (UNIDO, 2007).

4. FDI performance in Africa

Firm characteristics, such as those described in the previous chapter, are critical determinants for the growth and performance of FDI in Africa. The decision to undertake FDI and select a particular mode of entry, relates back to resource-based and transaction-costs theories and, once combined with factors that describe the local business environment and host country's factor endowments, constitute a holistic set of determinants for firm performance (Dunning, 1993).

There are multiple approaches on how FDI performance is measured and findings may differ depending on what criterion is being selected. The most common measures of performance are those based on objective financial indicators such as sales, export, employment or profit indicators (Chowdhury, 1992; Pan et al., 1999; Makino et al., 2004), the survival rate of the subsidiary (Chowdhury, 1992; Li, 1995; Delios and Beamish, 2004; Chung and Beamish, 2005; Mudambi and Zahra, 2007; Xu and Lu, 2007) and measures of performance perception (Woodcock et al., 1994; Nitsch et al., 1996; Andersson et al., 2001; Beamish and Lee, 2003; Delios and Beamish, 2004).

In the following sections, firm performance will be measured on the basis of two available samples, namely the UNIDO sample and the sample of the World Bank. In the case of the UNIDO sample, performance will be measured as a composite index of annual past sales growth, past annual employment growth and a subjective assessment of the past investment performance. The index thus combines two financial indicators and one perception-based indicator. In the case of the World Bank sample, performance is measured on the basis of three financial indicators, namely past sales growth, past employment growth and the firm's capacity utilization. The sample consists of operational subsidiaries of foreign firms. As a result, other common measures for FDI rate such as the subsidiary survival rate or its longevity of the subsidiary cannot be used as a criterion of performance like in other mostly headquarters-based panel studies. Comparisons between the UNIDO and World Bank Survey data should be done with caution since they do not cover exactly the same time period and since they differ in the third performance criterion.

The first criterion that is common to both samples is past annual sales growth (SALE). Cases with annual sales growth of above 100 per cent or an annual sales reduction of more than 50 per cent sales were classified as outliers and were eliminated. These were 25 cases in the UNIDO sample and 128 cases in the World Bank sample. The annual sales growth is nearly identical with 13.53 per cent and 13.68 per cent respectively (see Table 4). The second common criterion is past employment growth (EMPL). Cases with employment growth of above 100 per cent or annual job cuts of more than 50 per cent sales were classified as outliers and were excluded. The results are highly right-skewed and do not match a normal distribution due to a large number of firms that experienced zero or close to zero employment growth. The average past annual employment growth is 9.2 per cent in the UNIDO sample and 8.2 percent in the World Bank sample.

The UNIDO sample allows for a performance indicator based on the respondent's perception on whether the investment was "well below" (-2), "below" (-1), "in line with" (0), "above" (1) or "well above" (2) their initial expectations three years ago (SELF). The assignment of numerical values to rank order categories is quite common (Labovitz, 1970). The Likert scale was re-adjusted so that the perception on "performance was *in line with* expectation" reflects the zero point. Negative performance assessments are less than zero and positive assessments are greater than zero. Almost half of the respondents take a neutral position on the past performance of their investments. The proportion of respondents who assess their past performance as "below" or "well below" is higher than those indicating "above" or well "above". The mean for this indicator is slightly negative.

The World Bank sample allows for the inclusion for a third economic performance indicator, namely the average firm's capacity utilization in the case of foreign *manufacturing* firms. The average annual capacity utilization of foreign firms in Africa is close to 72 per cent.

Table 4: Selected performance indicators of foreign subsidiaries operating in Africa, based on UNIDO 2005 sample and World Bank samples

	UNIDO Sample			World Bank Sample		
	N	Mean	Std. Deviation	N	Mean	Std. Deviation
Annual sales growth (SAL)	1,004	13.53%	0.259590	1,585	13.68%	0.219067
Annual employment growth (EMPL)	1,006	9.19%	0.201843	1,844	8.18%	0.169096
Performance self-assessment (SELF)	1,152	-0.23	0,936090	<i>Not applicable</i>		
Average capacity utilization (manufacturing)	<i>Not applicable</i>			909	71.73%	0,206017

In the following, an exploratory data analysis will be carried out to test whether certain characteristics of investor groups have a significant influence on individual performance variables. There is a multitude of literature that examines specific determinants for firm performance ranging from host country effects on firm performance (Makino et al., 2004; Chan et al., 2008), industry and corporate effects (Rumelt, 1991; McGahan and Porter, 1997), home country and cultural distance effects (Schroath et al., 1993; Barkema et al., 1997; Gomez-Mejia and Palich, 1997; Park and Ungson, 1997; Morosini et al., 1998; Hawawini et al., 2004; Tihanyi et al., 2005) and the extent of the firm's diversification and internationalization (Kim et al., 1993; Fujita, 1995b; Fujita, 1995a; Hitt et al., 1997; Gomes and Ramaswamy, 1999; Zahra et al., 2000).

The firm characteristics variables being used in subsequent analyses are those available in the UNIDO and World Bank surveys, which makes it difficult to do justice to all variables used in previous studies. The distinction of FDI according to main sectors (manufacturing vs. services) establishes a connection to prior studies that focus on industry and corporate effects to explain firm performance. UNIDO's distinction into

large transnational corporations (TNCs), small transnational corporations and foreign entrepreneurs points to differing levels of internationalization and experience in foreign markets. The origin of the foreign investor and its distinction into developed vs. developing countries points to home country and cultural distance effects as being influential on firm performance. The distinction into greenfield vs. M&As and joint ventures vs. wholly owned subsidiary underscores the relevance of entry and ownership modes as explanatory variables of firm performance (Pan et al., 1999; Delios and Beamish, 2004). In this connection, it is important to note that multiple interaction effects exist between the ownership or entry mode and other explanatory variables of firm performance. For instance, Gaur and Lu found that subsidiaries have better survival prospects in culturally distant countries when the foreign share in the subsidiary is larger (Gaur and Lu, 2007).

Tables 5 and 6 below gives the results for different investor types and for each of the three performance indicators selected from the UNIDO and the World Bank sample. The findings are consistent for ownership and entry mode with wholly-owned subsidiaries and greenfield modes showing both higher levels of past employment growth and past sales growth. Inconsistencies exist in the case of manufacturing FDI which exhibits lower past sales growth than FDI in the services sector in the UNIDO sample, whereas the opposite can be observed in the World Bank sample. In the case of the UNIDO sample, the results for average past employment growth rates are statistically significant according to greenfield vs. M&As and investors originating from developed countries vs. developing countries.

Table 5: Performance-related variables for different FDI categories in Africa, based on UNIDO 2005 sample

Dimension	Types in UNIDO sample	Sales growth	Employment growth	Performance self-assessment
Sector	Manufacturing	11.8%	7.6%	- 0.31
	Service	15.2%	10.8%	-0,16
Origin	Developed country	12.9 %	6.5% **	-0,28*
	Developing country	14.2%	12.5% **	-0,17*
Mode of entry	Greenfield	14.6%	10.7% **	-0,22
	M&A	11.2%	5.3% **	-0,29
Ownership mode	Joint Venture	12.4%	7.8%	-0,19
	Wholly-Owned subsidiary	14.4%	10.3%	-0,26
Internationalization/ Diversification	Foreign entrepreneur	13%	10.9% **	-0,27
	Small TNC	15%	9.6% **	-0,23
	Large TNC	13.1%	6% **	-0,14
**. Significant at the 0.01 level *. Significant at the 0.05 level				

Table 6: Performance-related variables for different FDI categories in Africa, based on World Bank sample

Dimension	Types in World Bank sample	Sales growth	Employment growth	Capacity utilization
Sector	Manufacturing	14.6%	8.1%	71.7%
	Service	12.4%	8.4%	n/a
Mode of entry	Greenfield	13.1%	7.8%	75.1%
	M&A	11.4%	5.1%	74.2%
Ownership mode	Joint Venture	12.2%	7.6%	70.7%
	Wholly-Owned subsidiary	14.4%	8.5%	72.2%

Annex II gives the results for performance differentials for varying combinations of investor groups in the form a three-level tree diagram. For instance, multinational companies from developed countries and with operations in the manufacturing sector exhibit nearly zero annual employment growth. The performance self-assessment was most positive for companies from developing countries, which are active in services and which are operating as joint-venture.

In the following step, correlations between the variables are tested. As expected, all variables show a significant positive correlation (Table 7). The strongest positive correlation exists between SALE and EMPL in both samples. The correlation between EMPL and SELF in the UNIDO sample and EMPL and CAP in the World Bank sample is quite moderate, yet statistically significant. The correlation between SALE and EMPL in the World Bank sample does not change significantly (+0.261**) when CAP is suppressed to allow the inclusion of service firms.

Table 7: Correlations of performance-related variables, World Bank and UNIDO samples

		SALE	EMPL	SELF	CAP
SALE	UNIDO	1	0.285**	0.264**	n/a
	World Bank	1	0.320**	n/a	0.097**
EMPL	UNIDO	0.285**	1	0.107**	n/a
	World Bank	0.320**	1	n/a	0.090*
SELF	UNIDO	0.264**	0.107**	1	n/a
	World Bank	n/a	n/a	n/a	n/a
CAP	UNIDO	n/a	n/a	n/a	n/a
	World Bank	0.097**	0.090*	n/a	1

** . Correlation is significant at the 0.01 level (2-tailed).
* . Correlation is significant at the 0.05 level (2-tailed).
List-wise execution of cases – N (UNIDO) = 893; N (World Bank)=704

The composite performance indicators will be constructed on the basis of percentage ranking which assigns a value between zero percent and 100 percent for each case². The correlation coefficients for the percentage rank remain all significant and positive and are analogue to the results for non-ranked variables. One approach to construct the composite indicator would be to assign equal weights of $\frac{1}{3}$ to each SALE, EMPL and SELF in the UNIDO Sample and SALE, EMPL and CAP in the World Bank Sample. Since the variables show some level of inter-correlations, the weights will be adjusted accordingly to assign less weight to correlated indicators for avoidance of double counting. A common statistical tool for data reduction is that of a factor/principal components analysis which is a relatively straightforward method to allow for the construction of weights for variables that explaining a certain proportion of variance within a selected factor (OECD and European Commission, 2008). In the case of the UNIDO sample, the three ranked variables SALE, EMPL, SELF are grouped under one factor which is representing the performance indicator to be constructed. The factor “loads” with 0.766 on SALE i.e. it explains 58.6 per cent (0.766^2) of the variance of SALE. The explained variance of EMPL is 27.9 per cent (factor loading is 0.642) and of SELF is 32.3 per cent (factor loading is 0.691). The factor has an eigenvalue of 1.476 which denotes the sum of the squared factor loadings for all three variables. Consequently, the weight for SALE is 39.7 per cent, for EMPL it is 27.9 per cent and for SELF it is 32.4 per cent for the UNIDO sample. In the case of the World Bank sample, the squared factor loadings which constitute the factor’s eigenvalue of 1.397 are 57.8 per cent for SALE, 58.3 per cent for EMPL and 23.6 per cent for CAP. This results in weights for SALE of 41.3 per cent, for EMPL 41.8 per cent and 16.9 per cent for CAP. Since CAP exists only for manufacturing firms, the performance indicator for *all* firms is based on a 50 per cent weighting of SALE and EMPL.

The performance indicator ranges from 0 to 100 and is computed on the basis of the weights assigned to each of the three variables. The transformation has resulted into a composite index that follows a normal distribution³. Table 8 displays significantly different results for the UNIDO-based performance indicator for sector, origin and mode of entry. Service firms outperform manufacturing firms, firms from developing countries perform better than developed country firms and greenfield entry modes result in improved performance compared to M&As. The combination of developing country service firms entering as greenfield investors (136 firms in total) shows a composite performance index of 54.5. The World Bank-based performance indicator points to a significant performance difference between joint ventures and wholly-owned subsidiaries.

² All cases are ranked in ascending order and each rank subsequently divided by the total number of cases

³ The Kolmogorov–Smirnov test establishes the null-hypothesis that the composite performance indicator is not different to a normal distribution. In our case, the null-hypothesis could not be rejected.

Table 8: Composite Performance indicator for different FDI categories in Africa, World Bank and UNIDO samples

Dimension	Types in UNIDO/World Bank sample	Performance indicator (ranging from 0 to 100), SALE, EMPL, SELF (UNIDO)	Performance indicator (ranging from 0 to 100), SALE, EMPL, CAP (World Bank) ¹	Performance indicator (ranging from 0 to 100), SALE, EMPL (World Bank)
Sector	Manufacturing	47.9**	50.3	50.5
	Service	51.9**	n/a	50.2
Origin	Developed country	48.2**	n/a	n/a
	Developing country	52.4**		
Mode of entry	Greenfield	51.3**	48.8	49.4
	M&A	46.3**	41.7	46.8
Ownership mode	Joint Venture	49.1	48.7	48.7*
	Wholly-Owned subsidiary	50.4	51.3	51.3*
Internationalization/Diversification	Foreign entrepreneur	50.3	n/a	n/a
	Small TNC	50.6		
	Large TNC	48.7		
** Significant at the 0.01 level * Significant at the 0.05 level ¹ For manufacturing firms only, when performance indicator includes CAP				

5. Conclusion and outlook

The study attempted to draw a picture of different forms of foreign direct investment in Africa, using both macro-economic information from the balance of payments (BoP) and firm-level data. It highlighted existing gaps that prevent the accurate and exhaustive reporting of FDI flows and stocks in Africa because macro-economic data on different forms of FDI e.g. in terms of main sectors, ownership mode and investor origin remains scant and relatively unreliable. Data paucity causes macro-economic data to be skewed towards “mega-deals” and other large foreign investment projects while under-reporting smaller yet numerous FDI projects. It also causes a likely over-reporting of FDI intentions as opposed to actual FDI implementation. It gives strong emphasis to investors from developed countries whereas FDI from developing and least developed countries would not or only partially be captured due to missing outflows statistics. All this poses a challenge to African host governments and institutions in their aspiration to get a “real picture” of FDI to enable the formulation of evidence-based investment promotion that cut across issues of targeting and awareness creation, granting of incentives, granting land, granting of licenses, labour issues, taxation and others.

The study also revealed that enterprise-level surveys in Africa like those recently undertaken by UNIDO and the World Bank are a good complement to macroeconomic FDI data and provide a sound basis for the classification of foreign investors according to a defined set of criteria. The survey respondent is the manager of the foreign subsidiary in Africa. On the one hand, this is a very straightforward and direct approach to obtain supporting evidence of subsidiary performance, the level of integration of the foreign firm into the host economy or the perception of the local business environment. On the other hand, assessments on the overall governance structure of the multinational firm (global sales, global diversification strategies, division of labour, etc.) may not be of the same quality and accuracy than those obtained from headquarter-based studies, like those based on data from Japanese and US multinationals.

The criteria used for the performance analysis were main sector, investor origin, ownership mode, entry mode and the firm’s organizational structure. The entry mode was found to be a key determinant of firm performance. Greenfield FDI outperformed M&As with regard to all indicators (SALE, EMPL, SELF, CAP) and for the two independent samples of UNIDO and the World Bank. Moreover, wholly-owned foreign subsidiaries exhibited consistently better performance levels than joint ventures. This form was found to be the preferred ownership and entry mode for investors from developing countries, except those from South Africa that prefer joint venture M&As, and this explains why FDI performance levels are significantly better than FDI by investors from developed countries. This is an interesting finding, since a large number of African host countries have until recently pursued a strategy towards increasing or retaining certain levels of local ownership (both private and public) in foreign subsidiaries, in particular in key industries such as telecommunications, utilities, mining, petroleum and forestry. Although policies that impose ownership restrictions have been bit by bit abolished in the course of a general FDI liberalization in Africa, the notion is still relatively wide-spread that domestic-foreign joint ventures, especially those operating as a greenfield ventures,

are a more effective conduit towards “spill-over” and growth effects than wholly-owned subsidiaries. In Ghana and Ethiopia, for instance, the minimum threshold for the initial FDI investment is much lower in the case of a joint venture than it is in the case of a wholly-owned subsidiary⁴. Scholars have highlighted the relevance of complementary experience, local market knowledge and absorptive capacity of the joint venture partner(s) as key for the sustainability of the domestic-foreign joint venture. The identification of African firms that have the requisite levels of own technologies and management practices necessary to live up to the foreign partner’s requirements poses a challenge during the decision process of foreign firms. The fact that, in terms of performance, domestic-foreign joint ventures fall behind wholly-owned foreign subsidiaries indicates that a mutually-empowering relationship between the domestic and foreign joint venture partner should not be taken for granted and is surrounded by a multitude of other factors.

The paper does not claim to have presented an exhaustive set of firm-level determinants of subsidiary performance. For example, the level of autonomy of the subsidiary from its headquarters and the extent to which it receives support and codified inputs in terms of management practices and technologies can be a further critical determinant of subsidiary performance and growth. Other explanatory variables of firm performance that have not been included are those determining the host country’s business climate, such as the growth of the local market, economic factors (exchange rates, inflation, credit lending facilities), the availability of workforce, the host economy’s institutional support systems and the transparency and enforcement of the judiciary systems. In this connection, it is noteworthy that UNIDO has recently concluded the fourth round of the African FDI Survey which covered approximately 2500 FDI firms in 20 sub-Saharan African countries. This provides a powerful and up-to-date data base for further exploring the root causes of FDI performance differentials.

⁴ Ghana Investment Promotion Centre Act, 1994 (Act 478); Ethiopian Investment Proclamation No. 280/2002

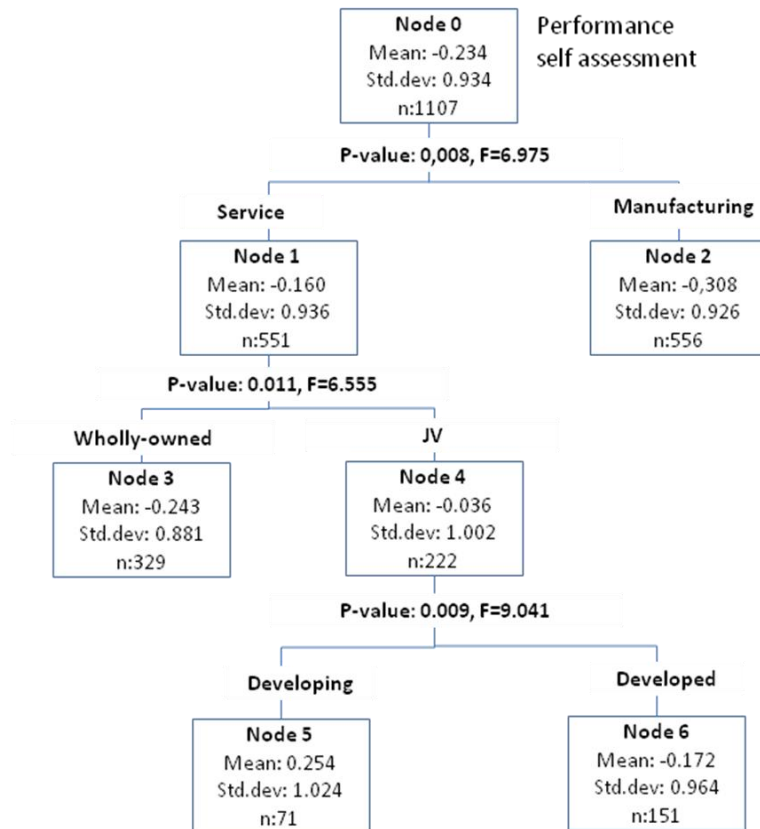
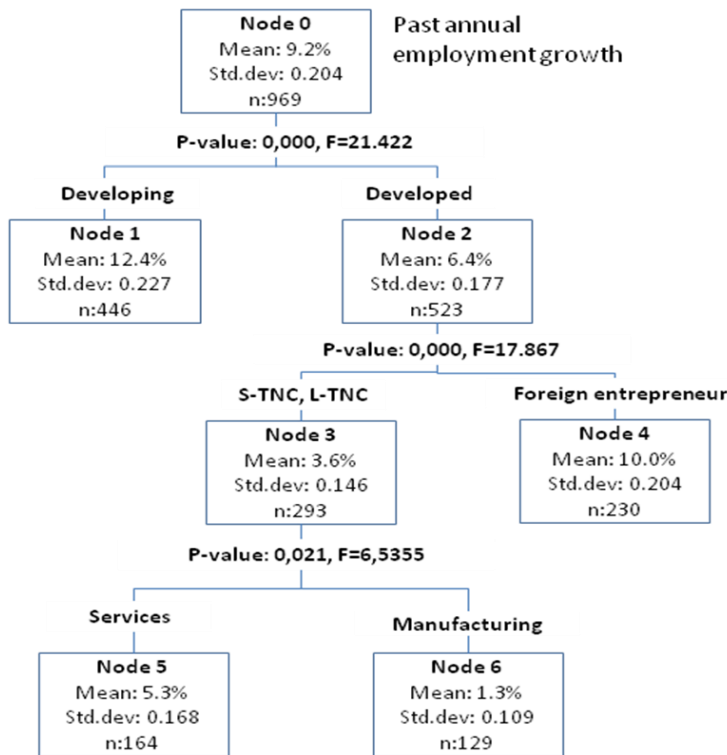
ANNEXES

Annex I: World Bank Enterprise Surveys in Africa and breakdown of domestic and foreign firms in the sample

Country	Year	Total sample	of which:		% FDI
			Domestic	FDI	
Angola	2006	425	358	67	15.8%
Benin	2009	150	128	22	14.7%
Botswana	2006	342	188	154	45.0%
Burkina Faso	2009	394	340	54	13.7%
Burundi	2006	270	223	47	17.4%
Cameroon	2009	363	297	66	18.2%
Cape Verde	2009	156	132	24	15.4%
Chad	2009	150	103	47	31.3%
Congo, Dem. Rep.	2006	340	278	62	18.2%
Congo, Rep.	2009	151	118	33	21.9%
Côte d'Ivoire	2009	526	434	92	17.5%
Eritrea	2009	179	173	6	3.4%
Gabon	2009	179	69	110	61.5%
Gambia, The	2006	174	122	52	29.9%
Ghana	2007	494	469	25	5.1%
Guinea	2006	223	200	23	10.3%
Guinea-Bissau	2006	159	144	15	9.4%
Kenya	2007	657	577	80	12.2%
Lesotho	2009	151	101	50	33.1%
Liberia	2009	150	130	20	13.3%
Madagascar	2009	445	260	185	41.6%
Malawi	2009	150	101	49	32.7%
Mali	2007	490	464	26	5.3%
Mauritania	2006	237	209	28	11.8%
Mauritius	2009	398	356	42	10.6%
Mozambique	2007	479	384	95	19.8%

Namibia	2006	329	250	79	24.0%
Niger	2009	150	116	34	22.7%
Nigeria	2007	1,891	1,874	17	0.9%
Rwanda	2006	212	177	35	16.5%
Senegal	2007	506	476	30	5.9%
Sierra Leone	2009	150	129	21	14.0%
South Africa	2007	937	815	121	12.9%
Swaziland	2006	307	196	111	36.2%
Tanzania	2006	419	369	50	11.9%
Togo	2009	155	108	47	30.3%
Uganda	2006	563	469	94	16.7%
Zambia	2007	484	367	117	24.2%
TOTAL		13,935	11,728	2,230	16.0%

Annex II: Performance differentials for varying combinations of investor groups



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