Johannesburg contributes over 16% of South African GDP

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Johannesburg: Interlinked Narratives and Investment by Foreign Firms

By Umakrishnan Kollamparambil and Rubina Jogee
The aim of the present study is to document the interdependence between Johannesburg and foreign-owned companies over time with a view to understanding the present-day context of foreign companies’ presence and impact on the city. The study methodology has been multipronged, relying on existing data and literature but is predominantly based upon open-ended interviews with stakeholders viz. CEOs of foreign firms, policymakers as well as local firms that are either suppliers to or competing with foreign firms. The remainder of this study is divided into three broad segments. The first explores the role of foreign firms in the creation of modern day Johannesburg, providing historic background and context to the study. The second segment constitutes the core of the research with findings on the current relationships between Johannesburg and its foreign firms, while the third and final segment reviews the policy implications for the future.

Globally, South Africa is ranked 74 among 190 economies in terms of ease of setting up new business according to the latest World Bank annual ratings. In 2017, the city moved up two places in the 2016/17 Global Competitiveness Index to rank 47th among 138 countries covered by this Index.

Johannesburg, fondly nicknamed “Jozi” by South Africans, is the most populous city in South Africa. It has an estimated area of 335 km², while the City of Johannesburg Metropolitan Municipality (CJMM) is estimated at 1,645 km², covering surrounding areas like Sandton, Midrand and Soweto. (Dept. of Local Government, 2017). Johannesburg is the provincial capital of Gauteng, the smallest but wealthiest province in South Africa. Gauteng accounts for only 1.5% of South Africa’s land area but is its most urbanized province with over 24% of the national population and it generated 35% of the country’s GDP in 2016 (StatsSA, 2016). As shown in this study, Johannesburg and its surrounding area constitute a financial hub for the entire African continent and are home to affiliates of multinationals from all parts of the world (Wall, 2017: 8).

Intertwined history of Johannesburg and foreign firms
Johannesburg is a young city, also known as Egoli - the city of gold - as its establishment and rise are linked to the discovery of gold on the Witwatersrand in 1886. A rapid growth of the Johannesburg population (then known as Witwatersrand in Transvaal) ensued
due, initially, to the migration of Europeans from the British Cape Colony and Europe, particularly from Britain (Robertson, 1958). The mining operations also led to large-scale increases in the multi-racial, mostly black, population brought in from outside Transvaal and later from China to provide manual labour in the mines. The larger companies like Consolidated Goldfields and Rand Mines were established to exploit the mineral wealth and were foreign-incorporated and listed on the London Stock Exchange. While the large mines were predominantly financed by British capitalists, the technology and know-how came from the USA, notably Nevada, where deep-level mining technology had been developed (Nkosi, 1987). American capital soon followed through the formation of the Anglo-American Corporation in 1917. Since then, foreign firms have continued to play an important role in the city’s economy.

Johannesburg developed as a city for most of the 20th century within a context of institutionalised racism known as apartheid, with areas reserved for whites serviced with all amenities, while those for black, Indian and coloured people were neglected, overcrowded and with few opportunities for education or employment. The foreign firms in Johannesburg reinforced the apartheid system with ownership and all positions of responsibility held by white males. These foreign firms benefited from the apartheid laws that enabled white-owned companies to control the non-white workers, keep their wages low and reap immense profits. This resulted in the city and the country developing as one of the most unequal in the world.

Although the 1960s saw initial calls for disinvestment and economic sanctions against South Africa, they did not meet with much success as most of the Western countries that predominantly owned the foreign firms in South Africa did not support the call. The apartheid government and economy finally fell to international pressure with the call for divestment gaining momentum in the 1980s and US federal legislation in 1986. With South Africa’s most important trading partners like the USA, the EC, and Japan imposing economic sanctions, many of the foreign firms found it no longer possible to carry on with ‘business as usual’. Consequently, South Africa experienced considerable capital flight from 1984 onwards because of the disinvestment campaign and the repayment of foreign loans (Knight, 1990).

By the dawn of democracy in 1994, Johannesburg had firmly established itself as the economic hub of the Republic of South Africa, having evolved from a mining-based economy to become a financial and services hub for the African continent. While the new democratic government had the onerous task of reviving the confidence of foreign investors, it also had to finely balance socio-economic transformation in the interest of a population majority disadvantaged through inferior education, low wages and unequal social and economic opportunities under the apartheid dispensation. It needed to not just transform the foreign firms in the interest of social equity, but also to use them for disseminating progressive social change in society. This still constitutes the present-day challenge for policy making.

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Profile of modern day Johannesburg

The Greater Johannesburg Metropolitan Area had an estimated population of 9.8 million in 2017 (World Population Review, 2017). The 2011 Census showed that the City of Johannesburg had a population of 4.4 million (StatSA, 2011). The provincial government of Gauteng has, over the years, spent substantially (accounting for 10% of provincial budget) on developing the infrastructure in the city to attract and create a more conducive environment for domestic and foreign investment. This was further spurred by the province’s infrastructure development as part of the country’s hosting of the 2010 FIFA Soccer World Cup. A majority of the projects under this initiative were located in Johannesburg. An example of the province’s projects includes ‘Blue IQ’, a multi-billion Rand initiative to invest in economic infrastructure development. Other projects include the Gauteng Freeway Improvement Project, which involves upgrading existing roads and building new roads to

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improve accessibility and reduce congestion (National Roads Agency); the Johannesburg city’s public-private broadband network project to ensure the city is a digital smart city; and projects by City Power (an independent municipal entity wholly owned by the City of Johannesburg) to ensure sufficient power capability for meeting the city’s increased demand.

Johannesburg is the African continent’s dominant internet centre and ranks as the 23rd city in the world in terms of telecommunications development. South Africa is now the fourth fastest growing GSM (Global Systems for Mobile Communications) market globally. Johannesburg ranks top among the nine South African cities evaluated by World Bank for the ease of setting up of new business and registering property. However, the city lags in 8th when it comes to accessing electricity, obtaining construction permits and enforcement of contracts.

Table 1 provides the position of the city relative to the Sub-Saharan African (SSA) region and the OECD in the ease of doing business. Johannesburg compares favourably in terms of costs in relation to the SSA region. However, time delays are high when it comes to starting a business and getting electricity. Apart from this, the lack of a well-functioning integrated public transport system has been identified as a limiting aspect of Johannesburg. To rectify this, the Corridors of Freedom project has been implemented to introduce integrated public transport and develop commercial and residential spaces along these transport corridors. However, the uneven nature of urban development as highlighted by Wall (2017: 14) continues to be a cause of concern.

Johannesburg is second only to Cairo among African cities in attracting FDI (Wall, 2017) and accounted for nearly 25% of the FDI flows into the Johannesburg-Maputo corridor for the period 2003-2014. This compares to the similar FDI domination of Cairo in the Cairo-Alexandria corridor (Mahdil Nakeeb, Barakat, 2017). Figure 1 shows the positive trend of FDI flows into the corridor with total FDI flows more than doubling between 2003 and 2014. FDI flows to Johannesburg, on the other hand, have not followed a similarly positive trend in recent years and the share of the city in the corridor’s FDI inflow has fallen from 21% in 2003 to 12% in 2013.

Johannesburg stands apart as the city with not just the highest share of FDI to the corridor, but also in attracting the most diversified FDI. It attracts investment in the manufacturing, services, hi-tech and resource sectors. In terms of hi-tech FDI, Pretoria leads Johannesburg marginally among cities in the corridor (Figure 2).

A further breakdown of sectors (Figure 3) shows that Johannesburg dominated as the destination for FDI in industrial activities such as technical support centres, sales and marketing, ICT, education, logistics and as indicated by Wall (2017: 9), headquarters of multinationals.

Johannesburg attracts FDI in a wide range of sectors (Figure 4). FDI into ICT accounted for 28% of total FDI into Johannesburg in the period 2003-2016 (Figure 6), followed by metals and financial services at 11% and 8% respectively.

The UK is the single-largest source of FDI into Johannesburg, accounting for a quarter of all FDI
in the period 2003-2015, followed by the USA and Australia, accounting for 18% and 16% respectively (Figure 5). Among other economies, China and India figure as prominent investors in the city.

Analysis of FDI concentration by industrial sector shows significant differences between FDI sources (Figure 6). While UK and Chinese investments are highly focused on the metals and minerals sector, USA and Indian FDI is more diversified, although investments in the coal, software and alternative energy sectors dominate.

**Interview findings**

The profile of the foreign firms interviewed for this study is summarised in Figure 7. Over 77% of the foreign firms interviewed were from the advanced economies but a growing trend for FDI from
emerging economies is apparent with the more recent entry of, notably, Chinese and Indian firms. The bulk of firms interviewed (62%) were wholly-owned subsidiaries, with 31% reporting partnership with local Black Economic Empowerment (BEE) partners. A majority of the firms (62%) had entered South Africa post-apartheid.

While the investors from emerging economies showed acquisition as the favoured mode of entry, firms from advanced economies were more likely to enter through greenfield investment. Differences in ownership patterns between firms from advanced and emerging economies are also apparent, with the former more likely to be wholly-owned subsidiaries and the latter operated in partnership with local firms. Among the manufacturing firms interviewed, over 70% of firms were from the engineering industry, 15% from automobile and the remaining 15% from chemicals. Over 85% of the firms in the manufacturing sector reported either direct or indirect dependence on the mining industry. The continued importance of the mining industry in Johannesburg is hence highly apparent.

**Locational advantages of Johannesburg**

The two most important factors highlighted by foreign firms in their decision to locate in Johannesburg are the city’s advantageous agglomeration size and the world-class infrastructure that links Johannesburg to the rest of the world.

**Agglomeration size**

Foreign firms cited agglomeration in the interviews in response to the question of why they chose Johannesburg as the location of their head-office in
South Africa, even while their operational branches are located elsewhere. Proximity to customers, sources of raw material and also availability of skilled workers formed the basis for this argument. Johannesburg contributes over 16% of South African GDP (HSRC, 2014), more than any other city in South Africa, and hence weighs favourably as an ideal location when it comes to the influence of agglomeration. The bulk of support and other skills are also more concentrated in the Johannesburg region. Proximity to regulatory institutions such as the South African Revenue Service (SARS), the South African Reserve Bank (SARB) and commercial banks among others were also cited as important in the consideration to locate their head offices in Johannesburg.

Physical infrastructure
Many foreign firms chose to locate their headquarters in Johannesburg due to the city’s superior connectivity with the rest of Africa and the world, linking it to ports and other parts of the country. Foreign firms that either transport their goods to other countries in Africa and/or require import of inputs for production mentioned the South African coastal ports in the Maputo Corridor (Richards Bay and Durban port). Some referred to other maritime ports in the country, like Port Elizabeth and East London. None of the interviewed firms used the port of Maputo, claiming that passing through Mozambique and the South African customs is cumbersome. The Richards Bay and Durban ports have in general been described as world class, although some firms stated that the Port Elizabeth and East London ports need upgrading.

All firms interviewed use clearance agents for dealing with customs at the ports and did not face any direct problems with clearance processes. None
had experienced difficulties with clearance agents and generally considered the entire process smooth. With land borders, the foreign firms did not find issues with customs at the South African side, but had problems with the other country border controls, especially within the African continent. The suggestion was made to have a ‘single window’ for border control management, where individuals go through one border control for two countries, rather than two different and subsequent controls. This would facilitate speedier processing and reduce border delays.

The most constraining factor that the companies brought up is the state of the Transnet rail system which, ideally, should be the most efficient and cheapest way to transport goods to the ports and borders. Firms described Transnet as a ‘shambles’. The road system is therefore the favoured transportation mode for goods throughout the country. It is costlier than the rail system but more efficient in terms of delivery time.

**Information and Communication Technology (ICT)**

The firms interviewed noted the high cost of ICT in the city, driven largely by higher internet costs. Nevertheless, the firms acknowledged that both the availability and reliability of ICT are good in Johannesburg. This makes it easier to bring in and implement newer technology in the city, however at a higher cost, which reduces market penetration. The foreign firms interviewed in the ICT sector were of the view that the technology market is not as saturated in South Africa as in some advanced economy markets and there is potential for growth and great scope for technology diffusion in South Africa through increased market penetration. This, however requires better pricing for the market to be widened.

**Labour costs**

The low cost of labour was highlighted by foreign firms as giving Johannesburg a competitive edge over advanced economies. One of the German engineering firms interviewed said South Africa was the centre of their global value-addition chain because of the lower labour costs compared to the parent country.

**The role of government: policies, regulation and incentives**

Foreign firms’ investment decisions are influenced greatly by policies, regulation and incentives at all tiers of government. For all foreign firms interviewed, the Broad-Based Black Economic Empowerment (BBBEE) legislation enacted by the government seems to be the major discussion point. The incentives offered by the national government seem to have a greater impact on attracting foreign investment than those offered by local government.

**National-level transformation policy**

While the advent of democracy saw most citizens gaining franchise, democratic South Africa inherited a highly inequitable and fractured society, its unequal character epitomized by the city of Johannesburg. The national government initially institutionalized Black Economic Empowerment (BEE). In response, mining and other foreign companies attempted BEE compliance by transferring equity and management representation to a select few black individuals. The policy therefore became controversial and attracted criticism because it allowed for a few individuals to amass extreme wealth. Subsequently, the affirmative action Broad-Based Black Economic Empowerment (BBBEE) policy was launched to correct the shortfalls of BEE through ownership and management control; preferential skills development; socio-economic development; as
The road system in South Africa is favoured over rail for the transport of goods because of the state of the rail system ©Anke Van Wyk

**Figure 6. Source-wise distribution of FDI across industry sectors**

Source: Kollamparambil and Jogee, 2017, based on fDi Markets data
well as enterprise and supplier development (the five elements under the 2015 BBBEE Code).

The BBBEE legislation is supported by and functions in conjunction with various other forms of legislation, including the Employment Equity Act, the Skills Development Act, the Preferential Procurement Framework and others.

Matters relating to transformation and, specifically, the BBBEE were highlighted as significant issues faced by all the foreign firms interviewed. While the majority of these foreign firms ruled out dilution of parent equity holding due to the global policy of the parent company maintaining full ownership, they admitted BBBEE seriously hampered business expansion in South Africa, since they could no longer compete in the public sector procurement market. Some foreign firms interviewed embraced ownership obligations under BBBEE by creating joint ventures with local companies to achieve BBBEE compliance or by
transferring partial ownership to employees through trusts created for that purpose. Most foreign firms interviewed were in the process of complying with the new set of codes introduced in 2015 that would enable them to retain their BBBEE certification levels achieved prior to 2015.

Ownership and management control elements of BBBEE aside, the greater weight assigned to procurement and enterprise development under the new 2015 codes, has laid emphasis on preferential procurement by foreign firms under the Preferential Procurement Framework Act which stipulates that foreign firms are required to obtain BBBEE certification to conduct business with government. Such foreign firms have to ensure that their own vendors are also BBBEE compliant. In this manner, the benefit of the preferential procurement framework is expected to percolate down to smaller firms that have no direct dealings with government. The suppliers

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to the manufacturing foreign firms also registered their efforts to comply with BBBEE as a necessity to continue business with the foreign firms. The trickle-down effect of the policy is therefore very visible in the manufacturing sector but not in the tertiary sector.

All foreign firms that were interviewed from the manufacturing sector complied with BBBEE certification through securing the right ethnic profile of employees and by providing training and skills development for apprentices. Some firms complained of shortfalls in the availability of black African skilled technical workers, as such workers were in high demand across the industry and tended to indulge in ‘job hopping’. Consequently, foreign companies have to pay a ‘black premium’ for such personnel.

Most manufacturing foreign firms interviewed took in apprentices from disadvantaged backgrounds and provided training, because that not only allowed points under BBBEE, but also access to the Sector Education and Training Authority (SETA) grant for skills development. Some of the foreign firms interviewed claimed they were absorbing a select number of apprentices into their payroll at the end of the programme, but the numbers were negligible.

To summarise, BBBEE regulations brought out some mixed feelings and comments from the foreign companies. While some found them to be a hindrance to business and costly to some degree, most of the firms accepted the legislation as being morally right.

City policy for transformation
Matters of ethnicity-based socio-economic inequality and dangerously high levels of unemployment aside, Johannesburg faces further structural challenges. Although the origins of economic activity in the city of Johannesburg started out in the primary and secondary sectors, there has been a significant shift towards the services sector. The growth of this sector does not fit the supply of the huge cohort of unemployed in the city. Moreover, the distribution of economic activities is highly uneven across the city and not well aligned with areas where a majority of the population lives (City of Johannesburg, 2014). The city government has put in place spatial policies to correct the inequalities of apartheid planning within the city which has contributed to a spatial concentration of deprivation based on income, employment, health, education and the living environment (JDA, 2014).

The Corridors of Freedom project, which will let Joburgers live closer to their workplace, is expected to transform entrenched settlement patterns through incentive schemes such as the Urban Development Zone (UDZ) tax incentive for the revitalization of certain urban areas. Although not specifically aimed at attracting foreign direct investment, the tax incentives under the UDZ are open to foreign and domestic firms alike. However, FDI attraction through UDZ has proven limited (JDA: 64). The government’s vision of transforming the city is through multiple small investments into the real estate and services sectors rather than a single mega project. Consequently, it is local rather than foreign investment that has responded.

As in most African cities, migration is a big issue for Johannesburg (Golooba-Mutebi, 2017). Every month, the city of Johannesburg receives around 10,000 migrants from other parts of the country and the continent and, therefore, constantly faces ‘shifting goal posts’ when it comes to transformation through providing
employment and adequate housing. To contain the unemployment, which is close to 35%, the city is also trying to develop manufacturing hubs and is promoting industrial clusters of furniture, textile and clothing manufacturing, in addition to the ICT and knowledge-based tertiary sector. Again, there is little evidence of success in attracting FDI into these priority economic sectors.

**Labour laws**

Some of the country’s labour laws were found to be restrictive and too complicated, especially for companies whose work is mostly project based. Some firms indicated that recruitment was undertaken only after much thought and deliberation given the difficulty in shedding superfluous employees under the current labour laws.

**Government as customer**

The government procurement market accounts for 9% of GDP and is consistently increasing over time in South Africa (Kollamparambil, 2014). It is therefore not surprising that some foreign firms in South Africa derive a significant share of their revenue from the public sector. Some supply government directly with products and services, while others are involved in infrastructure upgrades and development, providing new and better technologies, with the South African government part of their customer group. They have to lobby the government constantly to work on policies that favour them.

**Incentive schemes**

Industry clusters and Special Economic Zones promoted by the national government are seen to influence the location of foreign investments. However, given the densely urban nature of the city of Johannesburg, such mega projects have been located in other parts of the Johannesburg-Maputo corridor. Nevertheless, the head offices of such investing firms prefer to locate in Johannesburg because of location advantages.

Investing firms benefit from government incentives, like the Skills Education Training Authorities (SETA) mandatory grant refund, which provide for corporate tax returns on funds spent on training. Export Marketing and Investment Assistance (EMIA) is such a scheme aimed at partially compensating exporters for costs incurred in developing export markets. However, none of
the foreign firms interviewed mentioned it as a significant incentive, but a local competitor did. One foreign mining firm interviewed emphasized a need for differential duties on imports aimed at the production of export goods.

**Red tape and coordination between levels of government**

Many foreign firms found compliance with some of the government regulatory policies restrictive to their businesses. Successful investment promotion and development requires coordination between various tiers of government. While both the city and the province of Gauteng operate within the framework of the National Development Plan (NDP), very often both the approaches and underlying ideologies differ between tiers of government. Consequently, development can become a contested space. The City of Johannesburg follows a policy of multiple small projects distributed across the city, while provincial and national governments tend to promote mega projects. Take, for instance, the much-publicized megacity development at Modderfontein, promoted by the national government, but delayed in part due to tardy clearances by the City of Johannesburg. The need for all three tiers of government to understand development and the role of investments in the same language is a critical necessity for attracting and nurturing foreign investment. To this end, the establishment of an intergovernmental clearing house to support investors was announced in 2015 to help reduce red tape and bottlenecks and make South Africa more investor friendly.

**Exchange controls**

One of the interviewed firms cited difficulties in repaying loans from its foreign parent company due to South Africa’s exchange control regulations. None of the other firms cited exchange controls to be overly restrictive.

**Bilateral and regional agreements**

The foreign firms interviewed all appreciated South Africa being part of the SADC community which enabled Johannesburg to become the springboard for an expanding business relationship with other Southern African countries. Nevertheless, the need for separate visas rather than one single visa for all SADC countries for non-South African passport holders was found to hamper easy mobility within
SADC for expatriates employed by the foreign firms. The BRICS association did not feature as an important factor, even for firms from other BRICS countries. There was optimism that with the establishment of the New Development Bank with its regional headquarters in Johannesburg, BRICS will play a more important role in the future.

The decision of the South African government to terminate its bilateral investment treaties (BITs) with Germany, the Netherlands, Spain and Switzerland did not overly concern the foreign firms interviewed.

Linkage impact of foreign firms on the economy
Foreign firms create positive linkages and spill-over effects through development of the local supplier base, creation of employment, changes in work culture, gender parity and through corporate social responsibility. By the same measure, the presence of foreign firms can also have a negative impact through curtailing local competition. Some of these issues are discussed in this segment.

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Local supplier firms
The survey revealed that more technology-intensive inputs are imported rather than sourced locally, especially in the chemical and engineering sectors. The foreign firms in Johannesburg and South Africa are increasingly acknowledging a need for local suppliers in line with the BBBEE charter. Current local sourcing predominantly includes stationery, consumables, furniture, water-cooling, sales and marketing services, public relations, events, sub-consulting, security services and travel services.

Local competitor firms
None of the foreign firms interviewed named local South African firms as their major competitors for the South African market. The competition for the South African turf is from other foreign firms. This is of concern, as it indicates a lack of competitive capacity on the part of South African firms while the highly concentrated nature of many of South African markets (Fedderke and Simbanegavi, 2008) has given rise to collusion and price fixing.

Both of the South African firms interviewed that claimed to compete with foreign firms pointed out that, whereas foreign firms had a technological advantage, South African firms had a price advantage that enables them to compete at a different level. Local companies also attributed their ability to retain market share in South Africa because of BBBEE certification. While both firms indicated a need for the government to promote investment in new technology, the local companies interviewed have adopted different strategies to counter strategic technological disadvantages.

The larger of the two local firms has actively pursued (and is currently engaged with) research-based government institutions like the Centre for Scientific and Industrial Research (CSIR) to upgrade themselves to international standards. The second firm, which is relatively new and much smaller in size, is looking for a foreign partner for technological collaboration. The firm’s representative stated it was open to foreign direct investment as well, but expressed disappointment with government support structures and claimed to not have received any financial support despite being a level-1 BBBEE company (100% black ownership). This firm, while still struggling to find its footing, has been set up by a former employee of a foreign firm, and this can be highlighted as part of the spill-over benefit expected from the presence of foreign firms. But, unfortunately, such instances are rare in the South African context.

Moreover, the little competition that does exist between South African and foreign firms cannot be said to be competition between equals. The South African firms appear to be the “David” in their competition against the “Goliath” foreign firms.

Job creation
The presence of foreign firms in South Africa has boosted local employment, both directly and indirectly. Indirect effects would include jobs created through the development of franchises, shops selling their products, and service providers. Direct employment at the companies includes permanent and contract jobs, with project-based businesses having many contracted employees. measuring
the impact of job creation by foreign firms is very complex, but one can assume that it represents a quite substantial value. Through the BBBEE, most companies are looking to employ previously disadvantaged graduates, but the firms interviewed cited a shortage of individuals from disadvantaged backgrounds with the necessary skills.

Gender parity
Gender parity is still a distant reality. All the firms interviewed are male-headed with only a few women by ratio in the top management positions. This gender divide is also apparent at lower levels, based on the engineering firms interviewed where males dominated the factory floor even though gender-support programmes and strategies have been developed to promote greater gender parity in those industries. Some companies are actively seeking female employees to improve the gender balance among the staff in their companies.

Training and skills development
Foreign firms in South Africa spend a great deal on training and skills development for local employees. There are many types of training they implement among their workers, but most are specific to the job requirements. In some cases, international professionals are brought in to train local professionals towards the long-term goal of local professionals fully running operations. Some training is ‘on the job’ (experiential training), either in-house or at operation sites. Some companies rely on universities to train their employees through their studies. Foreign firms also send individuals for training to their headquarters or to their other subsidiaries overseas to empower them and expand the diversity of their knowledge. Virtual and online training courses also exist and are run by instructors from other countries.

Social inclusion
The corporate social responsibility of foreign firms was found to be determined by the minimum requirement of the socio-economic development component within the BBBEE regulations. The foreign firms interviewed provided many examples of how they have promoted or facilitated social inclusion in South Africa. These include encouraging entrepreneurial SMEs; providing funding and support to the building of new schools and clinics; supporting rural farmers; providing free online education portals for students and free online textbooks; investing in education upliftment programmes/academies offering free courses to the previously disadvantaged, particularly in the IT fields, engineering and sciences; sponsoring of sports events; providing support programmes for women coping with a male-dominated workplace; setting up of diversity programmes for people of different ethnicities to empower previously disadvantaged people and overall create an inclusive environment; going to rural areas to source prospective employees and training them; and also providing bursaries to needy university students. City officials who were interviewed, however, were of the opinion that the foreign firms were doing the bare minimum required under the BBBEE rather than being motivated by leaving a lasting legacy.

Environmental sustainability
The larger foreign firms from advanced economies that were interviewed came across as highly conscious of the reputational (i.e. brand) risk involved in flouting international environmental standards. They claimed, for this reason, to abide by more stringent norms than those dictated by the host government. Foreign firms from advanced economies also claimed they were taking measures to ensure that they consider environmental sustainability and climate change mitigation in their operations, but more to satisfy the South African regulations. These firms were of the view that, while South African regulations were world-class on paper, monitoring and evaluation was wanting due to a lack of human capacity.

Challenges to doing business in Johannesburg
Although Johannesburg is afloat with great opportunities, there are challenges facing foreign firms doing business in the city. Most of the constraints that came out in the interviews relate to the country-level rather than those specific to the city.

Locational disadvantages
When asked why foreign firms with head offices in Johannesburg chose to undertake production operations elsewhere, the responses indicated that the decision was primarily driven by the location of resources (mining), specialized industry clusters (automobile) and the high cost of land in the city (manufacturing).
Skill shortages
Shortages of skills needed in their industries is experienced by many firms in Johannesburg. Most commonly lacking are technical, engineering, commercial and financial skills. Some companies stated further that certain government regulations make it difficult to bring in expatriates to supplement local skill availability. Others feel that BBBEE regulations add to the skills shortage since finding the right skills among black Africans can be very difficult. Consequently, companies have to train local people, which increases their business costs.

Labour laws and labour militancy
Firms mentioned their difficulty in quickly adapting to fluid market situations, such as exchange rate fluctuations and political instability, because of stringent labour laws. Some of these problems, to some degree, affect future potential investments. However, one firm cited not just improved labour relations but also enhanced labour productivity after a BBBEE deal to transfer part ownership of the company to the workers. In addition to labour laws, labour relations have also been challenging, especially in the mining sector. Unionized worker strikes obviously affect industries negatively; some directly and others by knock-on effects through business channels. A US firm cited having to shut down for two days because willing labour was prevented from working by the striking workers of a neighbouring Japanese firm. In recent times, the South African mining industry has been marred by strikes demanding higher wages. The most infamous one occurred in 2012 when a confrontation between police and mineworkers at a UK-based multinational with its headquarters in Johannesburg turned violent and led to the deaths of 34 mine workers at Marikana.

Transport and communications infrastructure
Most foreign firms interviewed were of the view that the infrastructure in Johannesburg and South Africa as a whole is deteriorating due to the lack of maintenance, leading to the flagging condition of roads and the Transnet rail service. Some companies cited problems with Telkom, the country’s telecommunications service provider, because of the...
tardy repair of damaged lines or stolen cables. The increased costs of communication were mentioned as particularly impacting on ICT-based companies.

**Rural infrastructure**
Some firms expressed dissatisfaction with rural infrastructure in some parts of the country, which is affecting their ability to get their products into different markets in a timely fashion. The ICT sector, for example, needs to connect rural areas but a lack of roads and electricity makes this a difficult endeavour. Some companies decided to build their own roads to get to people to those areas, which has increased their business costs.

**Electricity and water**
Inconsistency in the delivery of some government-provided utilities in Gauteng has also affected businesses and increased operation costs. The firms were happy that the electricity supply was back to normal after two years of uncertainty and load shedding, but complained about the huge fixed-investment cost they had to maintain an uninterrupted power supply. Concerns were also expressed about future water provision.

**Crime**
With higher crime incidence in areas near their businesses, foreign firms have to spend more on security. Some companies have had their trucks hijacked and goods stolen. Likewise, theft of telephone cables also affects their productivity. Worker safety has, consequently, become a matter of concern, especially to firms bringing in skills from elsewhere for skills transfer. Some companies have lost good workers after they had become victims of crime.

**Rand depreciation**
Many firms lamented the high volatility and sharp depreciation of the South African Rand over the last two years, because it had caused not only higher costs for the importation of components in production processes, but also greater capital expenditures to upgrade technology and/or increase capacity. However, firms that either competed with imports or supplied to firms that compete with imports had been positively affected. For example, an engineering firm supplying machinery to paper manufacturers in South Africa stated that the Rand depreciation actually saved the industry from devastation by Chinese imports.

**Policy and political uncertainty**
The single largest constraining factor cited by almost all the foreign firms interviewed is political uncertainty and instability in South Africa. Uncertainties surrounding the Mining Charter, for instance, were most worrying to all engineering firms directly or indirectly dependent on the mining industry. Lack of leadership, uncertainty surrounding the presidential succession and frequently changing finance ministers featured as the most common concerns to foreign companies invested in the country. Political uncertainty has affected some companies immensely, particularly those dependent on new investment in mining.

An agricultural commodities-importing company cited the high cost of wheat import duty and the lack of clarity in this regard. A local firm supplying foreign mining companies complained about the South African Revenue Service’s policy of garnishing allegedly outstanding value added tax, which was ultimately refunded without interest after months of dispute. Despite a recent downgrading by rating agencies, firms recognise the ability of South Africa to overcome these challenges under good leadership.

**Economic growth**
The low levels of GDP growth recorded by South Africa over recent years have constrained the growth of demand. The firms interviewed were of the view that the full potential of the economy could be unleashed only with more enabling policies and with a government providing greater certainty and direction.

**Pace of business**
Foreign firms from advanced economies like the US and Europe had to contend with the slower pace of doing business in South Africa, especially those companies used to a globalized world pace. Multinationals hailing from emerging economies like India, on the other hand, find operating in South Africa more efficient compared to their parent country.

**FDI from the South**
Foreign firms from developing and emerging economies felt that they face biased attitudes by being viewed as inferior in quality and technology in the South African markets vis-à-vis large foreign firms from the advanced economies and South African state-owned enterprises. One Indian firm interviewed thus explained its decision to continue
with the South African name after the local firm’s acquisition, so as not to broadcast the new Indian ownership of the company.

Policy implications
Using FDI as a policy tool to address intra-city spatial disparities emerges strongly from this analysis. The investment potential for the less developed southern parts of the City of Johannesburg, which are not only populated with abundant labour but have vast land tracks available, is an opportunity for policy makers to consider. To attract more foreign investment into the urban incentive schemes aimed at the revival of lagging areas of Johannesburg, the city needs to first address crime and illegal occupation of buildings in these areas. Johannesburg compares unfavourably with other cities in the country when it comes to ease of getting electricity, construction permits and contract enforcement. Red tape delays in starting a business compared to many locations elsewhere in the SSA region do not help the city.

Incentives needed from the city government to enhance investment attraction include: a) improving ICT; b) skills development; c) investment in innovation; d) more accessibility to government; and e) improvement in public-private partnerships. Further, the city’s policy makers need to consider the determinants that promote FDI across Johannesburg as identified by Wall (2017:40). This study also brought out the need to better align policies at local, provincial and national levels as that would go a long way towards improving the investment environment.

While unemployment is a serious concern in the city, the firms that were interviewed cited stringent labour laws as counterproductive to job creation. A review of the labour policy framework is necessary so that a balance can be struck that both ensures employment generation at the required scale while leaving no room for exploitation of labour. Whereas firms expressed the desire to support transformation of the employment structure, they are constrained by the non-availability of skilled professionals among the disadvantaged groups of society that need jobs. Further government support to improving human capital, especially amongst black South Africans, comes out strongly as a recommendation in this study to make more of the unemployed employable.

Compliance with BBBEE legislation and obtaining an adequate level of BBBEE certification is the overarching framework within which foreign firms are trying to operate. Therefore, policy certainty in this regard will go a long way to building more investor confidence. The firms interviewed were largely cognizant of the need to correct historic injustices through affirmative action and acknowledged the role of BBBEE to be an essential element in the transformation process. There was, however, criticism of it as adding to the cost of business in South Africa.

The highly segmented and concentrated character of production space in Johannesburg is apparent with technology-based manufacturing and production dominated by foreign firms. Local firms fulfil a role of supporting foreign firms rather than competing with them. There is little evidence of foreign investment crowding in domestic investment. This highlights a need for policy intervention towards establishing structures for financial and technological support to domestic firms. Reducing the import content of foreign firm production and promoting government support to ensure backward linkages through development of local South African suppliers also came out strongly as a recommendation in this study.

The study further highlights the need to stimulate firms to undertake more value-added exports. Also, differentiating between import duties on products destined for domestic markets and those for re-export would make exports more competitive. Further, government organizations such as the Development Bank of Southern Africa (DBSA) undertaking tied aid and investment is expected to boost investment.

While the firms interviewed expressed general satisfaction with the physical infrastructure such as airports, maritime ports and roads, the need for extensive investment in Transnet - the rail transport system - to strengthen the Johannesburg-Maputo corridor’s infrastructure came out as the ‘need of
the hour’. Reducing ICT costs is also expected to provide a boost to the attractiveness of Johannesburg as an investment destination. Helpful suggestions are single SADC-wide visas for foreign investors and a ‘single window’ approach for border control, where individuals go through one border control for two countries together, rather than two different border controls one at a time. These are expected to strengthen the Johannesburg-Maputo corridor, help boost intra-regional trade among Southern African countries and promote ease of doing business in the Southern Africa region.

Our analysis confirmed that foreign firms were not overly worried about the termination of bilateral investment treaties (BITs) by South Africa. It is, however, imperative that South Africa includes its social and developmental interests while negotiating new BITs. A new generation of BITs needs to evolve that is based on synergies between investment policies, the development strategies of the host country and responsible investor behaviour.

It is clear from this study that a ‘new generation’ policy framework is required that better promotes foreign investment while enabling regulation of investment in keeping with the host country’s public policies and responsible investor behaviour.

To conclude, the firms interviewed were cautiously optimistic about their prospects in South Africa. Their main concern is related to political and policy uncertainty. Many firms indicated that new investments were on hold till greater clarity has been achieved, notably regarding the Mining Charter and the political leadership of the country. Many local and foreign firms that supply mining firms were deeply affected by the commodity price meltdown of recent years, fuelled by the Chinese economic slowdown. Therefore, the need to diversify South Africa’s economic structure and reduce dependence on international commodity markets while creating much needed employment generation, comes out as the most important challenge that Johannesburg faces in its near future.
In the distribution of FDI in Egypt by number of enterprises, Cairo has an overwhelming lead with 70% of all FDI enterprises.

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In 2015, Cairo, the capital of Egypt, was ranked the number one African city for attracting FDI by PricewaterhouseCoopers (PwC) and continues to receive a large share of the total inward FDI into Africa. The objective of this study is to understand the determinants of these FDI flows into Cairo, the benefits and challenges to both the host country and the foreign investors, and the impact on the domestic and local economies. This study is mainly based on analysis of secondary FDI data on Egypt, as well as interviews with a variety of stakeholders which include high-level officials from national authorities or agencies, city managers, business associations’ directors and high-level representatives from among ten foreign companies operating in the Greater Cairo area.

Cairo is located at the tip of the Nile Delta, about 200 kilometres from Alexandria, Egypt’s main port on the Mediterranean in the north and 120 kilometres from the Suez Canal in the east with its major port cities Port Said and Suez.

In terms of population, Cairo is the ninth largest city in the world and the largest city in Africa according to the UN’s *World’s Cities 2016* report. Cairo is a densely populated and busy city at the centre of Egypt’s political, economic and cultural life. It is the seat of the main decision-making bodies (e.g. the Presidency, the Cabinet, the Parliament, the Highest Judiciary Court) and of the major trade and industrial federations, the trade unions and business associations.

The Greater Cairo (GC) region, in Figure 1 surrounded with the red dashed line, includes also parts of the Giza and Qalyoubia Governorates and accommodates about 20% of the country’s total population. The GC population was estimated at 22.8 million in January 2017 and Greater Cairo is the largest city in Africa, more than twice the size of Johannesburg, the second largest case study city in this report. The total Egyptian labour force was around 28.4 million in 2016 of which 24.8 million were employed and 3.6 million unemployed. In the GC region 21%
of the total labour force was employed and 21.7% unemployed (CAPMAS, 2017).

Private sector enterprises, whether formal or informal, are the key drivers of Cairo’s economy, generating 75% of the total number of jobs. The public sector contributes the remaining 25% of all employment in the GC region (see Figures 2 and 3).

Concentration of economic activities
Cairo has a diversified economy, which includes wholesale and retail trade, manufacturing, construction, transportation, education and health services and public administration. Wholesale and retail trade and related activities are the main source of employment in Cairo (19%). The GC region’s lively and diversified retail scene encompasses everything from street traders to traditional markets (souq) and up-market boutiques. Over the past decade, however, there has been a marked growth in contemporary shopping malls and hypermarkets.

Manufacturing is the second largest economic activity in the GC region in terms of workers employed (see Figure 3). Proximity to highly populated markets and a dense distribution outlet system and proximity to transportation networks, ports and to academic

Figure 1. Greater Cairo region

Source: Nasser, A. 2017
research centres and decision-making centres are key factors to locating manufacturing activities in the GC area. Manufacturing is responsible for about 16% of the total employment in the GC region, which includes around 30 industrial centres (see also Online Appendix Part C, 2.1). In addition, 17% of the total industrial areas in Egypt are located in new towns of the GC region. To reduce undesirably high concentrations of population and economic activity, the Government of Egypt (GoE) has established numerous new towns around Cairo and around other cities in the country.

Construction is another important economic activity, responsible for 16% of total employment in the region. The real estate and construction sectors continue to flourish in Cairo due to its large and growing population. In addition, due to the steady devaluation of the Egyptian pound, people tend to invest their savings in assets, especially real estate, to maintain their value.

To estimate the degree of concentration of economic activities in the GC region vis-à-vis the remainder of Egypt, concentration ratios (CRs) were calculated for each economic activity. These CRs of economic activity show that information and communication technologies (ICT) and real estate are highly concentrated in the city with a CR of 2.4 followed, in descending order, by public administration, financial services and scientific activities.

The ICT sector has witnessed a substantial boom over the past two decades and has become one of the leading engines of economic growth in the GC region. The latest data indicate that the ICT sector grew by 8.4% during 2015/2016, second only to construction and building (11%), followed by electricity (7.1%), transportation (5.7%), trade (5.4%) and within an overall GDP growth of 2.3%. Subsequently, the GC region has attracted large multinational companies to benefit from its favourable technology, expertise and capital capacities. At the same time, the GoE developed the necessary ICT infrastructure. Building smart cities has helped by providing a conducive environment for new companies and their different services. Moreover, Cairo boasts a significant concentration of the country’s business services (85% of the banking sector’s credit creation in Egypt was concentrated in the GC region in 2010 ) and, as of 2014, enjoyed a 69% premium in labour productivity (GVA per employee) over other parts of Egypt. Instrumental to this difference is Cairo’s large pool of highly skilled employees: 24% of Cairo’s adult population (aged 15+) held a tertiary educational degree in 2014 against a national average of 14%. The higher labour productivity of Cairo partially translates into higher earnings and household incomes. (HIECS, 2014/2015).

**Transportation**

Cairo is the hub of all transportation networks in Egypt. A network of highways connects it with all other major cities in Egypt. The roads link Cairo to Alexandria in the North, with Upper Egypt in the South while Ismailia, Port Said and Suez to the East also have road connections with Cairo. In addition, the Red Sea Highway connects Cairo with its eastern coastline and the Sinai Peninsula. In recent years, the GoE has begun implementing a large-scale road network, with most highways linked to Cairo.

The international airport of Cairo is Egypt’s main air traffic hub, connecting the country with the world, along with several local airports (Figure 4).
In 2006, GC businesses contributed 31% of Egypt’s GDP and the region’s economic growth rate persistently exceeded the national average. Due to this powerful economic base, the GC region has seen a concentrated attraction of inward FDI over the years.

**FDI flows into Cairo**

Inward FDI reflects foreign ownership of production facilities in host countries. For a company to be classified as FDI-based the share of foreign ownership has to be equal to at least 10 percent of the value of the company’s capital. The investment could be in any economic activity and be greenfield or brownfield investment.

Before the uprising of 2011 (the Arab Spring), Egypt was an attractive destination for FDI. The dynamic growth rate of the Egyptian economy (around 6% annually), its strategic geographical location, low labour costs, skilled workforce, large domestic market and the success of economic reforms all drove up FDI. The events of 2011, however, led to a temporary slowdown in the net inflows of FDI. Investment dropped from USD6.4 billion in 2010 to less than USD500 million in 2011. It picked up again in 2013 to reach USD4.2 billion. Then inward FDI increased from USD4.8 billion in 2014 and reached USD6.9 billion in 2015. According to the UNCTAD World Investment Report 2015, Egypt is one of the top-five African countries in terms of attracting FDI, originating mainly from the EU, the USA and the Arab States, with the UK the largest single-country investor. FDI in Egypt is mainly concentrated in the minerals (oil and gas) sector, followed by construction, telecommunications, financial services and healthcare.
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Legal environment affecting FDI
Since the mid-1970s, different levels of government have introduced legislation to increase Egypt’s openness to foreign investment. Regional investment policies have affected the distribution of FDI in Egypt through the establishment of Free Zones (FZs), Industrial Zones (IZs), Special Economic Zones (SEZs) and the regional One-Stop Shops (OSS), as well as through regional representation of investment authorities in Egyptian Governorates. Each of these zones provides investors with incentives ranging from exemption from all custom duties on imports and exports in the case of Free Zones, to the provision of infrastructure and land at low cost in the case of Industrial Zones.

Other incentives include allowing imports of capital equipment, raw materials and intermediate goods free of duty or exemption from sales and indirect taxes, besides more flexible labour regulations (SEZ) (US Bureau of Economic and Business Affairs, 2013). The different investment packages as well as establishment of industrial new towns outside the Greater Cairo region have led to a steady shift in investments towards new locations such as the Tenth of Ramadan City and the industrial cities in Upper and Lower Egypt. This shift is a slow one, though.

Cairo: main destination of inward FDI
Despite the numerous industrial new towns all over Egypt, especially in Upper Egypt, there remains a persistently high concentration of domestic and foreign investment in the GC region. The following regional comparison relies on the most recent FDI distribution data in terms of the number of enterprises established, the number of jobs generated, and the amount of capital invested.

In the distribution of FDI by number of enterprises, Cairo is overwhelmingly the leading destination with 70.2% of all FDI enterprises, followed by Alexandria (7.8%) and cities near Cairo (almost 6.3%) (see Figure 5 and Online Appendix Part C, 2.2).

Distribution of FDI by the number of workers shows a similar pattern with Cairo the main city, followed by Alexandria. However, as the size of enterprises increases, they tend to locate in industrial new towns e.g. 6th of October City, and the 10th of Ramadan City (Online Appendix Part C, 2.2).

Distribution of FDI by value of invested capital (see Figure 6), yet again, confirms Cairo in the forefront regardless of company size. Almost 90% of the companies with invested capital of less than USD10 million are located in Cairo and the same applies to...
all other company sizes, albeit with some notable variations. As in the case of rising numbers of workers, when the invested capital grows, projects tend to move to industrial cities where the allocated land is more suitable and cheaper for large, capital-intensive companies. Therefore, around 40% of companies with capital sizes ranging between USD100 million and USD500 million are located in industrial new towns, whether adjacent to or farther away from Cairo. The growing concentration of larger companies in new cities is a factor of availability of industrial land rather than geographical attractiveness of these new locations.

Features of FDI in the Cairo-Alexandria Corridor
The Doing Business Report 2016 points out that the Governorates of Cairo, Giza and Alexandria (the Cairo-Alexandria Corridor) have the best combination of low labour costs, fast response times and ease of starting a business compared with other locations in Egypt. (World Bank, 2014). The following section provides more details about FDI companies in the corridor (which comprises Cairo, Alexandria and the industrial cities 6th of October, 10th of Ramadan, Sadat and Obour City) and their main features (UN-Habitat, 2012).

FDI companies’ distribution by year of establishment indicates a peak from 2006 to 2010 - a period of high growth and Egypt’s opening up to the world economy. The environment for attracting FDI was conducive during this period due to the fiscal, monetary and trade reforms undertaken. Between 2010 and 2014, the FDI inflow dropped, especially from 2011 to 2013, due to the political unrest associated with the Arab Spring. Inflows picked up again in the following years when the percentage of new FDI companies reached a share of 31% of all companies established during the period between 2003 and 2014 (see Figure 7).

Similar distributions are found when comparing FDI by economic activity and the size of invested capital, on the one hand, and the year of establishment on the other. Figures 7a and 7b show that, while 2006-2010 was a period of growth in the number of companies established through FDI, 2010-2014 saw a decline in that number. However, the latter concerned

Figure 7. FDI companies by year of establishment in the Cairo-Alexandria Corridor

Figure 7a: FDI companies by number

Figure 7b: Total invested capital of FDI companies USD500+ (in USD millions)

Authors: El Mahdi, Nakeeb and Barakat, 2017. Source: FDI Markets
a substantial inflow of FDI companies with invested capital equal to or larger than USD500 million, as compared to previous periods (see Online Appendix, Part C, 2.5 and 2.6).

As to FDI companies’ distribution by economic activity (see Figure 8), business and financial services accounted for 47% of all FDI companies, followed by manufacturing (35%), hi-tech and resources (mining and extraction) with 9% each (see Online Appendix Part C, 2.6). These results are similar to those witnessed in the city case studies of Abidjan and Kigali in this report, where financial services, manufacturing, and ICT companies constitute the majority of sectoral FDI attraction.

When economic activities are reviewed in more detail, it becomes evident that business services, manufacturing, sales and marketing and retail trade companies dominate (see Figure 9).

Here too, location matters, regardless of the type of economic activity and the same pattern emerges with Cairo the main destination for FDI followed by Alexandria. However, some of the large manufacturing, mining and extraction companies tend to locate in the surrounding industrial new towns. This is understandable as industrial cities usually offer larger land plots fitted with the infrastructure at lower cost and, therefore, are attractive for investment purposes (see Online Appendix 2.7).

FDI companies in the Cairo-Alexandria Corridor are relatively small in terms of the number of workers; 35% of the companies employed fewer than 25 workers, while only 21% of them had more than 250 employees (Figure 10).

In terms of invested capital, FDI companies also tend to be relatively small. The larger ones with over USD100 million constitute only 22% of all companies (see Figure 11).

The most capital-intensive economic activities are resource based (mining and extraction) and, to a lesser extent, manufacturing (see Online Appendix Part C, 2.8). In general, there is a positive correlation between the amount of invested capital and the number of employed workers in the FDI companies operating in the Cairo-Alexandria Corridor (see Online Appendix Part C, 2.9).

In summary, Cairo has been and still is the main city in terms of attracting FDI companies due to its central location between Lower and Upper-Egypt, the large Cairo market and Egypt’s proximity to other countries in the region. But Cairo’s attractiveness has negatively affected other cities’ or regions’ ability to attract FDI, depriving them of attention, infrastructure and business services. As a result, some of the population in those disadvantaged regions tended to migrate towards Cairo and Alexandria in search of jobs. Realizing this dilemma, the GoE has established industrial new towns since the mid-seventies. However, it took local and foreign companies time to start locating there. Since the GC space is limited, over the last two decades, new large-scale FDI companies entering Egypt have shown a tendency towards moving to these new, neighbouring or farther-located industrial towns. This movement will help to create a geographic dispersal of centres of economic and social activities and will improve the livelihood of the population settling there.

Stakeholder perceptions of Cairo’s investment climate

The following section, presents the views of public and private sector stakeholders. To this end, interviews were conducted with public authorities and business representatives.

National FDI investment promotion authorities (IPAs)

The main official Egyptian investment promotion agencies (IPAs) are: a) the General Authority for
Figure 9. FDI companies by economic activity

Author: El Mahdi, Nakeeb and Barakat, 2017. Source: fDi Markets

The Cairo-Sinai Peninsula highway. Cairo is connected to all major cities by an extensive road network. © Svetlana485
Investment and Free Zones (GAFI), b) the Egyptian Commercial Services (ECS), and c) the Industrial Development Agency (IDA).

The General Authority for Investment (GAFI) is an affiliate of the Ministry of Investment (MoI) and the principal governmental body regulating and facilitating investments in Egypt. GAFI eases the way for domestic and international investors interested in the opportunities presented by Egypt’s growing economy. GAFI’s key investment approaches are its sectoral strategy that focuses and promotes specific economic activities and its geographic strategy seeking to direct investments to specific locations. However, no strategies are designed specifically for the Cairo-Alexandria Corridor.

Egyptian Commercial Services (ECS) is a governmental trade and investment promotion organization with 56 offices worldwide. It operates within the framework of the Ministry of Foreign Trade and Industry and provides international trade and investment support both to the trade community in Egypt and investors from abroad through diplomacy and contract negotiation. ECS officials interviewed stated that their key strategy for attracting investments is to inform, orient and assist interested companies. To this end, ECS organizes conferences, seminars and special business missions within and outside Egypt. It provides interested foreign companies with information on starting or expanding a business in Egypt. The goal of ECS’ strategies is attracting foreign investors to targeted economic activities rather than particular geographic locations in Egypt. ECS officials expressed optimism because of Egypt’s security and political stability, the exchange rate liberalisation, and its recognition of existing challenges and interventions to resolve these.

The Industrial Development Agency (IDA) is affiliated to the Ministry of Foreign Trade and Industry. It is authorized to implement industrial policies, encourage investment in the industrial sector and design policies and mechanisms required to coordinate and connect industrial sector development requirements. The interview with a representative of IDA revealed that their key promotion strategy for attracting investment focuses on integrated industrial investment, managing the state-owned industrial zones and providing industrial land and infrastructure to enterprises in these zones. It aims to provide 60 million m2 of land for industrial activities until the year 2020 and
industrial parks that offer investors factory buildings and infrastructure (Turnkey system). IDA managers emphasized the importance of attracting new investments in industries such as food and beverages, engineering and pharmaceuticals.

Whereas GAFI is focusing on Egypt as a whole and IDA on the industrial sector, ECS concentrates on mega projects. The three IPAs’ representatives stressed the importance of attracting new investments in industries such as food and beverages, engineering and pharmaceuticals.

To improve the investment climate, GAFI, IDA and ECS officials suggested (and are working on) achieving: a) better facilitation of land allocation towards a clear, comprehensive and integrated investment map through complementary efforts among ministries, authorities and governorates; b) facilitating easier licensing procedures and reducing their cost; c) raising the quality and relevance of education and training in both the public school system and specialized training institutions; and d) the promotion of competition in markets.

Local authorities and FDI

The study team interviewed local authority directors in Sadat City and Obour city who stated that Egypt’s investment policy is aimed at positioning the country as a global and regional economic hub for large transnational companies. They stressed the need to make use of the 112 multinational and bilateral trade/investment agreements Egypt is already engaged in. They stated that bilateral investment treaties provide a protective umbrella for foreign investors and their investments and that bilateral and multilateral integrated policies regulate matters related to international investment to encourage new and additional FDI in Egypt.

These local authority directors further stated that the current administrative system in Egypt is one of the most centralized in the world with, for instance, all infrastructure decisions decided centrally. While services provision is executed locally, the central government maintains a strong grip and control over the finance and the administrative systems through which local services are provided (UNDP/INP, 2004).

According to the local authorities, bottlenecks in attracting new and additional FDI to the Cairo-Alexandria Corridor relate to the difficulties experienced in accessing land, the relatively long investment administrative procedures and continuous change in economic policies. Granting land allocation rights to IDA rather than the local authorities has led to inefficiencies in dealing with investors.

To improve relations with new investment firms, it was suggested that those responsible for land allocation for domestic and foreign investment should first scrutinize candidate investors for their experience and history in the targeted investment activities, with special attention to financial solvency. The distribution of industrial land should also be based on more transparent criteria. In addition, all investment procedures should be unified within the mandate of one single authority. Lastly, local authorities and business associations must both be involved in policy dialogues on investment matters.

Local authorities also stated that the anticipated impact of FDI focuses too much on employment creation, transfer of finance and absorption of new technology. Although these are important aspects, unfair competition between foreign and local companies is rarely taken into account. The ability of large foreign companies to hire skilled labour at higher wages or for better benefits presents a threat to Egypt’s micro-, small- and medium-sized enterprises.

Moreover, foreign companies can sell their products at lower prices, as multinationals often get discounts from suppliers for buying in large quantities. All these factors have negative repercussions for smaller firms in Egyptian communities.

Business associations and competitors’ relations with FDI

Business association managers mentioned that they offer their services equally to foreign and local investors. Key services include providing effective dialogue with government officials and
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authorities, strengthening the role of the business community in economic decision-making processes and promoting more efficient laws and regulations and, thereby, a higher level of performance. They further stated that, since there are few business relations between local investors and foreign companies, diffusion of technology or subcontracting is rare, especially with the industrial sector. This could be due to a lack of forward and background linkages between foreign and local companies. However, this does not preclude those linkages existing with companies outside the GC region.

The business associations’ representatives and local competitors stated that investors’ relationships with the government do not vary according to the nationality of the company. The government deals with them equally and no legal distinction is made between foreign and domestic investors, bar a few specific matters. Special requirements exist for foreign investors in particular sectors, such as, for instance, upstream oil and gas development where joint ventures are required. Also, foreigners
are not allowed to operate on the basis of sole proprietorships or simple partnerships and any foreign company wishing to import for trading purposes must do so through a wholly Egyptian-owned importer (IBP, 2015).

Regarding the generation of quality employment in Cairo, FDI projects, being mostly large-scale, typically employ large numbers of workers. Employees get exposure to globally valued skills and their training and skills-upgrading enhance the value of Egypt’s human resources base. Since foreign companies tend to build new office buildings or factory sites, they provide modern work surroundings. This can include the latest technology, such as worker-friendly lighting and ergonomic computer keyboards, air conditioning, or safety equipment and safety conditions that meet the highest international standards.

Finally, there is no significant crowding out of local companies by foreign firms as the market is large enough to absorb current and future investments. The business associations’ aim and the local competitors’ expectations of foreign investors, besides job creation, are the attraction and localizing of technology and know-how to Cairo and neighbouring industrial cities.

In sum, Cairo, as the capital of Egypt, is an attractive locality for FDI attraction even though there are no specific public policies designed to boost the Cairo-Alexandria Corridor.

**Cairo’s business climate**

To better understand FDI companies operating in Egypt, ten company managers from different economic sectors in Egypt were interviewed. These companies varied in terms of workers, capital and home country.

Where considerations of establishing their business in Cairo are concerned, all the respondents confirmed that Egypt is one of the largest markets in the Middle East and North Africa with a high purchasing power, a skilled labour force speaking different languages, and a central position between the African, Arab and European markets, alongside favourable cost effectiveness, cultural affinity and time zones.

As to business relations with the government, the responses varied. Those operating in tourism and ICT mentioned having partnership agreements with ministries. Projects and companies in the communications sector are regulated by the National Telecommunications Regulatory Authority (NTRA). Those in the construction sector, however, complained about complicated procedures for establishing their business, while some had no business relations with the government whatsoever.

The business managers revealed that, like in most other African and Middle Eastern countries or cities, they are challenged by incessant bureaucracy and constantly changing local laws, legislation and taxes. Some complained about the impact on the economy of fluctuations in the value of the Egyptian Pound. Others mentioned the inability to control pricing, without specifically referring to the government. Some complained about fluctuating market demand for their products but, generally, most companies cited a need for more transparency in the government’s plans, the importance of political stability and a continuous flow of efficient labour.

Several corporate managers were upbeat about future business opportunities in Egypt and specifically mega projects within the Cairo–Alexandria Corridor, the New Administrative Capital, the Suez Canal Zone and infrastructure projects, notably Smart City projects. Others believed that the devaluation of the Egyptian Pound makes the Egyptian market attractive for foreign investments and that the growing pool of IT competent resources will bring more investment.

Several corporate managers were upbeat about future business opportunities in Egypt and specifically mega projects within the Cairo–Alexandria Corridor, the New Administrative Capital, the Suez Canal Zone and infrastructure projects, notably Smart City projects.

Many mentioned the advantages of the large size of the Egyptian consumer market, especially the Cairo market, with its massive purchasing power compared to other countries/cities in the region. Cheap labour, skilled labour at reasonable wages, fuel and electricity pricing were all quoted as conducive to further investments. Many said that they will continue to invest and expand their production and manufacturing capacities, grow their distribution channels, create future jobs and advance technologies as long as these advantageous conditions continue.
Some of the companies’ managers claimed to have facilitated social inclusion by organizing events, while others suggested that their company had corporate social responsibility (CSR) programmes such as educating orphans, helping poor children, contributing to food bank and charity projects, and increasing employment and improving the social wellbeing of their workers and families. Other companies added that they contribute to school feeding programmes and that they assist underprivileged women by launching women’s training programmes. Most managers stressed that their budget allocation to CSR amounted to millions of Egyptian Pounds each year.

The responses about optimism over future investment in Egypt varied, although there was consensus on the high potential economies in the region if new infrastructure projects are considered along with strategic projects such as the new power stations, the Suez Canal Zone, the National Network of Highways and the new natural gas discoveries. All these forthcoming projects will create a growing economy for better investment. More than half of the managers confirmed their intention to expand in the GC region.

Company managers stressed the importance of improving infrastructure through partnerships between the public and the private sectors in return for privileges. “No benefits from government incentives” was the answer of almost all as there are no specific incentives granted to FDI companies. Asked about business incentives required from the GoE to help spur FDI, the responses varied by sector. Some wished for VAT exemption for IT companies to speed up technological advancement. Others suggested tax holidays and privileges; embedding IT training in all educational institutes; and preferential pricing of power, gas and water supplies to factories. A majority stressed the overriding importance of clear insight in the government’s vision for future economic plans and associated legislation so as to better inform foreign companies’ future investment decisions.

More than half of the managers confirmed their intention to expand in the GC region. However, since the availability of a skilled labour force helps in the hiring process, improving education with more training tailored to the jobs on offer will not only benefit employment but will also have a positive impact on future plans of investors in Egypt too.

Some respondents confirmed that they do not intend to invest away from Cairo, e.g. in other parts of Egypt. Others mentioned that their companies are seeking expansion especially in the MENA region due to their strong belief in the future there.

Finally, Cairo is also a gateway city, a strategic hub for inward FDI into other parts of Africa and the Middle East. Although there are no special strategies in place for marketing and promoting Cairo, the city promoted itself through several evident factors. However, over the last four decades, successive governments have established new industrial cities, notably around the GC region because of limited availability of land in the city. Subsequently, new large-scale projects have gradually been established in neighbouring new industrial towns rather than Cairo.
This study confirms that Cairo, as a rapidly growing city, not only needs to plan way ahead for expansion but planning processes should also be continuous and flexible enough to allow for interim corrections. It should further include establishment of new towns to guide more investment away from traditional locations for better balanced geographical distribution of employment opportunities and population. Egypt also needs to open up new horizons for domestic and foreign investors alike while continuously enhancing intra- and inter-city mobility. Road and railroad networks, electricity, water and sewage networks, housing and social infrastructure as well as developed land allocated to industrial activities are the main factors determining the success of such new cities. Some of Egypt’s newly established cities have proved success stories; others have failed because of a lack of social and affordable mobility infrastructure.
Foreign Direct Investment in the Abidjan-Lagos Corridor

By Rodrigue Majoie ABO
Through research of existing studies and interviews at different levels of the economic community within Abidjan, this study attempts to provide a better understanding of the economic and foreign direct investments in Abidjan, the economic capital of Côte d’Ivoire and the Abidjan-Lagos Corridor. The interviews shed light on the underlying perceptions of the attractiveness of the city and the perspectives and challenges in attracting FDI and have resulted in a set of recommendations for consideration by city managers, policy makers and other stakeholders.

Within the West African Economic and Monetary Union (WAEMU) region, Abidjan receives a majority of inward FDI of the Abidjan-Lagos Corridor which comprises almost 75% of the economic activities in the ECOWAS region. The Autonomous Port of Abidjan (PAA) constitutes a major infrastructure asset and logistical hub of the Ivorian economy. It also serves nearby land-locked economies such as those of Burkina Faso, Mali, and Niger.

Abidjan accommodates investment inflows from different sectors, but real estate and the hydrocarbon extractive industry account for more than half of the total FDI (Wall, 2017). Recent developments in the city, notably fluvial transportation and sea port infrastructure, strengthen the city’s position as a hub in the Western African region in terms of port volumes and maritime traffic.

The Ivorian economy is highly dependent on the export of its cocoa cash crop, but Côte d’Ivoire is seeking to diversify its agricultural portfolio. Recently, production of cashew nuts and rice has increased. Also, the government aims to stimulate in-country processing of agricultural products and by 2020, take more advantage of the entire agricultural supply chain. Its target is to locally process at least 50% of the main agricultural products and produce more added value by 2020 (see Map 1).

Whereas FDI represents a substantial part of the country’s total investment (73% in 2016), the Ivorian government, to support its local processing policy, is aiming for a participation of USD60 billion from private sector investments which would account for 62% of the total investment plan (National Development Plan (NDP)).
Côte d’Ivoire is a member of various regional communities, including the Economic Community of West African States (ECOWAS), the West African Economic and Monetary Union (WAEMU) and the Mano-River Union in which several institutions are framed to support regional trade integration and allow for international companies to take advantage of the whole regional market. A critical arrangement in this is the upcoming Economic Partnership Agreement (EPA) envisaged to liberalize at least 75% of the regional market. Some challenges still need to be addressed, however, such as regional harmonization of taxation and customs duties. Regional synchronization and recovery of Value Added Tax (VAT) also remain challenging. The provision of equity capital through an inclusive regional stock market is expected to address problematic low bank-debt provisions. Regional electricity grid interconnection and other infrastructural developments are also being undertaken to attract more investors.

Interviews with high-level public and private sector representatives conducted in the context of this study have revealed that Abidjan is a reference point in terms of investment attraction that concentrates almost three-quarters of the total investment inflows into Côte d’Ivoire. Growing investments (0.3% up in 2016) have generated a 2% increase in employment, for which the investment promotion agencies deserve the credit.

Interviews also revealed that there are tremendous further investment opportunities in Côte d’Ivoire, notably in the oil, gas and electricity sectors. But, there are still some considerable challenges in the administrative procedures (licenses, permits etc.), legal business matters, tax harassment, unfair competition,
market monopolies, corruption, lack of transparency in governance processes, lack of local companies’ inclusiveness and shortfalls in investment promotion activities. Nevertheless, the overall appraisal of the conduciveness of the investment climate in Côte d’Ivoire was considered positive by those interviewed.

Overall, FDI was assessed by interviewees as generating more employment, increasing social welfare and promoting environmental protection. However, some interviewees highlighted the need to boost more partnerships between foreign and local business players to promote transfer of competences and technical know-how to local companies. Also, the current investment inflows are geographically concentrated and over-focused on Abidjan at the expense of other areas of Côte d’Ivoire.

The representatives of foreign companies that were interviewed, especially those in the energy sector, claimed to enjoy excellent relationships with the government and to benefit to some extent from the government’s additional funding. However, many cited slow and problematic VAT recovery, which could be a source of reinvestment funds if well monitored and better streamlined. Further, they cited that better management of public tenders is needed to stimulate fair and equitable opportunities for FDIs. This of course should be supported by more appropriate provision of statistical data.

Local businesses said they have very few relations with FDI companies and hope to interact more in the future (see Map 2). Investment promotion agencies said that they need to further increase and diversify their promotional activities by, for instance, establishing a platform for FDI providers and the local business community to set up partnerships.

The Ivorian context

Political and economic transformation

Côte d’Ivoire went through a political crisis from 2000 to 2011. One of the major causes was unequal domestic distribution of wealth. Since then, security matters have been of serious concern. Besides various mutinies in February 2017 by the ex-rebel forces that were integrated into the army, there is also a structural and growing insecurity phenomenon in Abidjan. Although, conditions seem to have improved significantly in recent years, the political situation remains fragile. A new phenomenon, “Microbes”, ex-child soldiers who have not been reintegrated, has
Due to its dependency on the export of cocoa cash crops, the drop of 25% in world cocoa prices in 2016 adversely affected the current account balance of the country, resulting in serious instability. There is also a structural economic imbalance since Abidjan and its surrounding area concentrate almost 75% of the country’s economic activity, leaving the northern region of the country relatively poor.

Due to its dependency on the export of cocoa cash crops, the drop of 25% in world cocoa prices in 2016 adversely affected the current account balance of the country. This, however, was somewhat compensated for by the progressive rise in FDI from 1.3% to 2.9% in 2016. These recent global market price incidents have again strengthened the intention of the Government of Côte d’Ivoire (GdI) to diversify its agricultural sector portfolio and promote local transformation that will help to overcome the risks associated with its current relatively mono-culture agro-business.

However, Abidjan’s industrial zones may not be able to accommodate the extensive industrial transformation (50% increase in total production) envisaged by the GdI due both to limited space and congestion in its maritime port. Some interviews with government officials suggested that surrounding towns such as Attinguié, Dabou, and Anyama could address these upcoming needs by accommodating new FDI in their industries and additional dry ports.

Some respondents mentioned that shortfalls in the available labour skills in Abidjan had been key to their investment decisions. In response, the national university programmes in Abidjan were upgraded, coupled with training programmes for young graduates sponsored by both the public and private sector. One respondent in Abidjan stated that since these initiatives had been undertaken, the level of qualified workers had improved. The next challenge would be to implement similar programmes in other parts of Côte d’Ivoire.

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**Figure 1. Growth of FDI in Côte d’Ivoire**

![Graph showing the growth of FDI in Côte d’Ivoire from 1975 to 2015.](#)

Figure 2. Foreign and domestic investments into Abidjan, 2012-2016, USD millions

Source: Cepici, 2017

Abidjan’s port infrastructure contributes to good connectivity with other Western African states but it would benefit from digitalization to ease congestion ©Leon Viti
Investment climate

Côte d’Ivoire is conducive to FDI attraction (see Figure 1). It is possible to establish a company in one single day through the Centre of Investments Promotions (CEPICI), an institute dedicated to attracting and assisting foreign investors. CEPICI figures indicate that the FDI inflow from other African countries into Côte d’Ivoire is rising and the amount invested from Moroccan enterprises for instance has increased to 22% of the total investment, which even overtook the traditional critical French FDI flow (16%) in 2015.

Interviewees praised the investment protection institutions (i.e. Tribunal de Commerce and Guichet Unique) established by the government as these have boosted investors’ confidence.

The business directors interviewed confirmed that national domestic investments (Figure 2) are key in their risk strategy and that more effort by the GdI is required towards promoting local firms’ access to capital since such firms often lack the guarantees to access the necessary investment funds for partnerships with foreign companies. Respondents further stated that some of their foreign direct investments (Figure 2) would not have been possible without the participation of local partners. Notwithstanding the level of domestic investments, foreign investments persistently remained much stronger over the past half-decade and were typically two times larger or more, at USD181 million and USD491 million, respectively, in 2016 (see Figure 2).

The Ivorian investment code provides for several incentives to reduce investment costs through tax exemptions and rebates, exemptions on patents and licenses, or a reduction in contributions paid by employers for the retirement pension plans of local employees. In addition to promoting geographically more diverse investment, companies that locate in low-employment areas of Côte d’Ivoire will enjoy these incentives for a longer period than companies that locate in Abidjan.

Various other non-direct monetary incentives and guarantees to investors have made Côte d’Ivoire one of the more favourable investment places in Sub-Saharan Africa, including easy investment implementation procedures; fair and equal regulatory treatment for all FDI companies; financial and technical assistance in case of natural disasters that affect the companies’ return on investments and business plans; strong protection of intellectual property rights and private property; unrestricted imports of banned raw materials; easy access to work permits for expatriates and unhindered appointments of foreign CEOs; easy access to industrial zones; fair settlement of disputes; and unrestricted repatriation of company profits and expatriates’ salaries. In the case of the latter, parity between the Euro and the CFA Franc (FCFA) is a considerable asset for FDI, as is the efficient banking system with the presence of major international banking institutions. Most respondents confirmed the ease of undertaking all their financial transactions from Abidjan.

The Abidjan context

Locational advantages

Practically all interviewees confirmed that Abidjan is the place to be in Western Africa. Côte d’Ivoire is at the centre of both the Trans-Saharan and West-
African coastal highways. The Ivorian port and railway infrastructure contributes to good connectivity with the entire Western African region, Sub-Saharan Africa and, indeed, the world (see Figure 3).

Several countries, notably the land-locked nations in the hinterland (Burkina Faso, Mali, Niger, Guinea Conakry), are heavily dependent on such infrastructure. Regional managers mentioned the convenience of Abidjan when designing and implementing a marketing strategy reaching out to other Western African capitals. They recommended that further collaboration between the private sector and the Government of Côte d’Ivoire (at all levels) is needed to realize the full advantages and benefits of Abidjan’s competitive edge, including upgrading of the port terminals and railway facilities, to increase the inward and outward flows of goods for the entire Western Africa region.

Côte d’Ivoire absorbs a high share of migrants in the region. Although this generally boosts the economy, it also has a reverse side by exposing the country to political instability in neighbouring countries such as Mali and Nigeria. Boko Haram, for example, killed 22 people in March 2016 on a beach in Grand Bassam near Abidjan that brought down investor confidence. Some three-quarters of the managers of foreign companies stated that political instability is one of the most challenging variables while making their long-term investment and production plans.

Economic functions
Abidjan is the economic capital of Côte d’Ivoire. Due to its maritime port, Port Autonome Abidjan (PAA) and road and railway infrastructure, it is a critical transit hub that ensures the infrastructural linkages with and between nations in Western Africa.

Most of the commodities produced in the region’s major cities transit via Abidjan. For instance, mangoes produced in Odienné and Korogho are transported to the PAA for international destinations, while all mining products from the North-West region of Côte d’Ivoire also reach their export destination via the PAA minerals terminal.

Abidjan and FDI
Abidjan is where the vast majority of the inward FDI into Côte d’Ivoire is concentrated. Most respondents stated that Abidjan’s road and port infrastructure weighed heavily in foreign investors’ choice of locality, as do the good ICT connectivity, the reliable 24-hour electricity supply and proximity to government institutions. A minority attributed their choice for locating in Abidjan to the local markets for their goods or services. As a matter of fact, one respondent stated that the majority of its clients are in Abidjan. More respondents emphasized Abidjan’s locational advantage as a regional entry point for a range of sub-Saharan countries and their capitals that host these companies’ sub-offices.

But the currently very high concentration of FDI in Abidjan is neither durable nor desirable. The impacts of such negative externalities as road congestion...
The acquisition of land is problematic and is subject to lengthy administrative processes and often prone to corrupt procedures. Since land acquisition is typically the first step in greenfield FDI, a critical review of current land transactions should be a priority for the city’s policymakers. To overcome the shortage of adequate industrial land, a new industrial zone with all the necessary infrastructure at PK24 Attinguié has been put in place to assure that new and additional inward FDI can be made efficiently.

Geographical scope of investments

Electricity and water supply for industries are quite stable in Abidjan, but the countryside experiences a notable scarcity in both services. In the wake of shortfalls in the implementation of the Gdi’s stated decentralization policy and unfulfilled guarantees to those who invested in the new industrial zones, foreign investors were forced into high-capital expenditure for generators and water-supply systems.

Though the new Ivorian industrial zones seemed attractive to FDI in terms of both space and services to be provided, further enthusiasm among foreign investors will rapidly decline if current electricity and water supply problems are not addressed in an adequate manner.

Out of a total of USD672 billion of investments registered in 2016, Abidjan captured USD491 billion, accounting for 73%. Foreign respondent companies operating in manufacturing, transport and logistics said they were keen to expand their facilities in the other areas of Côte d’Ivoire. Strategic towns such as Attinguié, Ferké and Odienné were mentioned as locations for such expansion plans, provided the promised services and utility provision are realised.

From Abidjan’s sea port, goods are distributed by air, road or rail. Road transportation constitutes the principal means. Indeed, most interviewees acknowledged that they rely more on roads and highways than rail due to the poor railway network for Abidjan–Bouaké–Frekessedougou–Bobodioulasso–Ouagadougou that lacks interconnections in all cities it serves. As with the findings in the Johannesburg case study (Kollamparambil and Jogee, 2017), road-based logistics may not be sustainable because roads deteriorate quickly and often create delays.

Although all interviewees praised Abidjan’s port infrastructural facilities in comparison with other ports in the sub-region, at the same time they were also concerned about the recurrent congestion (see Table 1). The steadily growing national economy has seen a significant increase in port volumes, but some trucks remain up to one month in port awaiting clearance. Port authorities claim that a lack of digitalization in clearance procedures constitutes a severe impediment to greater efficiency.

### Table 1. Maritime traffic in the port of Abidjan

<table>
<thead>
<tr>
<th>Details</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Compo 2015 %</th>
<th>Var. % 14/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum products</td>
<td>7,740,337</td>
<td>6,986,446</td>
<td>7,582,537</td>
<td>34.36</td>
<td>8.5</td>
</tr>
<tr>
<td>Inclusive of crude oil offshore</td>
<td>1,115,269</td>
<td>900,638</td>
<td>1,260,546</td>
<td>-</td>
<td>40.0</td>
</tr>
<tr>
<td>General goods</td>
<td>13,097,305</td>
<td>13,162,060</td>
<td>13,603,021</td>
<td>62.0</td>
<td>3.4</td>
</tr>
<tr>
<td>Inclusive of fish products</td>
<td>638,923</td>
<td>664,446</td>
<td>740,688</td>
<td>3.4</td>
<td>11.5</td>
</tr>
<tr>
<td>Total maritime traffic</td>
<td>21,476,565</td>
<td>20,812,952</td>
<td>21,926,247</td>
<td>100.0</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Source: PAA website

### Table 2. Increased volume of investments and employment creation

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Jan-Dec 2015</th>
<th>Jan-Dec 2015</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of approved companies</td>
<td>186</td>
<td>225</td>
<td>21</td>
</tr>
<tr>
<td>Volume of investments</td>
<td>670</td>
<td>672</td>
<td>0.3</td>
</tr>
<tr>
<td>Number of jobs generated</td>
<td>6,533</td>
<td>6,647</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Cepici, 2017
Table 3. Côte d’Ivoire’s major trading partners (2015)

<table>
<thead>
<tr>
<th>Imports</th>
<th>Exports</th>
<th>Total Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner</td>
<td>Value (m)</td>
<td>% World</td>
</tr>
<tr>
<td>World</td>
<td>10,790</td>
<td>100.0</td>
</tr>
<tr>
<td>1. EU 28</td>
<td>2,941</td>
<td>27.3</td>
</tr>
<tr>
<td>2. Nigeria</td>
<td>2,351</td>
<td>21.8</td>
</tr>
<tr>
<td>3. China</td>
<td>1,545</td>
<td>14.3</td>
</tr>
<tr>
<td>4. Bahamas</td>
<td>537</td>
<td>5.0</td>
</tr>
<tr>
<td>5. India</td>
<td>381</td>
<td>3.5</td>
</tr>
<tr>
<td>7. Thailand</td>
<td>239</td>
<td>2.2</td>
</tr>
<tr>
<td>8. Morocco</td>
<td>172</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Source: IMF
Further, interviewees in the manufacturing sector recognized that measures related to the enlargement of the Vridi Canal and construction of a second container terminal would boost the inflow of required raw materials for their industry and increase their productivity.

**Governmental investment promotion activities**
The increase in FDI inflow can also be credited to the effectiveness of promotion strategies. One respondent mentioned that it was difficult to do business in Côte d’Ivoire without proper insight into the Ivorian business ecosystem.

Investment promotion agencies (IPAs) were interviewed to analyze their investor targeting strategies. The attraction of Chinese FDI into Côte d’Ivoire is partly the result of IPA strategies and the mission and economic forums they organize to attract Chinese investors. The investment promotion agencies were all optimistic about future FDI, since “all the signals are green”. For them, the steady economic growth, the current optimal business climate, as well as political stability and peace are all undeniable investment-attracting factors in the short and long-term.

**Tremendous opportunities in oil, gas and electricity**
The Ivorian oil, gas and energy sectors did well in terms of investment attracted during the period 2003-2013 (Mahdi, Nakeeb and Barakat, 2017). The representatives of IPAs were all very positive about the opportunities that exist in the Ivorian market. The ambition of Côte d’Ivoire is to increase its production of crude petroleum and natural gas to 200,000 boe/day (barrel of oil equivalent) by 2020. It is therefore not surprising that FDI in these sectors is strong, particularly in Abidjan where most related administrative operations take place. The electricity sector likewise intends to significantly increase its output through FDI.

A majority of the foreign companies interviewed were also confident with respect to further FDI flows into Abidjan, in particular since the growing economy implies middle classes with increasing purchasing power for higher quality products and services. A substantial number of firms attributed their optimism not only to the growing domestic markets of Western African nations but also to the rising number of competent local partners in Abidjan, as well as the numerous infrastructure initiatives being undertaken by the government. All these were perceived as increasing international trade and allowing for opportunities in enhanced financial services in Abidjan, in agroindustry and in education. Nevertheless, all companies stressed that political stability and fragile peace remain the key determinants for their investment decisions and that the security level needs to be enhanced.
Persistent challenges
In terms of challenges, most foreign investors interviewed mentioned the bureaucratic administrative procedures and the corruption often associated with that. Others said precarious, volatile and non-inclusive business legislation was a hindrance. Some firms were found to be subject to bans on importation of some goods while domestic provision of the same was scarce and expensive.

The continuing influence of the idealistic but monopolistic historical legacy of the 1960s is a challenge in some sectors and is likely to deter new FDI while reducing the beneficial potential that current investments have to offer. This is often the case with public utilities like electricity and water supply. Respondents further saw the heavy tax burden and unfair competition as significant obstacles. Transparency in public office was also referred to as a clear challenge. Nevertheless, companies remain very optimistic, as current impediments are neither overriding nor unmanageable and could be addressed through improved policy. For instance, it is a good sign that Côte d’Ivoire has joined the Open Governance Partnership initiative, a multilateral organization which aims to promote transparency, fight corruption, and stimulate unrestricted access to public data and statistics.

But it is not just the government that should act. IPAs’ current lack of coherence and coordination of various government initiatives and their actual investment promotion activities could benefit from serious review and transformation. Business managers further argued that the IPAs’ current difficulties in attracting new and additional investments can be addressed by both increasing and diversifying their promotion activities.

At the regional level, the Ivorian Ministry of Transport reflected on the fact that, even though regional initiatives are established to address some of the challenges, it is still not easy to adapt them to contingencies and current circumstances. There is a need for improved coordination amongst the State members of the region.

Socio-economic impacts of FDI
Foreign firms stated that they were active employers who take gender into account. Local parties, however, believe that foreign companies could employ more local people rather than relying on human resources from abroad. They argued that the transfer of technical skills, know-how and competences depends on more intensive local involvement in and exposure to foreign companies’ daily operations. Officials in the Ministry of Transport stressed that employment is affected by the current concentration of FDI in Abidjan that is not beneficial for employment growth in other regions of Côte d’Ivoire. In such disadvantaged areas, youth in particular would benefit from more geographically dispersed FDI.

Most foreign firms mentioned were aware of the need for environmental protection, with 75% claiming ‘proper environmental policies’ in their companies including for the treatment of wastewater and waste recycling. But they admitted that it is not easy to implement environmental protection measures when infrastructure is inadequate.

Government, foreign and local companies’ relations
In general, foreign firms claim to have good relationships with the GdI. However, some respondents feel they are victims of tax harassment and inefficiencies in their VAT recovery. Companies in the energy sector believe that the government’s perception that big revenues are being generated often constitutes a reason for harassment in terms of tax collection or a reduction in promised incentives.

A substantial number of foreign firms are involved in public offers and tenders. Whereas the GdI has established the Direction des Marchés Publics (DMP) and Autorité Nationale de Régulation des Marchés Publics (NRMP) to regulate tenders, foreign firms stressed the need for better communication in matters of public marketing and tendering procedures. Companies would also like the government to facilitate procedures for customs clearance, permits, licenses and government certificates.

Apart from the sometimes fierce competition between foreign and local companies, relationships...
are generally good. Some local companies, however, would prefer foreign companies to not be so isolated in their clusters and to open up to the local business community. The IPAs are working hard to create more interaction between foreign investors and potential local business partners, but the results so far leave room for improvement, in part because public policies remain very conservative in terms of business matchmaking and joint-ventures.

**Regional context**
Several organizations have been established in Western Africa to support regional development objectives. FDI attraction is a key matter for the West African Economic and Monetary Union (WAEMU). WAEMU has established a common accounting system and periodically reviews member countries’ macroeconomic policies to promote convergence. It has also established a regional stock exchange, as well as the legal and regulatory framework for a regional banking system and is promoting regional stability, peace and, economic openness.

The WAEMU state members Benin, Burkina Faso, Côte d’Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo, for historic reasons, all share the same currency (FCFA) conveniently at parity with the Euro (€1 = XOF 655.957). With a tangible portion of investment received from Europe (43% of the total received FDI during 2006-2011), the WAEMU plays a major catalytic role in FDI attraction to the region (see Table 3). Also situated along the Abidjan-Lagos Corridor but having separate Ghanaian and Nigerian currencies (Cedi and Naira), Accra and Lagos are somewhat restricted from fluent exchanges with WAEMU countries in the FCFA zone.

**The Abidjan-Lagos Corridor**
The Abidjan-Lagos Corridor consists of five adjacent countries along the Gulf of Guinea: Côte d’Ivoire, Ghana, Benin, Togo and Nigeria. These countries are engaged in the corridor through a regional programme facilitating road transport and transit among ECOWAS and WAEMU countries. Together with regional cooperation institutions and provisions, the
programme improves the transport dynamics within the corridor and facilitates intra-regional trade and competitive industries. Nevertheless, most Abidjan-based respondents operating across the region stated that the benefits of location along the corridor could significantly increase if Côte d’Ivoire would address the Abidjan port’s long administrative procedures and synchronise its customs procedures.

As shown in Table 3, after the EU, Nigeria is the largest global trade partner of Côte d’Ivoire. Most goods exchanged between the two transit via the Abidjan-Lagos (AL) Corridor.

**Regional tax and tariff harmonisation**

Discussions are ongoing about the degree of protection provided for national economies in the region by the ECOWAS External Common Tariff (ECT) - the common tariff applied by the ECOWAS countries members on imports and exports - and the implications for the upcoming Economic Partnership Agreement (EPA). Although the latter will, trade wise, link Europe and the Western Africa region, it may also lead to unbalanced inflows of imported goods and generate fierce competition for FDI companies and domestic firms in the region.

Half of the corporate interviewees, particularly those in the manufacturing and agro/food sectors expressed concern about high customs tariffs within the Western Africa region. The region’s governments need to review these trade-restricting tariffs and consider following the example of freely flowing capital equipment, raw materials and intermediate goods that prevails within the special economic zones (SEZs) in Egypt (Mahdi, Nakeeb and Barakat, 2017).

Harmonization of taxation policies is needed to ensure regional macroeconomic convergence. Some companies observed that, more often than not, the WAEMU community’s tax exemptions are not adequately enforced in all WAEMU member states. Tax and tariff harmonization under the EPA is therefore a hot topic. At the same time, the anticipated heavy reduction in customs revenues raises questions about countries’ budgetary sustainability. While most respondents expressed a desire for more incentives such as tax holidays or prevention of double taxation agreements, the government expects to reduce any adverse revenue impacts of the EPA by future increments in VAT collections over the larger, anticipated inflow of goods. Since the EPA implies strict harmonization of
VAT, this would lead to neutral economic taxation in the region and it is likely to discourage volatility in FDI movement from one country to another when trying to take advantage of taxation differences.

While a large number of companies interviewed put their initial reluctance to invest down to instability and lack of the rule of law and fairness in business matters, the Organisation pour l’Harmonisation en Afrique du Droit des Affaires (OHADA) has been established to address business conflicts and protect investors. CEOs mentioned, however, that its impact still remains limited due to incomplete provisions in its regulation.

Bank credits extended to the private sector are very low (19%) in Côte d’Ivoire if compared to the regional average of 22%. This particularly impedes the investment capacities of local players and, at times, it is difficult for them to find suitable investment partners.

Most countries that attracted FDI have a dynamic stock market. A more comprehensive approach that includes all ECOWAS stock exchanges could take regional market capitalization to USD84 billion with large transaction volumes that, in turn, would better allow for companies to raise capital locally. This would benefit foreign and local investors alike, besides raising government revenues through the 10% tax on each stock transaction.

**Free movement of competent human resources**

Efficiency demands good quality human resources. To improve the skill levels of their respective labour pools, the Talent Mobility Programme was initiated in 2016 to create a joint labour platform for Benin, Côte d’Ivoire, Ghana and Sierra Leone. The programme will facilitate the free movement of competencies across these countries’ common borders and is likely to help address their nagging unemployment problems.

**Findings and recommendations for the City of Abidjan**

a) Abidjan can act as a catalytic hub to attract the (regional) headquarters of new investors in Côte d’Ivoire. For this to materialize, more adequate transport links need to be established between Abidjan and its surrounding towns where industrial lands can be provided to accommodate incoming FDI for industrial activities.

b) The structural congestion in Abidjan’s port is an impediment to companies’ production efficiency. Its clearing procedures should be digitalized as a matter of urgency. This requires joint efforts by the central government, customs, the port authorities and the private sector to put in place synchronized software and adequate hardware.

c) The railway system in the city needs to be upgraded and rehabilitated to reduce congestion on roads and slow down their deterioration.

d) Abidjan would gain by attracting high-level financial services companies to support FDI operations.

e) Security in and around Abidjan needs to be enhanced since this has a direct impact on the attraction of investors.

f) Investment promotion activities should be stepped up and should highlight the infrastructure and facilities that Abidjan has to offer. This can be done in various ways, such as through investment forums and promotional campaigns in other countries, as Abidjan has already done in China.

g) Greater visibility of local companies is desirable and their promotion should present them as attractive partners in a range of activities and sectors.

h) Though considerable efforts have already been made by the government, the availability of skilled labour should be increased. Education programmes in Abidjan should continue to tailor graduates’ training to the skills required by foreign firms to increase their employability and to facilitate the transfer of technology, know-how and expertise.

i) Government officials should put in place more rigorous and effective environmental infrastructure to ensure that both foreign and local companies’ environmental behaviour matches the mid- and longer-term need to mitigate climate and environmental change.
Kigali is one of the fastest growing cities in Africa with an average annual population growth rate of 4 percent.© Derejeb

Part C | City case studies

Foreign Direct Investment in Kigali City

By Frederick Golooba-Mutebi
This research examines the Government of Rwanda’s efforts to attract FDI, the impact of such investment and investors’ experiences in the capital city Kigali. Although partly informed by secondary sources, the study is based primarily on interviews with representatives of firms across different sectors of the economy about the business environment and companies’ experiences with government entities. Also interviewed were officials from the Rwanda Development Board to understand: a) the strategies Rwanda has adopted to attract FDI; b) the impact of investments on the city and the country; and c) the challenges to make Rwanda a preferred investment destination. The role of FDI in employment creation was raised in interviews with government officials and with both local and foreign investors.

Introduction

Since 2000, the Government of Rwanda (GoR) has pursued policies seeking to transform its traditionally agrarian subsistence economy into a knowledge-based one. These policies are laid out in the Vision 2020 framework for economic transformation. Vision 2020 seeks to transform Rwanda into a middle-income country by 2020. By then it should have achieved a per capita income of about USD900 (up from USD290 in 2000). The GoR is seeking to transform the structure of the national economy and make the industrial and services sectors dominant by 2020. The objective is to transform the GDP shares of services to 42%, industry to 26%, and agriculture to 33%.

Kigali, the capital city of Rwanda, is a focus within these ambitions, both as an investment destination in its own right, but also as the first port of call for foreign investors seeking to establish themselves elsewhere in the country. A disclaimer is in order, however. Given that Kigali is the first port of call for all investors, it is easy to conclude that investments coming into the country are Kigali-bound. In the absence of disaggregated data showing which investors remain in Kigali and which are going elsewhere, such a conclusion should be treated with caution. Separating the respective attractiveness of Kigali as a city and the attractiveness of Rwanda as a
country presented a challenge in this research due to a certain blurring of the boundaries between the two.

Overall, since the civil war and the 1994 genocide against the Tutsi, the Government of Rwanda (GoR) has come a long way in building a firm foundation for, arguably, the most ambitious development agenda in the Eastern African region based on the security of people and property and zero tolerance of corruption. Driving all this are leadership and commitment, as well as strong economic growth that averaged 8% annually between 2004 and 2008 and rose from 7.9% in 2007 to 11.2% in 2008.

The GoR, like its counterparts in South Africa, Côte d’Ivoire and Egypt (the other three case studies in this report), is keen to attract FDI to boost its economic growth strategy and reduce unemployment. To this end, it has introduced policies, as well as legal and institutional reforms, that are designed to realize its objectives. In 2008, the GoR set up the Rwanda Development Board (RDB) to facilitate the fast tracking of development. Among other initiatives, notwithstanding continuing challenges, the RDB works to make the business environment more attractive to investors. Other measures to facilitate FDI mobilization include the establishment of a national airline Rwanda Air; construction of a larger airport; modernization of the national roads network; establishment of industrial parks; investment in information and communications technology (ICT); and an increased electricity supply. Together, these measures seek to turn Rwanda into a preferred investment destination, especially in tourism, communications, transport logistics and services.

Consistent improvement in international rankings such as the World Bank’s annual Doing Business Report over the last decade points to the successes achieved. After Mauritius, Rwanda is second in ‘ease of doing business’ in Sub-Saharan Africa. This is a key consideration for potential investors. The government’s efforts to transform the economy and the country at large focus, in the first instance, on Kigali as the capital city and the country’s investment hub.

**A brief history of Kigali**

Dr. Richard Kandt, the first German imperial resident governor of Rwanda, founded Kigali in 1906. Owing to its central position, Kigali developed into a major commercial centre and a transit point for traders from Bukoba and Kigoma (in Tanganyika, now Tanzania) via Bujumbura in Burundi and also between Kisangani in the Democratic Republic of Congo and Kampala in Uganda. Kigali became a magnet for Arab and Indian textile, copper, bead and ivory traders who were hitherto based in Nyanza where the palace of King (Umwami) Yuhi V Musinga, who ruled Rwanda prior to German colonization, was located.

Early-day Kigali occupied two hills: Nyarugenge and Nyamirambo. Until World War I, Rwanda was a small colonial backwater with few links to the outside world. When the Belgians occupied Rwanda after World War I, they disliked the Kigali site and established another administrative residence in Nyanza, where the King lived. In 1921, however, the colonial administrative centre for Rwanda was moved back to Kigali.

Until World War I, Rwanda was a small colonial backwater with few links to the outside world. When the Belgians occupied Rwanda after World War I, they disliked the Kigali site and established another administrative residence in Nyanza, where the King lived.

Over time, Kigali has grown in size and population. Nevertheless, at independence in 1962, it was still only a small village with primarily administrative functions. It had a population of 6,000 people and an urban area of approximately 3 km². By 1990, it covered an area of 112 km² and had a population of 140,000. The administrative reforms of 2000 extended Kigali’s boundaries to 314 km² and those of 2005 to 730 km². According to the 2002 Census, Kigali had a population of 608,141 inhabitants, pointing to an average annual growth rate of 9% since 1991.

**Contemporary Kigali**

Kigali is one of Rwanda’s five provinces. Administratively, it comprises three districts: Gasabo, Kicukiro and Nyarugenge. Each district is divided into sectors of which there are 35, each divided into cells - 161 in total. Each cell comprises villages...
(imidugudu), of which there are 1,061. Kigali is one of the fastest growing cities in Africa with an average annual population growth rate of 4 percent. The physical and demographic expansion has resulted from rural-urban migration by employment and opportunity seekers. Gasabo is the most populated district, with the fastest population growth at 5.2% annually. Nyarugenge is the least populated, with an average population growth rate of 1.9%. The most densely populated areas are found around the city’s core, with the highest density of 2,127 people per km² in the Nyarugenge district. The lowest population density is found in the Kicukiro district, at 1,918 people per km².

As a result of the physical expansion, land formerly under forests and agricultural exploitation has been developed for residential and business purposes. Contemporary Kigali is the product of the revision of its boundaries under the GoR’s decentralisation policy that added some peri-urban areas previously outside the city through legislation. Law No 47/2000 of 19/12/2000 re-defined the city’s administrative entities and law No 29/2005 of 31/12/2005 extended Kigali’s boundaries to 730 km².

From 1994, Kigali also grew because of the influx of former refugees and exiles as well as a growing number of foreigners for work. In addition, natural population increase and administrative reforms have also extended Kigali’s population. Politics and government policy have both been significant in this physical growth.

Under colonial rule, Kigali grew only slowly because the colonial administration discouraged urban growth. To this end, the authorities barred Africans, especially the unemployed, from settling in urban centres. After independence, governments continued to oppose urban growth, preferring to prioritise rural development. Moreover, urban areas provided few opportunities for employment. Both these factors kept rural-urban migration rates down. Unlike its predecessors, however, the current GoR believes in the transformative potential of urbanization and has made the growth of Kigali a cornerstone in its development vision. Consequently, Kigali is growing rapidly, as are other major urban centres in Rwanda because of the opportunities they offer to rural-urban migrants.

Impacts of rapid demographic expansion
Rapid population growth has proven a strain on infrastructure. Despite the government’s commendable efforts, infrastructure upgrading has been slower than population growth. This presents national and city authorities with serious challenges, including escalating shortfalls in housing and related services. However, population growth also presents an important opportunity for investors in real estate development, since, in 2008, approximately 80 percent of Kigali’s residents lived in unplanned settlements. The need for housing therefore provides investment opportunities for foreign and local investors alike, especially in low-cost and affordable housing. Real estate investment promises to become a key growth area and is already attracting local and foreign investors albeit not yet in sufficient numbers to respond adequately to the housing needs, notably among low-income earners in the formal and informal sectors.

Shortage of land and affordable housing are potential obstacles to sustainable urban planning. Currently, new housing is delivered through both the formal and informal sectors. The former works within existing regulations and norms and includes formal developers and the established construction industry. The latter mostly concerns spontaneous initiatives by individual households. Since 1994, the government has developed planned estates while private investors have catered mainly for middle- and high-income earners. Consequently, low-income groups have filled

<table>
<thead>
<tr>
<th>Business Activity</th>
<th>Number of Projects</th>
<th>Jobs Created</th>
<th>Capital Investment (USD in millions)</th>
</tr>
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<tbody>
<tr>
<td>Business services</td>
<td>22</td>
<td>322</td>
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<tr>
<td>Sales, marketing and support</td>
<td>13</td>
<td>351</td>
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<tr>
<td>Manufacturing</td>
<td>9</td>
<td>2,713</td>
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<tr>
<td>Retail</td>
<td>8</td>
<td>732</td>
<td>55.8</td>
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<tr>
<td>Construction</td>
<td>3</td>
<td>1,416</td>
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<tr>
<td>Design, development and testing</td>
<td>3</td>
<td>237</td>
<td>26.1</td>
</tr>
<tr>
<td>Education and training</td>
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<td>203</td>
<td>21.9</td>
</tr>
<tr>
<td>Logistics, distribution and transport</td>
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<td>68.3</td>
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<tr>
<td>Headquarters</td>
<td>2</td>
<td>171</td>
<td>82</td>
</tr>
<tr>
<td>ICT and internet infrastructure</td>
<td>2</td>
<td>178</td>
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<tr>
<td>Other business activities</td>
<td>2</td>
<td>100</td>
<td>10.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>6,596</strong></td>
<td><strong>2,295.10</strong></td>
</tr>
</tbody>
</table>

Source: fDi Intelligence from the Financial Times Ltd.
the market gap and pursued their own initiatives in unplanned neighbourhoods. By 2007, when Kigali’s population was about 800,000, the housing shortfall was estimated at between 8,500 and 10,000 units annually. Due to population growth, this has risen to about 35,000 units per annum. A recent study suggested that Kigali could face a housing deficit of up to 350,000 units in the next 10 years. This offers great opportunities for investment.

Investment in the city

Over the last 23 years, Kigali has become famous for Rwanda’s near-miraculous recovery from genocide, and for being arguably one of Africa’s cleanest cities. In just over 20 years, Kigali has evolved from a quiet, insular and dusty backwater to become one of the fastest growing cities in Africa. This can be seen partly in the emergence of new suburbs with accompanying service providers, and the increase in the number of businesses and related commercial activity in the city to which FDI has been a significant contributor (see Table 1).

Shortly after the genocide, Rwanda’s then reputation for violence and political instability deterred foreign investors. Responsibility for kick-starting the investment drive fell on Rwanda’s leading political party, the Rwandan Patriotic Front (RPF) and to a lesser extent the state. The RPF founded a holding company, Tristar Investments Ltd, with interests in food processing, real estate, engineering, construction and services. Over the years, Tristar Investments has grown into Rwanda’s largest conglomerate, now called Crystal Ventures Ltd. Alongside Crystal Ventures is another major local investor, The Horizon Group, owned by the Rwanda Defence Force, which has interests in agriculture and agricultural value-addition, manufacturing (chemicals), engineering, logistics, real estate and construction. Given their connections to the state and the ruling elite, they are considered controversial by some and have been the subject of negative media reporting. However, they have made important contributions to the overall private sector development in the country, to employment creation, and to the exchequer’s revenue mobilisation. Other local investment flagships include hotels, of which there has been an explosion in numbers, housing estates mainly for the well-to-do segments of society, and office buildings that have transformed the city’s skyline.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of Projects</th>
<th>Jobs Created</th>
<th>Capital Investment (USD in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial services</td>
<td>19</td>
<td>513</td>
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<tr>
<td>Communications</td>
<td>6</td>
<td>411</td>
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<tr>
<td>Business services</td>
<td>5</td>
<td>99</td>
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<tr>
<td>Food and tobacco</td>
<td>5</td>
<td>670</td>
<td>46.4</td>
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<tr>
<td>Real estate</td>
<td>4</td>
<td>1,416</td>
<td>999.5</td>
</tr>
<tr>
<td>Automotive components</td>
<td>3</td>
<td>210</td>
<td>25.9</td>
</tr>
<tr>
<td>Healthcare</td>
<td>3</td>
<td>77</td>
<td>11</td>
</tr>
<tr>
<td>Hotels and tourism</td>
<td>3</td>
<td>64</td>
<td>16.8</td>
</tr>
<tr>
<td>Software and IT services</td>
<td>3</td>
<td>248</td>
<td>26.7</td>
</tr>
<tr>
<td>Transportation</td>
<td>3</td>
<td>30</td>
<td>45.9</td>
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<tr>
<td>Other sectors</td>
<td>16</td>
<td>2,858</td>
<td>482.3</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>6,596</td>
<td>2,295.1</td>
</tr>
</tbody>
</table>

Source: FDI intelligence from the Financial Times Ltd
Rwanda and Kigali are attractive because, besides good policies and the proactive courting of investors, they provide a gateway to a potentially large market in the east of the Democratic Republic of Congo, which is too far from the DRC capital Kinshasa for it to be serviced from there.

Rwanda and Kigali are attractive because, besides good policies and pro-active courting of investors, they provide a gateway to a potentially large market in the east of the Democratic Republic of Congo which is too far from the DRC capital Kinshasa for it to be serviced from there. Indeed, many investors setting up in Kigali do so with a keen eye on the eastern DRC market for goods and services. Rwanda not only provides easy transit routes to the DRC but also to Burundi, Tanzania and Uganda. Investing in Kigali therefore makes sense for companies seeking to locate themselves strategically close to those markets.

**Context**

Having inherited a collapsed state and an economy in tatters, the current government, since it took power, has pursued an ambitious development agenda. At
the core of this is the determination to re-orient Rwanda from its history of violence and turn it into a prosperous country. Some commentators characterize this as ‘remaking’ or ‘re-imagining’ Rwanda. Poverty played a key role in the genocide and has been an important factor in the cycles of political violence that have bedevilled the Rwandan post-colonial history. Delivering prosperity will therefore be an important tool in any efforts to stabilize the country in the longer term.

The vehicle for the transformation is Vision 2020, Rwanda’s development roadmap. The broad thrust of Vision 2020 is to convert Rwanda into a middle-income country by 2020. The key indicators of this will be increasing the per capita income to USD1,240, a national poverty rate below 20 percent, and life expectancy increasing from 49 years in 2000 to 66 years by 2020.

Vision 2020 is being implemented alongside other medium-term strategies such as the Economic Development and Poverty Reduction Strategy (EDPRS), now in its second phase (EDPRS II-2012-2018). Vision 2020 seeks to make the economy more private-sector led with the private sector a ‘catalyst’ for economic transformation. This helps contextualize the government’s efforts to develop a private sector through foreign and local investment. The EDPRS conceives the private sector as an engine for economic growth and places strategic emphasis on ensuring it will constitute the ‘dominant share of investment.’ The government has been pursuing and continues to pursue its ambitions alongside institutional, legal, and policy reform to boost private sector development and investment.

Policy and institutional reforms

The Rwanda Development Board

The Rwanda Development Board (RDB) was established by Law No 53/2008 of September 2008 as a specialized entity responsible for fast tracking development activities. It also has other responsibilities: facilitating the government and the private sector in general, and promoting local and foreign direct investment. In terms of attracting investment, the RDB has an investment promotion department with marketing and facilitation sections. The marketing section prepares information relating to opportunities in different sectors of the economy and presents it to investors. The information includes available infrastructure, expected return on investment and any other information that investors would find useful in deciding whether to invest in the country. The information is presented in international arenas including conferences and workshops with potential investors in attendance and is also supplied to Rwandan embassy officials abroad to use for the same purposes.

The responsibility of the facilitation section is providing assistance to investors and helping them overcome administrative and other obstacles to move quickly towards actual investment. Although these processes tend to work better in Rwanda than elsewhere in the region where government organs are still heavily bureaucratic, the RDB still faces challenges in its role as facilitator, a point emphasized by investors.

Another of the RDB’s departments concerns ‘aftercare’ and looks after investors facing challenges as they operationalize their businesses. Where the challenges are administrative, investors are directed to the relevant government agencies for quick resolution. Toll free telephone numbers are available to contact the RDB.

This tends to work well. However, sometimes there are policy-related challenges that cannot be resolved quickly. There is not always much the RDB can do in such circumstances other than taking on a policy advocacy role on behalf of the investors. This may or may not resolve the issue, such as, for instance, those related to land allocation by local authorities. In the past, specific challenges concerned the availability and price of electricity. Here the RDB worked on solving problems sustainably. Success is also dependent on coordination with other agencies: the Rwanda Revenue Authority (RRA), the Rwanda Utilities Regulations Agency (RURA), the Rwanda Environment Management Authority (REMA), and the Directorate of Immigration and Emigration, which also play key roles.

The Investment Code

The Investment Code is a key legal framework for engagement with investors. In May 2015, the GoR launched a new code seeking to attract more FDI, especially into the key strategic sectors: tourism, energy and new technologies. This new code amended the old one by targeting greater investment promotion and facilitation. Today, foreign investors do not have to invest the potentially prohibitive minimum of USD100,000. The new code is in line with
Foreign Direct Investment in Kigali City

the government’s Vision 2020, whose key objectives include further enhancement of the business climate. It is unclear what changes this particular reform has led to in Rwanda generally. However, in Kigali it seems not a great deal (see Table 3), although it is probably still early days.

Guarantees and incentives for investors
According to Chapter II of the Investment Code, notably Article 3 on “openness to investment,” all sectors of business are open to private investors “regardless of the origin of the investor”. The code encourages investment in the following priority areas: exports, manufacturing, energy, transport, information and communication technologies, financial services and construction of low-cost and affordable housing.

There are some clear advances in terms of investor response to this prioritization. For example, the financial services sector accounted for more than one-quarter of new projects during the period 2003 to 2017. Real estate development has also done well. It generated USD999.50 million worth of investments and 1,416 jobs. Construction has both the highest total and highest average investment at USD950.30 million overall and USD316.80 million per project on average. Manufacturing has generated the highest number of total jobs.

Investors who meet certain conditions are entitled to the following incentives: a) zero percent corporate income tax; b) 15% corporate tax; c) a corporate income tax holiday of up to five years; d) a corporate income tax holiday of up to seven years; e) exemption from capital gains tax; f) value-added tax refund; g) accelerated equipment depreciation for tax purposes; and h) immigration incentives for an investor and his/her dependents that include, among others, a residence permit subject to other relevant laws. These types of measures have been implemented over the past 15 years to improve the business environment and attract foreign investors. Their effectiveness is reflected in increased FDI, and measured by the satisfaction levels of their intended beneficiaries and by analysing trends in indices of the business environment.

Investing in Kigali
There are several reasons why investors invest or choose to maintain their operations in Rwanda, including in Kigali City. These include the quality of the country’s leadership and the associated minimized corruption incidence. The stable political and economic environment are also important, as is the general investor and business-friendly environment in which the registration of a business takes only hours compared to days or even weeks elsewhere. Also peace, the rule of law and the security of people and property are important. Kigali, although it was associated with genocide and insecurity in the 1990s, has transformed itself into one of the world’s safest cities. Also, some investors’ decisions have been encouraged significantly by the government’s commitment to promoting information and communications technology. The RDB’s aftercare department, despite challenges remaining, is also a strong selling point for Rwanda.

Leadership
The GoR has a reputation for receptiveness and sensitivity towards foreign investors with clear commitment at the highest levels to welcoming and promoting business activity. This commitment is said to trickle down to lower-level government agencies and officials handling business-related matters. Of great significance is that President Paul Kagame is pro-actively wooing investors, travelling the world encouraging foreign investors to consider investing in Rwanda, and engaging members of the local business community to invest in priority sectors. From time to time, he engages directly with Rwanda-based investors, foreign and local, encouraging them to play their rightful role in the country’s pursuit of development and social change, challenging them to aim ever higher. The President’s activism is an important factor

Table 3. Annual FDI trends in Kigali

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<tr>
<td>Projects</td>
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<td>3</td>
<td>11</td>
<td>6</td>
<td>8</td>
<td>7</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: fDi intelligence from the Financial Times Ltd
Political stability and predictability of the political environment in which there are no violent contestations and disruption, are key attractions to potential investors and are important in investment decisions attracting investors to Rwanda and demonstrates that the country’s leadership is indeed an ally.

Political stability
Political stability and predictability of the political environment in which there are no violent contestations and disruption, are key attractions to potential investors and important in investment decisions. A stable political environment makes investors feel more secure and confident that their money is not overly at risk. Political stability and predictability go hand in hand. For businesses to thrive and prosper, they must operate in an environment where they are able to model their growth paths and expansion strategies over the medium and long term. Government institutions and policies that make such predictability possible are crucial. Also, for businesses to thrive, they must be able to predict future trends in the economy.

One investor emphatically stressed how all these conditions attracted her to invest in Rwanda: “Political stability for me is the first thing.” Peace and security are also important considerations. Investors are concerned both about personal safety and that of their investments and want assurances that both will be protected under the law. Indeed, Rwanda scores highly on these points. Another investor pointed out that Rwanda is now a peaceful country that ensures that investors are protected. These sentiments are supported by the 2016 Global Law and Order Index that ranked Rwanda as the safest country in Sub-Saharan Africa, with Ethiopia the runner up. On the entire African continent, Rwanda is second behind Egypt.

Responsive government agencies
The expectations of members of the business community with regard to predictability in their relationships with the institutions of government

Coffee, along with tin, energy and telecommunications, are the sectors which Rwanda is targeting for foreign investment © Antonella865
are also important. This refers to a chain of processes, from registration to opening up and operating a business. Depending on the nature of their operations, investors come into contact with the Rwanda Development Board (RDB), the Rwanda Revenue Authority (RRA), the Rwanda Environment Management Agency (REMA), the Rwanda Utilities Regulation Agency (RURA), the National Bank of Rwanda (BNR), the Rwanda National Police (RNP), and the Department of Immigration and Emigration Services. Whereas each of these agencies has room for improvement in their interactions with investors, overall, investors assess them positively in terms of effectiveness in discharging their mandate.

One investor pointed out that the goodwill is clearly there. Investors generally characterize their relationship with government agencies as cordial and easy, with agencies endeavouring to make decisions in a consultative manner. An investor in the telecommunications sector praised the efforts of government agencies in terms of consultative cooperation with the business community to arrive at a “common understanding” on matters ranging from how businesses operate, how they are regulated, and how they should be taxed. When asked about his relationship with government agencies responsible for business facilitation, one investor in the construction sector, who has experience in Asia and in most Eastern African countries, stated:

“I have never seen a country where government responds to the queries of an investor the way they do [in Rwanda]. Whether it is RDB, RRA, or REMA.”

This was not an isolated opinion, as is evident from another investor who stated that investors are received and treated very well [in Rwanda]. “The government handles them in the best way possible. If you need a certain exemption, they facilitate it.”

The RDB has weaknesses, as already highlighted, but investors are generally satisfied with its services. While delays in resolving problems can occur and may lead to frustration, investors say that matters are worse elsewhere, especially where corruption and general dysfunction complicate life for whoever has to deal with official institutions. A Belgian investor who attempted to set up shop in two other Eastern African countries gave up because of corruption and bureaucracy and decided to concentrate his efforts on Rwanda where things are more straightforward.

Investors’ contact with the Department of Immigration and Emigration usually entails applying for work permits for expatriate personnel or other related matters. Generally, investors characterize the department as supportive. Another investor pointed out that a lot of effort is being put into making doing business easy, which gives comfort to investors. For this purpose, an investment promotion and facilitation board has been created to help investors with several processes which, in other countries, tend to be complicated and delay business registration while often creating opportunities for public servants to solicit bribes.

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**Transparency**

There are, at times, concerns about a perceived lack of transparency in how the government deals with or intervenes in the private sector (Booth and Golooba-Mutebi, 2012). This pertains to two emerging enterprises, Crystal Ventures Limited and the Horizon Group, owned by the Rwandan Patriotic Front (RPF) and the Rwanda Defence Force (RDF), respectively. Some believe they crowd out private investment. However, these two business groups operate as private businesses and experience the same and sometimes even more constraints than their local competitors. Despite a long-running and contested claim of a lack of transparency and reserving preferential treatment for what some believe are ‘state-backed corporations’, foreign investors generally consider that there is transparency of processes and equality of treatment with their local counterparts. The fact that they feel that they are treated equally with local investors is especially important to them when they are bidding for government contracts, such as energy deals. An investor in fuel importation confirmed that tendering processes are very transparent and that competition is open. The GoR’s efforts to make business transactions more ICT-based will raise levels of transparency. The 2015 Transparency International Corruption Perceptions Index corroborates these sentiments. It ranked Rwanda 4th in Sub-Saharan Africa in controlling corruption, and 44th in the whole world behind Botswana (28th), Cape Verde (40th) and the Seychelles (40th position).

Some local investors complain about being disadvantaged by incentives the GoR accords foreign investors. These include subsidies and tax exemptions, especially in manufacturing. Local garment manufacturers especially question the advantages foreign garment manufacturers enjoy, such as government-funded training programmes.
for their unskilled workers and free or subsidized premises for setting up their factories. Chinese investor C&H Garments has been especially successful at winning concessions from the government on such things as rented factory buildings and contracts to manufacture uniforms for the police and armed forces. Local investors feel the government should accord them similar benefits. Whereas this is neither a matter of lack of transparency nor corruption, local manufacturers do have a point about skewed policy that favours foreign investors over local ones.

Measuring performance
The World Bank’s Doing Business Index is a composite of indicators reflecting ease of doing business in a country. In 2006, Rwanda was 158th in ease of doing business. In 2010, it rose to 67th; a leap of 91 positions. In 2013, it ranked 8th in ease of starting a business. And in 2014 it attained its best position (32nd) in ease of doing business. It has since fallen off to positions in the 50s and 60s. Nonetheless, comparison with its neighbours is instructive (see Table 4). In 2016, when Rwanda ranked 62nd, Uganda was a distant second at 122nd; Kenya an equally distant third at 129th; Tanzania fourth at 139th; while Burundi trailed at 151st close to the position Rwanda occupied almost a decade previously when it first embarked on reform.

The improvements and the good performance overall, point to the government’s pro-active monitoring of the impact of the reforms and constant adjusting (or deepening) where such a step is deemed to be necessary, which is in keeping with its longstanding ‘learning by doing’ approach to reform.

Trends in FDI
Has the success registered in the Ease of Doing Business rankings and the reforms that have determined Rwanda’s positioning necessarily translated into actual FDI? Anecdotal evidence suggests that, despite the successful reforms, Rwanda does not attract as much FDI overall as it ought to, if compared to, for example, Uganda where the government has not been as successful in ease of doing business reforms. One of the reasons for the rather modest FDI increase is Rwanda’s landlocked position, much further from seaports than (also landlocked) Uganda. This is a particular

<table>
<thead>
<tr>
<th>Year</th>
<th>Indicator</th>
<th>Rwanda</th>
<th>Uganda</th>
<th>Kenya</th>
<th>Tanzania</th>
<th>Burundi</th>
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<tr>
<td>2015</td>
<td>Starting a business</td>
<td>117</td>
<td>168</td>
<td>148</td>
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<tr>
<td></td>
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<td>166</td>
<td>152</td>
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<td>162</td>
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<td></td>
<td>Getting electricity</td>
<td>115</td>
<td>172</td>
<td>141</td>
<td>83</td>
<td>186</td>
</tr>
<tr>
<td></td>
<td>Registering property</td>
<td>12</td>
<td>12</td>
<td>121</td>
<td>132</td>
<td>91</td>
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<tr>
<td></td>
<td>Getting credit</td>
<td>4</td>
<td>128</td>
<td>118</td>
<td>150</td>
<td>171</td>
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<td></td>
<td>Protecting minority investors</td>
<td>121</td>
<td>98</td>
<td>114</td>
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<tr>
<td></td>
<td>Paying taxes</td>
<td>47</td>
<td>101</td>
<td>99</td>
<td>147</td>
<td>111</td>
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<tr>
<td></td>
<td>Trading across borders</td>
<td>77</td>
<td>128</td>
<td>131</td>
<td>181</td>
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<td></td>
<td>Enforcing contracts</td>
<td>123</td>
<td>78</td>
<td>102</td>
<td>64</td>
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<td></td>
<td>Resolving insolvency</td>
<td>97</td>
<td>106</td>
<td>145</td>
<td>98</td>
<td>144</td>
</tr>
<tr>
<td></td>
<td>Doing business rank</td>
<td>55</td>
<td>135</td>
<td>108</td>
<td>140</td>
<td>152</td>
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</table>

Source: Mutebi, 2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Indicator</th>
<th>Rwanda</th>
<th>Uganda</th>
<th>Kenya</th>
<th>Tanzania</th>
<th>Burundi</th>
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<tbody>
<tr>
<td>2015</td>
<td>FDI inward flow (USD millions)</td>
<td>258</td>
<td>459</td>
<td>471</td>
<td>471.0</td>
<td>1,183.3</td>
</tr>
<tr>
<td></td>
<td>FDI stock (USD millions)</td>
<td>837.7</td>
<td>1,152.3</td>
<td>1,183.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>No of greenfield investments</td>
<td>17.0</td>
<td>11.0</td>
<td>13.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FDI inwards (in % of GFCF)</td>
<td>13.4</td>
<td>23.0</td>
<td>23.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FDI stock (in % of GDP)</td>
<td>11.1</td>
<td>14.6</td>
<td>14.3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Mutebi, 2017; UNCTAD, 2016
impediment, even to investors who might otherwise wish to invest. One of the disadvantages of Rwanda being landlocked is that the cost of transporting goods from the ports of Dar es Salaam (Tanzania) and Mombasa (Kenya) is very high. It deters some investors because it adds to the costs of doing business. The far-reaching reforms the GoR has implemented have not removed these disadvantages. Between 1990 and 2008, FDI in Rwanda varied between zero and 4.2 percent of GDP. Much of the slow FDI growth is likely due to such structural constraints.

From 2006, however, good economic conditions, a policy focus on improving the business climate, and political stability have helped attract more investment and FDI stocks in Rwanda have increased in recent years (see Table 5). Even then, in general terms, FDI flows remained weak. In part, this can be attributed to political instability in neighbouring countries, specifically Burundi and the Democratic Republic of the Congo. These countries’ political instability has had a negative impact on the entire Great Lakes region, because some potential investors have associated the political violence with the whole region. Other factors limiting the FDI attractiveness of Rwanda include low levels of human resources, its small domestic market, the high costs of doing business, and limited natural resources. Nevertheless, Rwanda has many assets rendering it attractive to investors with a long-term horizon: substantial reserves of methane gas, great mining potential, and the fact that it is one of the least corrupt countries in Africa.

In addition, the government has developed and is committed to continuing to develop supportive policies in pursuit of its ambition to make Rwanda a trade and services hub in the Eastern African region. This strategy is responsible for Rwanda’s stellar performance in doing business reforms. Business registration is the one area where reforms have catalyzed a dramatic shift and led to a surge in company registrations in 2009 (3,028 new companies), almost equivalent to the total for the previous five years. In 2012, there was a 6,665 increase in company registrations.

Coffee, tea, tin, energy and telecommunications are among the sectors targeted for foreign investment. In August 2015, Rwanda hosted the China-Africa Business Forum, which attracted many investors. In February 2016, the government signed a mining agreement for a project with the Tri Metals Mining Group for USD39 million. In 2016, the Rwanda Development Board (RDB) signed an agreement with Thomson Reuters to support further innovation within the country. A few years earlier, in 2012, the government and the American company Visa Inc. had signed a contract for the development of electronic financial services, opening the door to new investments in this sector.

As a consequence, overall, FDI has increased by 78.1 percent, according to the Central Bank’s Foreign Private Capital Census (2015) report which showed that investments by foreign investors increased to USD458.7 million in 2014 from USD257.6 million in 2013. The report attributes the gains to the high confidence of foreign investors in Rwanda. Mauritius is the main source of investment with USD113.5 million, followed by Switzerland at USD106.2 million. The United States of America and Luxembourg come in third and fourth place with USD70 million and USD52.6 million, respectively. Among the top sectors of activity, accounting for 96 per cent of all FDI inflows in 2014, are mining at USD136.2 million; ICT at USD116.1 million; tourism at USD71.8 million, and finance and insurance at USD68.8 million. Altogether, investment in ICT reached USD453.4 million in 2014. Among the key investments in the ICT sector is the South Korean venture, Olleh Rwanda Network (oRn). Manufacturing accounted for USD172 million. Between 2009 and 2014, 338 investment projects fully owned by foreign investors or in joint ventures with local investors, were registered with a total pledged investment value of USD2,607 million. They were expected to create 55,141 jobs. Among them 211 projects were already operational by 2014; 69 were in implementation phase; 32 had closed; while 36 were still on course to start their activities.

### Relationship between FDI and domestic investment

There are two main levels at which the relation between foreign and domestic sources of investment can be looked at. One is why the GoR is so keen on attracting FDI. Rwanda has a very small local private sector dominated by trading and commerce with a few large companies. The largest part of the local private sector comprises small- and medium-sized enterprises (SMEs). The government has made great efforts to help the private sector grow. While these efforts have achieved remarkable results, they could only achieve so much with a private sector steeped in a conservative outlook and growing from a very low base. It is therefore logical that the government would
seek to attract FDI to, among other things, augment its efforts. It means that, for the most part and in many instances, foreign investors are entering virgin territory, with immense opportunities in hitherto unexplored and under-explored domains such as large-scale retailing, manufacturing, value-addition, food processing, mining, minerals processing, communications, transport, and many others.

The other perspective from which this could be viewed is that FDI brings in new ideas and innovation, opening the eyes of the local private sector to new ways of doing business, and widening the range of their contacts, potential partners and collaborators. Elsewhere, local investors have benefitted from FDI by way of appointment as agents and service providers. For example, telecommunications companies and beverage makers have many agents and service providers in Kigali City and elsewhere in the country, as do food processors. Large-scale retail outlets depend on local producers for some of the commodities they sell, as do hotels for fresh produce and other products. Therefore, the more FDI the country attracts, the more the local private sector can grow and prosper. That said, large, well-endowed foreign firms benefitting from economies of scale, sometimes inevitably cause the demise of local competitors who lack the necessary capital, experience and sophistication. However, given the small size of Rwanda’s local private sector, many foreign firms enter domains in which there are few, if any, local entrepreneurs.

**The significance of ICT**

From the very beginning of the political struggle that would eventually bring the Rwanda Patriotic Front to power, its leadership was aware of the imperative to think of ways to bring prosperity to landlocked and natural-resource-poor Rwanda. One way was to strengthen its links with its neighbours and the wider region. The other was to exploit the opportunities offered by the ICT revolution and technology generally, and to make the private sector
the engine of development. A key aspiration was to develop a services-based economy. This was feasible only with the use of technology. Over time, Rwanda has invested heavily in ICT, making advances that no other country of similar size and circumstances has made, including wiring up its entire territory with fibre-optic cabling to enable widespread internet connectivity. In all the priority domains for investment, including services, logistics and tourism, ICT is indispensable as a central enabler. Indeed, investors in search of a stable business environment with easy communication and connectivity are setting up regional offices in Kigali. In this way, ICT is helping Rwanda overcome some of the constraints associated with its landlocked geography.

**Challenges faced by investors**

Overall, the experience of investors in Kigali and Rwanda generally is positive. Investors have a positive outlook on the growth of their businesses. The relative absence of competition for most businesses and the small size of the private sector in Rwanda raise confidence that there is plenty of room for both new entrants and existing companies to grow and thrive. Do local investors feel crowded out by foreign investors? According to a local investor in the pharmaceutical industry:

“There are 265 pharmacies serving 12 million people. It means we are not that many. But the geographical distribution is not good; we are concentrated in the larger towns. Therefore, our services are available to relatively few people. For that reason, there is room for investment, whether local or foreign. There’s room for manufacturers. We have zero manufacturing plants.”

However, some investors raised concerns. Paradoxically, at the same time as they characterized the service delivered by government institutions as effective and praised the enthusiasm of officials in supporting investors, they mentioned that some institutions are inadequately staffed, while others are lacking skills. On the specific issue of skills, investors argued for more agency staff with specialized skills in medical supplies, which are highly regulated. According to one investor in the pharmaceutical sector, the government needs more staff to regulate and fast-track administrative procedures in the Ministry of Health. It further needs more staff to fill the gap when those responsible for regulation and inspection attend training, conferences or meetings to ensure that work continues.

Further, investors in the pharmaceutical industry usually experience delays in acquiring import permits for medication while the product registration process is onerous. To address these issues, the GoR, aware of these problems, plans to establish a one-stop centre for handling matters related to pharmaceuticals.

Investors also stated that accessing finance is problematic. Local investors in particular are concerned about financing and the very high interest rates. An investor in the construction sector stated that the banking sector is a major problem:

“They give you a loan and want you to pay it back within a year. The interest charged is too high, rendering borrowing risky. Whereas the government sets the price of petrol, why not also set interest rates for the banks? Rwanda should, like other countries do, find cheap capital for investors to borrow and invest.”

While investors cite constraints in access to financing, World Bank reports rank Rwanda highly on the indicator of credit. This, however, refers to the legal framework for credit and does not necessarily imply ease of access to financing. Investors further cited the depreciating Rwandan Franc and general currency instability as problematic for the business community, not least how this affects importing goods.

Finally, investors believe the cost of fuel and electricity is too high. Utility costs in Rwanda are the highest in the Eastern Africa region and the supply unreliable. Some investors are hesitant to shift their manufacturing operations to Rwanda because they fear the high cost and unreliability of electricity supply could interfere with production.

There are also challenges related to Rwanda’s regulatory environment, especially its strict environmental protection laws. For example, prohibition of the use of plastic bags has imposed unexpected costs on some investors who have had to re-think their packaging, besides those who had invested in the manufacture of plastic bags. In addition, stringent planning and zoning laws are some of the factors causing delays in the operationalization of some investment projects. They often delay processes such as land acquisition after registering a company. The same legislation has obliged investors who had set up in areas outside the designated industrial zones to relocate, with serious financial implications. Behind these forced relocations is the imperative to ensure that industrialization happens in tandem with sound urban environmental management as specified in Vision 2020.
As a city, Kigali has come a very long way since its founding in 1906 and especially so since the civil war and genocide. From an insular colonial backwater, the city slowly evolved into a veritable and vibrant metropolis.


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Foreign Direct Investment into African Cities: Insights from African Economic Outlook 2016 and 2017

By Arthur Minsat and Thang Nguyen, OECD Development Centre

Foreign direct investment (FDI) into Africa has grown quickly in recent years (Figure 1). FDI was estimated to reach USD56.5 billion in 2016, a 23% increase over the level in 2010. FDI now accounts for almost a third (32%) of total financial inflows into the continent and exceeds the level of official development assistance for Africa (USD 50.2 billion) (AfDB/OECD/UNDP, forthcoming). FDI to Africa represented 11.5% of global FDI in 2016, with 642 projects accounting for 4% (fDi Markets, 2017). Investors come from both developed countries, notably from the United Kingdom, France, the United States, and from the emerging economies of China, India, South Africa and the United Arab Emirates. The latter group are investing more heavily into Africa: Chinese companies announced more than USD30 billion in investment in greenfield projects across Africa in 2016, compared to USD8 billion in 2008.

Non-resource-rich countries are becoming more attractive destinations for FDI even though investment is still mainly directed at resource-rich countries (Figure 2). Non-resource-rich countries are projected to receive 40% of the share of FDI in 2017, compared to 33% in 2015 and 24% in 2009. Consequently, the FDI-to-GDP ratio for non-resource-rich countries is projected to stand at 4.4% in 2017, twice the level of 2002. In contrast, the ratio for resource-rich countries will be halved from 4% to 2% over the same period.

Foreign investments are diversifying into services and manufacturing to take advantage of the local market. More than 50% of greenfield projects were motivated by access to domestic markets and about one-third of FDI was driven by proximity to regional markets and consumers (AfDB/OECD/UNDP, forthcoming). Morocco, for instance, is benefitting

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Figure 1. External financial flows to Africa, 2005-2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Remittances</th>
<th>Foreign Direct Investments</th>
<th>Portfolio Investments</th>
<th>Official Development Assistance</th>
<th>% GDP</th>
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<tr>
<td>2005-2009</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>100</td>
<td>100</td>
<td>50</td>
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<td>4</td>
</tr>
<tr>
<td>2011</td>
<td>100</td>
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<td>2014</td>
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<td>2015</td>
<td>100</td>
<td>100</td>
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<td>50</td>
<td>4</td>
</tr>
<tr>
<td>2016 (e)</td>
<td>100</td>
<td>100</td>
<td>50</td>
<td>50</td>
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<tr>
<td>2017 (p)</td>
<td>100</td>
<td>100</td>
<td>50</td>
<td>50</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: AfDB/OECD/UNDP
from FDI flows to the auto industry, with greenfield investment in 2016 amounting to USD1.3 billion (fDi Markets, 2017), notably from PSA Peugeot-Citroen and Renault (France) and Ford (United States). This trend is a consequence of a relatively business-friendly environment, good industrial policy, growing urban consumer markets, good infrastructure and favourable trade agreements (UNCTAD, 2016).

At city level, the top six destination cities in Africa are Arabic-speaking cities in North Africa, while the Anglophone cities of Sub-Saharan Africa rank lower (AfDB/OECD/UNDP, 2016). In particular Cairo attracted USD37 billion and Tunis attracted USD22 billion in FDI between 2003 and 2014. With regard to FDI from within Africa, the most popular destinations are Cairo (18%), Luanda (11%), Lagos (10%), Tunis (6%) and Johannesburg (6%). Relative to GDP, Sub-Saharan African cities featured in the top 10% of global attractors of greenfield FDI between 2002 and 2012, as often as cities in the East Asia and Pacific region (World Bank, 2015).

FDI usually brings knowledge and technology to a region through productivity spillover to domestic firms, and leads to new urban projects. The agglomeration economies from industries locating in a given area are higher in Sub-Saharan Africa when domestic firms locate close to foreign multinationals, especially those coming from developing countries from the Global South (Sanflippo and Seric, 2014). By contrast, direct employment by FDI firms is often limited in scope to a growth-enhancing effect. In a global sample of 750 cities, FDI only created 1,400 jobs per city directly, or 0.1% of the employment base, among the FDI-recipient cities in 2012 (Fikri and Zhu, 2015).

While the success of each investment strategy depends on the specific characteristics of a city and country, Zhu, Larrey and Santos (2015) point out a four-step method for city governments: i) identify and communicate the city’s value proposition in line with the regional and national strategies; ii) build the city’s brand and address any negative perceptions; iii) coordinate with different institutions and government agencies to provide comparable, credible and timely information to investors while nurturing local partners and networks; and iv) provide targeted incentives to those firms hesitating to invest and foster positive relationships with existing investors. For example, in Morocco, Tangiers has utilised national investment in a large new seaport facility and regional infrastructure to attract major European automobile assembly lines. City stakeholders collaborated with the national investment promotion agency and multinational companies throughout the process. The consultation identified a skill shortage and helped set up a training centre for local labour in the automobile sector.


Foreign Investments in the Peripheral Global South

By Lucia Gómez, Ronald Wall and Päivi Oinas

Worldwide flows of foreign direct investment (FDI) are increasingly targeting countries in the Global South. Understanding what attracts foreign investors to the South helps shed light on how policy can support the countries in making the most of those investments in terms of their developmental impact.

Analyses of global FDI targeting the South between 2003 and 2014 (fDi Markets database) shows that the rising importance of the South in global investment networks is mainly caused by the faster growth of investments either targeting or originating in the periphery (see Figure 1 for the definition of peripheral countries). The analyses further show that the peripheries also attract investments from countries at different levels of development. They are able to satisfy the requirements of investors involved in a range of value-added activities and thereby become entangled in complex global investment networks.

In order to design and implement effective policy measures it is important to understand the conditions under which the peripheries enter these networks. That is, policymakers in the economies receiving FDI need to understand the factors that attract diverse investors. Whatever their origin, effective policy should regulate the activities of foreign firms so as to avoid detrimental effects on the one hand and create incentives to strengthen beneficial developments on the other.

The analyses of FDI data suggest the following considerations for policymaking:

• Investments from advanced economies of the North are discouraged by factors that decrease market efficiency (intensity of local competition, and heavy bureaucracy increasing the number of days it takes to start a business). They are encouraged in contrast by the availability of the latest technologies, the size of the market in the receiving country, as well as their export markets into third countries. These factors indicate that investments from the North are not motivated by engagement with the local economy. They do not necessarily make other contributions to the local economy besides (low-skilled) employment. Policy makers should be aware of the above situation(s) and seek to find solutions to engage foreign and indigenous firms in partnerships that are advantageous to both parties.

• Investments originating in semi-peripheral countries of the South are determined by the size of the export markets of the target countries, as well as the technological absorption capabilities of local firms. The significance of market size possibly indicates that they serve as exporting platforms, or as production sites of intermediate products as part of global value chains. However, since the investments appear to be determined by the presence of firms capable of absorbing new technologies, it could be assumed that firms originating in the semi-peripheral countries of the South are likely to actively engage local firms in their operations. Policy can support local firms in meeting a foreign investor’s technological requirements so as to create a solid partnership. Further, policy can also support networking between foreign and local firms by creating collaborative spaces and programmes. This can facilitate local firms learning from foreign investors and stimulate knowledge creation for mutual benefit.
Investments originating in peripheral countries of the South (Figure 1) are determined by export possibilities from their peripheral host countries. However, they are also determined by easy and affordable access to financial services and loans that the peripheral locations provide. This indicates that well-functioning financial services give a competitive advantage to countries that otherwise compete only on the bases of low production costs. Policy could support the establishment of local financial institutions that would serve both foreign and local firms, or provide regulations so that foreign banks can enter their markets.

In conclusion, the key determinants positioning peripheral countries in global investment networks are market size and efficiency, the technological capabilities of indigenous firms, and well-functioning financial infrastructure. Policies aimed at upgrading the capability of indigenous firms, supporting network building, and improving market efficiency create preconditions for the operation of investor firms and their positive engagements with the local economies of peripheral countries. Finally, it is important to attract investments from diverse origins, not just investments by firms from global core countries. Attracting investments especially from other countries in the South can be more beneficial for local development.

The classification of countries is based on Brandt’s (1981) North-South divide and Van Hamme and Pion’s (2012) core-periphery classification

**Cores of the Global South:** a handful of countries (excluded from the analysis).

**Semi-peripheries of the Global South:** Brazil, China, Colombia, India, Indonesia, Malaysia, Mexico, Philippines, Singapore, Sri Lanka, Thailand, Tunisia, Turkey, Vietnam

**Peripheries of the Global South:** Afghanistan, Algeria, Angola, Antigua, Argentina, Armenia, Aruba, Azerbaijan, Bahamas, Bahrain, Bangladesh, Barbados, Belize, Benin, Bhutan, Bolivia, Botswana, Brunei, Burkina Faso, Burundi, Cambodia, Cameroon, Cape Verde, Cayman Islands, Central African Republic, Chad, Chile, Comoros, Congo (DRC), Costa Rica, Cote d’Ivoire (Ivory Coast), Cuba, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Eritrea, Ethiopia, Fiji, French Polynesia, Gabon, Gambia, Georgia, Ghana, Grenada, Guadeloupe, Guatemala, Guinea, Guinea Bissau, Guyana, Haiti, Honduras, Iran, Iraq, Jamaica, Jordan, Kazakhstan, Kenya, Kuwait, Kyrgyzstan, Laos, Lebanon, Lesotho, Liberia, Libya, Macau, Madagascar, Malawi, Maldives, Mali, Martinique, Mauritania, Mauritius, Micronesia, Mongolia, Morocco, Mozambique, Myanmar (Burma), Namibia, Nepal, New Caledonia, Nicaragua, Niger, Nigeria, North Korea, Oman, Pakistan, Palestine, Panama, Papua New Guinea, Paraguay, Peru, Puerto Rico, Qatar, Republic of the Congo, Reunion, Rwanda, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Saudi Arabia, Senegal, Seychelles, Sierra Leone, Solomon Islands, Somalia, South Africa, South Sudan, St Lucia, Sudan, Suriname, Swaziland, Syria, Tajikistan, Tanzania, Timor-Leste, Togo, Trinidad and Tobago, Turkmenistan, Turks and Caicos Islands, UAE, Uganda, Uruguay, Uzbekistan, Venezuela, Yemen, Zambia, Zimbabwe.
The aim of *The State of African Cities 2018: The geography of African investment* report is to contribute to development policies that can turn African cities into more attractive, competitive and resilient foreign direct investment (FDI) destinations. Attracting global FDI is highly competitive and crosses various geographic scales, therefore regional cooperation by cities and nations is critical. But FDI is not a panacea since it has both positive and negative effects and careful choices need to be made by cities in their pursuit of FDI, if it is to lead to inclusive economic growth. This report aims to provide guidance on these choices and to facilitate understanding of the complexity of global investment in Africa.