Report

Africa and the United Kingdom

Challenges and opportunities to expand UK investments

Max Mendez-Parra, Sherillyn Raga
and Lily Sommer

January 2020

United Nations
Economic Commission for Africa

Readers are encouraged to reproduce material for their own publications, as long as they are not being sold commercially. ODI requests due acknowledgement and a copy of the publication. For online use, we ask readers to link to the original resource on the ODI website. The views presented in this paper are those of the author(s) and do not necessarily represent the views of ODI or our partners.

This work is licensed under CC BY-NC-ND 4.0.

Cover photo: Workers installing a new satellite dish in Kenya. Credit: Erik Hersman.

Acknowledgements

This report has been funded by the United Kingdom's (UK's) Department for International Development. The authors would like to thank the staff of the British High Commissions in Ghana, Kenya, Nigeria and South Africa for their support and valuable information. We would also like to thank the British Trade Chambers for their support in contacting and engaging their members.

The authors, Max Mendez-Parra and Sherillyn Raga, are Senior Research Fellow and Senior Research Officer, respectively, at the Overseas Development Institute (ODI). Lily Sommer is Trade Policy Fellow at the African Trade Policy Centre (ATPC) at the UN Economic Commission for Africa (ECA).

We are extremely appreciative of the time allocated and the information shared by many executives of UK companies in Accra, Johannesburg, Lagos, London and Nairobi. We have anonymised their names and the companies they represent with the aim of securing an unbiased discussion.

We want to thank Matthew MacDevette, David Luke, Stephen Gelb and Dirk Willem te Velde for their comments on the draft version of this, and Rob Rudy and Fraser Campbell for their support for this research. We would also like to thank Elizabeth Tribone (ODI) for coordinating the production of this report.

Any errors are the responsibility of the authors. This report does not necessarily reflect the views or positions of DFID, ODI, ATPC or ECA.

Contents

Acknowledgements 3

List of boxes, tables and figures 5

Acronyms 7

Executive summary 8

1 Introduction 11

2 Overview of UK foreign direct investment in African countries 13

3 Determinants of foreign direct investment 18

3.1 Determinants of inward FDI 18

3.2 Host-country factors pulling inward FDI to Africa 18

3.3 Drivers of UK (and other investors) outward FDI 25

3.4 UK–Africa BITs and agreements 27

3.5 Challenges with BITs and DTAs 30

4 Country-specific analysis 32

4.1 Nigeria 32

4.2 Ghana 38

4.3 Kenya 43

4.4 South Africa 50

4.5 Summary 60

5 Conclusion 64

References 67

Annex 1 Policies related to foreign investors 72

List of boxes, tables and figures

Tables

Table 1	Africa net cross-border mergers and acquisitions (in $ millions)	**16**
Table 2	Announced greenfield foreign direct investment projects to and from Africa (in $ millions)	**16**
Table 3	Determinants of foreign direct investment	**19**
Table 4	World Bank Ease of Doing Business	**24**
Table 5	UK bilateral investment treaties with African countries	**29**
Table 6	UK double taxation agreements with African countries	**30**
Table 7	Registered foreign direct investments projects in 2018	**39**
Table 8	Registered foreign direct investment projects in 2018	**61**
Table A1	Investment policies related to foreign investors in selected African countries	**74**

Figures

Figure 1	UK outward foreign direct investment stock, by region	**14**
Figure 2	Total UK foreign direct investment stock in Africa by region	**14**
Figure 3	Total UK foreign direct investment stock in Africa	**15**
Figure 4	UK foreign direct investment by industry	**15**
Figure 5	Secondary and tertiary education enrolment, 2016	**20**
Figure 6	Individuals in Africa with access to the internet 2017	**21**
Figure 7	Electricity supply as an enterprise obstacle in Africa	**22**
Figure 8	Transparency and Ease of Doing Business, by region	**23**
Figure 9	Top five countries with active double taxation agreements with Africa	**29**
Figure 10	UK outward foreign direct investment in Nigeria	**33**
Figure 11	Source of investments that were announced in Nigeria in 2018	**33**
Figure 12	Nigeria’s Ease of Doing Business	**35**

Figure 13	Ghana's Ease of Doing Business	**37**
Figure 14	Kenya's Ease of Doing Business	**43**
Figure 15	UK outward foreign direct investment in Kenya	**44**
Figure 16	UK investments in Kenyan firms 1989–2016	**44**
Figure 17	UK outward foreign direct investment in South Africa	**51**
Figure 18	UK investments in South Africa by sector, 2018	**51**

Acronyms

AfCFTA	African Continental Free Trade Area
AfT	Aid for Trade
BBBEE	broad-based black economic empowerment
BIT	bilateral investment treaty
CwA	Compact with Africa
DTA	double taxation agreement
DTI	Department of Trade and Industry
ECOWAS	Economic Community of West African States
EDB	Ease of Doing Business
EPZ	export promotion zone
EU	European Union
FDI	foreign direct investment
FMCGs	fast-moving consumption goods
FX	foreign exchange
GDP	gross domestic product
GIPC	Ghana Investment Promotion Centre
GRA	Ghana Revenue Authority
HCM	home-country measure
IMF	International Monetary Fund
IPA	investment promotion agency
IPR	Investment Policy Review
KRA	Kenyan Revenue Authority
LPI	logistic performance index
M&As	mergers and acquisitions
MFN	most favoured nation
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
R&D	research and development
SAA	South African Airways
SADC	Southern African Development Community
SEZ	special economic zone
SGR	standard gauge railway
SMEs	small and medium-sized enterprises
SSA	sub-Saharan Africa
UN	United Nations
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
US	United States

Executive summary

This report highlights the opportunities and challenges facing UK firms when investing or conducting business in Africa, with a particular emphasis on the non-extractive sector. It highlights the mutual benefits for Africa, in terms of economic transformation and growth, and for the UK, in diversifying investments in rapidly expanding markets. The study draws on data on UK investments in Africa, and information provided by more than 75 UK companies operating in Ghana, Kenya, Nigeria and South Africa. The increasing population and growing middle class in Africa – expected to account for over 40% of the population by 2030 – bring growth and increased sophistication in consumption, presenting substantial opportunities in sectors where the UK has a strong comparative advantage, including financial services and insurance.

Currently, UK foreign direct investment (FDI) in Africa is heavily focused on the extractive sector and in South Africa. The low penetration of UK FDI beyond mining and financial services and in other countries suggests that there are opportunities as well as challenges to increase the role of British investors in boosting African economies. While to date, the evidence gathered suggests that UK firms show little appetite for investing in manufacturing, developing this sector is a key priority for African governments, and is an area where the UK firms can offer expertise in a wide range of supporting activities, including insurance and business, professional and financial services. Diversification away from the extractive sector will also be key if the British government is to realise its ambition of making the UK the top G7 investor in Africa by 2022. The concentration of UK investment in the extractive sector is also undesirable because spillovers are limited and the risks of appreciation of the exchange rate are higher.

A range of factors influence UK investment decisions in Africa, including human capacity, the quality and quantity of infrastructure, particularly electricity, the size of the market, business climate, the regulatory framework, levels of corruption and political risk and the security environment. Cultural and historical links between the UK and Africa have also shaped investment patterns. The four countries looked at here share a common language and compatible legal systems with the UK, and British products and services are well-known and highly regarded by consumers and firms. Three of the four countries also have large and growing populations. Some of these countries also exhibit robust economic growth.

Ghana enjoys a very good security climate and a stable political system, with low levels of corruption. The country is investing in ports and other infrastructure with the aim of becoming a hub in West Africa. The middle class is quickly expanding and there is a large British–Ghanaian community, facilitating trade and investment between the two countries. However, high volatility in the exchange rate increases uncertainty and production costs, and British companies complain about very frequent tax audits and a lack of clarity in the policy-making process. Minimum capital requirements across a wide range of sectors make it harder for small funders to invest, and there are substantial barriers to trade with neighbouring countries. Expensive mobile phone licences limit investment in new technologies suppliers.

Kenya is the economic hub of East Africa; it offers international-quality support for companies in auditing, taxation and other business services, along with decent global flight connectivity. The good education system and large number of international firms have helped create a large pool of skilled labour at all levels. There is also a large reserve of

excellent technological and innovative talent. In contrast to other African countries, there is good availability of electricity, albeit prices are high. However, firms complain that large and/or foreign companies are subject to stringent tax and regulations compliance controls that their local competitors are not. Procurement rules favour Kenyan-owned businesses, the government can be slow in paying invoices for products and services and copious red tape offers opportunities for corruption. Companies are forced to use the standard gauge railway (SGR) even when it is not the most cost-effective or convenient solution and prices of electricity are too high, even when there is good production. Widespread red tape offers opportunities for corruption. Interest rate caps limit the expansion of the banking sector.

Nigeria has a fast-growing population and is set to become the third-largest country by population by the middle of the twenty-first century. It has a large pool of skilled workers, many of them trained in the UK, and a very large British-Nigerian community operating in both countries facilitates trade and investment. Nevertheless, there is very poor infrastructure, corruption is widespread and companies complain about unclear, obscure and discretionary regulations, with ad hoc changes favouring local interests. Insecurity considerably increases operating costs. High barriers to trade, including restrictions on foreign currency to import a variety of goods, increase production costs and limit export potential, and an appreciated real effective exchange rate reduces competitiveness for non-oil exports. Current regulations and overlapping regulatory authorities affect the roll-out of insurance services through mobile phones and other technological solutions.

South Africa offers a large and sophisticated economy, with a well-developed market and high-quality public services. There is good availability of skilled human resources at all levels, and a large British–South African community generates and facilitates trade and investment. However, South Africa's macroeconomic performance is very weak and corruption is widespread. Stringent and costly labour policies and decaying infrastructure increase operating costs, and there is uncertainty around land reforms that may enable the state to expropriate land without compensation. Air transport is expensive. There is a lack of spectrum and competition in the telecommunications sector, and the regulatory framework reduces export potential and limits the provision of retail financial services.

Key messages

Growing populations and incomes across Africa create growing opportunities for UK investment in the continent, particularly as products and services from the UK are well-known and highly regarded by consumers and companies alike.

Indeed, with countries such as Ghana and Kenya exhibiting high economic growth, there are significant opportunities for UK firms. In a context of low global economic growth, investment in these countries can bolster corporate growth.

Diversification of UK FDI in Africa can be mutually beneficial. Investment is currently highly concentrated in extractives (51%) and financial services (35%) and geographically in South Africa (30%).

Yet, there is a desire to develop manufacturing across Africa, which has been largely untapped by UK firms. Financial, insurance, business and professional services – including fintech – are essential to manufacturing and the UK has a strong comparative advantage in these fields. Agro-processing offers continued opportunities to supply British retailers and supermarkets.

Recommendations

African governments should better coordinate efforts to strengthen the business climate and to address barriers to trade. Poor regulatory frameworks can facilitate corruption and uncertainty which hamper investment and raise business operation costs.

In particular, African governments should eliminate regulations that discriminate against foreign firms, reduce investment requirements and distribute the requirements of compliance with regulations and taxes equally between domestic and foreign firms.

Infrastructure in energy and logistics should be improved to attract investment, including in

manufacturing, and to prompt diversification of investments.

UK aid should continue to be used to facilitate coordination, help address bottlenecks and contribute to the provision of public goods that companies may require.

An adequate combination of trade policies, investment and aid will determine the creation of opportunities that benefit private sector activity in the UK but, crucially, also contribute to the economic transformation and development of Africa.

1 Introduction

Economic transformation is at the centre of Africa's development. The African Union's Agenda 2063 is geared towards securing the transition of African countries from natural resources-based economies to modern industrial ones. Increasingly, policy-makers in Africa and the donor community understand that, without economic development, any human and social development outcome will be hard to achieve and unsustainable. Policies on the continent are geared towards achieving transformation of the African economy, modernising country economies and diversifying trade and production structures. There is renewed consensus across the continent on cooperating to achieve these critical goals, with AfCFTA serving as their main manifestation.

Trade appears as a key component of this strategy. The expansion of export markets on the continent and elsewhere is critical for achieving the necessary scales in existing products and services and to diversify the export structure. Increased foreign competition is also important, for increasing the competitiveness of domestic industries. To achieve this, Africa needs to address the physical, political and institutional barriers that affect trade. The combination of policies, public investment in a wide range of infrastructure projects and AfCFTA will prove crucial in this endeavour.

The donor community has also been supporting Africa in these areas. Aid for Trade (AfT) has proved important in building hard and soft infrastructure in transport and energy as well as contributing to the development of productive capabilities. AfT has assisted countries in Africa in need, providing key trade public goods such as energy and roads. It has also assisted middle-income countries in Africa to improve the efficiency of their ports and border posts. This financial support, combined with preferential market access in key donor markets, has helped improve the competitiveness of many products and services in Africa.

However, economic transformation will not be a reality if there are no companies in Africa that can produce competitive goods and services. This does not only relate to increasing volumes of investment but also in relation to the growing productivity of that investment such as by improving management practices, acquiring expertise and developing a competitive and productive business community. It requires expanding and improving existing companies as well as creating new ones that can supply the world and provide key support products and services. Together with trade and aid, increasing private investment in Africa is the third critical leg on which the economic development strategy should rest.

The role of development partners in this area is extremely helpful. The UK, through the Commonwealth Development Corporation, has played a vital role in support and is involved in commercial investments in Africa in key productive sectors with development spill-overs, such as energy production and, currently, the financial sector (with a past spill-over into agroprocessing). However, this challenge requires much wider and deeper involvement of the UK private sector. Africa has been successful in making use of its natural resources and has attracted investment from the UK (and other countries) in the extractives sector.

There is a need to develop capabilities and expertise in a wide range of areas. In one sense, it is necessary to create competitive and efficient companies that can produce goods and services to be exported. In another, there is a need for companies that can provide key services and inputs into African industries. Here, the challenge is to replicate success in attracting investment in the extractives sector in the other key sectors of the African economy.

UK companies are playing a significant role in creating and contributing to a thriving business community in many African countries. However, the economic transformation challenge requires a substantial increase in these efforts. While the UK government supports investment in Africa through different policies, the most critical aspects are associated with addressing the barriers and constraints that limit the expansion of investment.

Even when UK companies participate decisively in the economic development of African countries, they will often only be attracted to invest and expand current businesses if the factors that explain profitability are in place. In a context where countries across the world are frequently competing to attract investment, African countries must be able to show they can offer superior opportunities.

African countries need to have a clear understanding of what investors want and to develop their activities. Different barriers and constraints need to be addressed to increase and expand investments. Some of these are horizontal, affecting a wide range of economic sectors and generally associated with how easy it is to do business in the country. They include issues such as the business climate, taxation, corruption and quality of infrastructure. There are also sector-specific issues that may affect the development of certain activities; these need to be addressed if structural change and diversification of activities are to be achieved.

Conversely, there is a need to highlight and showcase opportunities for investment. In an extremely complex potential portfolio of investments, Africa needs to identify the areas where it can stand out from the crowd. These could be horizontal, such as population growth, but could also include specific sectors where investors could benefit from agglomeration economies and clusters. Countries need also to identify the critical features that investors possess, with the aim of matching opportunities for investment and harnessing the comparative advantage of investors. A win–win strategy can take advantage of these synergies.

This report aims to address two aspects of marrying investors to opportunities – particularly from the UK. First, it aims to highlight those available opportunities for UK investors in Africa, and what makes the continent and its countries stand out in comparison with other destinations. Second, it discusses the problems UK investors face when investing or doing business in Africa. In this sense, the report takes a business-oriented approach, to reflect what can be addressed to bring UK investors into Africa.

The report reviews recent trends and structures of UK investment in Africa. It also examines the main barriers and indicators that characterise doing business on the continent. However, the most novel contribution of the report lies in its detailed investigation of the specific issues UK companies face in some African countries, as well as the existing advantages and opportunities. The report has benefited from the contributions and inputs of more than 75 executives from UK companies in the financial, business services, insurance, manufacturing, agroprocessing and communications sectors in Ghana, Kenya, Nigeria and South Africa, as well as their headquarters in the UK.

The following chapters of this report are structured as follows:

- Chapter 2 provides an overview of UK outward FDI in Africa.

- Chapter 3 provides an overview of:
  - the general determinants of inward FDI
  - host-country drivers of FDI in Africa
  - home-country motivations of UK (and other investors for investing abroad
  - the role of bilateral investment agreements in boosting FDI in Africa.

- Chapter 4 presents the key findings from case studies in Nigeria, Ghana, Kenya and South Africa. These have been based on consultations with firms, specialists and other stakeholders on the specific barriers that affect business and investment between the UK and these countries.

- The final chapter concludes with recommendations for moving forward.

2 Overview of UK foreign direct investment in African countries

UK FDI represents a substantial source of external funding for recipient economies. From 2009 to 2018, the annual average value of the UK's total outward FDI stock[1] to the world was equivalent to 63% of the UK's nominal gross domestic product (GDP) during the same period (ONS 2019a; 2019b). As of 2017, the UK was the fourth largest investor in Africa and contributes 6% of the total FDI stock in the continent (UNCTAD, 2019; ONS, 2019a). In 2018, UK outward FDI stock in Africa grew by 14% to $51.7 billion (£38.7 billion)[2] (ONS, 2019a), as UK FDI stock in Africa's mining, quarrying and financial sectors bounced back after recording a contraction in the previous year (ONS, 2019a).

However, the share of Africa in the total worldwide FDI stock from the UK has barely increased in the past decade, capturing only 3% from 2009 to 2018 (Figure 1). Meanwhile, around a third of UK FDI in the continent was invested in South Africa (Figure 2). Additionally, the growth of UK FDI in Africa has recorded expansion and contraction throughout the years, with the highest growth (85%) in 2009 and the sharpest contraction (–22%) in 2017 (ONS, 2018).

UK FDI penetration in countries across the continent remains low. As of 2017,[3] only 5 out of 27 African countries received UK FDI stock that is greater than $1 billion (£820 million) (Figure 3). The disparity on the level of UK FDI stock in African countries ranges from $15 billion (£11.3 billion) in South Africa as of 2018, to less than $1 million (£0.7 million) in Gambia and Liberia as of 2017 (ONS, 2019a; 2019d). Meanwhile, UK disinvestments were recorded in Tunisia (–$4.3 million or –£3 million) and Libya (–$7.3 million or –£6 million) as of 2017 (ONS, 2019d).

UK FDI in African countries' mining and quarrying activities takes 51% share of the total UK FDI in the continent, amounting to an average of $26.3 billion (£19.8 billion) from 2015 to 2018 (ONS, 2019a; Figure 4, left panel). This share is higher by 38 percentage points from the 12.3% average share of UK FDI in the mining and quarrying industry worldwide (Figure 4, right panel). UK FDI in financial services also contributes a substantial share of total UK FDI, globally and in Africa (Figure 4).

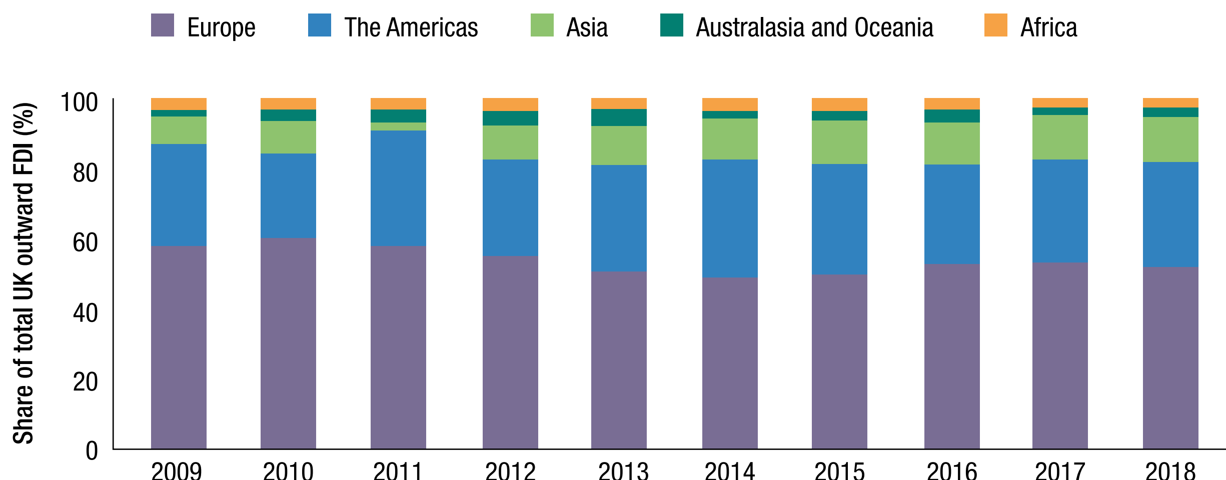
With two industries capturing 85% of UK FDI in Africa between 2015 and 2018, British investments in other industries remain generally low, ranging from an average of $8.2 million (£6 million) in electricity, gas, water and waste to $654 million (£475 million) in retail and

1 For this chapter, FDI data are in terms of stocks.

2 Figures in parenthesis refer to the currency used in the data source (ONS 2019a). For consistency, currencies are converted to US dollars by using the UK ONS data on average annual sterling exchange rates (ONS 2019c).

3 Data as of 2018 in four countries (Kenya, Nigeria, South Africa and Zimbabwe) and as of 2017 for the rest of the countries (ONS 2019a; 2019d).

Figure 1 UK outward foreign direct investment stock, by region



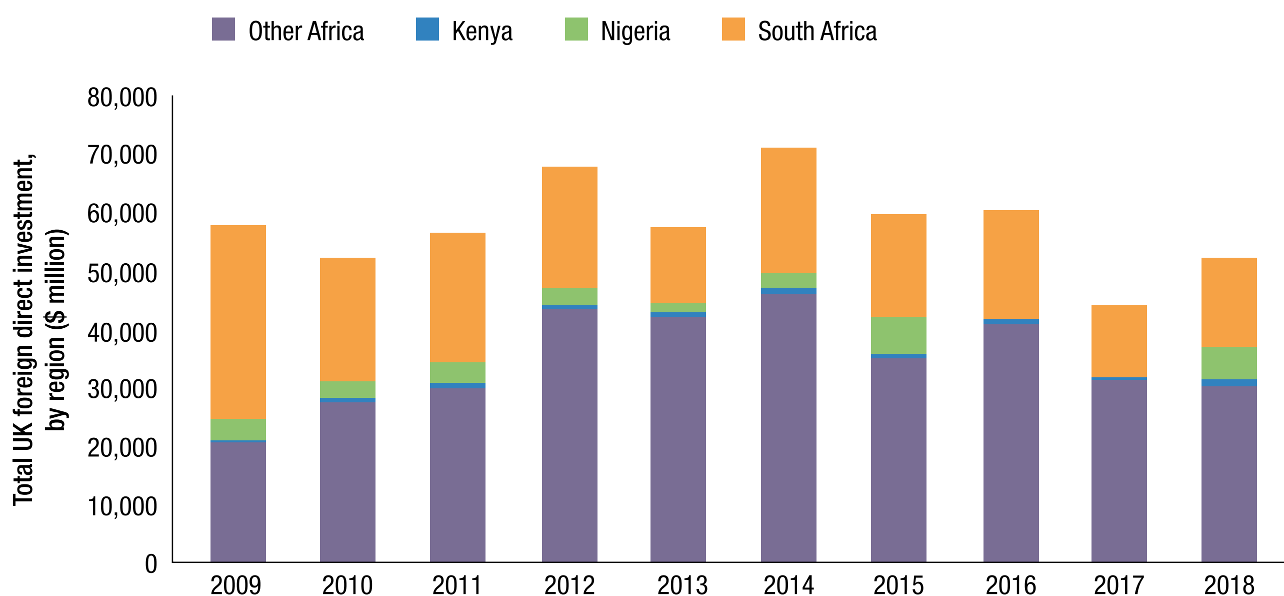
Source: ONS (2019a) data

wholesale trade, repair of motor vehicles and motor cycles (ONS, 2019a).

The significant share of UK FDI in Africa's financial services is consistent with the relatively active net sales of mergers and acquisitions (M&As) in Africa's financial services, which have outpaced FDI in other sectors, such as mining, quarrying and manufacturing, between 2016–2018 (Table 1). Overall, sales of M&As to the UK increased from $0.2 billion to $1.84 billion between 2015 and 2018.

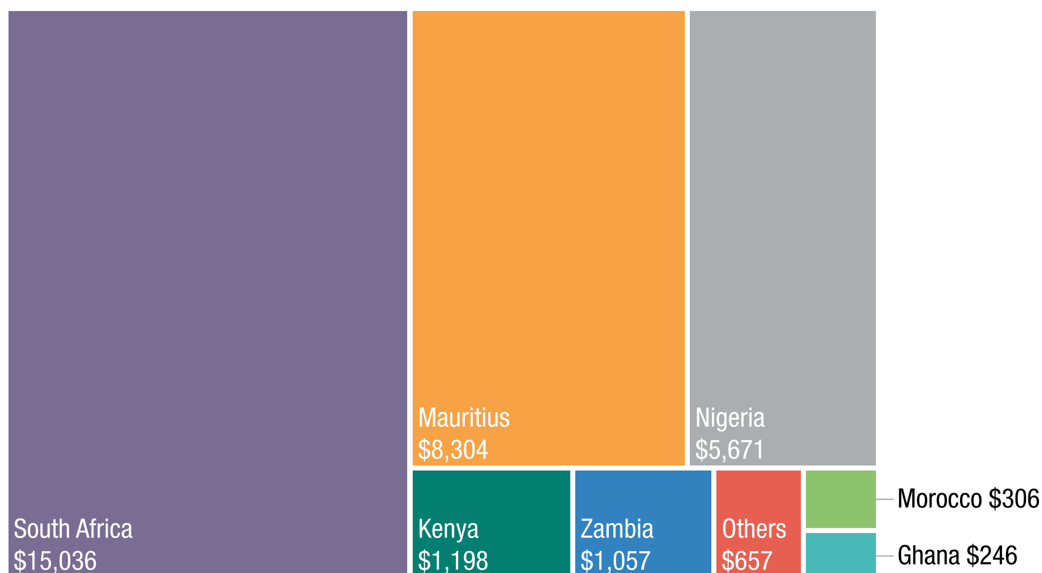
Announced UK greenfield projects in Africa increased from $2.5 billion in 2014 to $5.6 billion in 2018 (Table 2). As of 2018, the UK contributed 7% of the total announced greenfield projects in Africa in 2018 (UNCTAD, 2019). Significant UK investments have been made in some countries, such as British Petroleum's increased greenfield and M&A investments in Egypt in the past two years, which have brought the company's total stock investment in the country to $30 billion (ibid). In 2018, the total value of announced greenfield projects in Africa's manufacturing sector ($33 billion) outpaced those in the services sector ($26 billion), which has dominated greenfield projects in the continent since 2014.

Figure 2 Total UK foreign direct investment stock in Africa by region



Note: No disaggregated data is disclosed for UK FDI in Nigeria in 2016 and 2017.
Source: ONS (2019a; 2019c) data.

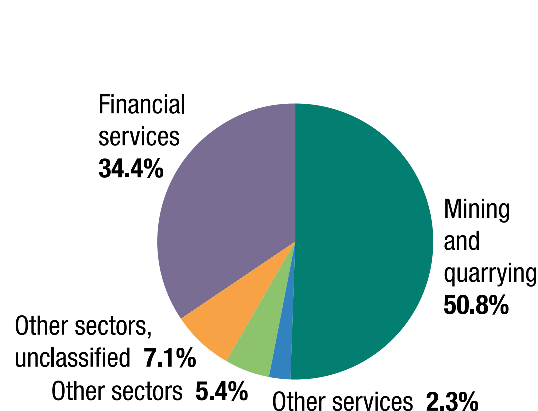
Figure 3 Total UK foreign direct investment stock in Africa



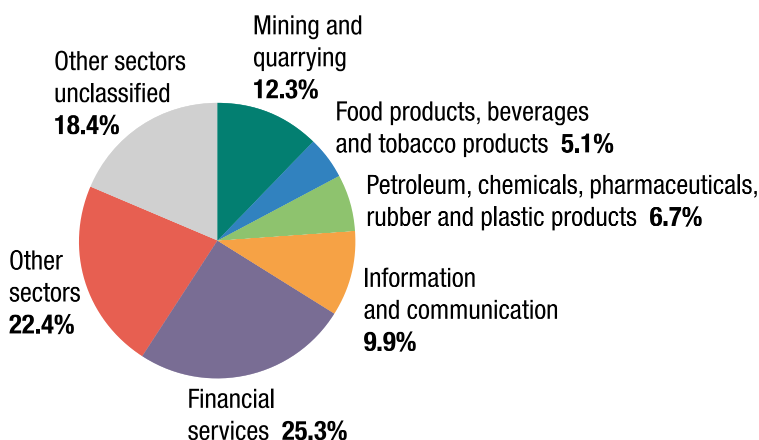
Note: Data as 2018 for South Africa, Nigeria, Kenya, Zimbabwe; 2017 for other countries.
Source: ONS (2019a; 2019c) data.

Figure 4 UK foreign direct investment by industry

UK outward FDI stock in Africa



UK outward FDI stock to the world



Note: Percentage share in total UK FDI, average from 2015 to 2018. Computations are based on the average of available data from 2015 to 2018 in ONS (2019a). The component breakdown excludes the activities of private property, public corporations and bank holding companies (ONS 2019a).
Source: ONS (2019a) data.

For a sub-group of African countries[4] under the G20 Compact with Africa (CwA), the UK was one of the top 10 country sources of announced cross-border investments in CwA countries from 2015 to 2018 (IFC, 2018). As of June 2018, UK's greenfield and major expansion announcements recorded under the CwA totalled 43 projects worth $3 billion (ibid).

Overall, the FDI trends between UK and Africa discussed in this chapter present opportunities and challenges for both jurisdictions. Africa's combined GDP amounts to $2.2 trillion (UNCTAD, 2019) and the continent is home to 1.2 billion people, of whom 420 million are aged 15–35 years (AfDB, 2018). The rate of return of inward FDI in developing African

4 CwA countries covered in the International Finance Corporation (2018) include Benin, Côte d'Ivoire, Egypt, Ethiopia, Ghana, Guinea, Morocco, Rwanda, Senegal, Tunisia and Togo.

Table 1 Africa net cross-border mergers and acquisitions (in $ millions)

	Sales					Purchases				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Total	**5,152**	**21,259**	**9,684**	**3,452**	**1,570**	**5,449**	**3,533**	**7,161**	**1,967**	**3,651**
By industry/sector										
Primary	2,566	998	52	30	–59	1,595	–419	329	2,136	205
Mining, quarrying and petroleum	2,556	998	45	30	–59	1,595	–806	329	2,136	2,015
Manufacturing	330	21,716	–345	284	–247	209	–391	3,667	316	–67
Services	2,256	–1,455	9,977	3,137	1,876	3,644	4,343	3,165	–485	3,513
Financial and insurance services	1,419	652	512	506	1,615	233	2,374	1,927	3,542	2,970
By region/economy										
Developed economies	–8,231	22,357	–2,115	1,780	–1,606	1,675	–165	6,883	556	2,266
UK	–	201	–	700	1,840	–	161	–	1,685	1,535
Developing economies	13,339	–1,194	12,832	527	2,914	3,781	2,497	172	1,410	1,386
Transition economies	–	–	–1,135	–	–	–6	1,200	106	–	–

Source: UNCTAD World Investment Reports: 2017 to 2018 data from UNCTAD (2019); 2016 data from UNCTAD (2018a); 2015 data from UNCTAD (2017a); 2014 data from UNCTAD (2016).

Table 2 Announced greenfield foreign direct investment projects to and from Africa (in $ millions)

	Africa as destination					Africa as investor				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Total	**89,134**	**67,047**	**94,039**	**83,044**	**75,723**	**13,517**	**13,192**	**11,772**	**5,278**	**8,579**
By industry/sector										
Primary	21,974	14,972	3,713	10,587	16,795	48	383	–	–	2
Mining, quarrying, and petroleum	21,974	14,972	3,713	10,587	16,778	48	383	–	–	2
Manufacturing	29,270	15,178	19,357	20,583	32,996	3,929	2,491	5,991	2,864	2,890
Chemical and chemical products	6,705	2,709	5,107	6,175	11,006	120	696	4,596	1,229	1,128
Services	37,890	36,897	70,969	51,874	25,932	9,541	10,318	5,782	2,414	5,687
Electricity, gas and water	10,648	14,791	15,601	37,073	5,697	125	2,139	156	29	969
By region/economy										
Developed economies	63,866	37,412	19,945	31,162	38,232	1,153	756	1,411	1,741	2,247
UK	2,563	–	2,395	2,226	5,626	133	–	444	59	124
Developing economies	25 178	29 362	73 643	20,385	35,094	12 327	12 376	10 342	3,531	6,149
Transition economies	90	–	452	31,497	2,396	37	–	19	6	183

Source: UNCTAD World Investment Reports: 2017 to 2018 data from UNCTAD (2019); 2016 data from UNCTAD (2018a); 2015 data from UNCTAD (2017a); 2014 data from UNCTAD (2016).

countries is currently 6.5%, which is higher than the rate in developing Latin America and the Caribbean (6.2%) and 'developed' economies[5] (6%) (UNCTAD, 2019). Hence, Africa presents a business opportunity for the UK and other foreign investors targeting an investment destination with a growing market base and higher returns. Meanwhile, African countries could benefit from investments that could absorb a large share of its young population that will soon be entering the market force.

The UK government has announced its goal for the UK to become the top G7 investor in Africa by 2022 (DTI, 2018). However, one of the key challenges evident from trends regards diversifying UK investments in Africa, which are currently heavily focused on the mining and quarrying sector and in South Africa. The low penetration of UK FDI in other sectors beyond mining activities and financial services across the continent implies there is much room to increase the role of British investors in boosting African economies. The next chapter presents the determinants of FDI based on the literature and relevant data that could explain this trend and explores, also exploring the role of business regulations and bilateral investment agreements in boosting UK FDI in Africa.

5 Higher income economies includes the member countries of the OECD (other than Chile, Mexico, the Republic of Korea and Turkey), plus the new EU member countries which are not OECD members (Bulgaria, Croatia, Cyprus, Lithuania, Malta and Romania), plus Andorra, Bermuda, Liechtenstein, Monaco and San Marino, plus the territories of Faeroe Islands, Gibraltar, Greenland, Guernsey and Jersey (UNCTAD, 2019).

3 Determinants of foreign direct investment

In 2018, UNCTAD reported that global FDI flows fell by 13%, driven by the 27% decline in FDI flows to 'developed' economies (UNCTAD, 2019). Despite this downward global trend, FDI flows grew in Africa (11%), Latin America and the Caribbean (6%) and Asia (4%) (ibid). The contrasting directions of FDI flows between 'developed' and relatively lower income countries and the varying strengths of FDI flows among regions reflect the differentiated considerations of investors in choosing an investment destination.

The first section below explores the general determinants of inward FDI, followed by host-country drivers of FDI in Africa and the home-country motivations of the UK (and other investors) for investing abroad. The latter part includes a discussion about the development and role of bilateral investment agreements in boosting FDI between the UK and Africa.

3.1 Determinants of inward FDI

FDI definitions from international organisations (e.g. the United Nations (UN), the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF)) characterise foreign investors' 'lasting interest' or long-term investments in host countries, as reflected by the foreign investors' ability to influence management by owning at least 10% of a direct investment enterprise's ordinary shares or voting power. A substantial body of literature on the motivations behind the 'lasting interest' on international investments has cited – and evolved from – the four types of FDI categorised by Dunning (1993): market-seeking, resource-seeking, efficiency-seeking and strategic asset FDI. Broadly defined:[6]

- Market asset-seeking FDI aims to penetrate the host countries' large or growing market size and access to regional or global markets.
- Resource-seeking forms of FDI are motivated to access resources (e.g., raw materials, labour force, technology and infrastructure) that are lesser or absent in the home countries.
- Efficiency-seeking FDI aims to reduce costs by establishing operations where production inputs are less expensive than in the home country.
- Strategic asset-seeking forms of FDI aim to take advantage of synergies between existing operations and the host country.

Historical views of literature (te Velde, 2006; Metaxas and Kechagia, 2016) offer specific determinants of inward FDI, most of which can be categorised as home (pull) and host (push) country factors, as shown in Table 3.

3.2 Host-country factors pulling inward FDI to Africa

While Table 3 provides determinants of inward FDI across countries more generally, a number of studies show that some factors in attracting FDI flows to Africa, specifically, are different from the rest of the world. For example, a cross-sectional analysis of 71 developing countries by Asiedu (2002) finds that a higher return on investment and better infrastructure has a positive impact

6 Cited in Wadhwa and Reddy (2011), USAID (2007).

Table 3 Determinants of foreign direct investment

Determinants	Indicators
Host-country factors	
Macroeconomic factors	Gross domestic product (size and growth), inflation and natural resource endowments
Human resources	Population size and growth, skills and level of education
Infrastructure development	Efficiency of roads, ports and trade logistics
General policies	Ease of doing business, political stability, trade openness, financial development, intellectual property rights, exchange rate regimes and wage costs/policies
Specific FDI policies	Incentives, performance requirements, investment promotion, international trade and investment treaties
Firm-specific factors (e.g. technology)	Digital infrastructure and technology absorption capacity of firms, and spending on research and development
Home-country factors	
Higher rate of returns	Rate of returns from investments
Market size	Gross domestic product
Country measure/vision	Official development assistance, development finance institution-led FDI

on FDI to countries not in sub-Saharan Africa (non-SSA countries) but no significant impact on FDI to SSA. Asiedu also indicates that the marginal benefit from increased openness is less for SSA than non-SSA countries. Corcoran and Gillanders (2013) find that, while improving the business environment tends to positively impact FDI inflows in middle-income countries, this does not necessarily benefit those in SSA or within the OECD.

The following discussion in this section focuses on recent literature about the determinants of inward FDI in Africa, with corresponding developments on the indicators of these FDI determinants.

Macroeconomic factors

Market size is one of the most cited motivations behind inward FDI to Africa in recent literature. In an empirical analysis of 1980 to 2009 data in 45 African countries, Sichei and Kinyondo (2012) find that both the real GDP growth and agglomeration economies affect FDI flows in Africa. A dynamic panel analysis of 33 African countries (Khadaroo and Seetanah, 2009) also identifies market size as a major driver of FDI. Controlling for other factors, Cleeve (2008) and Asiedu (2006; 2013) also find that market size has a significant effect in attracting FDI in African countries. However, Rodríguez-Pose and Cols (2017) find that market size becomes insignificant in attracting foreign investors once natural resources and governance have been accounted for.

Market growth is identified as the most dominant long-term determinant of FDI in Bende-Nabende's (2002) co-integration analysis comprising 19 SSA countries. This is consistent with Cleeve's findings (2008) that foreign investors are attracted to SSA countries with higher growth than they are to countries that possess large markets alone.

The influence of macroeconomic stability in attracting FDI is similar in African countries as well as other economies in general. A low inflation rate, which is an indicator of price stability and the health of the economy, is generally found to be positively associated with FDI in Africa (Asiedu, 2006; 2013; Nnadozie and Njuguna, 2011; Rodríguez-Pose and Cols, 2017). Real depreciation of the exchange rate also significantly promotes FDI, since this exchange rate adjustment increases the relative wealth of foreign firms and relatively lowers labour costs (Cleeve, 2008). Meanwhile, there are mixed results on the impact of trade openness in promoting FDI in Africa: after controlling for other factors, Asiedu (2013) finds it significant, while Nnandozie and Njuguna (2011) find a

positive but weak effect and Rodríguez-Pose and Cols (2017) find it insignificant.

The presence of natural resources is also a recurring theme associated with positive FDI inflows to Africa, albeit with Asiedu (2013) offering an opposite view. Anyanwu (2011), Sichei and Kinyondo (2012) and Asiedu (2006) all generally find that natural resources attract FDI inflows into Africa. Meanwhile, Anyanwu (2011) and Nnadozie and Njuguna (2011) highlight that oil-producing countries are attracting more FDI than non-oil counterparts in Africa. The importance of natural resources is further emphasised by Rodríguez-Pose and Cols' (2017) paper, where natural resources and institutional quality trump market size as key drivers of inward FDI in Africa over the medium and long term.

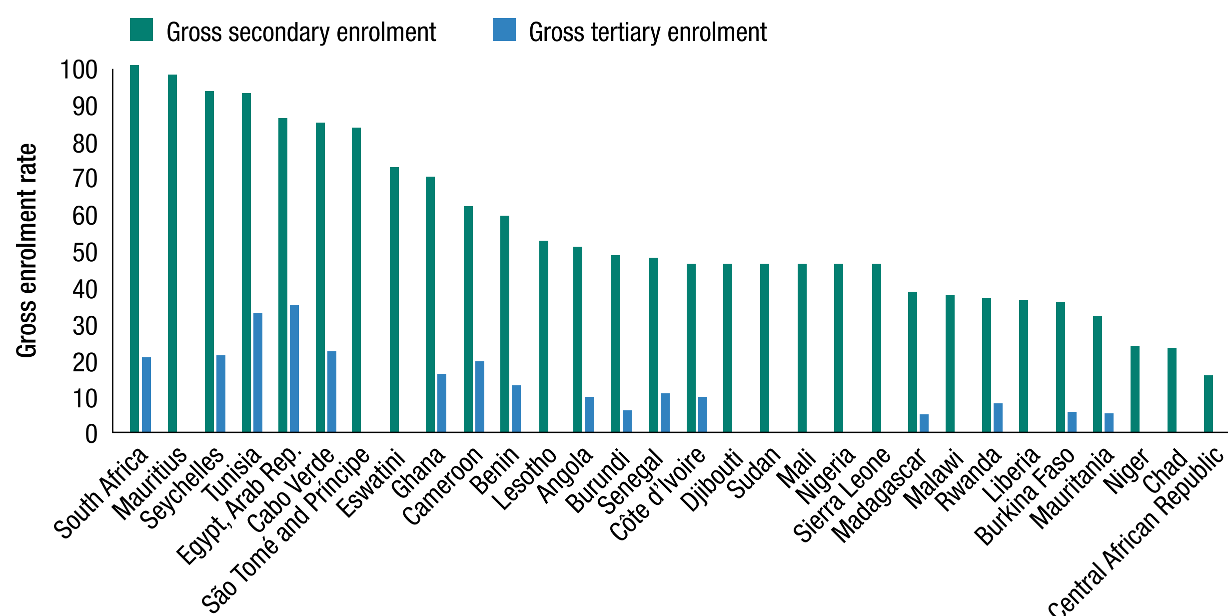
Conversely, a recent paper by Asiedu (2013) examines 99 developing countries, of which 28 are in SSA, and explores the presence of 'FDI-natural resource curse', where a boost in natural resource FDI crowds out non-resource FDI. Results show that natural resources (measured by the share of fuel in total goods exports and oil rents as a share of GDP) have an adverse effect on FDI (ibid). For illustration, the author provides a country case where an increase in the natural resources of Ghana to the level of Nigeria will decrease FDI in Ghana by 4.5 percentage points in the short term and 5.5 percentage points in the long term.

Human resources

Africa currently presents a large market base in its 1.2 billion population, a third of whom are young people (AfDB, 2018). The UN predicts that, by 2050, the SSA will contain over a billion additional people, accounting for more than half of the world's population growth between 2019 and 2050 (UN DESA, 2019). Consistent with market-seeking FDI, the factors of higher general population and urban population are found to be significant and positively associated with FDI flows in Africa (Nnadozie and Njuguna, 2011; Anyanwu, 2011). There is also consensus among studies regarding human capital – or skills (e.g. in terms of literacy or the primary/secondary education enrolment rate), with indications that these are significant and positively associated with FDI in Africa (Rodríguez-Pose and Cols, 2017; Lederman et al., 2010; Naudé and Krugell, 2007; Ajide, 2014; Asiedu, 2006; Cleeve, 2008).

Figure 5 shows a disparity in secondary enrolment rates among 30 African countries, ranging from as much as 100% in South Africa,

Figure 5 Secondary and tertiary education enrolment, 2016



Note: The gross enrolment rate is the ratio of total enrolment, regardless of age, to the population of the age group that officially corresponds with the level of education shown (World Bank metadata). Gross secondary and tertiary enrolment rate data as of 2016 is available in only 30 and 16 African countries, respectively.
Source: World Bank data.

down to 15% in the Central African Republic. Populations with tertiary education may provide a signal of the capacity of the labour force for higher-productivity tasks and digital skills. World Bank data suggests that gross tertiary enrolment in African countries remains limited, with the highest rate in Egypt at 34% and the lowest rates standing at about 5% (e.g. Madagascar) as of 2016.

Infrastructure development

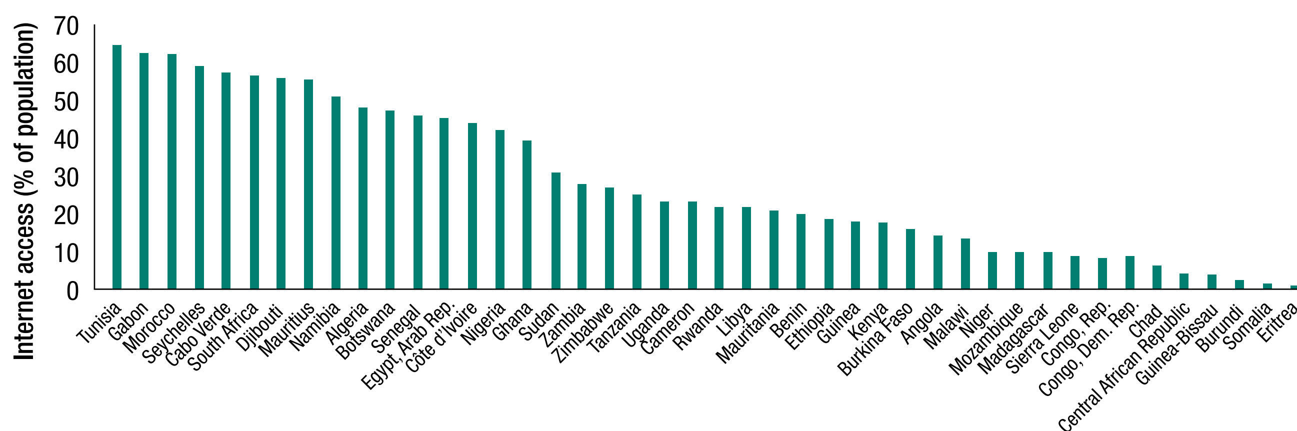
This report has cited Asiedu's findings (2002) that better infrastructure (measured in terms of number of telephone lines per 1,000 people) has a positive impact on FDI to non-SSA countries, but has no significant impact on FDI to SSA. However, a more recent study by Khadaroo and Seetanah (2009), covering 33 African countries, shows the positive role of transport and communication infrastructures in terms of paved roads per square kilometre and the number of telephone lines per 1,000 people, respectively. The authors suggest that transport and communication infrastructure indicators have a positive and significant effect on FDI, with the former having a higher impact than the latter, but with both having smaller effects compared to the effects of levels of openness, market size and education (ibid).

Meanwhile, we have only found one study (Ibrahim, et al., 2018) that examines the impact of digital infrastructure on FDI in Africa. Here, the authors find that information and communication technology (ICT) goods imports such as computers and electronic equipment, along with individual internet usage, significantly enhances FDI flows in Africa, although the impact of fixed telephone line subscription on FDI inflows is high. Figure 6 shows the current level and disparity of internet penetration among African countries. In 2017, less than 50% of the population had access to internet in 45 out 54 countries in Africa, while the bottom five countries (Central African Republic, Guinea-Bissau, Burundi, Somalia and Eritrea) have an internet penetration rate of less than 5%.

Surprisingly, we have not found any empirical study assessing the quantitative impact of the supply of electricity on inward FDI, particularly in Africa, despite this being one of the most cited obstacles by firms within the continent, according to the World Bank Enterprise Survey. Figure 7 illustrates that the largest share of firms in seven countries (Djibouti 49%, Central African Republic 41%, Rwanda 33%, Congo Republic 32%, Gabon 23%, Uganda 23% and Democratic Republic of Congo 19%) particularly cite the reliability of electricity supply as their most significant obstacle. This reflects the fact that, in 2017, less than half of the SSA population (45%) had access to electricity, with even less (30%) in low-income SSA countries.[7]

The overall logistic performance index (LPI) comprises an indicator of trade infrastructure

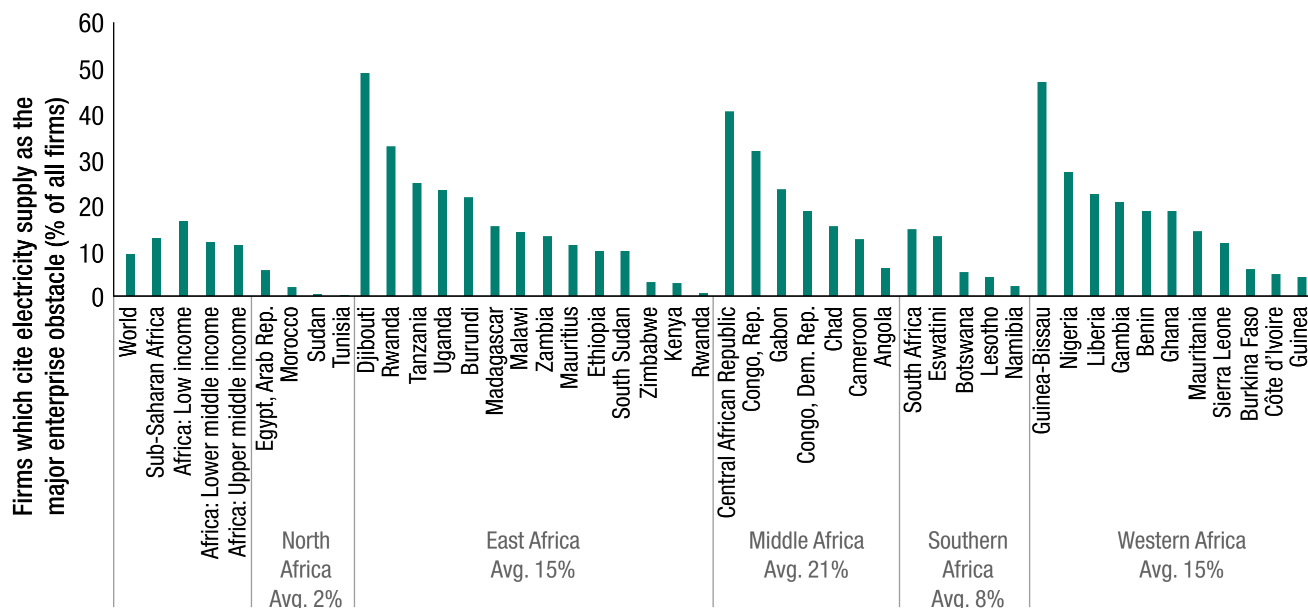
Figure 6 Individuals in Africa with access to the internet 2017



Source: World Bank Enterprise Survey database.

7 World Development Indicators: https://datacatalog.worldbank.org/dataset/world-development-indicators [accessed in July 2019]

Figure 7 Electricity supply as an enterprise obstacle in Africa



Source: World Bank Enterprise Survey database.

quality, coupled with components for customs performance and timeliness of shipments. Of the 160 countries, only seven African countries (South Africa, Côte d'Ivoire, Rwanda, Egypt, Kenya, Benin and Mauritius) managed to be on the upper half of overall ranking. Thirty-eight countries in the continent are in the bottom half of the LPI ranking, while eight out of the 10 countries with the lowest scores are in Africa.

General policies on improving business and investment climate

A good investment climate is characterised by its ability to mobilise capital, skills, technology and intermediate inputs that can enable firms to expand (OECD, 2015). The literature on the impact of improving the business environment, particularly in terms of the World Bank's Ease of Doing Business (EDB) rankings, for increasing FDI flows to Africa provides contrasting results. For example, Nnadozie and Njuguna (2011) have examined 43 countries in Africa and found that the EDB rank has a significant effect on FDI, when controlling for other usual FDI determinants. Meanwhile, Muli and Aduda (2017) highlight the importance of EDB in improving the attraction of FDI flows to economic blocs such as the East African Community.

Alternatively, Asiedu (2006) employs a set of 'policy variables' that the government can improve to attract FDI flows to SSA. The policy variables include inflation (for macroeconomic stability), literacy rate (for human capital) and telephone lines (for infrastructure) and international country risks (for openness to investments). The author finds that all of these policy variables significantly affect FDI in Africa and suggests that SSA countries that have small market size and/or lack natural resources can attract FDI by improving their regulatory environment as well as institutions.

In another study, Corcoran and Gillanders (2013) find that the World Bank's EDB rank is highly significant in attracting FDI, on average, across countries. However, the authors find no evidence of a significant relationship between EDB and the amount of FDI in SSA (and OECD) countries. These findings are consistent with a study from Jayasuriya (2011), where on average, the EDB effect on FDI in developing countries (all regions worldwide) is insignificant.

While a general empirical assessment of the magnitude of impact of an improved business environment on FDI in Africa does not offer clear answers, a look at the relevance of each or several EDB components on FDI flows in individual or sub-group of countries in Africa is revealing. For example, Morris and Aziz (2011)

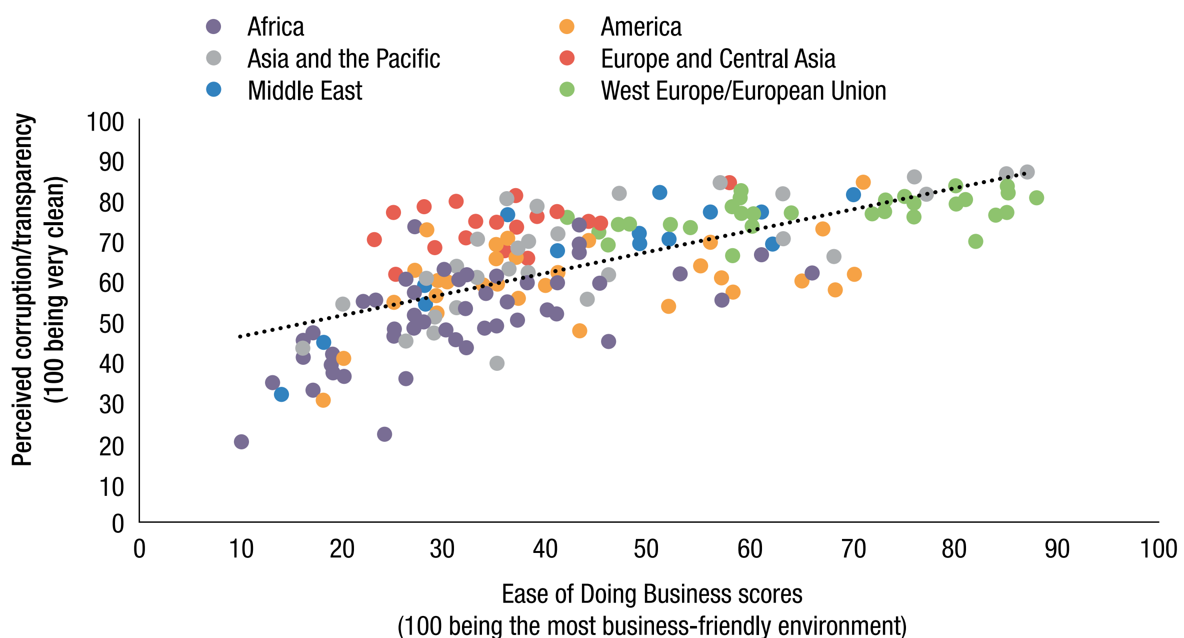
find that EDB components on registering a property and trading across borders play a role in increasing FDI in Asian and African countries. In Zimbabwe, four out of 10 EDB components, including enforcing contracts, paying taxes, obtaining electricity and dealing with construction permits, are found to significantly affect FDI flows (Mahuni and Bonga, 2017). In Ethiopia, Moges Ebero and Begum (2016) find that the cost of starting business, obtaining electricity, registering property and resolving insolvency strongly correlate with the inflow of FDI. Looking forward, it is evident that continued analysis of the individual components of EDB could provide a useful reference point for assessing which elements of the business environment are more relevant for FDI in Africa.

Table 4 presents the EDB scores of 54 countries in Africa, ranked by the EDB rank and scores. While most countries score relatively well in the 'starting a business' category, common weak points include obtaining credit and resolving insolvency.

The average EDB score of the bottom 10 countries is 34 (out of 100), compared with an average score of 70 for the top 10 African countries. Notably, the Democratic Republic of Congo has one of the highest scores in Africa in the 'starting a business' category (92 points) but ranks 183rd out of the 190 countries overall, given its relatively lower scores on other business regulations (e.g. 0 on resolving insolvency and 3.5 points on getting credit).

Institutional quality and political stability
According to the World Bank Enterprise Survey, corruption and political stability are also pertinent obstacles faced by firms operating in Africa. Asiedu (2013) looks at measures of improvement in institutional quality, including law enforcement, lower levels of corruption, government stability and risks to FDI-related regulations. The author finds that these measures have positive and significant effects on FDI and that political risks, such as coups, assassinations and revolutions, deter investors from directing FDI towards Africa (Asiedu, 2006). Meanwhile, transparency ratings, along with EDB and traditional FDI determinants, are found to significantly promote FDI in Africa (Nnadozie and Njuguna, 2011). A strong and transparent government facilitates and signals improvement in investment climate, as reflected in Figure 8, showing a positive correlation between higher transparency ratings and EDB.

Figure 8 Transparency and Ease of Doing Business, by region



Source: World Bank Doing Business database (2020) and Transparency International database (2018).

Table 4 World Bank Ease of Doing Business

Country	EDB rank	EDB score	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Mauritius	13	81.5	94.5	85.8	88.0	82.5	65.0	78.0	94.0	81.0	72.2	73.8
Rwanda	38	76.5	93.2	70.6	82.3	93.7	95.0	44.0	84.6	75.0	69.1	57.2
Morocco	53	73.4	93.0	83.2	87.3	65.8	45.0	70.0	87.2	85.6	63.7	52.9
Kenya	56	73.2	82.7	67.6	80.1	53.8	95.0	92.0	72.8	67.4	58.3	62.4
Tunisia	78	68.7	94.6	77.4	82.3	63.7	50.0	62.0	69.4	74.6	58.4	54.2
South Africa	84	67.0	81.2	68.3	68.8	59.5	60.0	80.0	81.2	59.6	56.9	54.6
Zambia	85	66.9	84.9	72.1	62.1	49.3	95.0	60.0	88.9	56.9	50.8	49.3
Botswana	87	66.2	76.2	75.6	59.5	65.8	60.0	60.0	80.0	86.7	50.0	48.2
Togo	97	62.3	95.1	64.1	72.6	72.0	70.0	42.0	47.3	63.7	49.0	47.0
Seychelles	100	61.7	78.8	67.3	71.3	70.8	35.0	34.0	84.7	71.8	51.2	52.2
Namibia	104	61.4	72.2	70.0	78.3	40.6	60.0	56.0	74.5	61.5	63.4	36.9
Malawi	109	60.9	77.9	63.1	45.4	64.9	90.0	58.0	62.4	65.3	47.4	34.9
Côte d'Ivoire	110	60.7	93.7	57.4	59.2	58.6	70.0	42.0	68.0	52.4	57.6	47.9
Djibouti	112	60.5	84.3	69.4	64.6	58.3	40.0	52.0	62.7	59.4	48.4	65.9
Egypt, Arab Rep.	114	60.1	87.8	71.2	77.9	55.0	65.0	64.0	55.1	42.2	40.0	42.2
Uganda	116	60.0	71.4	66.4	48.4	53.6	60.0	56.0	73.1	66.7	60.6	43.6
Ghana	118	60.0	85.0	67.6	77.4	59.4	60.0	60.0	56.0	54.8	54.0	25.4
Eswatini	121	59.5	77.2	68.7	61.7	60.8	55.0	26.0	77.1	92.9	36.7	38.9
Lesotho	122	59.4	88.2	52.9	52.8	58.4	55.0	32.0	68.9	91.9	57.2	37.0
Senegal	123	59.3	91.2	62.1	65.2	58.3	65.0	44.0	51.2	60.9	50.6	44.3
Nigeria	131	56.9	86.2	73.6	47.4	29.5	85.0	72.0	53.7	29.2	61.5	30.6
Niger	132	56.8	91.5	44.1	52.7	58.3	70.0	42.0	49.4	65.4	54.7	39.3
Cabo Verde	137	55.0	84.5	74.6	54.7	68.8	35.0	24.0	74.8	69.1	64.8	0.0
Mozambique	138	55.0	69.3	73.2	71.7	53.4	25.0	32.0	64.0	73.8	39.8	47.8
Zimbabwe	140	54.5	72.0	60.0	48.6	59.5	65.0	54.0	58.7	54.3	39.7	32.9
Tanzania	141	54.5	74.4	57.9	74.9	50.1	65.0	50.0	51.3	20.2	61.7	39.1
Mali	148	52.9	84.3	61.4	51.8	51.6	30.0	42.0	48.9	73.3	42.8	43.4
Benin	149	52.4	90.6	70.5	33.8	56.3	30.0	42.0	49.3	68.9	41.5	41.0
Burkina Faso	151	51.4	88.2	68.7	29.4	51.4	30.0	42.0	55.9	66.6	41.1	40.8
Mauritania	152	51.1	92.2	66.9	49.2	61.4	40.0	32.0	42.6	60.3	66.0	0.0
Gambia	155	50.3	84.6	59.4	49.6	50.9	30.0	24.0	49.0	67.8	50.9	36.8
Guinea	156	49.4	84.5	65.9	55.3	56.9	30.0	26.0	35.5	47.8	53.9	38.6
Algeria	157	48.6	78.0	65.3	72.1	44.3	10.0	20.0	53.9	38.4	54.8	49.2
Ethiopia	159	48.0	71.7	59.7	60.1	50.9	15.0	10.0	63.3	56.0	62.8	30.3
Comoros	160	47.9	76.5	68.0	60.2	58.4	40.0	26.0	49.9	66.9	33.0	0.0
Madagascar	161	47.7	88.5	35.9	24.1	44.4	40.0	36.0	62.6	61.0	50.0	34.8
Sierra Leone	163	47.5	91.3	38.4	31.6	42.8	25.0	40.0	73.0	51.9	55.9	24.7
Burundi	166	46.8	92.9	55.0	26.4	62.6	15.0	34.0	60.9	47.3	43.0	30.6
Cameroon	167	46.1	86.3	56.5	61.3	40.1	60.0	28.0	36.3	16.0	39.9	36.6
Gabon	169	45.0	87.0	59.8	49.8	41.1	40.0	24.0	35.9	43.9	32.8	35.9
São Tomé & Príncipe	170	45.0	78.2	66.6	62.1	41.1	25.0	20.0	61.8	66.0	28.8	0.0
Sudan	171	44.8	76.7	64.2	51.3	63.7	15.0	30.0	51.8	19.0	47.8	28.8
Guinea-Bissau	174	43.2	75.5	45.2	29.7	54.5	30.0	44.0	55.2	59.6	38.6	0.0
Liberia	175	43.2	88.9	28.9	39.1	31.9	50.0	22.0	76.4	19.2	35.2	40.6
Angola	177	41.3	79.4	65.3	54.1	43.3	5.0	32.0	69.5	36.2	28.1	0.0
Equatorial Guinea	178	41.1	61.0	55.0	54.3	44.4	40.0	26.0	41.5	32.0	56.2	0.0
Congo, Rep.	180	39.5	65.8	61.3	32.7	40.6	40.0	26.0	26.8	19.7	44.0	38.5
Chad	182	36.9	52.5	47.2	32.2	54.8	30.0	24.0	17.9	37.0	45.5	28.1
Congo, Dem. Rep.	183	36.2	91.6	59.5	34.7	46.6	30.0	22.0	40.9	3.5	33.3	0.0
Central African Rep.	184	35.6	63.2	34.1	24.6	42.0	35.0	26.0	18.9	52.4	31.4	28.1
South Sudan	185	34.6	71.0	50.5	0.0	36.8	10.0	16.0	76.7	26.2	59.0	0.0
Libya	186	32.7	73.1	0.0	59.0	0.0	0.0	18.0	63.6	64.7	48.4	0.0
Eritrea	189	21.6	52.9	0.0	0.0	35.3	0.0	16.0	55.9	0.0	55.9	0.0
Somalia	190	20.0	46.0	0.0	0.0	48.2	0.0	0.0	0.0	51.6	54.6	0.0

Source: World Bank Doing Business database (2020).

Asiedu (2013) finds that good institutions not only increase FDI but also mitigate the negative effect – or 'crowding out'[8] – of natural resources on FDI. Rodríguez-Pose and Cols (2017) further highlight the role of governance, suggesting that factors such as political stability, government effectiveness, lower corruption, and citizen's freedom and participation in the selection of its government are more important determinants of FDI than local market size, with these factors influencing the long-lasting amount of FDI in SSA countries.

Fiscal incentives and investment promotion

There are a limited amount of empirical studies examining the impact of fiscal incentives in terms of increasing FDI in African countries, but a study by Cleeve (2008) investigates their role, focusing specifically on tax holidays, of the relaxation of repatriation of profits and tax concessions to industries in attracting FDI in 22 African countries. The author finds that after controlling for other factors, tax holidays significantly attract FDI towards Africa. Accounting for country effects, profit repatriation also becomes important, while tax concessions appear to have an adverse effect on FDI inflows (ibid).

We find no Africa-focused empirical study on the impact of investment promotion on FDI. However, it may be worth noting Harding and Javorcik's study of the Census of Investment Promotion Agencies (2011). This contains information on investment promotion efforts in 124 economies, including countries from SSA, with the authors illustrating that, on average, $1 spent on investment promotion leads to $189 FDI inflows. The authors also establish that investment promotion has a positive impact on FDI inflows in developing less affluent countries but not in industrialised economies. Investment promotion efforts are also shown to be more effective in countries where:

- English is not an official language, with cultural distance from the US
- governments are less effective and corruption is higher
- a longer time period to start a business or obtain construction permits is required (ibid).

Following on from Harding and Javorcik's insights, it is worth considering (UNCTAD, 2018c) paper on lessons learnt from 15 countries[9] (13 of which are in Africa) implementing UNCTAD's Investment Policy Review (IPR) recommendations. This paper demonstrates that higher FDI inflows were observed in all countries within five years following the IPR compared with the pre-IPR period. The paper also indicates that the main catalyst for business climate improvements and FDI growth in these countries has been the advancement of reforms to strengthen investment promotion agencies (IPAs) (ibid).

In this section (3.2), we have focused on establishing the determinants that encourage FDI, rather than foreign investment-related policies that may directly act as barrier to foreign investments. In Annex A, we have included a summary of specific policies (e.g. foreign ownership restrictions, rules on repatriation of funds and hiring of expatriates) that are related to foreign investors in eight selected African countries, based on UNCTAD investment policy reviews in the last 10 years.

3.3 Drivers of UK (and other investors) outward FDI

Outward FDI from the UK

The concentration of UK FDI in mining, quarrying and financial services (as established in section 2, see Figure 3) indicates that UK investors are primarily attracted to Africa's growing market and population, and natural resources (host-country factors). However, our interviews and meetings with individual

8 Asiedu (2013) finds that a boost in natural resource FDI crowds out non-resource FDI and that natural resources (measured by the share of fuel in total goods exports and oil rents as a share of GDP) have an adverse effect on FDI.

9 Includes Benin, Botswana, Colombia, Dominican Republic, Egypt, Ethiopia, Ghana, Kenya, Lesotho, Mauritius, Morocco, Rwanda, Tanzania, Uganda and Zambia.

UK companies reveal insights on the specific characteristics of African countries that attract different types of sectoral investors:

- An agri-business company is attracted to African countries with agricultural products with established high domestic demand and a potential for exportation.
- A multi-national garment company with operations in Ethiopia and Kenya is attracted by these countries' duty-free access to US markets through the African Growth and Opportunity Act, as well as the host-governments' clear vision for strengthening their garment sector.
- An international bank cited the strong capacity of rule of law and demographics as key considerations when investing in African markets, albeit business models are tailored to individual countries. For example, since it is expensive to operate a physical establishment in the continent, the company is leveraging on countries with good digital infrastructure (e.g. Kenya) for expansion of their retail banking business. The company is also partnering with development finance institutions for risk-sharing purposes to be able to provide banking solutions in relatively less stable environments.
- A life insurance company highlighted that the industry is generally attracted to emerging African markets with relatively stable macroeconomic environment and deep financial markets. However, life insurance tends to have a greater role in countries where host governments (e.g. Ghana) recognise the role of life insurance not only in improving household welfare but also in localising domestic savings and creating jobs.
- A global beverage company puts heavier weight on investing in African countries with young populations, strong urbanised cities and towns, and stable political environments.
- According to a UK-based private equity association, currency stability is the main consideration of private equity investors in Africa. Other investors would cite political instability, which essentially also affects currency risks. This is consistent with the result of a global survey of private equity investors wherein political and currency risks are cited as top barriers that deter private equity investment in Africa (EMPEA, 2019).
- An export credit agency is supporting the growing demand for export financing driven by the fast-growing African economies' ambitious infrastructure development programmes across health, transport, power generation, water and agriculture sectors.
- A UK-based knowledge services company expressed that the factors that attract large companies into Africa are the same for small and medium-sized enterprises (SMEs): to secure a market share in countries with fast-growing income and population, macroeconomic stability and growing middle class. The government efforts especially on improving the process of registering the business have helped SME entry in recent years.

In their examination of the home-country (push) factors behind UK outward FDI, Kyrkilis and Pantelidis (2003) found that the UK's growing output, stronger sterling and higher human capital tends to increase UK investments abroad. An application of neoclassical theory in relation to the recent weak global economic activity and low-interest environment suggests that a capital-rich country, such as the UK, will reallocate investments in locations that have lower capital relative to other factors of production, as is the case for many countries in Africa. This is consistent with our interview with a UK-based global asset management company that includes sovereign and corporate investments in Africa in its portfolio for diversification purposes and to some extent, higher returns (due to relatively higher economic and political risks).

The UK government has also actively expressed its vision to be the top G7 investor in Africa DIT, 2018. In particular, it aims to:

- build commercial partnerships with Africa in infrastructure, agriculture, manufacturing and renewables
- position London as a global hub for capital and gateway for financial investment
- share expertise on specific areas such as energy transition (DIT, 2019).

To the extent that the government vision can be translated into home-country measures (HCMs) in the form of regulations, programmes and policies that would encourage UK investments towards targeted sectors, then the UK government can provide a catalytic role for private investments to enter African markets. Lending weight to this suggestion, te Velde (2007) finds that UK's investment-related aid flows to developing countries are positively correlated to changes in UK outward FDI stocks.

Outward FDI from developing countries (and China)

The key drivers of outward FDI from developing countries are generally similar to those that motivate investments abroad. These include host market size, production costs, skills, supply chains, infrastructure support and tax considerations (UNCTAD, 2005). However, the recent increase in outward investments from the Global South is seen to be mainly triggered by growing wealth that has increased capital supply at home (ibid). Capital account liberalisation, government fiscal and other incentives, growing firm capabilities and regional free trade agreements have also been cited as factors contributing to boosting developing countries' investments abroad (ibid).

In view of the prominence of Chinese outward investments in recent decades, several studies have been conducted to examine the specific host-country factors that attract Chinese investments. Cheng and Ma (2007) find that the GDP of host economies positively attracts Chinese FDI (flows and stocks) to these countries. Higher Chinese investments are also expected in host countries that are closer in distance to Beijing, or that share a common border with China and speak the same Chinese language (ibid).

Focusing on key considerations of Chinese investors in African countries, He and Zhu (2018) and Chen et al. (2018) find that Chinese FDI tends to be directed towards African countries with larger market size. However, in contrast with the conventional FDI literature, evidence suggests that Chinese investors are significantly attracted to African countries with weak governance or lower levels of political stability (ibid). He and Zhu (2018) suggest several reasons behind this trend. These include:

- the non-profit motives of Chinese state-owned enterprise investors
- the need to avoid competition from advanced economies
- advantages of securing market position in anticipation of future high returns
- stronger Chinese government bargaining power in relatively unstable countries
- incomplete information or different perception on the extent of political risks.

China's HCM may have also been contributing to an increase in the country's investments abroad. For example, Becker-Ritterspach et al. (2019) state that the Chinese government-backed $10 billion credit line (an HCM) for the One Belt One Road Initiative has led to an increase in Chinese outward FDI in countries under the initiative.

3.4 UK–Africa BITs and agreements

Many African countries, like other developing regions, have used bilateral investment treaties (BITs) and double taxation agreements (DTAs) as tools for stimulating inward investment. By signing BITs and DTAs, African countries aim to give confidence to investors by ensuring investment will be legally protected under international law in case of political turmoil. Additionally, they aim to reduce the possibility of double taxation of foreign entities.

Traditionally, African countries have signed such agreements with countries outside Africa, particularly those where a colonial tie has existed, such as the UK.

BITs are designed to protect foreign investors against domestic political risks that would adversely affect their investment in the host country. Most BITs typically:

- set out what entities and which of their assets are covered
- protect against uncompensated takings
- contain additional safeguards such as the 'national treatment' standard, which protects

foreign investors against discriminatory treatment compared with domestic entities, and the most favoured nation (MFN) standard, which ensures the treatment investors receive is not inferior to what other foreign investors enjoy
- guarantee the free transfer of funds in and out of the host economy
- prohibit the imposition of mandatory performance requirements on foreign companies by the host government
- allow investors to defend their treaty rights by directly challenging the host through investor–state dispute settlement.

DTAs are designed to prevent problems of double taxation, which increase administrative operations of foreign investments and can therefore distort investment flows. DTAs typically stipulate that the host economy can levy taxes on corporate income only when the company's presence meets the permanent establishment criteria set out in the treaty. Most DTAs include national treatment provisions but very few include MFN standards. They also do not allow access to arbitration and instead contain the mutual agreement procedure under which dissatisfied investors can notify tax authorities in either country of their disagreement with the host country's authorities (UNECA, forthcoming).

Table 5 provides a summary of BITs between the UK and African countries. The first detailed is the BIT between the UK and Egypt, which entered into force in 1976. The UK now has 19 BITs in force with African countries, of which only two entered into force within the past 20 years (Mozambique and Sierra Leone). An additional six BITs have been signed between the UK and African countries but still need to enter into force, despite signature taking place over ten years ago. Meanwhile, two BITs between the UK and countries in Africa have been terminated: the original Sierra Leone BIT was replaced by a new one in 2001 and the South Africa BIT was terminated by the country itself in 2014, as part of broader domestic reforms in investment laws. As expected, the majority of UK BITs with African countries are with Commonwealth partners.

BITS and DTAs between the UK and African countries

African countries have been particularly likely to conclude BITs and DTAs with Western European countries. The UK has the second highest number of DTAs with African countries after France (see Figure 9).

Table 6 summarises the UK's DTAs with African countries. Currently, 24 DTAs between the UK and African countries are in force, of which 14 entered into force in 1990 or before. The original DTA with Lesotho was terminated in 2018 to be replaced by a new DTA. Most DTAs between the UK and African countries include provisions related to income tax, corporation tax, capital gains and withholding tax. As with BITs, the majority of UK DTAs with African countries are with commonwealth partners.

Trends in investment regulation

With the UK, as with other investment partners, Africa has experienced a significant rise in the number of BITs and DTAs since the 1990s. Some of the early agreements have been the basis for many subsequent investment agreements and instruments that still prevail in many African countries.

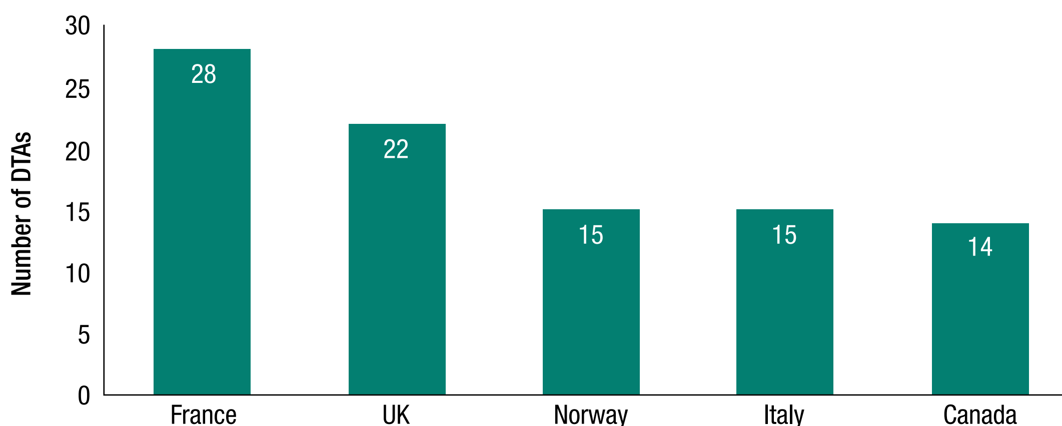
BITs and DTAs tend to impose stronger commitments on host states than on investors' countries of origin or on investors themselves. In the case of the UK and Africa, they were initially primarily intended to protect the vested interests of UK investors already present in the region, reflecting colonial links and heritage. The underlying objective was to ensure investments in strategic sectors (such as minerals and natural resource extraction) in former colonies were protected and regulated to ensure continuity in already-established commercial links for sourcing primary goods as inputs for their industries after independence. On account of the growing interest and hands-on involvement of African countries, the second wave of BITs since the 1990s has typically responded to two additional motivations: formal endorsement of like-minded states sharing a common objective of regulating investment through domestic and international law-making and recognition of investment regulation as a

Table 5 UK bilateral investment treaties with African countries

No.	African partner	Status	Date of signature	Date of entry into force	Date of termination
1	Libya	Signed	23/12/2009	–	–
2	Zambia	Signed	27/11/2009	–	–
3	Ethiopia	Signed	19/11/2009	–	–
4	Mozambique	In force	18/03/2004	12/05/2004	–
5	Gambia	Signed	02/07/2002	–	–
6	Angola	Signed	04/07/2000	–	–
7	Sierra Leone	In force	13/01/2000	20/11/2001	–
8	Kenya	In force	13/09/1999	13/09/1999	–
9	Uganda	In force	24/04/1998	24/04/1998	–
10	Côte d'Ivoire	In force	08/06/1995	09/10/1997	–
11	Eswatini	In force	05/05/1995	05/05/1995	–
12	Zimbabwe	Signed	01/03/1995	–	–
13	South Africa	Terminated	20/09/1994	27/05/1998	31/08/2014
14	Tanzania	In force	07/01/1994	02/08/1996	–
15	Nigeria	In force	11/12/1990	11/12/1990	–
16	Morocco	In force	30/10/1990	14/02/2002	–
17	Burundi	In force	13/09/1990	13/09/1990	–
18	Congo	In force	25/05/1989	09/11/1990	–
19	Ghana	In force	22/03/1989	25/10/1991	–
20	Tunisia	In force	14/03/1989	04/01/1990	–
21	Benin	In force	27/11/1987	27/11/1987	–
22	Mauritius	In force	20/05/1986	13/10/1986	–
23	Cameroon	In force	04/06/1982	07/06/1985	–
24	Sierra Leone	Terminated	08/12/1981	–	20/11/2001
25	Lesotho	In force	18/02/1981	18/02/1981	–
26	Senegal	In force	07/05/1980	09/02/1984	–
27	Egypt	In force	11/06/1975	24/02/1976	–

Source: UNECA from UNCTAD Investment Policy Hub at https://investmentpolicy.unctad.org [accessed September 2019].

Figure 9 Top five countries with active double taxation agreements with Africa



Source: UNECA (forthcoming).

Table 6 UK double taxation agreements with African countries

African partner	Status	Date of entry into force
Algeria	In force	16/06/2016
Botswana	In force	04/09/2006
Côte d'Ivoire	In force	24/01/1987
Egypt	In force	23/08/1908
Ethiopia	In force	21/02/2013
Gambia	In force	05/07/1982
Ghana	In force	10/08/1994
Kenya	In force	30/09/1977
Lesotho	In force	18/09/2018
Lesotho	Terminated	23/12/1997
Libya	In force	08/03/2010
Malawi	In force	24/04/1956
Mauritius	In force	1981
Morocco	In force	29/11/1990
Namibia	In force	27/09/1962
Nigeria	In force	27/12/1987
Senegal	In force	30/03/2016
Sierra Leone	In force	16/02/1948
South Africa	In force	17/12/2002
Sudan	In force	08/10/1977
Swaziland	In force	18/03/1969
Tunisia	In force	20/01/1984
Uganda	In force	21/12/1993
Zambia	In force	20/07/2015
Zimbabwe	In force	11/02/1983

Source: UNECA extracted from HM Revenues & Customs Collection of Tax Treaties.

means to attract greater investment and deepen regional integration (UNECA, 2016).

Globally, the proliferation in BITs and DTAs over previous decades, coupled with an increase in the number of arbitration cases, has resulted in investment treaties becoming more contested. Many developing countries, including those in Africa, have begun to work on articulating their own conceptions of investment law and practices. For example, since 2012, South Africa has unilaterally terminated nine BITs, including with the UK (terminated in 1994). The country has since focused on strengthening its domestic laws concerning foreign investment (Schlemmer, 2016).

3.5 Challenges with BITs and DTAs

African countries enter into investment and tax treaties with the intention of promoting and encouraging inward investment. However, only a part of the extensive existing literature lends support to this cause. Little is also known about the relative importance of individual provisions in BITs for investors and whether they can effectively compensate for weak domestic institutions. Similarly, in the case of DTAs, questions remain over whether benefits resulting from these treaties may entail compensation for forgone tax revenue. To date, no known empirical study has sought to quantify the cumulative effects of BITs and DTAs on investment flows.

Some studies cast doubt on the positive influence of BITs on capital inflows to developing countries (see Hallward-Driemeier, 2003; Aisbett, 2007; 2009; UNCTAD, 2009; Yackee, 2010). Conversely, Lejour and Salfi (2014) have found that BITs are conducive to higher levels of investment, particularly for upper-middle-income countries, but fall short of statistically corroborating this link for African countries. Using firm-level data, one study indicates that German multinational corporations tend to be more active in developing countries if they are covered by an investment treaty (Egger and Merlo, 2012), but, in a separate paper, the author fails to confirm a similar phenomenon in the case of French multinationals (Yackee, 2016).

There is also inconclusive evidence regarding whether BITs can reduce political risk by replacing imperfect domestic institutions and weak legal regimes. A number of studies point towards BITs having a positive effect on FDI when complementing quality institutions (such as Siegmann, 2008; Tobin and Rose-Ackerman, 2011; Falvey and Foster-McGregor, 2017). However, some authors maintain that BITs prove more stimulating for investment in economies characterised by higher risk (see Tobin and Rose-Ackerman, 2003; Sokchea,

2007; Kerner and Lawrence, 2012) and weak institutions (Busse et al., 2010).

The causal link between tax conventions and investment inflows in developing countries is even less well-established. In a paper based on 11 East African countries, the authors fail to identify a link between lower tax prerogatives of host economies and increased investment inflows (Daurer and Krever, 2014). Baker (2014) has also found no evidence of a positive relationship between DTAs and increases in investment, arguing that this effect has been precluded by 'developed' countries introducing unilateral measures to prevent double taxation. Some research also suggests that, when a positive relationship is identified, it is middle-income countries, rather than lower-income countries, that profit from DTAs in terms of higher volumes of capital imports (see Neumayer, 2007; Braun and Fuentes, 2014).

Neither BITs nor DTAs are entirely cost-free for capital-importing economies. The lack of unequivocal empirical evidence in favour of the two instruments warrants careful consideration on the part of African policy-makers. For BITs, the question is where to draw the line between being bound to ensure a safe and predictable business environment and unduly limiting the right to regulate. In the case of DTAs, these are beneficial for the capital importer only if the overall welfare derived from higher investment and possibly lower leakages through tax evasion outweigh forgone tax revenue as a result of their impact on source taxation (UNECA, 2019).

4 Country-specific analysis

As mentioned earlier, managers of subsidiaries and branches have direct knowledge of the main barriers and issues that affect their businesses in their respective countries. They have incentives to expand the business in their country in particular and are therefore interested in resolving the issues that slow down expansion. However, they have to respond to headquarters in relation to the performance of the subsidiary they manage.

These managers are also the first to spot opportunities and areas for expansion, as they have direct knowledge of the potential demand for their products and services. They also understand what support and actions are necessary for investment plans to come to fruition. In this sense, they provide a powerful voice and source of information in the policy decision-making process. Policy-makers must listen and pay attention to what these managers say, as they provide an extremely valuable input into the process.

This chapter aims to capture the views of executives from UK companies in Nigeria, Ghana, Kenya and South Africa in two dimensions. First, each of the sections presents a summary of the main reasons for and advantages of investing in the country to highlight the opportunities available. Second, we present a series of issues and constraints companies face when doing business in each country. This goes much deeper and into more detail than the general indicators previously presented.

4.1 Nigeria

4.1.1 Background

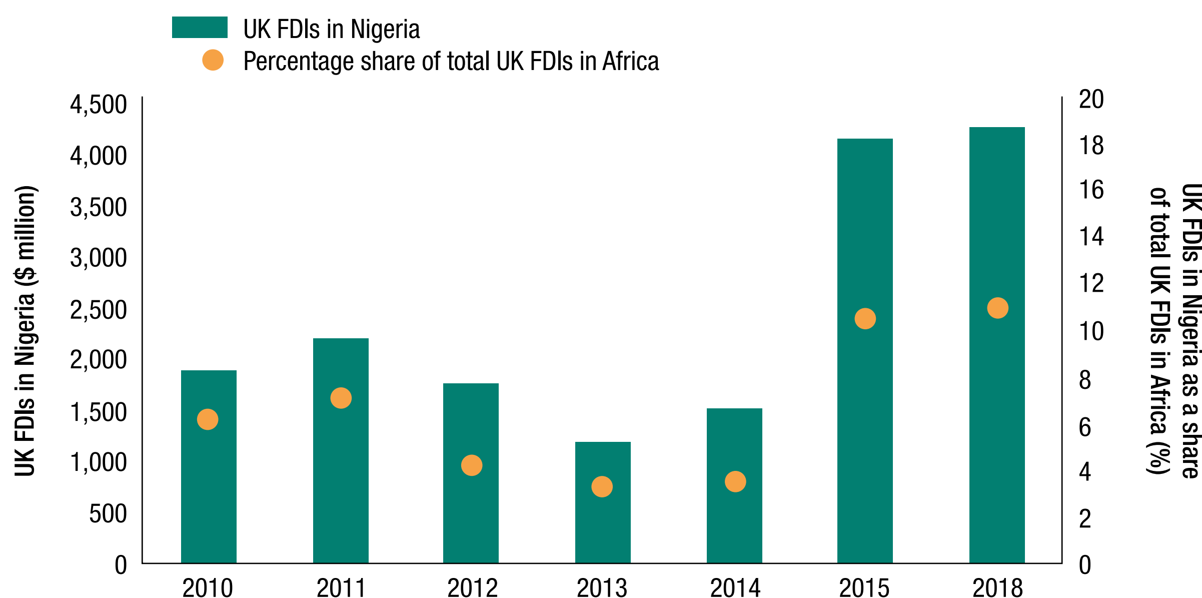
As of 2018, Nigeria stands as Africa's largest economy, with a GDP of $397 billion. In the next two years, the country's real GDP is projected to grow by 2.3% and 2.5%, respectively (IMF, 2019b). The country is a key regional player in West Africa, has the largest natural gas reserves on the continent and one of the youngest populations in the world (World Bank, 2019). Nigeria's current population of 200 million is projected to double to more than 400 million by 2050, making it the world's third most populous country after China and India by mid-century (UN DESA, 2019).

With an abundance of natural resources and an expanding consumer base, Nigeria is a potential destination for both oil and non-oil investments from the UK and the rest of the world. For example, while oil remains Nigeria's top export to the UK, the services sector is gradually gaining a strong comparative advantage as the second largest export to the UK (Mendez-Parra et al., 2019). Following Ghana, Nigeria is the second largest recipient of FDI inflows in West Africa as of 2019, and this is expected to grow in the coming years, with a new government policy to reduce public ownership in joint venture oil assets to 40% (UNCTAD, 2019).

As of 2018, the UK FDI stock in Nigeria amounts to $5.7 billion (£4.2 billion), accounting for 11% of total UK FDI in Africa (Figure 10). A third of total UK FDI in Nigeria, amounting to $819 million (£497 million), went to mining and quarrying as of 2014, although UK FDI in financial services is also gaining momentum, reaching $459 million (£344 million) in 2018 (ONS, 2019a). Meanwhile, the UK contributed $9.12 billion (or 10%) of total investment announcements in 2018 (Figure 11), with its Royal Dutch Shell plc investment announcement accounting for $9 billion (NIPC, 2019).

Nigeria is already showing signs of capacity to expand its investments in consumer-driven goods

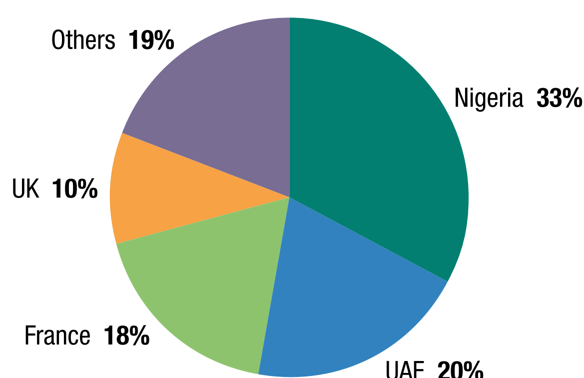
Figure 10 UK outward foreign direct investment in Nigeria



Note: Disclosive data in 2016 and 2017 (ONS, 2019a).
Source: ONS (2015a; 2015b; 2016; 2018; 2019a)

and services, which should encourage entry of the UK and other foreign investments. Nigerian conglomerate Dangote is increasingly becoming a major regional and continental investor, with operations in 16 other Africa countries. E-commerce companies like Jumia have opened sites and facilities in other African countries. This points to the manufacturing and digital capacities in Nigeria that are enabling these investments to thrive and expand, harnessing opportunities in local and regional consumer markets. This creates momentum for the UK and other foreign investors to fill market gaps, especially in FMCGs, and health, financial and insurance services.

Figure 11 Source of investments that were announced in Nigeria in 2018



Source: NIPC (2019).

UK firms should consider Nigeria's well-developed special economic zone (SEZ) programmes. Nigeria has relatively sophisticated economic zone frameworks, with some zones established through public–private partnerships with foreign developers (UNCTAD, 2019). Currently, there are around 20 SEZ/export promotion zones (EPZs) spread across Nigeria, where companies receive improved water and power services and collective security services (Mendez-Parra et al., 2019). Export-oriented assembling firms that import inputs also benefit from these zones, which tend to have zero import duties. Although the zones are not exclusively for firms in the manufacturing sector, these firms tend to be the primary beneficiaries.

The potential expansion of the middle class opens franchising opportunities. Franchising allows small investors to use a renowned brand, developed business models and other key features in their investment. Although returns tend to be low, these investments contribute to the development of backward linkages (e.g. of local suppliers) and, in some cases, forward linkages (e.g. standardised services for companies). The potential expansion of Nigeria's middle class, with the existence of a draft franchise law already under review, means there is a

case for international investors such as the UK to consider franchise investments in Nigeria.

The strong British Nigerian community represents a gateway to enter Nigerian markets. The British Nigerian community is already playing a significant role in real and financial transactions between the UK and Nigeria. For example, many British Nigerians maintain stocks of primarily storable and non-perishable Nigerian products in the UK to either supply the UK market or export to other countries. Meanwhile, Nigeria is the top destination for UK remittances, which makes these the second source (after trade in oil) of foreign revenue from the UK in Nigeria. In general, British Nigerians have advantages over other UK investors in Nigeria, owing to their knowledge about navigating the complex business environment and ease in finding business partners in the country. Engagement and partnership with this community in trade and financial services with established customers could therefore provide an entry point for UK investors in Nigeria's markets.

Nigeria offers familiar business practices for UK companies, providing opportunities for the services sector. The use of English as a commercial language is widespread in the country. In addition, it has legal regimes that are compatible with the UK, meaning UK and Nigerian lawyers understand legal complexities in both jurisdictions. Moreover, an increasing number of Nigerians studying in the UK are generating knowledge in compatible disciplines, such as information technology, law, management and engineering. These compatibilities do more than simply smooth the business operations of UK firms in Nigeria; they also provide opportunities for professional services outsourcing from Nigeria into the UK.

4.1.2 Horizontal issues that affect investment in Nigeria

Ease of Doing Business

Interviews and surveys referred to in this section on the Nigeria case study are based on Mendez-Parra et al. (2019). As seen in Doing Business 2020, Nigeria's rank has improved by 15 places to 131 from 146 in 2019, with the biggest improvements seen in scores on dealing with construction permits and protecting minority investors. Overall, Nigeria has performed better than the average SSA country, especially in terms of obtaining credit. Notably, it is easier to gain credit in Nigeria (85 points) than it is in SSA (45 points) or the UK (75 points) (Figure 12). However, Nigeria's scores in terms of registering a property and trading across borders lags behind those of its regional counterparts: in these categories, the country ranks 183 and 179, respectively.

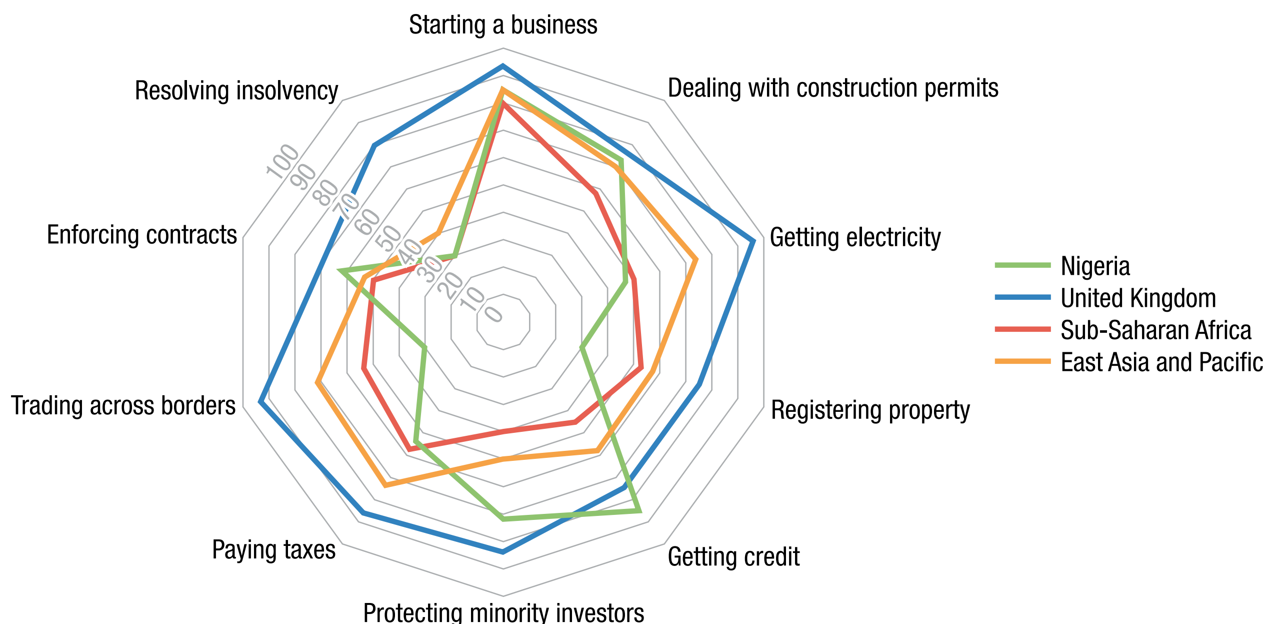
Infrastructure

The poor condition of Nigeria's infrastructure and its impact on trade and investments is mentioned by almost every company, stakeholder, government official and specialist. Several of the companies we interviewed reported container contents arriving in the UK (and other destinations) in poor condition because of long transport times and delays. Alternatively, many of our interviewed companies said they have to rely on air transport, which is the most expensive (hence inefficient) form of transport. In addition, poor power and communication infrastructure in Nigeria leads companies to rely on their own resources to guarantee continuous power supply for their operations.

Corruption

Stakeholders interviewed for this study suggested to us that corruption was the most important component contributing to the 'bad reputation' of Nigeria's business climate. Corruption is spread along the business cycle and is facilitated by the country's unstable, unclear and discretionary regulatory framework and lack of effective government control. This system creates opportunities to extract private rents and benefits through public regulations, as well as to facilitate group operations that demand payments from firms, traders and transporters by using violence or coercion. Increased costs as a result of bribes and informal payments reduce the internal rate of returns of investments. In many cases, corruption blocks investment from corporations that have very strict regulations on investing or doing business in countries with low corruption standards.

Figure 12 Nigeria's Ease of Doing Business



Note: The outer circle represents a higher score or more EDB.
Source: World Bank's Doing Business database (2020).

Unclear, unstable, unconsulted and discretionary rules (e.g. incentives, taxation)
Both Nigerian and UK firms in our study confirmed the unstable regulations in Nigeria. Companies complained that rules changed without the minimum consultation and addenda to existing regulations intended to clarify and rectify issues. One specialist in the business environment highlighted to us that even measures to support businesses were complex, discouraging applications from potential beneficiaries.

In addition, officials have excessive powers to make ad hoc interpretations of regulations and laws. For example, many companies complained about tax bills based on unrealistic estimations of the value of business and operations. Moreover, procedures to challenge these calculations were described as complicated, with uncertain outcomes.

Security situation
Several UK firms operating in Nigeria flagged security as an important issue. For large UK firms, the security situation requires measures for facilities, training for foreign and local staff and deployment of people on the ground to deal with security issues. At the extreme, Shell spent £244 million over a three-year period in Nigeria to protect staff and installations (Platform, 2012), with this spending estimated to represent no less than 1% of Shell's operation costs.[10]

Investment protection
The 1990 Nigeria–UK Agreement for the Promotion and Protection of Investments Bilateral protects investments between Nigeria and the UK. In addition to defining and limiting the investments covered, the agreement describes the circumstances under which national treatment and the MFN clause apply. The agreement also includes provisions for both state–state dispute settlement and investor–state dispute settlement, situations under which expropriation is allowed, along with transfers of currency without delay. As such, the agreement is typical of those negotiated between many countries during the 1990s, providing a good level of de jure protection for both states and individual investors.

There is much controversy over the effects BITs have on FDI (as discussed in chapter 3).

10 A more accurate calculation should be made based on the total costs of production, which are not available. This calculation, based on the notional value of production, at least points to a lower bound for such a share.

The success or otherwise of a BIT in terms of increasing FDI seems to be related to what other provisions there are to incentivise investment and how easy it is for an investor to use the mechanisms, should a dispute arise. The Nigeria–UK BIT is relatively old; newer BITs cover cooperation elements to improve investment facilitation and promotion, as well as sustainable development, environment, labour standards and transparency.

Barriers to bilateral trade and market access

Average tariffs are very high in Nigeria. The MFN applied average tariff is around 13%, with peaks of 30% in agriculture, food and manufacturing products. Imported products are also subject to additional border taxes, levies, charges and fees. Along with this, several products are contingent on import prohibitions and a ban on foreign exchange. Along with this, Nigeria applies a series of export restrictions and taxes on many unprocessed commodities, while some export products are directly prohibited (see Mendez-Parra et al., 2019 for details).

While tariffs applied by the UK to Nigerian products are generally at zero, Nigeria's exports to the UK are hindered by the difficulty in complying with the UK/European Union (EU) quality and health/safety standards and other certification requirements. Many Nigerian exports to the UK have been stopped and rejected in the UK by virtue of containing aflatoxins and/or other unauthorised substances. Imports into the EU (and into the UK) of some products (e.g. dried fish and beans) are currently banned because of recurrent sanitary and phyto-sanitary issues.

As a lower-middle-income country, Nigeria does not qualify for the Everything But Arms preference regime of the EU. Nigeria has not been granted the Generalised System of Preferences, which are reserved for countries considered more vulnerable,[11] and benefits only from limited preferential access. However, considering estimates by Mendez-Parra et al. (2019), we can see that if the UK eliminates tariffs applied on all Nigerian products (keeping tariffs unchanged for the rest of the world), non-oil exports to the UK will increase by 2%. This increase in exports amounts to $1.5 million or to less than 0.1% of total UK imports from Nigeria, suggesting there is little benefit to Nigeria in obtaining improved market access through tariff reduction in the UK.

Restrictions on foreign investments in Nigeria

Restrictions on foreign investments hamper the inflow of external investments into Nigeria: foreign investors across all sectors must be locally incorporated as limited liability companies (WTO, 2017). In addition, qualification for a business permit and to register with the Nigerian Investment Promotion Commission is permitted only with foreign participation in companies holding a minimum share capital of N10 million (ibid.).

Restrictions on movement of natural persons (mode 4)

Nigeria is gradually gaining a strong comparative advantage in the provision of services, which is currently its second largest export to the UK after oil. Expansion of Nigeria's potential in trade in services is frequently constrained by migration restrictions on the temporary movement of service providers. The Nigerian businesses we interviewed complained, not only about restrictions on temporary movement of natural persons to deliver services, but also about the difficulties in obtaining officials' business visas to travel to the UK. Hence, we can see that these restrictions affect both trade in services and trade in goods by preventing business deals from happening on both sides.

Costs of travel restrictions also affect deployment of employees from UK companies and business travellers to Nigeria. It costs $1,000 per year in Nigeria to obtain an expatriate residence permit; recent reports suggest this cost has risen to $2,000 (cited in Mendez-Parra et al., 2019). British citizens are likewise subject to higher visa costs relative to counterparts from other countries. A British citizen has to pay $2,360 to obtain a five-year multiple entry visa;

11 See Regulation (EU) No. 978/2012

other EU or Chinese citizens have to pay $110 and $64 for the same visa category.

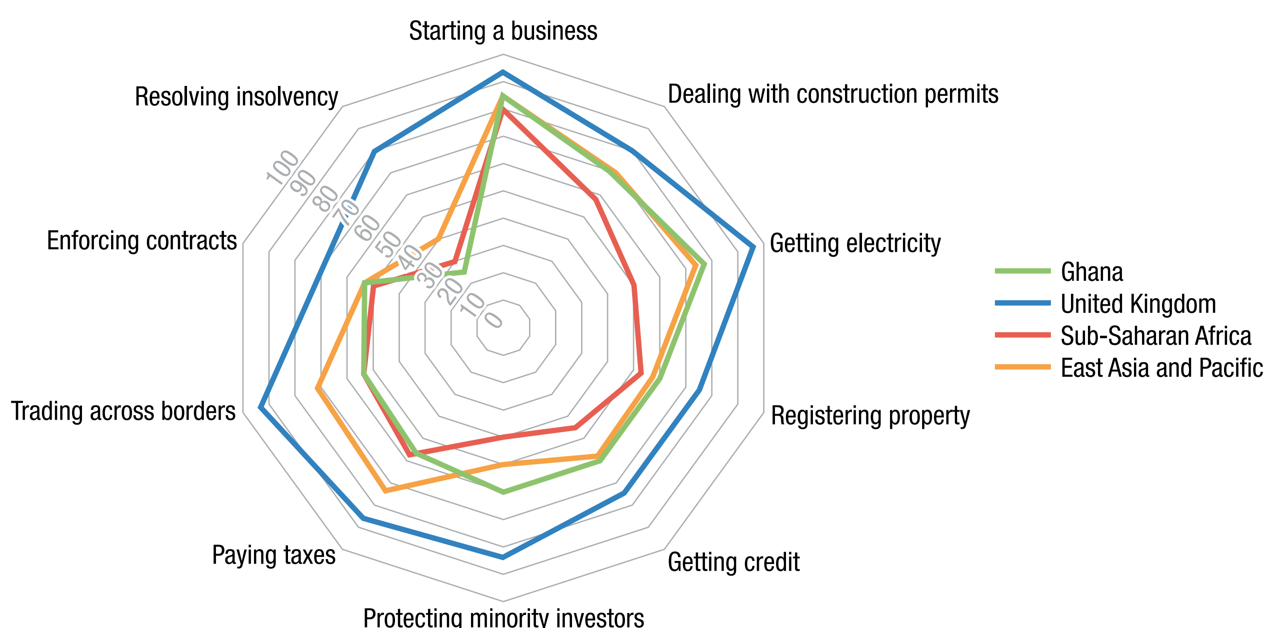
Overall risks and internal rate of return
For foreign firms investing in Nigeria, there is a whole set of factors affecting business costs. These factors include a poor business climate, security situation, unreliable energy and inefficient logistics. These are translated into a higher required rate of profitability for projects. In our interviews, a private equity fund manager investing in consumer goods, telecommunications, finance, power and real estate in Nigeria told us that, to be included in the portfolio, an investment needed to have a minimum internal rate of return equivalent to 25% in US dollars (35% in Naira), to provide for all the high business climate costs. This had the immediate effect of reducing the number of investable projects that this fund would consider. Based on the existing non-oil UK FDI into Nigeria, a reduction of 1 percentage point in the required internal rate of return may unlock UK investments in Nigeria by at least £30 million.[12]

4.1.3 Sector-specific issues that affect investment in Nigeria

Non-oil sector
The non-oil sector accounts for 90% of Nigeria's GDP (Mendez-Parra et al., 2019). However, this sector is generally highly uncompetitive and has low productivity; this is reinforced by protection through high tariffs and discriminatory regulations, poor infrastructure and the advantage of the locals to navigate the country's cumbersome institutional space. In particular, the mining sector has a complex mineral levy structure comprising multiple conflicting taxes and levies, whereas the agriculture sector presents difficulties in acquiring land for investment (DIT, 2018, as cited in Mendez-Parra et. al, 2019).

Foreign exchange controls on imported products
Generally, foreign exchange controls have adversely affected investment flows and deterred new investment. For instance, in 2016, a US company reported difficulty in importing one covered item despite using privately sourced foreign exchange (USTR, 2018). In 2015, the

Figure 13 Ghana's Ease of Doing Business



Note: The outer circle represents a higher score or more EDB.
Source: World Bank Ease of Doing business database.

12 This is a very conservative estimate. By virtue of the opportunities associated with population and economic growth, investment will increase at a higher rate (Mendez-Parra et al., 2019).

Central Bank of Nigeria issued a list of import items (e.g. rice, steel products, furniture and textiles) that were excluded from official foreign currency channels for financing payments (Hoffmann and Melly, 2015). This policy affected portfolio investment inflows, which significantly declined from $10.4 billion in 2013 to $0.9 billion in 2015 (WTO, 2017).

Restrictiveness in trade in services and the digital sector
Based on the World Bank's Services Trade Restrictiveness Index, Nigeria is generally regarded as less restrictive for services' trade when compared to countries in East Asia and the Pacific, the Middle East and North Africa, and South Asia. In particular, scores on financial, telecommunications, transportation and professional services indicate that Nigeria has lower restrictions in these sectors than the rest of SSA (see Mendez-Parra et al., 2019). Meanwhile, in terms of digital trade, Nigeria ranked 16th most restrictive out of 65 countries in Ferracane et al.'s (2018) Digital Trade Restrictiveness Index, and the most restrictive among the African countries included in the ranking (ibid.).

Depth of financial services and capital markets
Nigeria is the top destination for UK remittances, ahead of India and Pakistan. However, a substantial share of these remittances is channelled through informal instruments, resulting in little tax revenue being generated by the Nigerian government and limited lending capability for economic investments.

To maximise benefits from remittances, Nigeria could introduce a special facility for those that are channelled through the financial system (e.g. without remittance fees and/or a disadvantageous exchange rate). There is also a room to explore how British Nigerian savings in the UK can be used to boost investment in Nigeria by developing UK-based investment instruments in Nigerian companies. However, these will require market feasibility assessments as well as joint efforts between the UK and Nigeria to increase the number of listed securities on the Nigerian stock exchange.

4.2 Ghana

4.2.1 Background

The heterogeneity of West Africa has been particularly challenging for UK firms. In Ghana, British firms are primarily oriented to supply a small but dynamic domestic market, with limited regional projection. However, the 28 million Ghanaians provide a fairly attractive market for UK products and services. Ghana has not seen an economic recession since 1983 and, although economic growth has been somewhat unstable in the past few years, the size of its economy expanded by 8% and 6% in 2017 and 2018, respectively. Meanwhile, the economy is expected to grow by 7% in 2019 and by 5% in 2020 (AfDB, 2019a). This growth is expected to be supported by reforms to improve the business environment, as reflected in Ghana's position as a country that is relatively stronger than its SSA counterparts and on a par with East Asian and Pacific countries (Figure 13).

Ghana understands the challenges involved in the development of a small market. It also understands the importance of being an open economy for trade and investment. Table 7 above shows the diversity of the top FDI sources in Ghana from Asia, Europe (including the UK) and counterparts in SSA. In this sense, Ghana aims to harness the market access opportunities that AfCFTA will bring to its economy and the country has been extremely supportive of the integration process since its origin.

But beyond the institutional aspects of regional integration, Ghana aims to become the hub of West Africa. The expansion of Tema port will make it the largest on the continent, with its hinterland being expanded to provide services to many landlocked countries in the region. For example, Ghana is taking advantage of the serious logistical issues of Apapa port in Lagos, Nigeria.

Ghana has also made significant investments in new technologies and the digital economy, also rolling out policies to deal with the challenges they will bring. The internet – together with communications in general – has dramatically improved, enabling a reliable and competitive service.

Table 7 Registered foreign direct investments projects in 2018

Registered FDI projects	No. of projects	Percentage share in total no. of projects (%)	Value ($ million)	Percentage share in total value of FDI (%)
Total	168		3,320	
Top FDI sources				
Angola	1	1	275.8	8
China	37	22	159.3	5
Hong Kong	1	1	275.8	8
India	18	11	510.7	15
Mauritius	9	5	143.1	4
Netherlands	15	9	1,891.4	57
Portugal	1	1	16	0
UK	12	7	87.1	3

Source: Authors' computations based on Ghana Investment Promotion Centre (GIPC) report (2018).

Our interviewed UK companies operating in Ghana praised the security situation and very stable political situation in the country. Ghana has an excellent record as a safe place to live and conduct business. Terrorism – which affects many other African countries – is almost non-existent in the country and levels of crime are as low as in the UK. This significantly reduces companies' operating costs and the need to make expensive provisions for foreign staff deployed in Ghana. UK companies in our study also highlighted the country's many years of uninterrupted democratic government and peaceful and ordered transitions between governments of different political signs.

The combination of political and institutional security provides excellent levels of investment safety. Ghana generally provides a simple and straightforward economic and regulatory environment. Although economic policy may change, rule of law guarantees that any acquired rights and benefits will be respected.

UK companies also highlighted familiar business practices. The use of English as a commercial and day-to-day language is widespread. This facilitates not only the operation of businesses but also the relocation of workers and their families to Ghana. Moreover, the country has a familiar and compatible legal system. This means UK companies find it relatively straightforward to address legal issues and are frequently able to use local and/or UK-based legal resources.

Although small informal payments are sometimes necessary to facilitate some aspects of businesses, corruption does not appear to be a major issue for companies interviewed in Ghana. This is particularly positive as it reduces the costs associated with due diligence. Any problems encountered by SMEs when dealing with officials and complying with regulations are minor.

The expanding middle class offers UK firms interesting opportunities in a wide range of goods and services. The expanding consumption and housing needs of Ghana's middle classes require increasing levels of financial and insurance, and Ghanaians are particularly open to using technology in this regard. FMCGs also offer very interesting opportunities, as UK brands are generally highly regarded by consumers.

There are also possibilities for expanding existing business opportunities in agroprocessing. Ghana has been extremely successful in taking advantage of its preferential access to the UK market in fresh fruit and other agricultural products. The existence of a good local healthcare sector provides opportunities for pharmaceutical companies to use Ghana as a base to expand in the region.

Education is another sector where the UK has a decisive comparative advantage, and there is growing demand in Ghana as well as in other English-speaking countries. This will require

partnering with local educational institutions, due to a legal requirement in Ghana, but it will also tailor the education offer to the country.

Although Ghana's market is growing and efforts are being made to use the country as a regional hub for an expanded market, the size of the Ghanaian economy limits the number of investment projects made in the short term. Even though Ghana offers a substantially safer and more stable environment, many UK investors find Nigeria to be a much more appealing market to supply, particularly because of the size of its economy. However, it seems that Ghana is an easier place to use as a base to expand into the rest of West Africa. The infrastructure connections and the security situation greatly facilitate trade and business with Togo, Côte d'Ivoire and Burkina Faso. Together with Ghana, these countries have a population of almost 75 million people.

In this sense, certain areas need to be addressed if Ghana is to become a platform for UK companies to expand in the region. As we will see, some of these areas relate to the business environment across sectors while others are sector-specific. It is also the case that some are exclusively related to the operation of business in Ghana with others are connected to the necessary improvements to facilitate the activities of Ghana-based companies in the rest of the region.

4.2.2 Horizontal issues

Macroeconomic volatility

While Ghana has a good record of stable and strong economic growth, UK companies in our study complained of the volatility observed in the exchange rate. This volatility has direct and indirect effects on the performance of existing businesses as well as reducing new investment opportunities in Ghana.

High volatility in the exchange rate has serious effects on firms that require imported inputs, as it reduces the competitiveness of products in both domestic and foreign markets. Even though a higher exchange rate can boost exports, it makes imported inputs very expensive. Moreover, a high and volatile exchange rate reduces profits sent to headquarters and locally generated investment resources. In the first case, local executives struggle to interest headquarters in expanding investment. In the second, the purchasing power of profit that can be reinvested to expand local business is reduced.

Along with this, the policy response of the Ghanaian government and the Bank of Ghana, supported by the IMF, is associated with increasing interest rates (GhanaWeb, 2019). While these high interest rates may not affect large UK companies as much, they do impact both UK and local SMEs. This limits mobilisation of local resources, which are critical to create a local private sector environment that can support and benefit from FDI. Companies enormously value a healthy local private sector when making their investment decisions.

Taxation and other revenue collection

Representatives for companies operating in Ghana did not complain about the level of corporate taxes in our interviews. In fact such taxes were recently reduced. However, interviewees expressed concerns about the frequent tax audits they were subjected to. Answering requests for information from tax authorities takes up a great deal of companies' times and resources. Interviewed company representatives observed that, rather than using tax intelligence to identify potential fraudsters and conduct the necessary audits, the approach of the Ghana Revenue Authority (GRA) seems to be based on using audits to try to identify non-compliance. Consequently, companies that already spend substantial resources on complying with tax regulations (e.g. on tax support services) need also to spend time and resources answering GRA requests for information, often regarding small technical issues.

Companies also often find tax reform problematic. For example, the implementation of changes is frequently clumsy, with minimum consultation of the affected parties. Even taxes that are not targeted at companies are implemented in an obscure way. One company representative we interviewed said that the GRA had requested that it apply the new rate of excise duty to its customers without informing them about the tax change, instead passing it off as an increase in the price of the service. This way, the

bad publicity would affect the company rather than the government.

Companies also observed that the government used other methods of raising revenue. One company had paid for a 4G spectrum licence more than five times what it had paid in Tanzania, a country with a similar market size. These high prices, which provide the government with resources, are expected to slow down the rollout of 5G technology, as companies need to amortise the investment made in 4G.

Minimum capital and other requirements

The GIPC Act requests that foreign investors make a minimum investment in fully or partially owned companies operating in the country, among other provisions. This requirement can be as high as $1 million for retail services and $200,000 in joint ventures with local partners (GIPC, 2019).

These minimum capital requirements are not an obstruction for large investors but may represent a problem for SMEs wishing to make an initial small investment in the country with the aim of testing the market. For example, a franchise owner might frequently make initial small investments in a country to showcase their product or service with the aim of generating enough interest to expand its presence through franchises. A minimum investment requirement above the necessary threshold will add costs to the project and make it unviable. The same applies to UK investors aiming to team up with local partners; they will have to show that they have contributed the minimum required in order for the investment to be registered at GIPC (a legal requirement).

It is also the case that, as mentioned before, there are not many investment projects in the pipeline, given the current size of the Ghanaian economy. In this context, the minimum capital requirements constitute a very odd and unjustifiable measure.

Many companies we interviewed also complained that it was very challenging to change business status with GIPC. An established business aiming to change its activity has to re-register with GIPC and show compliance again with the minimum capital requirements. In addition to being a nuisance, this may have serious costs implications.

Access to the regional market

UK companies in our study highlighted serious issues when trading from Ghana with other countries in the Economic Community of West African States (ECOWAS). In particular, exporting to the rest of ECOWAS becomes extremely complicated given the presence of non-tariff barriers (NTBs). ECOWAS is, from the perspective of businesses, extremely problematic and disappointing. In keeping with this, UK companies in our study categorically refused to label trade between members of ECOWAS as free.

The companies in question hoped that AfCFTA would eventually address this issue, and at least de facto supersede ECOWAS as an integration mechanism. Whether this will be the case is at this stage still unclear. ECOWAS has been an active negotiator in AfCFTA and it is possible that ECOWAS regulations and practices will continue to apply.

However, a major issue relates not to the regulations and provisions of the ECOWAS agreement but to implementation. It is unclear at this stage whether AfCFTA provisions will also fail to be adequately implemented. This suggests that, to become a serious regional hub, Ghana will have to devote much more attention to ensuring its regional partners adequately implement the current ECOWAS and AfCFTA agreements.

In addition, some companies in or study raised concerns about the ECOWAS Common External Tariff. In particular, they felt that current tariff levels made key inputs unnecessarily expensive. This tariff is raising the price of imported products that have no domestic or even regional substitutes. Meanwhile, it is also reducing competition for domestic products, increasing their price. Although AfCFTA may increase competition from other African countries, there are concerns that this will not be enough to make the Ghanaian economy more competitive.

Clarity in policy-making

An issue that many companies raised to us was lack of clarity in policy-making in Ghana. There

are no policy documents that outline the main general and sectoral objectives and strategies. Instead, public statements aim, without success, to provide some information on the direction the government is taking. This creates a great deal of uncertainty, leading executives to struggle to explain to headquarters the main policy of the government with respect to their sector, when planning investment.

Moreover, as mentioned in the case of taxes, the government does not tend to consult private sector stakeholders on prospective changes in regulation. Policy is frequently designed in quite a secretive way and only communicated once it has been effectively delivered. The private sector not only struggles to follow policy but also cannot provide necessary inputs into the process. In keeping with this, companies in our study suggested that policy interventions were frequently revenue-driven rather than aiming to contribute to the development of the sector.

4.2.3 Sector-specific issues

Limited air transport services

Despite the existence of several flights to key cities in Europe, the US and the Gulf, there is excess demand for air cargo services in Ghana. Companies are struggling to expand operations in the country because of the lack of adequate services. One UK company in our study has decided to expand in Benin rather than Ghana because Benin offered more frequent flights to Paris, a key destination for its exports. The same company is struggling to export to the US because the company that provides the air services does not use aircraft with refrigerated cargo compartments on the route.

These issues are difficult to resolve as they may be outside the scope of the Ghanaian government. Without a Ghanaian carrier, air cargo services depend exclusively on the services provided by foreign companies. Setting up a national carrier is not easy or cheap. However, this is an area that Ghana may need to work on if it aims to become a regional hub.

Certain actions can be considered to address this issue. The first option is to analyse whether there are barriers to services between Ghana and the relevant countries, such as old bilateral air services agreements that limit flight frequencies between signatory countries. An open skies policy may provide an immediate and effective policy response should this be the case in many destinations. Engaging with air cargo providers should also be considered. This should help identify areas where the government can work to facilitate its operations and increase the offer of services.

Regulatory issues in the insurance sector

As mentioned above, the insurance sector appears to have great potential for expansion. Ghana has been quite active and innovative in rolling out insurance services tailored to its population and using mobile technology to deliver them (Tellez, 2012). Despite this, Ghana has very low penetration of insurance services.

Insurance services are characterised by dramatic increasing returns on scale. The larger the number of people insured, the lower the inherent risks associated with the activity. There are significant advantages in having large insurance providers, as these tend to cope better with risks, though they require adequate regulation to maintain competition levels in the market.

Companies in our study highlighted low requirements for the operation of insurance companies in Ghana. There are too many insurance companies, many of them not of the minimum efficient scale to operate. Consequently, in many cases, any risks that materialise are too onerous, meaning companies fail to comply with their obligations. This affects the reputation of the industry and prevents other companies from growing. Also, insurance companies struggle to sell their products, especially in the more traditional segments of the population, given the taboo associated with some of the events to insure (e.g. discussing death). The bad reputation the smaller companies subsequently generate does little to help overcome this issue.

Regulatory issues in telecommunications

In addition to the expensive licences needed to operate in the mobile sector, the current configuration of the market presents problems for some operators, the structure of which is limited to holding investment, as one company

controls more than 70% of the market. Companies in our study pointed to little action from the government to facilitate competition in the sector.

These competition issues are not limited to the provision of traditional telecommunications and data services. They also apply in key related areas such as mobile money. The largest operator (MTN) holds 96% of the mobile market, leaving little space for competitors to create a base for operations.

Limited size of the capital market
The capital market in Ghana is very limited. Beyond government instruments (which are very safe), there are few opportunities to invest in private equity and debt. This presents an operational problem for some UK companies that need to move income and expenditures over time. Insurance companies, for example, would like more safe instruments to be available for use both to hedge against risks and to gradually allocate payments.

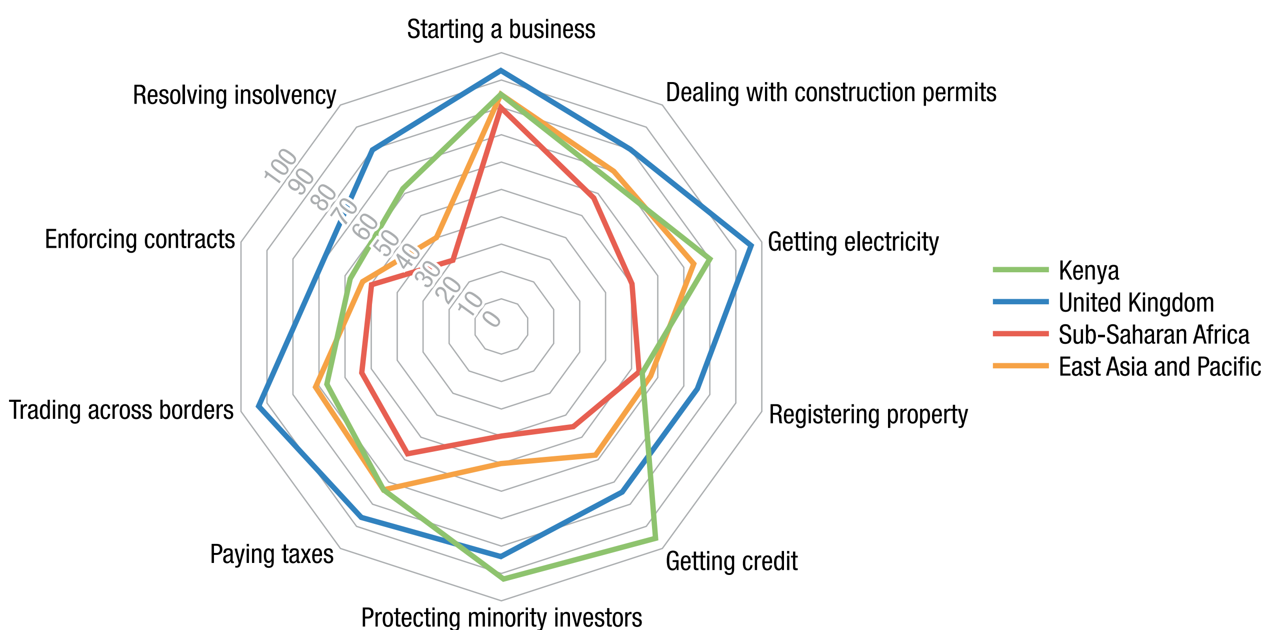
4.3 Kenya

4.3.1 Background

Kenya is the economic hub of East Africa, a region with almost 300 million people and $300 billion in GDP. The country represents 33% of the East African market. Mombasa port has historically been the main gateway between the Indian Ocean and Uganda, Rwanda, South Sudan and the western part of Democratic Republic of Congo. Many international firms have made Kenya the beachhead for their penetration in East and Central Africa. This strength is manifested in the 2020 EDB scores, where the country performs ahead of SSA countries and on a par with an average East Asia-Pacific country (Figure 14). Kenya performs strongly on ease of obtaining credit and protecting minority investors, higher than high-income OECD countries by more than 30 and 24 points, respectively.

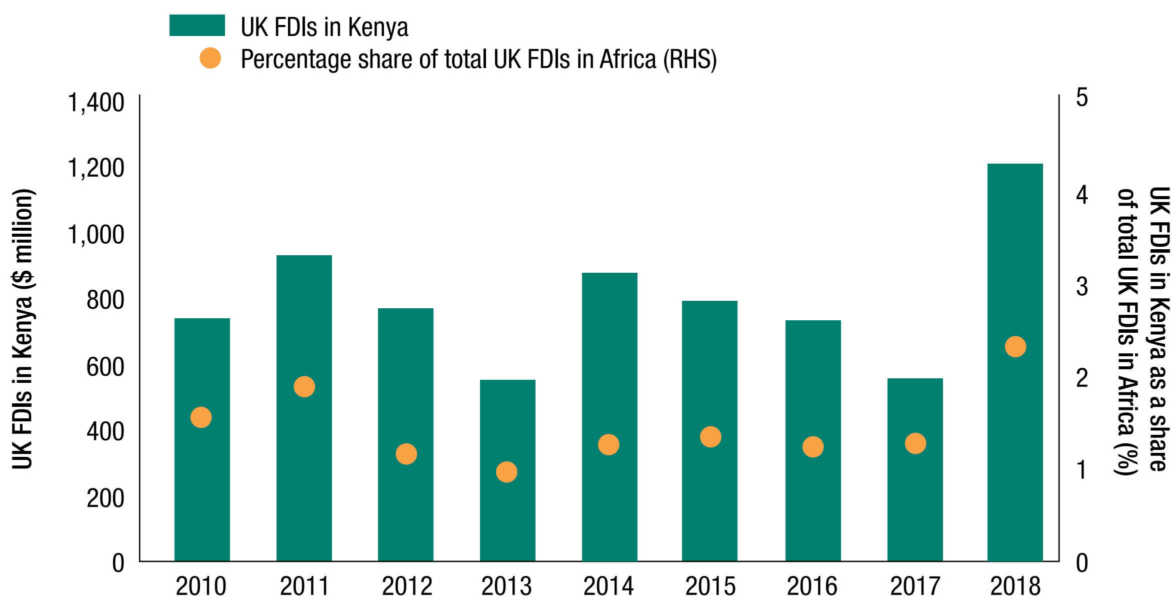
Many UK companies have located their regional headquarters in Nairobi to take advantage of its good transport connections to the region. Nevertheless, the benefits of working in Kenya – particularly Nairobi – go further than its beneficial location. First, the country offers other logistical and agglomeration advantages. Second, Kenya has traditionally been an attractive market for UK companies. In contrast with what is observed in other African countries, where mining and oil companies tend to dominate UK investments, there is higher

Figure 14 Kenya's Ease of Doing Business



Note: Outer circle means higher score or more EDB.
Source: World Bank's Doing Business database (2020).

Figure 15 UK outward foreign direct investment in Kenya



Source: ONS (2015a; 2015b; 2016; 2018; 2019a).

incidence of services and consumer-oriented firms in the stock of UK investment in Kenya.

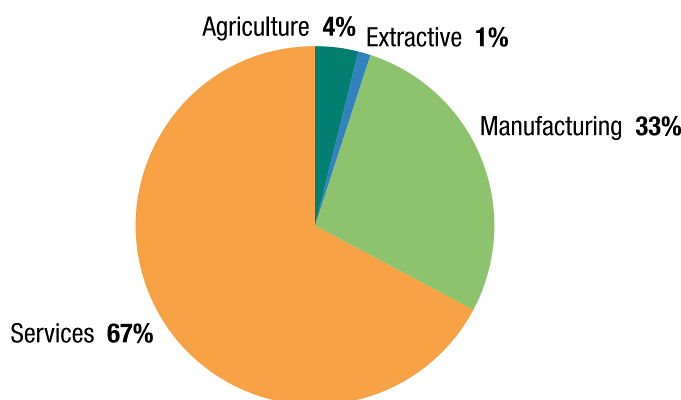
In 2018, the UK FDI (stock) in Kenya grew by 109% to $1.2 billion (£897 million), driven by the 175% growth in financial services (Figure 15). On average, annual UK FDI in Kenya amounts to about $790 million (£532 million), with Kenya's share in total UK FDI in Africa hovering around 1.4% in the past nine years (Figure 15). Between 1989 and 2016, UK investments were predominantly in services (67%) and manufacturing (28%) (Figure 16). In 2018, more than half (52%) of UK FDI in Kenya went to financial services (ONS, 2019a).

For UK companies, Kenya offers a very familiar environment. The use of English as a commercial and day-to-day language is widespread, facilitating both business operation and the relocation of workers with their families to the country. Moreover, as in Ghana, Kenya offers a familiar and compatible legal system.

UK companies in our study also highlighted the availability of a large pool of local skilled human resources. Although UK companies frequently bring key staff from their headquarters, many local staff occupy top-level positions in many of these companies. Two factors explain this:

1. The large number of international companies operating in Kenya has generated many staff with expertise and experience working in large corporations that demand high standards in terms of accounting, auditing

Figure 16 UK investments in Kenyan firms 1989–2016



Source: Krishnan et al. (2018).

and administrative procedures, as well as compliance with corporate governance and a commitment to environmentally friendly and anti-corruption principles. Such staff have worked with the latest communications, production and management technologies.
2. The Kenyan education system is among the best in Africa. Graduates of the many Kenyan universities have acquired critical basic professional skills that can be supplemented by the corporate experience. Indeed, the quality of Kenyan universities is good enough that companies can establish partnerships with them for R&D. Some UK universities have partnered with local institutions to provide degrees of a high standard.

There is also critical business support in Kenya. UK companies can access a wide range of critical modern business services necessary to sustain their operations. There is also a large and competitive financial, insurance, business and professional services sector. UK companies such as Standard Chartered and Barclays operate wholesale and retail financial services. Large auditing and management support companies such as PwC and KPMG assist companies with accounting, auditing and taxation. These companies have their regional headquarters in Kenya, meaning they can also provide support to companies operating in the rest of East Africa. Other key sector- and activity-specific consulting services exist in areas such as engineering and information technology.

Macro-economic management in Kenya has been very good and the country has seen healthy, sustainable economic growth in GDP growth in Kenya has averaged 5% in the past six years and it is forecast that the economy will expand by 6% in 2019 and 2020 (AfDB, 2019b). This positive performance has been the result of policies stimulating growth, trade and investment. The Kenyan government has welcomed FDI, and generally followed good intentions with adequate actions. In most sectors of the economy, there are no major regulatory and institutional barriers blocking or complicating investment. There are also no restrictions on operating in the foreign exchange market or repatriating profits.

UK companies in our study also praised the local technological talent. Kenyans have high-level skills in using and adapting technologies to provide simple but extremely effective solutions. More generally, and regarding innovation, Kenyan consumers and workers are particularly receptive and keen. M-Pesa is a simple payment instrument used by consumers and companies that has been exported beyond East Africa; other innovations are finding that Kenya is a suitable place to mature before accessing other countries, including in Africa, but also other areas. These include innovations in the area of insurance (e.g. micro-insurance through mobile phones) and the use of technology in the production and commercialisation of food products.

The UK companies we interviewed also recognised improvements in infrastructure. Despite some serious bottlenecks in many areas, infrastructure in Kenya is better than that in many other African countries. There have been important improvements in terms of hard and soft infrastructure. In the case of hard infrastructure, investments in energy production mean Kenya currently is able to produce more energy than it consumes. Moreover, the government is taking decisive steps to improve transport infrastructure: the SGR, operating since 2017, is reducing transport times between Mombasa port, Nairobi and beyond.

Meanwhile, with the support of international donors, including the UK, there have been substantial improvements in the administration of infrastructure and in the facilitation of trade. TradeMark East Africa has worked with the government of Kenya and other East African countries to reduce transport times and costs in the region. Thanks to interventions such as the Busia One-Stop Border Post, a container arriving in Mombasa can reach Kampala in two days, benefiting trade both within the region and with the rest of the world, as well as contributing to increased incomes and reduced poverty in the region (Eberhard-Ruiz and Calabrese, 2017; Gasiorek et al., 2017).

In keeping with this, many UK companies in our study highlighted the availability of good flight connections within the region, continent and the rest of the world. The availability of non-stop flights (currently two daily) between

London and Nairobi facilitates the transport of executives and professionals. Many companies, especially those trading fresh products, make use of the good cargo connections between Nairobi and many cities in Europe to export products such as flowers and fresh fruits.

The aforementioned growing middle class in Kenya (and the region) combines with the growth of GDP per capita in Kenya at a 3% annual rate, expanding by 63% between 2009 and 2015 (Institute of Economic Affairs, 2016). This provides vast opportunities for companies aiming to supply Kenyan consumers with a wide range of products and services. Kenyans are expected to demand more financial solutions to support their housing and consumption expenditure, where – based on their willingness to use technology – 'fintech' (financial technology) is expected to be particularly important. Kenyans are also expected to demand more insurance services to smooth their higher and more complex consumption. In particular, car, house and income insurance are each expected to grow.

FMCGs such as branded goods and services have an increasing share in the Kenyan consumption structure. There is a growing appetite for packed and processed food products such as biscuits, crisps, dairy and beverages. Many local franchises (e.g. Java World) and foreign ones (e.g. Debonairs Pizza from South Africa) have already had remarkable success, taking advantage of the growing population and higher incomes. As UK brands are highly regarded and considered synonymous with quality and aspiration, there is a growing opportunity to take advantage of this new high-end consumer base.

Additionally, the general good standard of personal services in Kenya provides opportunities in sectors such as pharmaceuticals. The quality of private and publicly funded healthcare in Kenya, making using of the latest and most complex diagnostics and treatments, represents a major opportunity for UK companies to provide medical services and supply pharmaceutical products. Existing UK pharmaceutical companies are utilising the good education and research institutions in the country to support the development and clinical trials of their products.

A growing middle class also creates higher demand for post-graduate education of international prestige. Some UK universities have partnered with local teaching centres to provide degrees in Kenya. There are also opportunities in non-university education and in the use of technology to deliver education.

These critical advantages have made UK companies a key component of the Kenyan economy. It is estimated that 10% of the revenue collected by the Kenyan Revenue Authority (KRA) is generated by corporate taxes. One in ten of the companies in the formal sector operating in Kenya have some degree of UK ownership. Moreover, almost 40% of total FDI flows in Kenya originate in the UK (Krishnan et al., 2018).

Despite the potential of the Kenyan (and East African) economy, Kenya has 'punched under its weight' in relation to attracting UK investment. Not only can Kenya benefit from the expertise and capabilities that UK companies can bring to further develop its economy but also there are important opportunities for UK companies to explore. However, there are some barriers and issues that affect the operation of businesses and reduce the capability of some UK companies to invest in Kenya.

For example, operating in Kenya in many cases involves making provisions, including paying higher costs and using more time and effort, to deal with the issues in the country that are detailed below. Clearly, UK businesses and investments in Kenya would be much higher if these constraints were addressed. Meanwhile, for some companies, the costs are high enough to make them pull out or not attempt to invest in the first place.

Some of these issues are horizontal in nature or affect all businesses independently of the sector. However, their impact on investment performance may differ depending on the characteristics and technologies of the sector. Other issues are quite specific to certain sectors or products. The combination of horizontal and sector-specific issues may have a strong deterrent effect on companies' decisions to invest.

4.3.2 Horizontal issues that affect investment in Kenya

Taxation and observance of regulations

Based on the number of interviewed companies that highlighted, frequently spontaneously, taxation and regulations in our discussion, it could be said that these are the most challenging issues that UK companies face in Kenya. However, rather than complain about the level of corporate and other taxes in Kenya, the UK companies we consulted highlighted the excessive compliance cost involving following the complicated and frequently obscure tax regulations in Kenya. Overall, UK companies dedicate significant money and time to answering the requirements of the KRA. One company mentioned receiving three different tax inspections from KRA officials during 2019.

Interviewed companies considered that the fact of being foreign and, in many cases, large corporations put them in the spotlight at the time of verifying tax compliance. They felt they were the primary source of tax revenue, which is typically limited by the large informal sector in the country. They also felt that, within the formal sector, foreign and large companies are particularly targeted. According to them, tax collection efforts are excessively oriented towards verifying their compliance while local companies, in some cases competitors, are not subject to such pressure.

It is unclear how founded in reality these claims were, being anecdotal rather than based on rigorous data and analysis. However, such perceptions are widely shared among the UK business community. One medium-sized UK company discussed being in the process of recruiting staff to deal exclusively with the requirement to comply with 'excessive' KRA data requirements to list all inputs with quantities used in production to tally with outputs. This suggests that, even though it is not clear whether or not the KRA targets foreign companies, compliance has high time and cost implications.

Some companies, especially those dealing in goods affected by excise duties, observed that the increase in rates was affecting their activities. Excise duties have gone up by 50% in recent years, increasing the prices of those companies' products. Consequently, illicit trade in taxed products has gone up, and this affects competitiveness. Moreover, our interviewees reported that the KRA expects revenue based on sales estimations without considering the effect that the increase of the rate has on these.

The perception that the authorities target large and foreign companies in securing compliance with the law goes beyond taxation. Some companies complained that, while they respected minimum wage regulations and were heavily controlled on their compliance with them, local competitors were paying staff less than the minimum wage and were not adequately controlled by the relevant authorities.

Thus, companies did not complain about the tax rate but rather about perceived uneven insistence on compliance with laws and regulations. Consequently, increasing tax collection efforts with regard to local companies may not only increase revenue but also contribute to changing perceptions of the business environment among UK companies.

Government procurement and engagement with authorities

Many UK companies in our study highlighted that working for or supplying goods or services to the government was particularly challenging. The complicated nature of bidding and working with the government in Kenya has been reducing UK investments and business in the country. Some of the interviewed companies outright refuse to work with the Kenyan government as a partner.

The first problem many companies face is in the procurement process. Regulations and the procurement process directly benefit Kenyan-owned suppliers by granting them a cost advantage or preference over their competitors (the so-called 'citizen contractor'). under the Public Procurement and Asset Disposal Act of 2015. UK or other foreign companies with a long-time production presence in Kenya that employ Kenyan staff find it difficult to win contracts under this Act. Pharmaceutical companies with production facilities in Kenya find that they lose contracts to supply the Kenyan

Health Service to small Kenyan importers without local support or structure.

A second issue companies face when working with the government relates to bureaucracy as well as interference that occurs when signing a contract once the tendering process has been won. One UK company in our study highlighted that it had taken seven years to sign a contract to supply the government. Agencies of a different nature had intervened to express their views and make their requests before the contract could proceed. Some companies complained about instances of quasi-corruption during this stage of the contracting process. Local executives find it difficult to justify these delays to UK headquarters, which can lead companies to pull out completely from Kenya.

Our interviewed companies also mentioned the tardiness of the Kenyan government in paying its bills. Companies had experienced delays of up to a year in receiving payment for services and goods provided to the government. Such delays jeopardise the current and future activities of these companies. Many local executives fund investments in Kenya with the proceeds generated by activities in the country. Consequently, if they are not paid, they cannot make use of these funds to support the expansion of activities. Therefore, this delay in payment has had the double effect of discouraging future investment and damaging investment projects already in the pipeline.

Companies also told us that they find it extremely difficult to engage with the government in many instances. Dialogue between companies and the government is far from fluid. Very large companies, for example, meet challenges by discussing operations and investment issues with relevant top senior officials. However, problems and issues need to be channelled through lower-ranking officials, who, in many cases, do not find it convenient to raise the corresponding problem to superior authorities.

Infrastructure issues

Most companies in our study highlighted that transport and energy infrastructure had improved notably in recent decades. The government of Kenya is also doing very good work to improve and expand transport infrastructure. The SGR, which has recently been extended beyond Nairobi, is the most important public investment in the country.

However, many companies complained about the soft infrastructure aspects of the SGR. There is a directive from the KRA and the Kenyan Ports Authority that all imported cargo for delivery to Nairobi must be transported by means of the SGR and cleared at the inland dry port. This stipulation has generated a series of logistical issues (WorldCargo News, 2019). While the SGR provides fast transport, a large volume of containers accumulates at either end of the line, increasing clearing times and generating bottlenecks. The measure has also reduced the competitiveness of transport between Mombasa and Nairobi.

For some of those companies that need transport for relatively low quantities of heterogeneous inputs and outputs, rail is an inadequate solution. One company in our study commented that it had to work with SGR timetables, which were inadequate to its needs. To arrive on time to be loaded on a particular ship, the product had to be dispatched days in advance, and additional storage in Mombasa needed to be paid for.

Moreover, companies highlighted that the SGR provided only an intermediate solution: they needed road transport to reach the train station in Nairobi and to go from Mombasa station to the ship where the container would be loaded. Before this regulation, a single lorry would take a container from the factory to the ship, using a much simpler and cheaper procedure. This provides an example of how, for many companies, the SGR seems to provide an expensive and inconvenient solution to the transportation of products, increasing the price of inputs and reducing the profitability of exports.

Companies in our study recognised improvements in the availability of electricity in Kenya. The government has implemented decisive policies to improve electricity production. However, many of our interviewed companies found electricity prices extremely high, which is puzzling in a context of increased production. Some attributed this to rigid contracts signed between the government and the energy provider.

This state of affairs requires attention from the Kenyan government as it is significantly affecting the production costs of companies. This is particularly acute in the case of manufacturing companies.

Bureaucracy and corruption

Excessive bureaucracy presents a heavy burden for many UK companies, particularly for SMEs. Regulations in multiple areas are complicated, cumbersome and obscure. Consequently, it is very easy for a company to fail to comply with a regulation just for overlooking a minor requirement. Companies in our study complained that they complied with regulations but frequently met problems associated with minor details such as lack of stamps or signatures.

A lack of clarity and changing requirements make it difficult for companies to determine what the right procedure is. In turn, this leads officials to apply their own criteria rather than official rules. Also, some officials understand bureaucracy's impact on businesses and take advantage of this situation. Many companies in our study suggested that, in numerous cases, it was necessary to 'facilitate' the work of officials and avoid the unexpected barriers.

Many companies recognised that the government had taken decisive action to tackle corruption and that there was political commitment to deal with the issue. However, they also said corruption occurred at all levels. This included large cases of bribes, also involving UK companies (e.g. the Chickengate scandal), but they also described an underlying and permanent state where virtually any procedure required some sort of informal payment to avoid delays and unexpected problems. Many companies said the same thing in reference to the situation: 'Everyone wants their share of the pie.'

This situation affects companies of all sizes. SMEs see their operating costs directly affected, whereas large companies spend large amounts ensuring compliance with corporate anticorruption policies. In fact, many companies in our study mentioned that it was necessary to spend a substantial amount on due diligence assessments to ensure local partners complied with minimum governance and corruption standards.

4.3.3 Sector-specific issues

Interest rate caps

Current regulations in Kenya limit the active interest rates that banks can charge for loans. Banks cannot ask for more than four percentage points above the Kenyan Central Bank benchmark lending rate (Reuters, 2019). The measure only marginally affects the Kenyan government and large corporations, as they frequently benefit from lower interest rates. However, this is particularly problematic for SMEs that are credit-rationed (Alper et al., 2019). Banks find it too risky to lend to SMEs; with this risk not properly remunerated, they do not lend directly to these companies.

This measure affects a large range of sectors and, of course, directly impacts on the performance and profitability of the banking sector, as well as savers. In such a context, it is unlikely that further investment in an otherwise sound and adequately regulated banking sector will materialise.

It is important to highlight that the government of Kenya understands the complexity of the problem and has made attempts to revert to the interest rate caps introduced by Parliament. This has led UK banks to be more sympathetic and patient with the situation. However, they are unlikely to move further in terms of the expansion of their current business if the caps remain in place.

Interpretation of the length of leaseholds

A difference in interpretation of the length of existing land leaseholds for non-citizens in Kenya is affecting some current investments in the agriculture sector by UK companies. According to the 2010 Constitution, 999-year leaseholds granted before Independence must be transformed to 99-year leaseholds. Many counties understand the 99-year period to have commenced when the original lease was granted. The central government interprets the situation as the clock being reset to zero when the new Constitution was enacted.

A number of tea, sisal, coffee and dairy farms are concerned about this different interpretation. A short remaining lease period affects operations immediately as it reduces the possibilities of

using land as collateral to request loans, thereby affecting funding of investment projects.

Paralleling imports of drugs
Parallel imports are products made legally (i.e. not pirated) abroad that are imported without the permission of the intellectual property right holder (e.g. the patent owner). This practice is allowed in Kenya under the Trade-Related Aspects of the International Property Rights Agreement. There is a major discussion about the merits of this practice and the effect it has on global R&D in, for example, pharmaceutical products. The main concern expressed by some companies in our study was associated with the treatment that existed for companies with facilities in Kenya and those that had basic import operations, and how these differed.

4.4 South Africa

4.4.1 Background

The UK is the largest foreign investor in South Africa. According to Reserve Bank data, South Africa attracted a total of R519.4 billion in FDI from the UK by the end of 2017. This was followed by FDI from the Netherlands and Belgium, which recorded R346.3 billion and R285.7 billion, respectively, for the same period. Globally, South Africa attracted a total of $5 billion in 2018, which covered 110 projects and created 12,000 jobs. The only African country to have surpassed South Africa's FDI inflows is Egypt.

During the past decade, a third of UK's total investments in Africa, equivalent to an average of $17 billion (£11 billion) per year, has been invested in South Africa (Figure 17). Historically, investments in financial services take most of the total UK investments in the country. In 2018, financial services captured a 68% share in total UK investments in Africa, followed by information and communication (6%) (Figure 18). This reflects the country's sophisticated financial market, strong banking frameworks and comparatively high skills base compared with other African countries.

South Africa's financial sophistication has also supported its export of financial services, including to the UK. For example, Investec Bank Ltd was founded as a small leasing and financing company in 1974 in Johannesburg and is now an international specialist banking and asset management group offering a range of financial products and services in the UK, Europe, Southern Africa and Asia Pacific. Investec is dual-listed on the London and Johannesburg Stock Exchanges, and is a constituent of the FTSE 250 index.

The UK's significant investment in South Africa reflects robust and well-established trade and investment linkages between the two countries, at the levels of both government and the private sector. These linkages are underpinned by the following parallels:

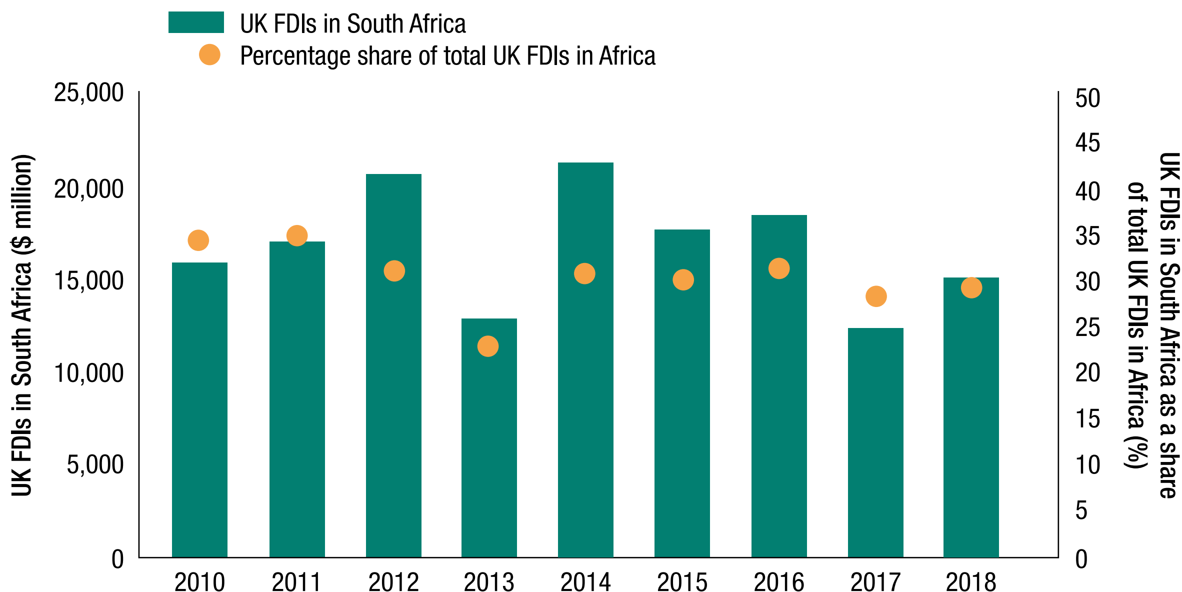
- deep historical ties, cultural affiliations and similarities in legal frameworks
- sharing English as a common language for business
- a two-hour time difference.

To some extent, the relative strength of the South African economy also reflects strong British investment in the country, particularly in the financial services sector. The South African economy is home to a large number of British nationals, and there is also a large South African diaspora in the UK. These communities have served as important agents for investment promotion and facilitation. Many UK companies have chosen to headquarter their African operations in South Africa. At the same time, many South African companies, such as Old Mutual and Anglo American, have now moved their headquarters to the UK or set up large operations there (e.g. FirstRand, Investec Bank and the Bidvest group).

The UK's interest in South Africa also reflects its dynamic, diverse and comparatively large economy, which offers a range of investment opportunities, at the same time as a relatively high quality of life underpinned by decent public services such as road infrastructure, education and healthcare. The country is sometimes referred to as a 'developed economy' in a less affluent continent.

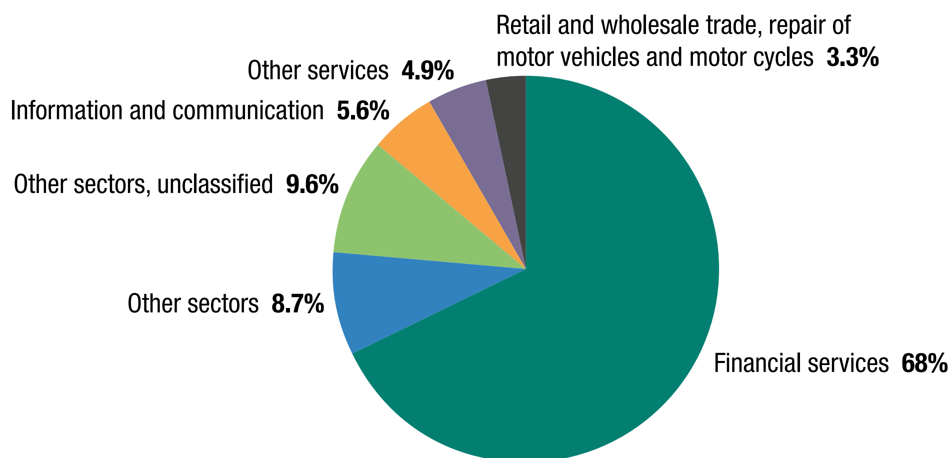
South Africa also offers a springboard to the rest of Africa, given its relative sophistication and

Figure 17 UK outward foreign direct investment in South Africa



Source: ONS (2015a; 2015b; 2016; 2018; 2019a).

Figure 18 UK investments in South Africa by sector, 2018



Source: ONS (2019a).

strategic positioning. The country is party to a large pool of trade agreements that give investors access to a broader market, such as the Southern African Development Community (SADC), the Southern African Customs Union, economic partnership agreements and the Africa Growth and Opportunity Act. The country's port facilities offer a conduit to many smaller and landlocked countries in SADC. South Africa is also by far the most extensive investor into the rest of the continent. In 2018, South African investors placed a record 10 projects in Nigeria, totalling $375 million.

The country's growing black middle class and AfCFTA offer new markets for UK investors to serve. The country is positioning itself to take advantage of AfCFTA, by offering a gateway to the continent and an attractive destination for investors to establish regional headquarters, given its comparatively strong infrastructure, linkages and networks. The economies of scale that AfCFTA offers are expected to support both the attainment of South Africa's manufacturing aspirations and the development of African regional value chains. Some UK companies cite South Africa as the African version of investment

hubs like Singapore or Dubai, for both manufacturing and services.

The UK–South Africa investment relationship is governed by a DTA that entered into force on 17 December 2002. The South Africa–UK 1994 BIT was terminated on 31 August 2014. This reflects a broader trend in the South African government's investment policy that concludes that BITs 'extend far into developing countries' policy space' (DTI, 2009). From 2010, South Africa started terminating some BITs or allowing them to lapse, and instead focused efforts on rebalancing the investment regime on domestic legislation (Schlemmer, 2016).

In July 2018, a new Protection of Investment Act came into effect despite concerns from the investor community over reduced protection (Sicetsha, 2018). Fair and equitable treatment has been replaced with 'fair and administrative treatment' providing protection against arbitrary administrative, legislative and judicial processes and denial of administrative and judicial justice. National and MFN treatments are tempered by exception. The new law also establishes the right to regulate, such as in relation to:

- the redress of socioeconomic inequalities and injustices
- constitutional rights
- economic development
- and environmental protection.

The Act does not offer recourse to investor–state dispute settlement. It merely provides mediation and domestic litigation, along with state–state dispute settlement conditioned on the government's consent. The complementary draft bill to govern expropriation was presented in December 2018. This laid out conditions under which expropriation, including uncompensated expropriation, may take place, However, some authors have raised concerns over a lack of clarity over the bill's interaction with international law, to which the Act refers (Schlemmer, 2018). Efforts are currently under way on a new nation model BIT that can be aligned with the investment Act.

UK investors praise the role the government of South Africa has played to promote investment. IPAs have been particularly important in positioning the country as an attractive investment destination for both local and foreign investors, by lowering the cost of doing business as well as making the process easier. Earlier this year, President Cyril Ramaphosa pledged to further cut red tape to promote investment and commerce, and is aiming for a top-50 position in the World Bank's EDB rankings within three years (from the current ranking of 86).

Eight IPAs exist in South Africa. These provide:

- assistance regarding company registrations, visas or work permits and tax
- market intelligence on sectoral and regional economic data, to identify priority sectors for investment (also disseminating this)
- access to national and local government incentives (also offering facilitation of this).

The Official Tourism, Trade & Investment Promotion Agency for Cape Town and the Western Cape (Wesgro) is often cited as the best-organised IPA in South Africa. It has a strong existing relationship with the UK Department for International Trade. The UK is currently supporting IPAs to carry out an institutional assessment of their services and ensure a coordinated approach to national and sub-national investment promotion.

The South African Government is currently targeting $100 billion of new investment over a five-year period, which offers opportunities for UK investors. In 2018, the country held its first ever South Africa Investment Conference to build awareness on South Africa's investment opportunities and share information on the best way to go about tapping into these. Over $20 billion in investment commitments was made at the event. The second South African Investment Conference will take place on 5–7 November 2019. The South African government is also hosting outward attraction events outside the country; in October 2019, it organised a targeted investment promotion mission to the UK.

InvestSA has been established as a division of the South African Department of Trade and Industry (DTI) to support investors exploring opportunities in South Africa with information,

facilitation and aftercare. A flagship programme of InvestSA has been to establish one-stop shops that provide practical assistance to streamline the process of setting up a business. One-stop shops house the following government entities under one roof:

- the South African Revenue Service (to help with customs and tax)
- Home Affairs
- Environmental Affairs
- Eskom
- Companies and Intellectual Properties Commission.

Here, an investor can make an appointment, meet a government representative and be guided through the process of setting up a business. The one stop shops simplify administrative procedures for issuing business approvals, permits and licences and thereby remove the bottlenecks that investors may face in establishing and running businesses. One-stop shops have been rolled out in Tshwane in Gauteng (national office), Cape Town in the Western Cape and eThekwini in KwaZulu-Natal. Other provinces will open their one-stop shops over the next three years. To support UK investment, the British government could consider assisting the South African government to take the one-stop investment shop online and digitalise it, since investors cannot always travel to big hubs.

UK investors' perceptions of South Africa as an investment destination has somewhat reduced over the past decade. This is largely because of a number of corruption scandals, a weakening economy and the Eskom energy crisis. Many South African and foreign companies are increasingly looking to invest in the wider African space in order to diversify risk and seek higher returns. Countries in East Africa, which has recorded stronger economic and political performance, have been the biggest attraction, particularly Ethiopia, Kenya and Rwanda.

South Africa has slipped again on the World Bank's EDB rankings. The country dropped to 84th out of 190 economies in the 2020 report, slipping two places to its lowest ranking to date. South Africa held its rank in 2018 from the previous year, but has plunged over the past decade. In 2008, the country stood at 32nd on the list. According to the associated report, South Africa implemented just one single reform in 2019 and only four in the past five years.

Nevertheless, South Africa arguably still remains the most attractive investment destination in Africa owing to the sheer size and sophistication of its economy. Business confidence in South Africa rose between 2017 and 2018. Investment in the country declined between 2014 and 2017, but this trend was reversed in 2018, with a substantial increase in FDI to 2.25% of GDP, with significant parts of this investment being in capital-intensive and manufacturing sectors.

The South African economy offers a range of investment opportunities for UK investors in the post-Brexit era, particularly across the manufacturing, energy, water, tourism and financial services sectors. This includes both new investment opportunities and expanding and regenerating existing British assets in a new direction. However, to support a more investor-friendly environment to facilitate UK firms to tap into these options, efforts will be required to overcome some of the challenges identified in the subsequent sections of this report. Investment barriers are a significant impediment to UK investment in South Africa and investment, and unlocking them has the potential to add value worth billions of pounds to the UK economy.

Once the UK has left the EU, it will be more difficult for it to tackle investment challenges in South Africa. This highlights the need to scope interlocutors. The UK government and the country's companies can increase ties and cooperation with the South African government and private sector to overcome some of the challenges. At the same time, the UK is increasingly partnering with China to organise joint events focused on the African market. This triangular approach benefits from the UK's comparative advantage in quality control. It also profits from sovereign relations from the Anglophone perspective and China's comparative advantage in performing cost benefit analysis more cheaply. This tripartite model can be particularly successful for manufacturing

investments. For example, leading UK firms are unlikely to want to set up factories in South Africa. However, UK companies can encourage their suppliers (often emerging economies in Asia) to locate production in South Africa. This coordinating role could help provide cheaper supplies but, more importantly, it would help facilitate new transactions and knowledge transfer.

UK investors recognise the significant potential for investment in South Africa's financial services industry. Although some argue that investment opportunities in traditional finance are drying up in South Africa, the finance sector offers many new opportunities, particularly in the provision of digital banking and fintech services for lower-income groups.

Franchise-driven investment in professional services is strong and can be expanded. UK names such as Deloitte, PWC and KPMG have a strong presence in South Africa. Although these investments adopt a franchise model, meaning the ownership is South African, they offer significant potential for UK investment and expansion in knowledge transfer, which differs from traditional financial transactions.

Tourism is another services industry where there are investment opportunities. South Africa offers a cheap destination, competitive currency, diversity of activities and cultural similarities with the UK. Medical tourism is a particular opportunity, given the lower costs compared with the UK.

The government of South Africa recently reinvigorated efforts to widen the manufacturing base by providing appropriate incentives. The SEZ programme is one of the critical tools prioritised by government to accelerate South Africa's industrialisation. This is specifically designed to attract FDI, improve existing infrastructure, develop new industrial hubs and create significant numbers of new, decent jobs. At the sectoral level, South Africa's Industrial Policy Action Plan 2018/19–2020/21 identifies seven priority sectoral focus areas – mainly manufacturing-related. Given the current fiscal issues facing South Africa, these sectoral goals create demand for UK inward investment.

The automotive industry offers particular potential. The South African government recently collaborated with the automotive industry to develop a 2020 Automotive Masterplan to drive development and competitiveness. The South African automotive industry is also already well linked to regional value chains and markets across the continent. Reportedly, 80–90% of Ford and BMW exports from South Africa are destined to the rest of Africa. The UK now has very few assembly firms, but British companies are very strong in the supply of components. There are opportunities for UK investors to supply components to other assembly plants (e.g. those that are Japanese or German) operating in South Africa.

The UK has often contributed to South Africa's manufacturing capabilities in the past. Potential for UK investors to support South African manufacturing still exist, particularly in the areas of mechanical, machinery and civil engineering.

British firms have previously played an important role in contributing to the development of South Africa's mining. There is an opportunity to diversify investments in the sector beyond traditional extractives investments. For example, the UK has significant experience and skills in mining engineering and civil engineering related to mining, which can be used to provide services to mining firms, encourage skills transfer and support greater value addition and processing. With the help of the UK, South Africa has also established strong expertise in mining services over the years. The UK could assist in providing a coordinating role for sharing this expertise with other countries in Africa, by possibly establishing a network with a hub based in Johannesburg.

South Africa's energy challenge perhaps offers the most lucrative and timely opportunity for UK investment. There is an increasing shift towards more independent power producers in South Africa, largely driven by the private sector. For example, Volkswagen Group South Africa recently announced that it will move its manufacturing plant in Uitenhage, with some of its component suppliers in an adjacent supplier park, off the national electricity grid. The company plans to achieve this by investing in a biogas facility that uses organic waste to produce electricity. This is set to cost about R3.5 billion, and is expected to break even after

28 months. Most private sector alternatives that are emerging as a response to the disappointment about Eskom services focus on renewable energy solutions. This partially reflects the significant reduction in renewable technologies cost in recent years, particularly for solar power. This shift offers opportunities for UK private investors with experience in renewables. Investment in smart energy technologies would also allow for greater grid efficiency and security through load management. Further, investments in improved storage facilities, including for renewable energies, will be important for complementing recent reductions in generation costs. Similarly, South Africa's water security challenges offer investment opportunities in dam rehabilitation projects and desalinisation.

4.4.2 Horizontal issues that affect investment in South Africa

Uncertainty: political risk, corruption and weak growth

UK investors in our study reported the investment environment in South Africa to be uncertain, with high risk related to unpredictability around government legislation, political stability (including recent xenophobic attacks and high unemployment), corruption, growth performance and the exchange rate. Meanwhile, policy uncertainty regarding legislation was highlighted as particularly challenging. More widely, regulatory reforms are often not communicated well by government, taking place more frequently than desirable. This makes it difficult to plan ahead with a view to maximising profits. Some of our interviewees also complained that the government made it difficult to invest since it operates largely under an anti-capitalistic Soviet model, which reduces returns and increases inefficiencies.

The uncertain investment environment has resulted in many UK investors backing up their assets in the UK and heavily diversifying their investment portfolio. S&P, Fitch and Moody's all recently downgraded South Africa's sovereign credit rating. In response, the government has announced a rescue plan for Eskom, a wide-ranging economic strategy document and a revised 2019 Integrated Resource Plan. If followed through, it is hoped that these steps will support a more conducive investment environment and improved economic indicators. Currently, GDP in South Africa hovers at only around 0.8%.

Many of South Africa's political and economic woes represent an overhang from the Jacob Zuma Administration 2009 to 2018. This period was characterised by weak governance, state capture and poor economic management, resulting in South Africa developing an infamous reputation and entering a technical recession. President Zuma was charged on a range of issues including fraud, racketeering and money laundering. His successor Cyril Ramaphosa has repeatedly pledged to crack down on corruption in South Africa. However, it takes time to regenerate and change deep-rooted political systems, ties and values, and also for investor perceptions to adjust. At the same time, the strong control of the Africa National Congress complicates efforts to completely overhaul the governance system.

Although uncertainty and corruption has reduced to some extent, the Zuma Administration has resulted in a significant overhand on UK investor perceptions. This has affected direct investments far more than portfolio investments, as it is much more difficult for direct investors to exit. Equally, the Zuma scandals have a close connection with the UK; some British firms have been accused of enabling corruption under the Zuma administration, including HSBC, Standard Chartered, KPMG and Bell Pottinger. This has also tarnished the reputation of those firms and – to some degree – UK investment more generally. It has also created sensitivities in the UK's engagement with South Africa.

It is important to note, however, that although uncertainty and political risk are high in South Africa, the country still offers a relatively predictable and safe investment environment in comparison with some other countries on the continent.

Energy and water supply

Securing a reliable energy supply is arguably the most significant cross-sectoral challenge for investors in South Africa. The state-owned utility,

Eskom, supplies 95% of South Africa's electricity. It is reported that at least a third of its power stations are broken or shut for maintenance. Eskom's woes are rooted in significant cost overruns on two large coal power stations, years of low tariff awards and steep rises in coal and salary costs. This company made a loss of more than R20 billion in the last year.

These difficulties mean the country has been carrying out a system of 'load-shedding', where blackouts are a result of Eskom not being able to meet demand. March 2019 was the worst month on record for load-shedding, when Eskom regularly took 4,000 MW off the grid, about 1/11 of its total capacity (45,561 MW), or enough to power three million homes.

UK companies in our study emphasised a lack of assurance that there will be electricity, saying that this increases the risk of investment, since if they cannot produce, their returns will be compromised. The 'uncounted cost' of load-shedding is significant, particularly for businesses that require constant electricity (e.g. plastic mould manufacturers).

The South African government plans a sweeping overhaul of its power sector by breaking up loss-making Eskom into units for generation, transmission and distribution, also opening the industry up to more competition, over the next three years. The UK investors we interviewed recognised this as a welcome move, but highlighted concerns that government may not follow through on their promises in full given strong opposition from labour unions and vested interests in the energy sector. The South African government has committed to keep Eskom's three new units within a state-owned Eskom holding company to reassure political constituencies that it remains opposed to privatisation. This may reduce any competitiveness gains from the move. The new plans also contain few specifics about how to reduce Eskom's R440 billion ($30 billion) debt burden. The government has already promised Eskom more than R100 billion of bailouts over the next two fiscal years.

Severe drought has also contributed to water shortages and, in turn, the imposition of usage restrictions. Water shortages are exacerbated by inadequate infrastructure and resource management. These shortages impose significant costs for UK tourism investors.

Infrastructure

The UK companies we interviewed reported poor transportation infrastructure quality in South Africa. This state of affairs undermines the competitiveness of investments. It also reflects the country's under-developed railway network and, to a lesser degree, its port infrastructure. In the last 30 years, South Africa has sacrificed its railway system in exchange for road quality. The gaps in railway development have also significantly affected the quality and the cost of maintenance of the road systems across the country, with heavy freight transportation placing a burden on the roads. This is reflected in the unequal distribution of costs between road maintenance and alternative infrastructure projects. Despite the government's renewal of interest in infrastructure development, the implementation of its strategic infrastructure projects remains slow. Critical issues related to the road freight sector, the shift of freight from roads to railways and port development are still inadequately addressed.

Shortage of relevant skills

South Africa is arguably one of the best-educated countries on the African continent, and its workforce also includes highly skilled workers from neighbouring Zimbabwe, which is well-known for its strong education system. However, the skills available in the South African economy are often not those demanded by investors. For example, many South Africans possess professional academic degrees rather than worker and vocational skills, making it is difficult for them to find the right skills to support manufacturing investments. This preference for tertiary education is a legacy of apartheid and reflects social pressures to take more vocational career paths. Technical education in South Africa was previously stopped but is now being resurrected. It is hoped that this will help resolve South Africa's current skills mismatch problem.

At the same time, much of South Africa's highly skilled professional workforce leaves the country for what are perceived to be better opportunities abroad, in countries such as

Australia, the UK and the US. This means that UK investors sometimes struggle to find skills locally and instead look for options to import skills from outside South Africa, which has its own challenges (see the section below on visa laws). The UK could consider investing in education in South Africa to meet the demand for skilled workers and rebalance skills towards the jobs of the future. Supporting a shift in policy to accredit vocational training would also help resolve South Africa's skills mismatch.

Visa laws

As a result of difficulties in mobilising sufficient high-quality talent locally, many UK investors opt to bring in skills from abroad to carry out specific tasks and jobs. This is not an easy process, given the prohibitive visa laws in South Africa. Processing business visas for foreign workers, along with their spouses and children, is a complicated and lengthy process. The limited duration and sustainability of visas has also contributed to some expats leaving earlier than planned. UK investors in our study complained that this makes forward planning on labour recruitment and retention difficult.

According to a survey of immigration lawyers and consultants, companies from various sectors in the Western Cape, the foreign investment promotion team at Wesgro and InvestSA Western Cape, the general challenges across all visa types are as follows:

- lack of procedural transparency: applicants have no idea where their applications are in the process
- no certainty regarding processing time, which can vary from weeks to months to years
- lengthy processes, particularly where the DTI and the Department of Labour are also part of the process
- extremely little recourse if something goes wrong: often the only way to move the process forward is by going to court, especially with appeals
- no consistency in the way the Immigration Act is applied, particularly at embassies abroad.

UK companies in our study stressed that the South African Government should consider simplifying and relaxing visa requirements for management staff of foreign subsidiaries and their family members, as well as reducing processing times.

Labour policies

Many of the UK companies we spoke to emphasised the challenges related to South Africa's broad-based black economic empowerment (BBBEE) policy. This is a government policy to enhance the economic participation of Black people (i.e. African, Coloured and Indian people who are South African citizens) in the South African economy. The policy is underpinned by a set of Codes of Good Practice that contain sections on measuring ownership, management control, employment, skills development, preferential procurement, enterprise development, socioeconomic development and qualifying small enterprises. The certification requirements for complying with BBBEE are rather cumbersome and prolong the set-up process for investors, particularly foreign investors who are less familiar with BBBEE and employment equity policies more broadly. At the same time, some UK investors feel the BBBEE goalpost is continually moved, with the policy sold as a tool for transformation but actually used for rent-seeking for the politically connected. Local content thresholds have been used to similar effect.

Unionism is also a big concern for UK investors. Additionally, collective bargaining is very strong and organised in South Africa. This has resulted in a set of strict labour regulations that make it very difficult to lay workers off and, in turn, adjust to booms and slumps. At the same time, if a company wishes to import a skill from outside South Africa, it must prove that the skill cannot be found in the country.

South Africa's challenging equity-based labour market regulations reflect a history of apartheid and high inequality. The country is a dual economy with one of the highest inequality rates in the world. According to the World Bank, the country's Gini coefficient was 0.63 in 2015, with the richest 10% of the population holding around 71% of net wealth and the bottom

60% holding just 7% during that year. This has motivated government action to support inclusion and the distribution of wealth across a broad spectrum of previously disadvantaged South Africans. Many UK investors do not understand this historical context and therefore perceive South Africa's labour regulations as barriers to investment.

A number of UK companies in our study argued for the 'radicalisation' of South Africa's labour policies. Due to the clear national objectives behind these policies, externally driven extensive change is very unlikely. Nevertheless, some British firms have managed to secure certain exemptions from BBBEE due to granting scholarships to targeted vulnerable groups or committing to knowledge transfer and skills development. Other UK investors can explore these avenues. Similarly, some UK companies have managed to negotiate exemptions to local content requirements in public procurement and ownership provisions. The UK government can also invest efforts in educating UK companies and investors on the regulations, laws and policies in place in South Africa, so they are better positioned to navigate and comply with the sometimes-complex requirements that arise.

Conversely, South Africa's strong policies to promote inclusive business models can also be seen as an advantage for UK firms. In recent years, the UK government has emphasised the importance of ensuring that UK business and investment abroad supports the UN Sustainable Development Goals (SDGs). The South African economy therefore offers a platform for the UK to deliver on its commitment to support inclusive business and to promote black and female empowerment in the workplace.

Land reform

In February 2018, a motion was passed in the South African Parliament to review the Constitution to pursue land reform policy objectives. The wording of the motion requires a substantial amount of consultation before any changes to the Constitution can be suggested. Parliament instructed the Parliamentary Constitutional Review Committee to review Section 25 of the Constitution and other clauses where necessary, to make it possible for the state to expropriate land in the public interest without compensation and to propose the necessary constitutional amendments where necessary.

According to President Cyril Ramaphosa (in a *Financial Times* article in 2018), the motivation for considering expropriation without compensation is as follows:

> For decades, the country's assets – its land, its minerals, its human resources, its enterprises – have been owned, controlled and managed in a way that has prevented the extraction of their full value. Our intention is to unlock the economic potential of land. Without the recognition of the property rights of all our people, we will not overcome inequality, and without giving the poor the means to productively farm the land, we will not defeat poverty. This is no land grab; nor is it an assault on the private ownership of property. The ANC has been clear that its land reform programme should not undermine future investment in the economy or damage agricultural production and food security. The proposals will not erode property rights, but will instead ensure that the rights of all South Africans, and not just those who currently own land, are strengthened. South Africa has learnt from the experiences of other countries, both from what has worked and what has not, and will not make the same mistakes that others have made.

The policy uncertainty around land reform, particularly proposals on expropriation without compensation, has contributed to much anxiety among UK investors. Without security of tenure, it is difficult to make safe and informed investment decisions. A Government White Paper on Land Reform is currently close to completion but there has been minimal transparency on its contents.

Crime

The UK investors we interviewed highlighted the high levels of crime in South Africa as an

important challenge to investment. More than 20,000 murders were recorded in 2017, a 7% increase from the previous year. South Africa had the fifth highest murder rate in the world in 2015, according to the UN Office on Drugs and Crime. The murder rate is higher in South Africa than in other countries on the continent with similarly sized economies. For example, there were an estimated 2,751 murders in Kenya in 2016.

However, it is important to note that crime has reduced since the period of apartheid. Some UK investors perceive South Africa's safety and security situation to be worse than it actually is, which has been exacerbated by media reporting on reputational violence. Strategic communication to UK investors about crime in South Africa would help resolve this issue.

4.4.3 Sector-specific issues

Innovation

South Africa presents a tricky environment for UK investments underpinned by innovation. If an investor patents a product or service in South Africa, they are not allowed to export production elsewhere. This is to ensure the country benefits from the significant government investments in public goods (e.g. education and health) that support the generation of ideas. However, the regulation is applied to both domestic and foreign investors and producers, and has therefore served as a deterrent to foreign investment and, more generally, in R&D.

The UK government and investors can play a role in advocating a middle ground between private and public sector priorities when it comes to intellectual property rights regarding innovation. The UK has strong expertise in science and technology and hi-tech innovation services, which South Africa has a deficit of. This offers an opportunity for UK investment in technology-enabled sectors.

Financial services

UK banks and financial institutions have faced challenges in competing in an increasingly saturated market. These have resulted in the exit of a number of banks, such as Barclays. South Africa's financial sophistication, once seen as the leading factor promoting FDI in financial services, is now often, instead, reported as a threat owing to stemming from the high level of competition it has created. Other challenges include hefty capital regulations and the process of consolidation of financial services in recent years; the number of operating banks has fallen from about 15 to five. Most retail banks in South Africa are now South African.

Although some argue that investment opportunities in traditional finance, particularly retail banking, are drying up in South Africa, the finance sector also offers new opportunities. The future of banking is technology banking, which is experiential rather than infrastructural. Increasing demand for a digital banking experience from 'millennials' and 'Gen Z'ers' is transforming how the entire banking industry operates. Banks are heavily investing in digital banking technology, where customers use mobile, web or digital platforms to use banking services. Artificial intelligence solutions, such as chatbots, often assist customers in simple tasks such as making payments. Technology banking is growing rapidly in South Africa, with Discovery Bank offering a perfect example. More broadly, fintech is also expanding significantly in South Africa to compete with traditional financial methods in the delivery of financial services.

This new and increasing shift offers new opportunities for UK investment in South Africa's financial industry. British investors are particularly well-placed to fill existing gaps in the fintech space and the innovation of low-income financial products, which have not yet taken off in South Africa to the same extent as in other African countries such as Kenya. South Africa has traditionally done better at targeting high-end consumers and business banking.

Air transport

South African Airways (SAA) was once Africa's biggest airline. Over the years, the services of SAA have weakened at the same time as the price of its flights has increased. This has raised concerns among UK investors, particularly those who rely heavily on air transport to deliver business services or transport their products.

The airline is highly indebted and lossmaking. SAA has not turned a profit for years and has

required R30bn ($2bn) of bailouts over the last half-decade to stay in operation. SAA's decline accelerated under the chairmanship of Dudu Myeni, a friend of President Zuma who was accused by opposition parties of running SAA as a personal fiefdom to dispense political favours. President Ramaphosa has endorsed a turnaround strategy for SAA under new management. Under the turnaround plan, SAA is asking the state to provide more than R21bn in equity and debt refinancing, and to tolerate another three years of losses while it cuts costs and staff. Its longer-term goal is to convince a big foreign investor, such as another airline, to recapitalise SAA. Despite growing pressure from opposition politicians and trade unions for SAA to be shut down, executives at the airline say that it is not possible to abandon its debts without worsening government finances further.

Telecommunications

The Competition Commission recently carried out an inquiry into the South African telecommunications industry, with confirmation from international benchmarking that South African data prices are too high, particularly for mobile prepaid data. Notably, the commission found that South Africa's data prices are higher than the other BRICS (Brazil, Russia, India and China) SADC countries. It also found that Vodacom and MTN charge higher prices in South Africa than in the other countries in which they operate.

Policy paralysis and mismanagement has blocked the allocation of a new spectrum in South Africa for more than a decade, forcing existing operators to spend more money on repurposing their infrastructure to meet demand. The Commission has acknowledged that a lack of spectrum has played a role in these high prices. However, it has also said that, while more spectrum may reduce operator costs, it won't force operators to drop prices unless there are competitive pressures to do so. Despite the introduction of new competitors, the Commission has said that the dominance of Vodacom and MTN has meant that the two companies have been able to introduce prices independently of and unconstrained by competitors. Improving affordability and enhancing competition should be central to the assignment of spectrum. The scarcity of spectrum is a commonly cited investment challenge for UK firms, since greater spectrum is crucial for ensuring wider, cheaper and more efficient network coverage – therefore easing the cost of innovation and EDB in South Africa.

4.5 Summary

Table 8 presents a summary of the information in this chapter and compares the findings for each of the four countries studied. The table summarises the information by highlighting the sectors with opportunities for investment for UK companies for each of the four country studies. It also summarises the general advantages of the four countries that are common to all of them, and presents the unique features and characteristics that UK firms might find advantageous when investing in each of the countries. For each country, the table also describes the issues that affect all sectors alike (e.g. horizontal) and those that affect certain sectors.

Table 8 Registered foreign direct investment projects in 2018

<table>
<tr><th>Ghana</th><th>Kenya</th><th>Nigeria</th><th>South Africa</th></tr>
<tr><td colspan="4">Sectoral opportunities</td></tr>
<tr>
<td>• Agrobusiness
• Franchises in consumer services
• Insurance services, especially in Insuretech and low-income targeted products
• Education services
• Financial services, especially in fintech and low-income targeted products</td>
<td>• Financial services, especially in fintech and low-income targeted products
• Insurance Services
• FMCGs
• Franchises in consumer services
• Professional and business services
• Pharmaceutical products</td>
<td>• FMCGs
• Insurance services, especially in Insuretech and low-income targeted products
• Franchises in consumer services
• Education services</td>
<td>• Automotive components
• Financial services, especially in Fintech and low-income targeted products
• Renewable energy
• Professional services
• Tourism
• Water desalination and dam rehabilitation
• Civil and mechanical engineering
• Mining services</td>
</tr>
<tr><td colspan="4">General advantages</td></tr>
<tr><td colspan="4">• Combination of population and income growth, and increase in the middle class
• Familiar environment for British companies, same language and compatible legal systems
• British services and products being highly recognised and regarded by their quality, with opportunities for recognised British brands</td></tr>
<tr><td colspan="4">Unique advantages</td></tr>
<tr>
<td>• Excellent security and stable political systems
• Investments in logistics infrastructure (e.g. Tema port) to make Ghana a regional hub
• Limited corruption
• Fast expansion of the middle class
• Large British-Ghanaian community in both countries, facilitating bilateral trade</td>
<td>• Hub for East Africa And opportunities to trade with the rest of the region
• Widespread international quality business support (e.g. accounting and taxation)
• Decent availability of skilled labour at all levels, including managerial roles
• Good macroeconomic management
• Skilled local technological talent
• Improved availability of electricity
• Good health system, generating demand for high quality pharmaceutical products and medical treatments
• Frequent flight connections with Europe and the rest of the world, facilitating the travel of company staff</td>
<td>• Very large domestic market
• Fast-growing population, with Nigeria to become the third most populated country by mid-century
• Good availability of skilled human resources in all levels, with individuals frequently educated in the UK
• Large British-Nigerian community in both countries, facilitating bilateral trade</td>
<td>• Springboard to the African economy, particularly in the context of the AfCFTA
• Large economy
• Relatively sophisticated and developed market
• Quality public services
• Growing black middle class
• Comparatively decent skilled labour availability
• Large diaspora communities in the UK and South Africa</td>
</tr>
</table>

Table 8 Registered foreign direct investment projects in 2018 (cont.)

Ghana	Kenya	Nigeria	South Africa
Horizontal issues			
• Macroeconomic management, with high volatility of exchange rate increasing uncertainty and raising production costs, as well as diminishing the value of transferred dividends • Frequent tax audits and controls taking too much time and resources • Minimum capital requirements reducing incentives for small investors (i.e. GIPC law) • High barriers to trade with neighbouring countries and other countries in ECOWAS • Lack of clarity in the policy-making process	• Large and/or foreign companies subject to higher controls in terms of tax and regulations compliance, increasing costs and favouring unfairly competition from domestic firms • Government procurement rules favouring Kenyan-owned businesses, even when they may not have the adequate capabilities • Too much time taken for government to pay invoices for products and services provided • Companies being forced to use the SGR when importing and exporting, even when many of them find it expensive and inconvenient • Widespread red tape that facilitates instances of corruption • Extremely high prices for electricity • Tardiness in government to issue contracts after the procurement process is concluded	• Poor infrastructure in transportation, logistics and energy production • Widespread corruption • Unclear, unstable, obscure and discretionary regulations, with regulatory and institutional reform not resulting from consultation with the private sector • Ad hoc changes in taxes and regulations, with the aim to favour local interests • Challenging a security situation that considerably increases operation costs • High barriers to trade, increasing production costs and limiting export potential, with tariffs applied on key inputs (e.g. packaging) increasing trade costs • Restrictions to foreign investment in certain sectors	• Widespread corruption • Weak economic indicators • Energy and water shortages • Stringent and costly labour policies • Poor infrastructure, particularly rail and seaports • Difficult visa laws • Uncertainty about land reforms that may make it possible for the state to expropriate land without compensation • High crime rates

Table 8 Registered foreign direct investment projects in 2018 (cont.)

Ghana	Kenya	Nigeria	South Africa
Sectoral-specific issues			
• Availability of air-transport services, limiting the expansion of fresh products exports • Cargo capabilities of airlines fully used • Inadequate regulation in insurance service that allows the operation of many small companies that frequently cannot afford the risk insured and end up defaulting, affecting the reputation of the sector in general and limiting its expansion • Expensive mobile phone licences delaying investments in new technologies (e.g. 5G) • Current regulation favouring monopolistic behaviour in both the provision of communications services and mobile finance • Limited size of the capital market constraining the possibility of portfolio investments from the UK	• Caps in the active interest rates limiting the expansion of the banking sector, as well as 'crowding out' small businesses • Banks finding that current interest rates do not compensate for the higher risk associated to lending to small firms • Alternative interpretations of the length of leaseholds after the reform of the Constitution, with counties considering that the 99 years leasehold should be counted from independence (1963) and not since the Constitution was reformed (2010) • Kenyan-owned importing companies in the pharmaceutical sector benefiting from foreign companies with production facilities in the country, proving particularly critical in the issue of parallel importing of pharmaceutical products	• The tendency to appreciate that the exchange rate observations due to large inflows of foreign currency generated by the oil exports make the non-oil sector globally uncompetitive • By restricting access to foreign currency, exchange rate controls affect imports of certain goods (rice, steel products and furniture) • Restrictions in trade in services (e.g. protection of domestic providers) and in critical digital sectors • Lack of depth of financial services and capital markets limiting the portfolio investment from the UK • Regulations, as well as overlapping of regulatory bodies, affecting the provision of insurance services via mobile phone and other technological solutions	• High cost of air transport • A lack of spectrum and competition in the telecommunications sector, increasing internet costs • Stringent innovation regulations, with investors who patent a product or service in South Africa not allowed to export production elsewhere • Challenges and competition in provision of traditional financial services, particularly retail

5 Conclusion

Unlike the global slide in FDI flows by 13% in 2018, inflows of FDI to Africa have increased by 11% to $46 billion and are projected to grow by 15% in 2019 from expected growth acceleration and advances in regional integration. In addition, the rate of returns on inward FDI in the less affluent parts of Africa is 6.5%, higher than those in Latin America and the Caribbean (6.2%), and the average 'developed' economy (6%) (UNCTAD, 2019). Currently, Africa has an aggregate output of $2.2 trillion (ibid) and is home to 1.2 billion people, of whom 420 million are aged 15–35 years (AfDB, 2018). In the next two years, SSA is expected to grow by 3.2% and 3.6%, respectively (IMF, 2019b). With these growth and demographic dividend prospects, Africa is a potential destination for investments from the UK and other countries.

Figures from 2017 suggest that the UK is the fourth largest investor in Africa, with the UK government aiming for the country to be the top G7 investor in the continent of Africa by 2022 (DIT, 2018). Yet, one of the key challenges evident from the investment trends relates to diversifying UK FDI in Africa, which is currently heavily focused on the mining and quarrying sector and in South Africa. The low penetration of UK FDI in other sectors beyond mining activities and financial services across the continent implies that there is plenty of room to increase the role of British investors in boosting the African economies.

Africa already contains two robust determinants of inward FDI in the literature, namely a fast-growing market size, with incomes expanding faster than in many other emerging economies, and population. The SSA is broadly expected to grow above world performance by 3.2% in 2019 to 3.6% in 2020 (IMF, 2019a; 2019b). The continent also houses some of the fastest-growing economies in the world, including Côte d' Ivoire, Ethiopia, Ghana, Rwanda and South Sudan – projected to grow above 7% in 2019 (ibid.). This means the positive role of market size and population on inward FDI in Africa highlighted by recent literature will continue to be relevant for the continent in coming years.

However, challenges remain for improving other strong drivers of inward FDI in Africa, such as human capital (skills) and quality infrastructure. The glaring disparity regarding gross enrolment rates, which is an indicator of current and potential labour capacity for higher-activities, such as digital skills, has meant that FDI will continue to be biased towards higher income African countries with a more educated labour force (e.g. South Africa). This further undermines the benefits of FDI where these are needed the most (e.g. central African countries). Improving the quality of infrastructure, particularly in the electricity sector, is critical not only for attracting foreign investors, but also for encouraging higher-productivity manufacturing FDI, where energy is a necessary input for operation. Without improving these two fundamental determinants, inward FDI will continue to be reinforced towards natural-resource investments.

While our study has highlighted that natural resources are a robust determinant of inward FDI in Africa, investment concentration on this sector is not necessarily desirable. Oil resources are vulnerable to international price shocks, putting the growth path of resource-rich countries at risk. IMF projections have already reflected this vulnerability, by expecting growth of 6% in 24 non-resource locations but a sluggish growth of 2.5% in 21 resource-rich countries (IMF, 2019b). This highlights the need to diversify African economies by encouraging certain types of FDI. In the literature presented above, it may be effective if host government policies focus on strengthening investment promotion and

tailoring tax holidays for targeted non-resource FDI, while home governments can encourage aid that can help reduce pertinent deterrents, such as political risks to investment projects, to inward FDI to Africa.

The four countries we have studied in more detail confirm the picture observed at the general level but also add a more specific and concrete dimension to the issues UK firms face in Africa. Some of these issues are common across the countries studied. Revenue administrations apply uneven pressure in taxation control, which increases operational costs as well as putting UK companies in a disadvantaged position with respect to local competitors. Policies and regulations change frequently and without proper consultation with the relevant stakeholders. Corruption also consistently appears as a problem that increases costs and discourages investment.

Additionally, there are country- and sector-specific issues. The rising exchange rate has increased the price of imported inputs and reduced the value of profits of UK companies in Ghana. Meanwhile, foreign exchange controls have affected the operations of UK companies in Nigeria. The SGR in Kenya is expensive and inconvenient for UK companies and the efforts of the Kenyan government to force its use increases operation costs.

Although these issues alone or together may make Africa less competitive with respect to other regions in attracting new investments and expanding existing ones, it is clear that UK companies see important benefits in expanding the existing relationship with the continent. Common language and legal systems and other inherited colonial-era features make many African countries familiar places to invest. These benefits enable not only an expansion of investment in these countries but also the use of these countries as platforms for expansion into other non-traditional investment destinations for UK investors.

The existence of an international business community seems to be a factor propelling investment into some African countries. When deciding on investments, UK companies value the existence of high-quality support and service providers in the destination country, in areas such

as accounting, auditing and taxation. Moreover, in many African countries, the existence of numerous large international companies has positive effects in terms of creating a local pool of qualified human resources. This points to the benefits of agglomeration and clustering in attracting investments.

Nevertheless, these issues seem to be of more structural nature and have attracted UK firms for a long time. Investors thinking long term are paying attention to two issues that are leading Africa to stand out. Africa's growing population and increasing middle class, along with the readiness and eagerness of Africans to use technology to leapfrog and solve problems, are the features now making the continent an investment opportunity.

The growth in – and increased sophistication – of consumption that an increasing population and middle class brings presents remarkable opportunities in sectors where the UK has strong comparative advantage, such as financial and insurance services. Also, the high regard for UK brands in Africa leads to an important opportunity in FMCGs. Additionally, Africa is leading in the development and adoption of technological solutions, offering a unique opportunity in fintech and 'insuretech' (insurance technology), two areas where the UK also has strong capabilities. E-commerce is generally still underdeveloped, but Africa shows a massive appetite for it. In this sense, these represent interesting windows that recognised UK retailers can aim for.

The UK investors we interviewed did not express an overwhelming appetite to invest in manufacturing, probably because the UK also has a weaker manufacturing sector compared to other countries. However, through the provision of key financial, business and engineering services, the UK is a major player in global manufacturing value chains. UK investments in Africa could play the same enabler and facilitator role to contribute to the development of local manufacturing capabilities.

The responsibility for unleashing UK investment in Africa lies in coordinated efforts involving African governments and continental and regional institutions. Each country needs to work to address the issues and barriers that limit the expansion of investments. AfCFTA and the regional economic communities have to bring down the barriers that are currently affecting trade on the continent. UK aid should continue being used to facilitate the coordination of efforts, help address bottlenecks and contribute to the provision of public goods that companies may require. An adequate combination of trade policies, investment and aid will determine the creation of opportunities that benefit private sector activity in the UK but, crucially, also contribute to the economic transformation and development of Africa.

References

AfDB – African Development Bank (2018) *Jobs for youth in Africa: improve the quality of life for the people of Africa*. Tunis: AfDB

AfDB (2019a) 'Ghana economic outlook' (https://www.afdb.org/en/countries/west-africa/ghana/ghana-economic-outlook)

AfDB (2019b) 'Kenya economic outlook' (https://www.afdb.org/en/countries/east-africa/kenya/kenya-economic-outlook)

Aisbett, E. (2007) *Bilateral investment treaties and foreign direct investment: correlation versus causation*. CUDARE Working Paper 1032R. UC Berkeley: Department of Agricultural and Resource Economics

Ajide, K.B. (2014) 'Determinants of foreign direct investment in ECOWAS countries: the roles of governance and human capital' *The Empirical Econometrics and Quantitative Economics Letters* 3(2): 61–74

Alper, E., Clemens, B., Hobdari, N. and Moya Porcel, R. (2019) *Do interest rate controls work? Evidence from Kenya*. Working Paper 19/199. Washington DC: International Monetary Fund (IMF)

Anyanwu, J. (2011) *Determinants of foreign direct investment inflows to Africa, 1980–2007*. Working Paper Series No. 136, September. AfDB Group

Asiedu, E. (2002) 'On the determinants of foreign direct investments to developing countries: is Africa different?' *World Development* 30(1): 107–119

Asiedu, E. (2006) *Foreign direct investment in Africa: the role of natural resources, market size, government policy, institutions and political instability* (http://people.ku.edu/~asiedu/world-economy.pdf)

Asiedu, E. (2013) *Foreign direct investment, natural resource and institutions*. International Growth Centre Working Paper. London: International Growth Centre (IGC)

Baker, P.L. (2014) 'An analysis of double taxation treaties and their effect on foreign direct investment' *International Journal of the Economics of Business* 21(3): 341–377

Becker-Ritterspach, F., Allen, M.L., Lange, K. and Allen, M. (2019) 'Home-country measures to support outward foreign direct investment: variation and consequences' *Transnational Corporations* 26(1)

Bende-Nabende, A. (2002) 'Foreign direct investment determinants in sub-sahara Africa: a co–integration analysis' *Economics Bulletin* 6(4): 1–19 (http://www.economicsbulletin.com/2002/volume6/EB–02F20002A.pdf)

Braun, J. and Fuentes, D. (2014) *A legal and economic analysis of Austria's double tax treaty network with developing countries*. WU International Taxation Research Paper Series (2014-13)

Busse, M., Königer, J. & Nunnenkamp, P. (2010) 'FDI promotion through bilateral investment treaties: more than a bit?' *Review of World Economics* 146(1): 147–177

Chen, W., Dollar, D. and Tang, H. (2018) 'Why is China investing in Africa? Evidence from the firm level' *The World Bank Economic Review* 32(3): 610–632

Cheng, L. and Ma, Z. (2007) 'China's outward foreign direct investment' in R.C. Feenstra and S.-J. Wei (eds) *China's growing role in world trade*. Cambridge, MA: National Bureau of Economic Research

Cleeve, E. (2008) 'How effective are fiscal incentives to attract FDI to sub-Saharan Africa?' *The Journal of Developing Areas* 42(1): 135–153

Corcoran, A. and Gillanders, R. (2013) *Foreign direct investment and the ease of doing business* (https://core.ac.uk/download/pdf/155272266.pdf)
Daurer, V. and Krever, R. (2012) *Choosing between the UN and OECD tax policy models: an African case study*. EUI Working Paper RSCAS 2012/60
DIT – Department for International Trade (2018) 'PM announces ambition for UK to be largest G7 investor in Africa by 2022'. News release. London: DIT (https://www.gov.uk/government/news/pm-announces-ambition-for-uk-to-be-largest-g7-investor-in-africa-by-2022)
DIT (2019) 'Financial Times Africa Summit 2019: Minister for Africa's speech'. News release. London: DIT (https://www.gov.uk/government/speeches/speech-by-andrew-stephenson-minister-for-africa-to-ft-africa-summit-october-2019)
DTI – Department of Trade and Industry of South Africa (2009) *Bilateral Investment Treaty Policy Framework review*. Government Position Paper. Pretoria, South Africa: DTI
Dunning, J.H. (1993) *Multinational enterprises and the global economy*. Workingham: Addison-Wesley
Eberhard-Ruiz, A. and Calabrese, L. (2017) *Trade facilitation, transport costs and the price of trucking services in East Africa*. London: ODI
Egger, P. and Merlo, V. (2012) 'BITs bite: an anatomy of the impact of bilateral investment treaties on multinational firms' *Scandinavian Journal of Economics* 114(4): 1240–1266
EMPEA (2019) *Global Limited Partners Survey: investors' views of private equity in emerging markets*. Washington DC: EMPEA (https://www.empea.org/app/uploads/2019/05/2019-lp-survey-final-web.pdf)
Falvey, R. and Foster-McGregor, N. (2017) 'Heterogeneous effects of bilateral investment treaties' *Review of World Economics* 153(4): 631–656
Ferracane, M.F., Lee-Makiyama, H. and Van Der Marel, E. (2018) *Digital trade restrictiveness index*. Brussels: European Centre for International Political Economy
Gasiorek, M., Mendez-Parra, M. and Willenbockel, D. (2017) *The cost of logistical and transport barriers to trade in East Africa*. London: ODI
GhanaWeb (2019) 'Lending rates to remain high as IMF backs BoG to tighten policy rate', 30 October (https://www.ghanaweb.com/GhanaHomePage/business/Lending-rates-to-remain-high-as-IMF-backs-BoG-to-tighten-policy-rate-794561)
GIPC – Ghana Investment Promotion Centre (2018) *Quarterly investment report October to December 2018*. Accra: GIPC
GIPC (2019) 'Business with foreign participation must register'. News release (https://www.gipcghana.com/press-and-media/373-businesses-with-foreign-participation-must-register-with-gipc.html)
Hallward-Driemeier, M. (2003) *Do bilateral investment treaties attract foreign direct investment? Only a bit … and they could bite.* Policy Research Working Papers, August. Washington DC: World Bank
Harding, T. and Javorcik, B. (2011) 'Roll out the red carpet and they will come: investment promotion and FDI inflows' *The Economic Journal* 121(557): 1445–1476
He, C. and Zhu, S. (2018) 'China's foreign direct investment into Africa' in R.S. Wall, J. Maseland, K. Rochell and M. Spaliviero (eds) *The state of African cities 2018: the geography of African investment*. Rotterdam: UN-Habitat and IHS-Erasmus University
Hoffmann, L.K. and Melly, P. (2015) *Nigeria's booming borders: the drivers and consequences of unrecorded trade*. London: Chatham House
Ibrahim, M., Adam, I.O. and Sare, Y.A. (2019) 'Networking for foreign direct investment in Africa: how important are ICT environment and financial sector development?' *Journal of Economic Integration* 34 (2): 346–369
IFC – International Finance Corporation (2018) *Trends in FDI and cross-border investments in Compact with Africa countries*. Interim Monitoring Report. Washington DC: IFC
IMF – International Monetary Fund (2019a) *World economic outlook*. October. Washington DC: IMF
IMF (2019b) *Sub-Saharan Africa regional economic outlook*. October. Washington DC: IMF

Institute of Economic Affairs (2016) *Estimation of middle class* (http://www.ieakenya.or.ke/publications/presentations/estimation-of-middle-class)

Jayasuriya, D. (2011) *Improvements in World Bank's ease of doing business rankings. Do they translate into greater foreign direct investment inflows?* World Bank Policy Research Working Paper 5787. Washington DC: World Bank

Kerner, A. and Lawrence, J. (2014) 'What's the risk? Bilateral investment treaties, political risk and fixed capital accumulation' *British Journal of Political Science* 44(1): 107–121

Khadaroo, J. and Seetanah, B. (2009) 'The role of transport infrastructure in FDI: evidence from Africa using GMM estimates' *Journal of Transport Economics and Policy* 43(3): 365–384

Krishnan, A., te Velde, D.W. and Were, A. (2018) *Kenya–UK trade and investment relations*. SET Report. London: ODI

Kyrkilis, D. and Pantelidis, O. (2003) 'Macroeconomic determinants of outward foreign direct investment' *International Journal of Social Economics* July

Lederman, D., Mengistae, T. and Xu, L.C. (2010) *Microeconomic consequences and macroeconomic causes of foreign direct investment in Southern African economies*. Policy Research Working Paper Series 5416. Washington DC: World Bank

Lejour, A. and Salfi, M. (2014) *The regional impact of bilateral investment treaties on foreign direct investment*. CPB discussion paper; vol. 298. The Hague: CPB Netherlands Bureau for Economic Policy Analysis

Mahuni, K. and Bonga, W. (2017) 'Nexus between doing business indicators and foreign direct investment for Zimbabwe. A time series analysis' Dynamic Research Journals' *Journal of Economics and Finance* 2(2): 01–08

Mendez-Parra, M., Balchin, N., Calabrese, L. and Onyeka, K. (2019) *Nigeria and UK bilateral trade and investments: diagnostic, identification of constraints and recommendations*. Resources/studies for the Policy Development Facility Phase II

Metaxas, T. and Kechagia, P. (2016) *Literature review of 100 empirical studies of foreign direct investment: 1950–2015*. MPRA Paper No. 71414. Munich Personal RePEc Archive (https://mpra.ub.uni-muenchen.de/71414/)

Moges Ebero, E. and Begam, M. (2016) 'The desirability of doing business and flow of foreign direct investment nexus: the case of Ethiopia' *International Research Journal of Engineering and Technology* 3(5), 2049–2057

Morris, R. and Aziz, A. (2011) 'Ease of doing business and FDI inflow to sub-Saharan Africa and Asian countries' *Cross Cultural Management: An International Journal* 18(4): 400–411

Muli, W.M. and Aduda, J.O. (2017) 'The mediating effect of ease of doing business on the relationship between economic integration and foreign direct investment in the East African community' *Journal of Finance and Investment Analysis* 6(4): 21–54

Naudé, W.A. and Krugell, W.F. (2007) 'Investigating geography and institutions as determinants of foreign direct investment in Africa using panel data' *Applied Economics* 39(10): 1223–1233

Neumayer, E. (2007) 'Do double taxation treaties increase foreign direct investment to developing countries?' *The Journal of Development Studies* 43(8): 1501–1519

NIPC – Nigerian Investment Promotion Commission (2019) *Report of investment announcements, January to December 2018* (https://nipc.gov.ng/product/report-of-investment-announcements-january-to-december-2018/)

Nnadozie, E. and Njuguna, A. (2011) 'Investment climate and foreign direct investment in Africa'. Paper presented at the 6th African Economic Conference in Addis Ababa, Ethiopia, 26–28 October (https://www.uneca.org/sites/default/files/uploaded-documents/AEC/2011/njuguna_and_nnadozie-investment_climate_n_fdi_in_africa_1.pdf)

Platform (2012) 'Dirty work: Shell's security spending in Nigeria and beyond'. Briefing (https://platformlondon.org/wp-content/uploads/2012/08/Dirty-work-Shell%E2%80%99s-security-spending-in-Nigeria-and-beyond-Platform-August-2012.pdf)

OECD – Organisation for Economic Co-operation and Development (2012) *OECD investment policy reviews: Zambia 2012*. Paris: OECD Publishing
OECD (2013) *OECD investment policy reviews: Tanzania 2013*. Paris: OECD Publishing
OECD (2014) *OECD investment policy reviews: Botswana 2014*. Paris: OECD Publishing
OECD (2015) *Policy framework for investment 2015 edition*. Paris: OECD Publishing
ONS – Office for National Statistics (2015a) *Outward foreign direct investment (FDI) involving UK companies, 2014 (directional principle)*. London: ONS
ONS (2015b) *Outward foreign direct investment (FDI) involving UK companies, 2013 (directional principle)*. London: ONS
ONS (2016) *Outward foreign direct investment (FDI) involving UK companies, 2016 (directional principle)*. London: ONS
ONS (2018) *Outward foreign direct investment (FDI) involving UK companies, 2017 (directional principle)*. London: ONS
ONS (2019a) *Outward Foreign Direct Investment (FDI) Involving UK Companies, 2018* (*directional principle*). London: ONS
ONS (2019b) *Gross domestic product at market prices: current price: seasonally adjusted £m*. London: ONS
ONS (2019c) *Average sterling exchange rate: US dollar*. London: ONS
ONS (2019d) *Foreign direct investment (FDI) totals for inward and outward flows, positions and earnings, 2016 to 2017*. London: ONS
Ramaphosa, C. (2018) 'Land reform in South Africa is crucial for inclusive growth'. Financial Times, 23 August (https://www.ft.com/content/c81543d8-a61b-11e8-926a-7342fe5e173f)
Reuters (2019) 'UPDATE 1–Kenya parliament rejects request to remove interest rate caps'. Thomson Reuters, 25 September (https://www.reuters.com/article/kenya-banking-lawmaking/update-1-kenya-parliament-rejects-request-to-remove-interest-rate-caps-idUSL5N26G5IG)
Rodríguez-Pose, A. and Cols, G. (2017) 'The determinants of foreign direct investment in sub-Saharan Africa: what role for governance?' *Regional Science Policy & Practice* 9(2) June
Schlemmer, E. (2016) 'An overview of South Africa's bilateral investment treaties and investment policy' *International Centre for Settlement of Investment Disputes (ICSID) Review – Foreign Investment Law Journal* 31(1): 167–193
Schlemmer, E. (2018) 'Dispute settlement in investment related matters: South Africa and the BRICS' *AJIL Unbound* 112: 212–216
Sicetsha, A. (2018) 'South Africa's 'Protection of Investment Act' may drive foreign investors away'. The South African (https://www. thesouthafrican.com/south-africas-protection-ofinvestment-act-may-drive-foreign-investors-away/)
Sichei, M. and Kinyondo, G. (2012) 'Determinants of foreign direct investment in Africa: a panel analysis' *Global Journal of Management and Business Research* 12(18) Version 1.0
Siegmann, T. (2008) *The impact of bilateral investment treaties and double taxation treaties on foreign direct investments*. Law and Economic Research Paper Series No. 2008-22. University of St Gallen Law School
Signe, L. (2018) *Africa's consumer market potential: trends, drives, opportunities, and strategies*. December 2018. Brookings Institution: Africa Growth Initiative (https://www.brookings.edu/wp-content/uploads/2018/12/Africas-consumer-market-potential.pdf)
Sokchea, K. (2007) 'Bilateral investment treaties, political risk and foreign direct investment' *Asian Pacific Journal of Economics & Business* 11(1)
Suzuki, E. (2019) 'World's population will continue to grow and will reach nearly 10 billion by 2050'. World Bank Blogs (https://blogs.worldbank.org/opendata/worlds-population-will-continue-grow-and-will-reach-nearly-10-billion-2050)
te Velde, D.W. (2006) *Foreign direct investment and development: an historical perspective*. Background paper for 'World Economic and Social Survey for 2006'. London: ODI

te Velde, D.W. (2007) 'Understanding developed country efforts to promote foreign direct investment to developing countries: the example of the United Kingdom' *Transnational Corporations* 16(3): 83–105

Tellez, C. (2012) *Emerging practices in mobile microinsurance*. Accra: GSMA

Tobin, J. and Rose-Ackerman, S. (2011) 'When BITs have some bite: the political–economic environment for bilateral investment treaties?' *Review of International Organizations* 6(1): 1–32

UNCTAD – United Nations Conference on Trade and Development (2005) *Emerging FDI from developing countries*. TD/B/COM.2/64. Commission on Investment, Technology and Related Financial Flows

UNCTAD (2009) *The role of international investment agreements in attracting foreign direct investment to developing countries*. UNCTAD Series on International Investment Policies for Development. Geneva: UNCTAD

UNCTAD (2010) *Sierra Leone investment policy review*. Geneva: UNCTAD

UNCTAD (2012) *Mozambique investment policy review*. Geneva: UNCTAD

UNCTAD (2014) *Economic development in Africa: catalysing investment for transformative growth in Africa*. Geneva: UNCTAD

UNCTAD (2015) *Sudan investment policy review*. Geneva: UNCTAD

UNCTAD (2016) *World investment report 2016*. Geneva: UNCTAD

UNCTAD (2017a) *World investment report 2017*. Geneva: UNCTAD

UNCTAD (2017b) *The Gambia investment policy review*. Geneva: UNCTAD

UNCTAD (2018a) *World investment report 2018*. Geneva: UNCTAD

UNCTAD (2018b) *Cabo Verde investment policy review*. Geneva: UNCTAD

UNCTAD (2018c) *Investment policy review implementations reports: lessons learned*. Geneva: UNCTAD

UNCTAD (2019) *World investment report 2019*. Geneva: UNCTAD

UN DESA – United Nations Department of Economic and Social Affairs (2019) *World population prospects 2019*. Wallchart. New York: UN DESA

UNECA – United Nations Economic Commission for Africa (2016) *Investment policies and bilateral investment treaties in Africa: implications for regional integration*. Nairobi: UNECA

UNECA (forthcoming) *Linkages between double taxation treaties and bilateral investment treaties*. Nairobi: UNECA

USAID – US Agency for International Development (2007) *Foreign direct investment: putting it to work in developing countries* (https://www.investmentmap.org/docs/FDI_Putting-it-to-Work-in-Developing-Countries.pdf)

USTR – US Trade Representative (2018) *2018 National trade estimate report on foreign trade barriers*. Washington DC: USTR

Wadhwa, K. and Reddy, S. (2011) 'Foreign direct investment into developing Asian countries: the role of market seeking, resource seeking and efficiency seeking factors' *International Journal of Business and Management* 6(11)

World Bank (2018) *Doing business 2019: a year of record reforms, rising influence*. Washington DC: World Bank

World Bank (2019) *2019 ease of doing business report*. Washington DC: World Bank

WorldCargo News (2019) 'Mombasa to Nairobi container transport – rail only'. 6 August (https://www.worldcargonews.com/news/news/mombasa-to-nairobi-container-transport--rail-only-62764)

WTO – World Trade Organization (2017) 'Nigeria trade policy review' (https://www.wto.org/english/tratop_e/tpr_e/tp456_e.htm)

Yackee, J.W. (2010) *Do investment treaties promote foreign direct investment? Some hints at alternative evidence*. Legal Studies Research Paper Series No. 1114, March. Wisconsin Law University

Yackee, J.W. (2016) 'Do BITs "work"? Empirical evidence from France' *Journal of International Dispute Settlement* 7: 55–71

Annex 1 Policies related to foreign investors

While the overall business and trade environment influences investor decisions, policy-related issues on foreign investments may directly act as barriers to investments in host economies. By looking at the latest publicly accessible[13] UNCTAD or OECD IPRs of eight[14] countries in Africa in the past ten years (2009 to date), Table 9 summarises the available information on eight African countries' policy frameworks related to foreign investors, such as entry and establishment, treatment, protection, employment of foreigners, taxation and competition.

Seven out of eight countries have dedicated laws for investments, although five of these do not explicitly mention national treatment. In addition, competition laws or policies are in place in seven countries, five of which have a dedicated competition agency. However, with the exception of Zambia, all the country IPRs cite regulations restricting foreign investments in specific sectors and activities. For example, foreign investment is restricted in the following contexts:

- small-scale businesses in Botswana (OECD, 2014)
- fishing and maritime transport in Cabo Verde (UNCTAD, 2018b)
- defence in Gambia (UNCTAD, 2017b)
- transport infrastructure in Mozambique (UNCTAD, 2012)
- public procurement in Sudan (UNCTAD, 2015)
- a range of services in Sierra Leone (UNCTAD, 2010)
- selected industries in Tanzania (OECD, 2013).

Meanwhile, some sectors are reserved for public investments and restricted to both foreign and local private investors, such as a) road and railway construction and maintenance in Botswana and b) mining, petroleum exploration and refinery activities in Gambia.

Table 9 also shows that all eight African countries have regulations departing from the national treatment of foreign investors (i.e. mostly offering preferential treatment to citizens). Apart from Sudan, all the countries allow for the repatriation or transfer of funds with some foreign exchange (FX) requirements and/or controls. Protection against expropriation is present in all countries, albeit with most citing exemption in cases of public interest. In all countries, a form of investor–state dispute settlement system is in place.

Meanwhile, in most countries, employment of expatriates often has to comply with labour market tests, quotas or skills requirements. Among eight countries, the standard corporate income tax is lowest in Cabo Verde and Botswana (25%) and highest in Zambia (35%). Some countries impose lower corporate income tax in certain sectors (e.g. 15% for manufacturing in Botswana) and higher in others (e.g. 35% for oil in Sudan).

13 These are countries with full versions of IPRs in English that are accessible through the UNCTAD and OECD websites.

14 This includes Botswana, Cabo Verde, Gambia, Mozambique, Sierra Leone, Sudan, Tanzania and Zambia.

Despite the sectoral investment restrictions observed above, transparency behind such policies may help rather than hinder overall FDI inflows in host economies. In an UNCTAD review of lessons learnt from 15 countries[15] (13 of which are in Africa) that implemented UNCTAD's IPR recommendations, higher FDI inflows were observed in all countries during the five years following the IPR compared with the pre-IPR period (UNCTAD, 2018c). In these countries, the report on the review finds that a common area of regulatory reform relates to scope of ownership restrictions and entry limitations. The report further observes that a negative list (clarifications on sectoral restrictions on FDI) is more transparent than a positive list (open sectors to FDI), such as in Botswana and Colombia. UNCTAD recommends that, generally, where investment restrictions exist, these should be devised and published efficiently (e.g. justified by legitimate national policy objectives), and periodically reviewed (ibid.).

15 This includes Benin, Botswana, Colombia, Dominican Republic, Egypt, Ethiopia, Ghana, Kenya, Lesotho, Mauritius, Morocco, Rwanda, Tanzania, Uganda and Zambia.

Table A1 Investment policies related to foreign investors in selected African countries

Country	Reviewing institution/ year *Also reference documents	Treatment and establishment					Protection		System for employment of foreigners	General corporate income tax	Competition	
		Investment law (year)	Sectors or activities with restrictions on foreign investors	Free repatriation/ transfer of funds	Explicit national treatment in law	Departure from national treatment	Protection against expropriation	Availability of investor–state dispute settlement			Competition law (year)	Dedicated competition agency
Cabo Verde	UNCTAD 2018b	Yes (2012)	Fishing and maritime transport	Yes, with mandatory registration of FX operations with central bank	Yes	Certain investments (given nature and size) can access treatment and support from the state	Yes, except for public interest	Yes (national and international); limited international arbitration access for land disputes	Yes, residence and work permits based on skills category; permit may be denied depending on labour market test	25%	Yes (2003)	None
Gambia	UNCTAD 2017b	Yes (2015)	Defence; restricted to both foreign and local private investors: mining, petroleum exploration and refinery activities	Yes	Not explicit in law	Requires investment thresholds for foreigners to access incentives	Yes, except for public purpose	Yes, investment law provides use of conciliation and mediation, before international arbitration	Yes, up to 20% of total number of company employees, regardless of skills	30%	Yes (2001, 2007, 2010)	Yes, but with limited sanctioning power
Sudan	UNCTAD 2015	Yes (2013)	Public procurement and disposal of public asset for transportation, insurance, lease and buying of lands and foreign exchange	Free repatriation of profits but repatriation of invested capital requires authority's approval; strict FX control applies	Yes	Employment priority is given to Arab and African workers	Yes, except for public interest	Through the International Centre for Settlement of Investment Disputes (ICSID)	Yes, work permits granted to foreigners above 21 years, subject to labour market test, and no contradiction to Labour Law; employment in hotels restricted to foreigners; specific labour regime in free zones and markets	Agriculture: 0; industry: 10%; most services: 15%; banks: 15–30%; mining: 30%; oil: 35%	Yes (2009)	Yes
Botswana	OECD 2014	None, embedded in various laws	Small-scale businesses (e.g. retail and manufacturing, services and mining) and petroleum exploration and production (unless company has a development licence); restricted to both foreign and local private investors: road and railway construction and maintenance	Yes	Not mentioned in IPR, although IPR cites no restrictions or minimum thresholds for investments by foreigners	Preferential treatment for local employment, procurement (e.g. in construction, information and communication technology and medical supplies) and privatisation; mandatory sub-contracting of citizen-owned consultancy and construction companies when awarded government contracts; transfer of skills to sub-contracted company, placement of interns; price preference incentives for local–foreign joint ventures	Yes	Yes, national and international, although commercial arbitration in country mostly deals with employment rather than investment disputes	Foreign investors allowed to bring some skilled labour into the country for a given time period, provided there is proof that the skills brought are not locally available	25% except at 15% for manufacturing and IFSC/BIT firms	Yes (2009)	Yes

Table A1 Investment policies related to foreign investors in selected African countries (cont.)

Country	Reviewing institution/ year *Also reference documents	Treatment and establishment					Protection		System for employment of foreigners	General corporate income tax	Competition	
		Investment law (year)	Sectors or activities with restrictions on foreign investors	Free repatriation/ transfer of funds	Explicit national treatment in law	Departure from national treatment	Protection against expropriation	Availability of investor–state dispute settlement			Competition law (year)	Dedicated competition agency
Tanzania	OECD 2013	Yes (1990, 1996)	Limited possibility for the share of foreign investment and ownership in telecommunication, insurance, media, Dar es Salaam Stock Exchange, selected tourism activities, and mining and gas	Yes, but capital account not yet fully open	Silence from investment law on national treatment, but law and international agreements contain provisions against nationality-based discrimination	Differential treatment on business establishment procedures, project size thresholds, regulations on key personnel and access to land; preferential treatment for local persons or firms for public procurement	Yes, unless business acquisition is under the due process of law	Yes (national or before an ICSID tribunal, or within frameworks of bilateral or multilateral agreements); separate dispute settlement mechanisms for mining and land-related disputes	Yes, automatic immigrant quota of up to five non-Tanzanian persons in first five years of business; approval from government beyond five personnel	30%; with exemptions for companies at Dar es Salaam Stock Exchange and export processing zones	Yes (2003)	Yes
Mozambique	UNCTAD 2012	Yes (1993, 2009)	Transport infrastructure	Yes, for holders of investment licence; with FX controls and potential restrictions on transfer of funds	Yes, for investment licence-holders	Special treatment and support to nationals for deserving activities (owing to scale or nature)	Yes, for investment licence-holders, except for public need or interest	Yes, through international arbitration and only upon agreement of both parties; automatic access to international arbitration for countries with BITs with Mozambique	Yes, up to certain percentage to total workforce quotas, regardless of skills	32%	Yes (*policy only, 2007)	None
Zambia	OECD 2012	Yes (1996, 2006)	No restrictions on sectors where international investments can be made	Yes	Not explicitly national treatment, but non-discrimination underpins laws on investments	Empowerment Fund can only be accessed by disadvantaged citizens and is anchored on the following pillars: equity/ownership; preferential procurement, skills development, access to finance, transformation of society, corporate social responsibility, good political and corporate governance, greenfield investments and FDI	Yes, but can be expropriated by Act of Parliament	Yes (available in national courts and alternative dispute mechanism resolutions; international dispute settlement not discussed in IPR)	Yes, permits expatriate labour only in sectors with scarcity of local personnel; can obtain self-employed permit under minimum business venture threshold; allowed up to five expatriate staff in special technical skills under minimum investment threshold; work permits for large-scale investments for negotiations	35%	Yes	Yes
Sierra Leone	UNCTAD 2010	Yes (2004)	Services sector (professional services, auxiliary transport, internal waterway and rail transport, airport, maritime, insurance and banking)	Yes, but with some outdated laws that condition/restrict transfer of funds (e.g., Development Tourism Act, Exchange Control Act)	None, except for full national treatment for member countries of Mano River Union (Côte d'Ivoire, Guinea, Liberia and Sierra Leone) and ECOWAS	Preferential access (FDI) and treatment (in freight and passenger transport) granted to regional partners (Mano River Union, ECOWAS)	Yes	Yes (national and international)	Yes, upon minister approval and may be discretionary	30%	None	None

ODI is an independent, global think tank, working for a sustainable and peaceful world in which every person thrives. We harness the power of evidence and ideas through research and partnership to confront challenges, develop solutions, and create change.

ODI
203 Blackfriars Road
London SE1 8NJ

+44 (0)20 7922 0300
info@odi.org

odi.org
odi.org/facebook
odi.org/twitter