Investment in African Economies Shifting Away from Raw Materials

Isolda Agazzi

GENEVA, Mar 18 (IPS) - Local and foreign investment on the African continent is slowly moving away from agriculture and raw materials to manufacturing, services, communication and tourism, despite poor infrastructure and low skills levels.

"Africa is the last frontier of growth. In the past, investment opportunities were mainly in oil, diamonds and property. But today resources are diversifying, with 60 percent of growth coming from non-traditional sectors, such as retail, manufacturing, financial services, telecoms, real estate and tourism", stated Nozipho January-Bardill.

She is the group executive for corporate affairs at Mobile Telephone Networks (MTN), a South African company that has invested in 21 countries, both in Africa and in the Middle East.

While most economies have contracted during the recession, African gross domestic product (GDP) has been expanding, she told the fourth Swiss- African business exchange, a gathering of businesspeople from Switzerland and African states that ended Mar 17.

"Africa is in a take-off phase, with foreign direct investment (FDI) increasing from 15 billion dollars to 80 billion dollars in eight years. And the per capita GDP of the top performing economies - Algeria, Botswana, South Africa, Libya, Mauritius, Morocco and Tunisia - exceed that of BRIC (Brazil, Russia, India and China), the traditional emerging countries," January-Bardill noted.

In 2008, the collective GDP of the continent was 1.6 trillion dollars - equal to Brazil’s or Russia. In 2020, it is expected to be 2.6 trillion dollars.

African governments are playing a larger role in foreign investment. In the World Investment Report 2010, UNCTAD noticed that developing countries are increasingly pursuing a double strategy: attracting foreign investment while, at the same time, regulating it and directing it to sectors that are conducive to development.

Maggie Kogozi, the executive director of the Uganda Investment Authority, told IPS that, "our aim is to attract investment, both foreign and local. Since we have an educated workforce, we want it to go into value-addition: manufacturing, services, information and communication technologies, the financial sector, education and health are picking up quite well. There are also tourism opportunities, with a big need for hotels and lodges."

Uganda, like other countries, is also rich in petroleum and minerals. "But the good news is that they are still in the ground, so now we can manage them better," she said. "We have a strong standards and environmental body and a solid revenue authority, so we are ready to exploit our resources."

With six billion barrels to be exploited, Uganda is putting out bids for an oil refinery in the country. It has also huge deposits of gold and a gold refinery for processing the metal locally, thanks to Russian investment. "And we would like that model for everything: adding value before we export," Kogozi affirmed.

But there are problems too. Infrastructure remains the most obvious area to improve. Infrastructure bottlenecks, such as poor road networks, inefficient railway systems and expensive and unreliable electricity supply, are major hurdles.

"Most of Africa needs to be rebuilt or constructed from scratch," said January- Bardill. "The cost of transport is very high. Like it is often said, Africa is expensive because it is poor and it is poor because it is expensive."

Another challenge is the skills shortage. But new forms of FDI herald a new era, as foreign companies supply capital and new management methods, skills and technology. "We want to encourage all people to invest in Africa. I would like to invite you to think of the continent in a more positive light and to see opportunities the way they are," she concluded.

Ramadhan R. Madabida, CEO of the Tanzania Pharmaceutical Industry (TPI), is also looking for investors. This state enterprise was privatised in 1997. "When we took over, it had a loss of about one million dollars, but last year we made 250,000 dollars profit.

"The local production of pharmaceuticals, especially in least developed countries (LDCs), is viable and feasible. It depends on a workable public private partnership, technical know-how, market size and cost structure. But there are technical and human resources gaps in poor resource-based settings like Tanzania that need to be filled by technology transfers," Madabida added.

TPI produces and sells generic medicines for anti-malaria and AIDS-related diseases. As an LDC, Tanzania can benefit from the flexibilities of the World Trade Organisation’s Trade-Related Aspects of Intellectual Property rights (TRIPS) agreement and does not have to patent medicines till 2016.

Malaria and HIV/AIDS make up more than 75 percent of medical needs in the country. There are about 1.2 million people living with HIV and 350,000 people who need AIDS treatment immediately.

The government of Tanzania supports local pharmaceutical industries by giving exclusive tenders for all items that can be made locally. It also has abolished import duties on many inputs.

"The vision," said Madabida, "is to transform TPI to become the regional pharmaceutical technology centre of excellence. Our mission is to break the cycle of dependency."

The total investment required is 12 million dollars. Some 5,3 million dollars have already been invested and another 6,4 million dollars will be invested by December 2011.

The potential for total demand in the country is of 165 million dollars, of which anti-malaria represents 30-40 percent of all drugs needs.

"The demand-supply gap amounts to 104 million dollars, so further investment is justified. There is a huge potential market for pharmaceutical products in East, Central and Southern Africa," he concluded. (END/2011)