

Part 1

The Scale and Monitoring of Capital Flows

Chapter 1 Scale and Monitoring

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1.1 Introduction

All types of private capital flows to Sub-Saharan Africa (SSA) have been increasing rapidly in the 1990s. All sources (whether international organisations or African governments) share this conclusion, though international sources disagree about the scale of the rise (Table 1.1). Apart from

Table 1.1 Private Capital Flows to Sub-Saharan Africa: Comparison of International Data Sets
(millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997
FDI								
UNCTAD	1,132	2,078	1,547	2,049	3,667	4,792	4,275	4,604
Portfolio Equity								
IMF	4	-852	-799	882	231	1,477	1,426	-
World Bank	0	0	144	174	860	4,868	2,012	1,507
Bank (MLT net)								
BIS / OECD	814	-2,568	-1,100	-1,400	-1,100	-400	600	4,000
IMF	5,400	700	2,500	1,300	1,700	1,700	-900	-
World Bank	-762	85	-1,104	261	-503	-458	-1,996	-1,399
Bonds								
IMF	-264	486	2,548	260	1,507	1,420	1,211	-
World Bank	-941	215	237	-30	1,473	851	586	1,193

Notes and Sources:

FDI: UNCTAD World Investment Report 1996-8 (SSA total is calculated as "Other Africa" plus South Africa).

Portfolio Equity: World Bank, *Global Development Finance 1999*; IMF, Balance of Payments Statistics Yearbook 1997, Vol.2, Tab B-28.

Bank: IMF, World Economic Outlook 5/97; World Bank, *Global Development Finance 1999* (1991-7 data) and *Global Development Finance 1998* (1990) - MLT only; BIS / OECD Statistics on External Indebtedness: Bank and Trade-Related non-Bank External Claims... various issues (ST and MLT).

Bonds: World Bank, *Global Development Finance 1999* (1991-7 data) and *Global Development Finance 1998* (1990); IMF, Balance of Payments Statistics Yearbook 1997, Vol.2, Tab B-29.

Zambia, all of our project countries have been major beneficiaries, with sharp recent rises for Tanzania, Uganda, South Africa and Zimbabwe. In absolute terms, South Africa receives more dollars than the other four countries together. However, relative to GDP, the other countries have levels (10-15%) as high as the fastest growing Southeast Asian and Latin American countries, while South Africa receives only 4%.

Agreement on general trends hides major discrepancies between different data sets. Several international institutions publish data, but these often wildly misstate flows or their composition, as they are based on a small number of national data sources. Behind these discrepancies lie problems at two levels. First, the international organisations often face major problems in assembling national data on time and interpreting their presentation. Second, African countries also face great problems in constructing consistent, comprehensive or timely databases.

Data from national sources show a somewhat different picture. As seen in Figures 1.1a-e, all the project countries show sharp rises in private capital inflows since 1993-4, although in the case of Zimbabwe the rises were fully offset by falls in 1996-7.

This chapter reveals the scale and composition of flows to Sub-Saharan Africa by comparing international and national databases, and highlights the key problems faced by countries and international organisations in producing data.

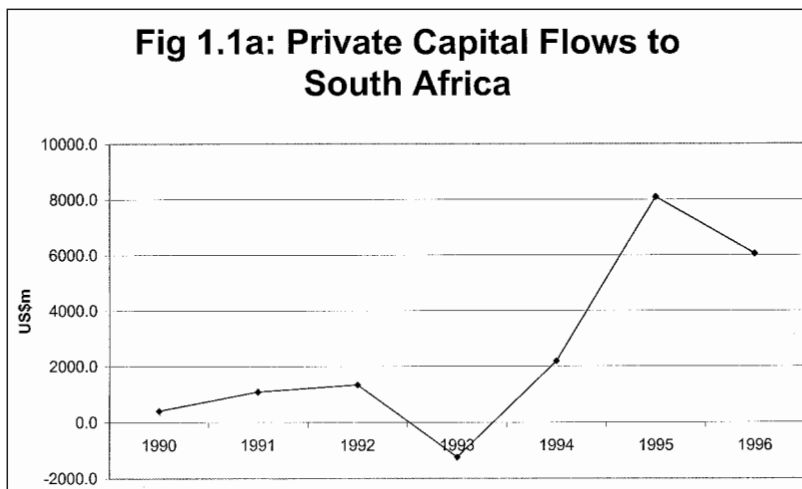


Fig 1.1b: Private Capital Flows to Tanzania

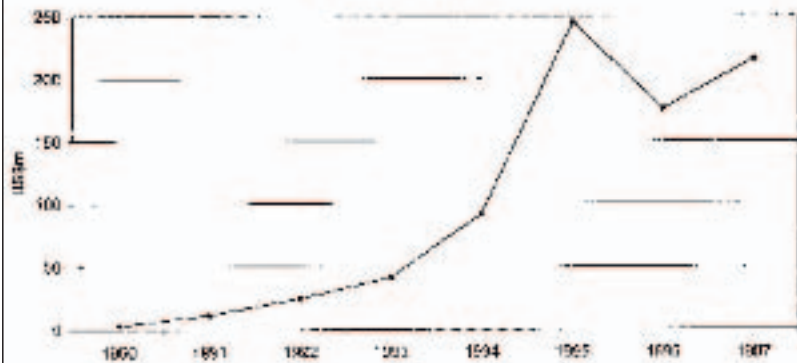


Fig 1.1c: Private Capital Flows to Uganda

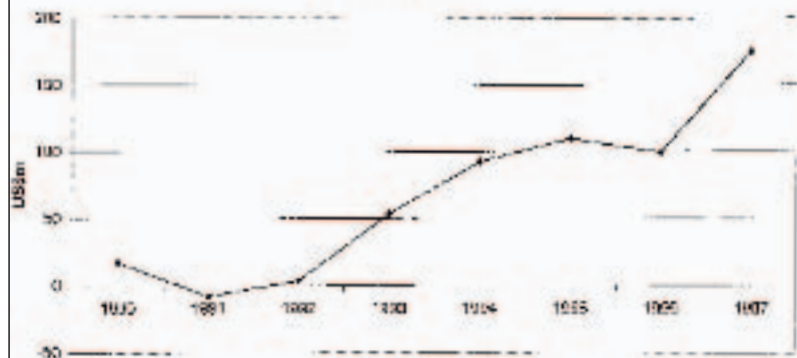


Fig 1.1d: Private Capital Flows to Zambia

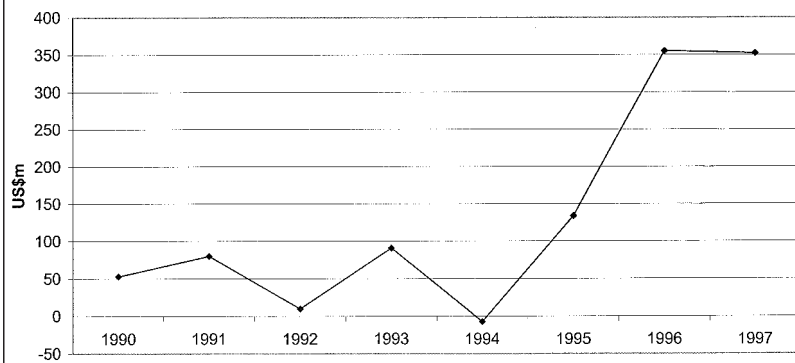
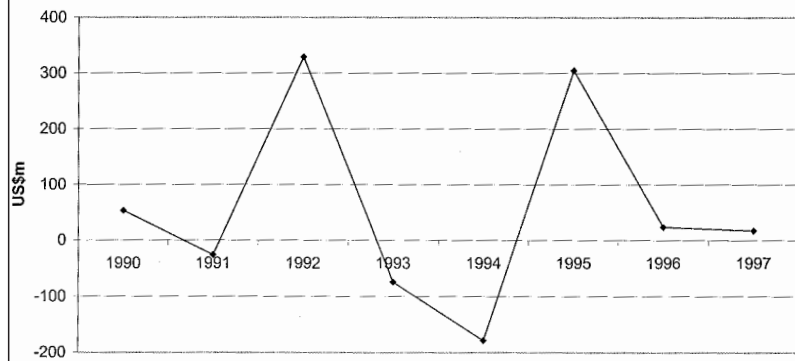


Fig 1.1e: Private Capital Flows to Zimbabwe



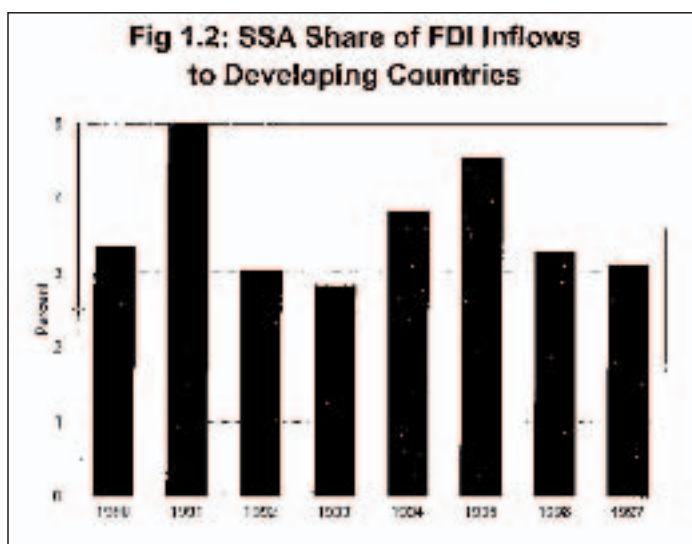
1.2 The Scale and Composition of Flows

1.2.1 Foreign Direct Investment (FDI)

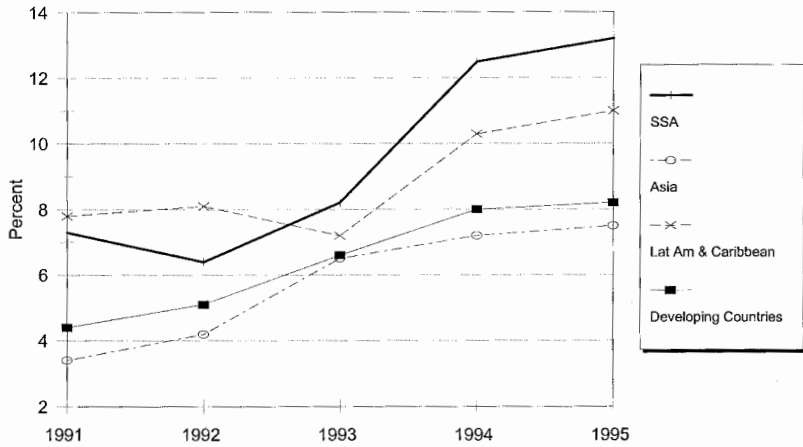
As UNCTAD (1998) shows, Sub-Saharan Africa participated in the global surge of FDI to developing countries in the mid-1990s. Flows more than tripled between 1992 and 1995, exceeding the growth rates of other developing regions (Table 1.1).

Because it started at a low absolute level, Sub-Saharan Africa continues to receive a low share of total flows to developing countries (Figure 1.2). However, its inflows are highly significant as a proportion of gross fixed capital formation (GFCF) or GDP. UNCTAD data show ratios to GFCF way above averages for Latin America, Asia and all developing countries since 1993 (Figure 1.3a), and that Uganda, Zambia, and most recently Tanzania are above the SSA average (Figure 1.3b). When national data are used, this ratio becomes even higher for South Africa, Zambia and Zimbabwe (Table 1.2).

UNCTAD data indicate that, while flows to oil exporters (Angola, Cameroon, Congo, Gabon, and Nigeria) have increased significantly, their share of total flows to the region has declined due to massive increases for South Africa. As shown in Figures 1.4a-b, South Africa's share rocketed to 37% in 1997. Flows to the least developed countries (apart from Angola) have also increased dramatically — trebling since 1991.



**Fig 1.3a: FDI Inflows / GFCF
(by region, 1991-5)**



**Fig 1.3b: FDI Inflows / GFCF
(Project countries, 1991-5)**

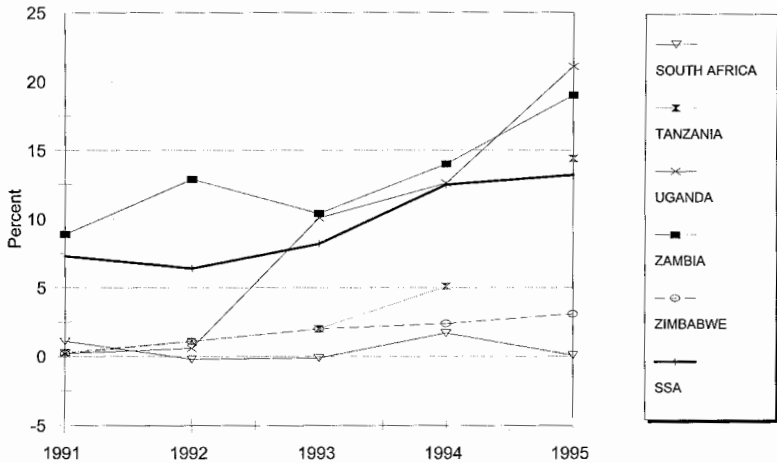


Fig 1.4a: Distribution of FDI Inflows within SSA (1991)

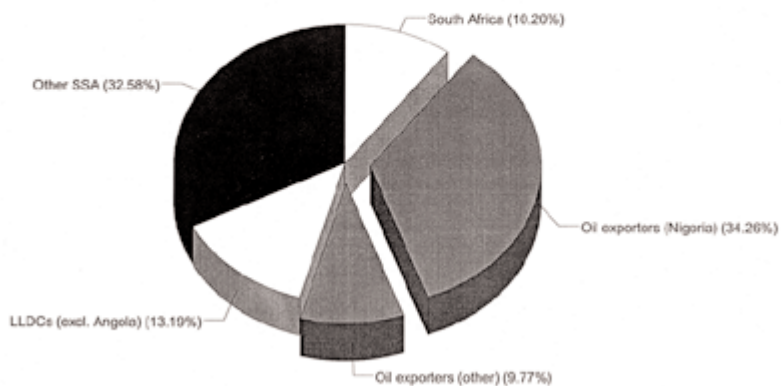


Fig 1.4b: Distribution of FDI Inflows within SSA (1997)

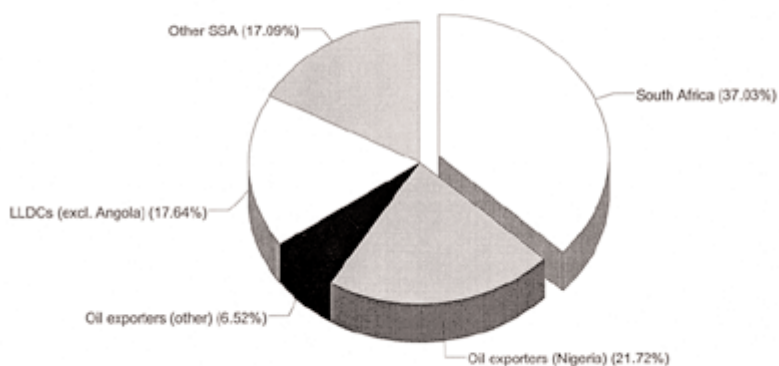


Table 1.2 Data Comparison of FDI Inflows (1990-98)
(millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
South Africa									
Country data	-69.7	184.7	-24.5	-14.7	295.1	981.0	760.4	-	-
UNCTAD	-5.0	212.0	-42.0	-19.0	338.0	918.0	760.0	1705.0	-
Tanzania									
Country data	-3.0	3.0	10.8	16.9	49.1	168.9	148.0	157.0	172.0
UNCTAD	-3.0	3.0	12.0	20.0	50.0	120.0	150.0	250.0	-
Uganda									
Country data	0.0	1.0	3.0	54.6	88.2	121.2	121.0	175.0	210.0
UNCTAD	-6.0	1.0	3.0	55.0	88.0	121.0	121.0	250.0	-
Zambia									
Country data	203.0	34.0	50.0	55.0	40.0	97.0	117.1	125.4	-
UNCTAD	203.0	34.0	45.0	52.0	56.0	67.0	58.0	70.0	-
Zimbabwe									
Country data	-12.2	2.8	15.1	31.5	29.9	104.3	35.0	75.0	-
UNCTAD	-12.0	3.0	20.0	38.0	68.0	118.0	98.0	70.0	-

Notes:

Tanzania: UNCTAD data are used for 1990-1, before national records began. Privatisation data for 1992-5 have been added to FDI. Data for 1996-8 are preliminary, and include privatisation revenue with FDI component.

South Africa: Figures are converted to US dollars using the Financial Rand rate.

Discrepancies with UNCTAD might be explained by the fact that UNCTAD uses the less concessional Commercial Rand rate.

Sources:

All countries: UNCTAD, World Investment Report 1998, Annex Table B1 (for 1992-7); 1997 Table B1 (for 1991), and 1996 Annex Table 1 (for 1990).

South Africa: South African Reserve Bank.

Tanzania: Bank of Tanzania; National Bank of Commerce; Parastatal Sector Reform Commission.

Uganda: Macro Policy Department, MEFP.

Zambia: Bank of Zambia.

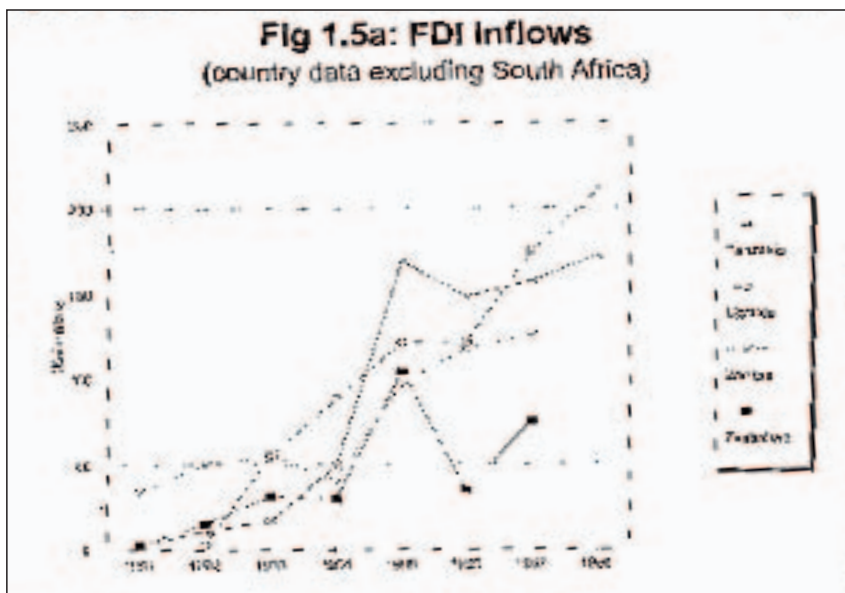
Zimbabwe: Reserve Bank of Zimbabwe.

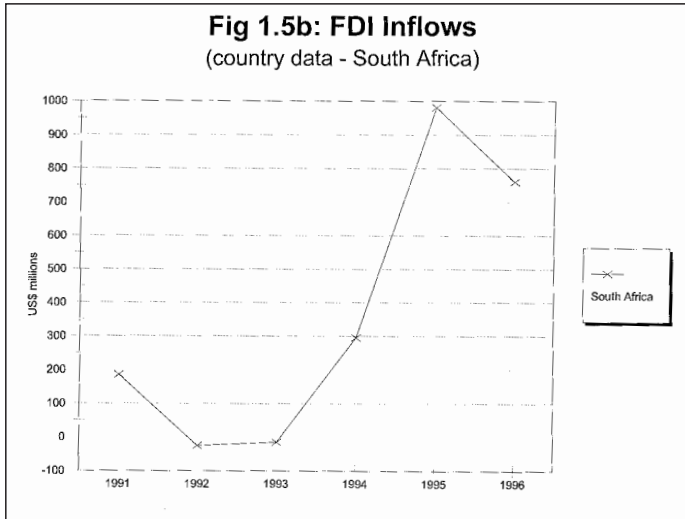
Both UNCTAD and national data for our project countries indicate that the target countries of FDI are diversifying. They show larger flows to South Africa, Zambia and Zimbabwe — and dramatic increases for all countries (Table 1.2; Figs 1.5a-b). Most strikingly, FDI flows are most important and fastest growing for the least developed countries — Tanzania, Uganda and Zambia (Figure 1.5a). All three countries now have FDI inflow/GDP ratios well above the SSA average (Figure 1.6). Other least developed countries such as Ghana and Mali have also seen rapid rises from low starting points in the 1990s. As discussed in section 1.3.1 below,

some of these increases are being misrecorded as residual balance of payments items.

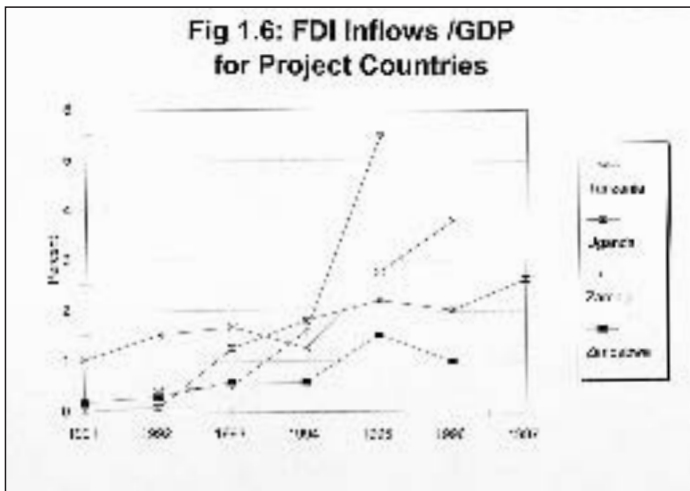
FDI is coming from new source countries. During the 1990s there was remarkable diversification, as also experienced by many other developing countries. A wider range of European countries (notably Belgium, Germany and Italy) increased FDI, joining the traditionally dominant UK and France. However, in contrast to other developing regions, the US share of investment has declined and Japan's remains tiny except in Liberia.

Instead, most of the diversification has been due to new sources, notably South Africa, East Asian countries, and returning former residents. South Africa has been expanding rapidly into Africa since 1993 (though some of this is hidden in international statistics because South African company headquarters are nominally registered elsewhere). There have also been significant flows from neighbouring states into South Africa. China, Malaysia, Hong Kong, Taiwan and South Korea also became significant players before the Asian crisis, notably in construction and communications, with flows rising from virtually nil to an average of \$160 million a year during 1994-95. Formerly resident Asians have returned huge amounts of private capital to Eastern and Southern Africa; though often previously classified as private transfers in the balance of payments, our country studies of Tanzania and Uganda found that 70-80% of these flows represent FDI (Kasekende *et al*, 1997; Kimei *et al*, 1997).





At a country level, Zimbabwean national data show a dramatic shift in investment approvals, away from traditional OECD sources. Malaysia was the third largest source of FDI in 1996. China has invested strongly in construction, textiles and mining. Germany has become a major player via venture capital funds. On the other hand, UK and US investment has declined but, as with other large existing investors, their flows are understated in approvals due to the omission of reinvestment and new investment flows from parent firms.



Finally, national data also show that FDI is diversifying out of petroleum and mining and into new sectors including agriculture, breweries and light manufacturing in Uganda, Tanzania, Zambia and Zimbabwe. International statistics are not tracking this because the absolute amounts continue to be dominated by a few large mining and oil projects, and because until recently smaller projects (especially those funded by “private transfers”) have not been fully recorded by national databases.

1.2.2 Portfolio Equity

The major international data sources (World Bank and IMF) agree that portfolio equity is the fastest rising flow to SSA, from a very low base. However, while the World Bank shows it as the largest source of private capital in 1995 (Table 1.1), IMF data are much lower.

South Africa dominates the continent: inflows have risen sharply since 1992 and it receives more than 90% of total SSA flows. As a result, portfolio flows dominate total private flows to South Africa. International data also capture inflows for Zimbabwe, although before 1994 failed to capture this information, and after 1994 flows (excepting 1996) are underestimated in comparison with country data. There are no internationally recorded flows to Tanzania, Uganda or Zambia, although for Zambia flows measured through the Lusaka Stock Exchange (LUSE) have been quite significant since 1995 (Table 1.3).

However, beyond this broad picture, international data appear to be highly inaccurate. They are omitting large proportions of flows by failing to keep up with the liberalisation of financial markets globally and in Africa.

First, they are failing to reflect data from stock exchanges in Zambia and Zimbabwe on foreign participation in primary and secondary markets. The Lusaka Stock Exchange has reported flows for 1996-98 but international data show none. The Zimbabwe Stock Exchange reports much higher inflows and sharper rises for 1990-97 than international data.

Second, they are dramatically underestimating inflows through equity funds. Data from market sources, compiled especially for this study, reveal that South Africa, Zambia and Zimbabwe among other SSA countries have been receiving significant amounts via equity funds. Table 1.4 shows the main funds with SSA exposure. There are three types: “Pan-African” funds, South Africa-dedicated funds, and emerging market or global funds with some SSA exposure. Though the SSA exposure of global funds is only estimated, market participants suggest that the estimates are conservative. The total SSA portfolio investment stock of \$10.3-12.3bn reflects unprecedented interest by portfolio investors since 1995. This includes adjust-

Table 1.3 Portfolio Equity Inflows (1990-98)
(millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
South Africa									
Country data	-243.8	-550.1	-407.8	672.3	173.0	1326.7	1222.9		
World Bank	-	-	-	-	219.0	4571.0	1759.0	1393.2	-
IMF	-	-849.0	-806.0	877.0	133.0	1342.0	1243.0		
Zambia									
Country data	-	-	-	-	0.0	1.4	2.4	1.43	0.82
World Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Zimbabwe									
Country data	-21.7	7.3	-9.4	-4.8	49.6	63.7	-3.3	22.4	
World Bank	0.0	0.0	0.0	0.0	50.0	18.3	17.0	10.2	
IMF	-	-	-	-	56.9	-	-	-	

Notes:

Tanzania and Uganda receive no portfolio equity inflows.

Zambia is not captured by the IMF.

Sources:

All countries: World Bank, *Global Development Finance 1999*, and *Global Development Finance 1998*; IMF, *Balance of Payments Statistics Yearbook*, 1997.

South Africa: SARB Statistics on stock exchange transactions, 12/98.

Zambia: (1995-6) Bank of Zambia, *Annual Report 1997*; (1997-8) Lusaka Stock Exchange, *Monthly News Flash*, December 1998.

Zimbabwe: Reserve Bank of Zimbabwe database.

ments for the fact that, as shown in Table 1.5, around 30% of “Africa Fund” assets are actually invested in North Africa, Canada, Ireland, the UK or the US.

South Africa, traditionally the main recipient, accounts for over \$8bn of dedicated funds, \$270m (38% of SSA share) of Pan-African funds (Table 1.5, Fig 1.7), and most of the global emerging market fund exposure. However, 1995-98 saw considerable diversification out of South Africa. Zimbabwe and Mauritius are also key recipients. Nine Pan-African funds now invest in 16 SSA countries, set to rise to 19 once the West Africa Growth Fund has been fully allocated. Diversification for a particular fund is shown by comparing South Africa’s share of its investment portfolio with South Africa’s 90% share of market capitalisation. On this basis all but two funds have deliberately diversified, as confirmed by policy changes by fund managers: for example, the Mauritius Fund, initially dedicated to one country, now allows 10% exposure in Zimbabwe and Kenya.

Table 1.4 SSA Funds, and Exposure to Some Global Funds (in millions of dollars)

Funds	Management Company	Size	Structure	Launch
TOTAL		10,250.52 to 12,250.52		
TOTAL (ex SA funds)		2,192.92 to 4,192.92		
1. Pan Africa Funds		692.90		
Africa Emerging Markets	Emerging Mkts Investors Corp	114.80	Open from 11/97	Nov 93
Africa Investments	Morgan Stanley	315.50	Closed	Feb 94
Calvert New Africa	Calvert Asset Management Group	9.20	Open	Apr 95
GT Africa A&B Share	LGT Management	11.10	Open	Nov 93
Mauritius	Lloyds & Mauritius Fund Mgt	25.60	Closed	Jan 93
Simba	Baring Asset Mgt	29.80	Closed	Jan 96
Southern Africa	Alliance Capital	125.20	Closed	Feb 94
Southern Africa Investors Ltd	Mercury / Sanlam	27.20	Closed	Dec 95
Undervalued Assets Africa	Regent	8.20	Closed	Mar 97
West Africa Growth	Framlington	26.44	Closed	May 96
2. South Africa Funds ¹		8,057.60		
	ABSA	218.12		
	African Harvest	7.34		
	Allan Gray	1.36		
	BOE	499.10		
	Brait	46.30		
	Commercial Union	10.81		
	Community Growth	123.39		
	Coronation	591.98		
	Fedsure	91.02		
	Fleming Martin	34.30		
	FNB	0.70		
	Franklin Templeton	13.40		
	Guardbank	480.75		
	Investec	864.54		
	Cubed Capital	11.14		
	Marriott	26.56		
	Metropolitan	108.58		
	Nedcorp	812.91		
	Norwich	187.91		
	Old Mutual	1,727.96		
	Prestasi	4.12		
	PSG	14.37		
	RMB	331.99		
	Frank Russell	63.02		
	Sage	492.92		
	Sanlam	815.98		
	Southern	84.88		
	Standard Bank	392.15		
3. Global & Emerging Market Funds - est. SSA exposure ²		1,500 to 3,500		

Notes:

- 1 Many South African Fund Managers run several funds - they are aggregated by manager here.
- 2 Market participants estimate 4-10% of global emerging market funds are invested in SSA. This makes between \$1.5-3.5 billion, out of an IMF estimated total of \$36 billion. We have very limited disaggregated data for this category: Foreign & Colonial have SSA exposure of \$160 million; Morgan Stanley \$30 million, and Flemings \$14.4 million (or 7% exposure of their \$180 million emerging market fund in South Africa, and 1% in Zimbabwe).

Sources:

Shareholder reports; interview material; Micropal Emerging Market Fund Monitor.

Table 1.5 Exposure of Pan Africa-dedicated Funds by Recipient Country (1) (in millions of dollars)

	TOTAL		Africa Emerging Markets (2)		Africa Investments (3)		GT Africa (4)		Mauritius	
	%	US\$m	%	US\$m	%	US\$m	%	US\$m	%	US\$m
TOTAL FUNDS	100.0	692.9	100.0	114.8	100.0	315.5	100.0	11.1	100.0	25.6
SSA Invested	69.8	484.7	59.3	67.9	71.7	226.3	70.8	7.9	100.0	25.6
SSA Invested (ex SA)	35.1	244.2	59.3	67.9	37.6	118.5	49.1	5.4	100.0	25.6
Botswana	3.1	21.2	6.6	7.6	3.1	9.9	7.0	0.8	-	-
Ghana	2.6	18.1	3.3	3.8	3.7	11.8	9.3	1.0	-	-
Ivory Coast	0.6	4.4	1.0	1.1	0.5	1.4	-	-	-	-
Kenya	2.2	15.2	5.2	6.0	1.8	5.6	11.1	1.2	2.1	0.5
Malawi	0.2	0.8	-	-	-	-	2.0	0.2	-	-
Mali	0.0	0.1	-	-	-	-	-	-	-	-
Mauritania	0.0	0.1	0.1	0.1	-	-	-	-	-	-
Mauritius	9.7	67.4	11.8	13.5	7.6	24.0	5.9	0.7	97.9	25.1
Mozambique	0.0	0.2	-	-	-	-	1.5	0.2	-	-
Namibia	1.1	7.4	5.9	6.7	-	-	-	-	-	-
Niger	0.1	0.4	0.4	0.4	-	-	-	-	-	-
Senegal	0.4	3.0	0.1	0.1	-	-	-	-	-	-
South Africa	34.7	240.4	-	-	34.2	107.9	21.7	2.4	-	-
Swaziland	0.2	1.7	1.5	1.7	-	-	-	-	-	-
Zambia	1.6	11.2	3.6	4.2	1.7	5.5	7.6	0.8	-	-
Zimbabwe	13.2	91.5	18.4	21.1	19.1	60.2	4.7	0.5	-	-
Egypt	14.5	100.3	18.9	21.7	21.4	67.4	17.1	1.9	-	-
Morocco	3.7	25.8	15.5	17.8	2.2	7.0	8.9	1.0	-	-
Tunisia	0.1	0.9	0.8	0.9	-	-	-	-	-	-
Non-Africa	0.8	5.3	-	-	1.7	5.3	-	-	-	-
Others	2.2	15.1	1.4	1.7	3.0	9.4	-	-	-	-
Offshore mining	0.3	2.4	-	-	-	-	1.6	0.2	-	-
Multinationals	0.2	1.2	-	-	-	-	-	-	-	-
Short-term notes	0.1	0.5	-	-	-	-	-	-	-	-
Cash (uninvested)	7.1	49.2	5.7	6.5	-	-	1.0	0.1	-	-

Table 1.5 (continued)

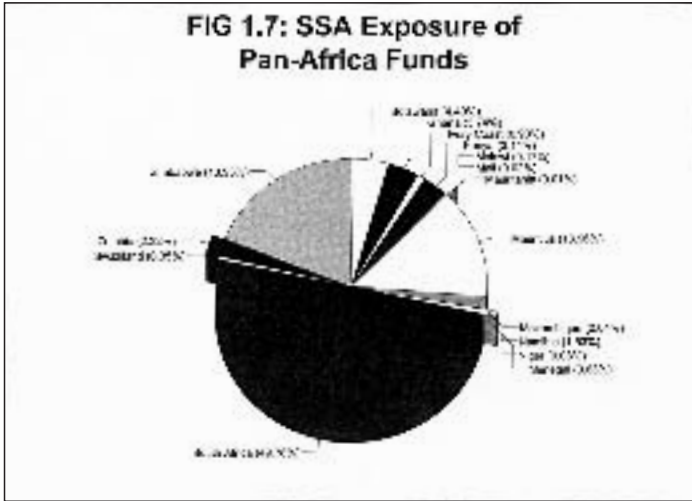
	Simba		Southern Africa Investors Ltd.		Southern Africa		Undervalued Assets Africa		West Africa Growth (6)	
	12/31/97		10/30/98		11/30/96		12/31/97		02/05/99	
	%	US\$m	%	US\$m (5)	%	US\$m	%	US\$m	%	US\$m
TOTAL FUNDS	100.0	29.8	100.0	27.2	100.0	125.2	100.0	8.2	100.0	26.4
SSA Invested	53.0	15.8	40.5	11.0	99.6	124.7	31.1	2.6	11.0	2.9
SSA Invested (ex SA)	28.0	8.3	5.6	1.5	9.8	12.3	21.1	1.7	11.0	2.9
Botswana	5.0	1.5	-	-	0.7	0.9	7.7	0.6	-	-
Ghana	3.0	0.9	0.5	0.1	-	-	5.2	0.4	-	-
Ivory Coast	6.0	1.8	-	-	-	-	-	-	-	-
Kenya	3.0	0.9	0.8	0.2	-	-	8.2	0.7	-	-
Malawi	-	-	2.2	0.6	-	-	-	-	-	-
Mali	-	-	0.4	0.1	-	-	-	-	-	-
Mauritania	-	-	-	-	-	-	-	-	-	-
Mauritius	8.0	2.4	-	-	1.4	1.8	-	-	-	-
Mozambique	-	-	-	-	-	-	-	-	-	-
Namibia	-	-	-	-	0.5	0.6	-	-	-	-
Niger	-	-	-	-	-	-	-	-	-	-
Senegal	-	-	-	-	-	-	-	-	11.0	2.9
South Africa	25.0	7.5	34.9	9.5	89.8	112.4	10.0	0.8	-	-
Swaziland	-	-	-	-	-	-	-	-	-	-
Zambia	-	-	0.2	0.1	0.5	0.6	-	-	-	-
Zimbabwe	3.0	0.9	1.5	0.4	6.7	8.4	-	-	-	-
Egypt	29.0	8.6	-	-	-	-	8.2	0.7	-	-
Morocco	-	-	-	-	-	-	-	-	-	-
Tunisia	-	-	-	-	-	-	-	-	-	-
Non-Africa	-	-	-	-	-	-	-	-	-	-
Others	6.0	1.8	-	-	-	-	27.2	2.2	-	-
Offshore mining	-	-	-	-	-	-	26.8	2.2	-	-
Multinationals	4.0	1.2	-	-	-	-	-	-	-	-
Short-term notes- Cash (uninvested)	-	-	-	0.4	0.5	-	-	-	-	-
	8.0	2.4	59.5	16.2	-	-	6.5	0.5	89.0	23.5

Notes:

- 1) excludes funds dedicated exclusively to South Africa. Total includes the US\$9.8m Calvert New Africa Fund, for which no details were available.
- 2) "Others" is classified by the fund management as "Africa-Regional".
- 3) "Non-Africa" comprises investments in Ireland, the US and the UK.
- 4) "Others" means other SSA investments.
- 5) Total asset value converted into US\$ at exchange rate of UK£1 = US\$1.6588.
- 6) The first investment was placed in February 1998. It is expected that the bulk will be invested in the 6 "core" Francophone economies: Ivory Coast, Senegal, Congo, Cameroon, Gabon and Mali.

Sources:

Shareholder reports; interviews with fund managers; World Equity.



1.2.3 Bank Loans

Due to different definitions and compilation methods, international data on bank flows agree only on the fact that the level of net inflows to SSA has been low (Table 1.1, Fig 1.8). The BIS and World Bank show volatile trends, though BIS sees a sharp rise since 1996. The IMF shows a positive trend to 1996.

On an annual basis, international data bear little relation to our country data (Table 1.6), but both agree that overall net bank flows have risen only for South Africa since 1993 and to a lesser extent for Tanzania (Figures 1.9a-b). Our country data indicate that they have remained highly volatile for Zambia and Zimbabwe, and negligible for Uganda.

However, it is vital to distinguish two groups of loans. Long-term bank loans are insignificant in all countries except South Africa, where they are rising. On the other hand, net short-term flows have been increasing and have exceeded long-term flows in all project countries except South Africa, where they remain volatile. Unguaranteed net flows have risen for all countries except Zambia over the 1990s (Table 1.7), with renewed interest in South Africa from 1994, Tanzania from 1996, and Zimbabwe from 1995.

Table 1.6 Net External Bank Flows for Project Countries (1990-97)
(millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997
South Africa								
Country data	223.0	656.7	1,001.9	-1,998.3	384.5	3,544.0	2,274.0	-
BIS	-411.0	-844.0	27.0	-1,175.0	1,182.0	1,446.0	1,820.0	3,418.0
GDF	-	-	-	-	-245.6	-791.2	-1,478.3	-656.4
Tanzania								
Country data	5.9	8.4	13.7	24.2	42.6	75.9	27.9	58.8
BIS	-31.0	-54.0	2.0	-44.0	6.0	3.0	13.0	27.0
World Bank	0.0	-3.0	-7.0	-7.0	0.0	-4.0	-2.0	-
Uganda								
Country data	16.7	-9.2	0.8	-1.1	4.4	-11.5	-21.8	-0.1
BIS	11.0	-41.0	-6.0	112.0	-2.0	8.0	30.0	-20.0
World Bank	-10.0	-14.0	-3.0	-2.0	-6.0	-7.0	-6.0	-
Zambia								
Country data	-150.0	46.0	-40.0	35.7	-47.5	35.4	235.8	225.3
BIS	62.0	-43.0	-1.0	-80.0	-19.0	-87.0	28.0	-41.0
World Bank	2.0	5.0	10.0	-1.0	-1.0	6.0	0.0	-
Zimbabwe								
Country data	119.0	-1.6	360.6	-96.0	-251.4	137.2	-8.0	-80.0
BIS	152.0	359.0	54.0	-138.0	-81.0	148.0	35.0	190.0
World Bank	81.0	42.0	87.0	-70.0	-70.0	173.0	58.0	-

Sources:

World Bank, *Global Development Finance 1999*, data are medium and long-term only.

BIS data are for short term, and medium and long term.

South Africa data are converted to US\$ using the less concessional Commercial Rand rate (whereas FDI and Portfolio data use the FinRand rate).

Tanzania CS-DRMS for "net flows" (MLT only). Short-term gross data added for 1994-5, as net not available.

Uganda (Table 9) - trade credits (net).

Zambia (Annex Table 1, p. 95) - short-term plus long-term loans (net).

Zimbabwe - short-term (net) plus long-term debt (net).

Table 1.7 Unguaranteed Net Bank Flows (1990-7)
(millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	Total
South Africa	-754	-1,129	-904	-1,281	1,337	2,521	2,118	2,997	4,905
Tanzania	-11	-1	-18	-6	3	-1	80	29	75
Uganda	12	-27	-19	132	-17	-3	27	-23	82
Zambia	71	-7	-3	-77	-15	44	-13	-37	-37
Zimbabwe	169	250	-113	-213	-95	208	53	167	426

Source:

Bank for International Settlements.

FIG 1.8: Private Bank Flows to SSA
(international data comparison 1990-7)

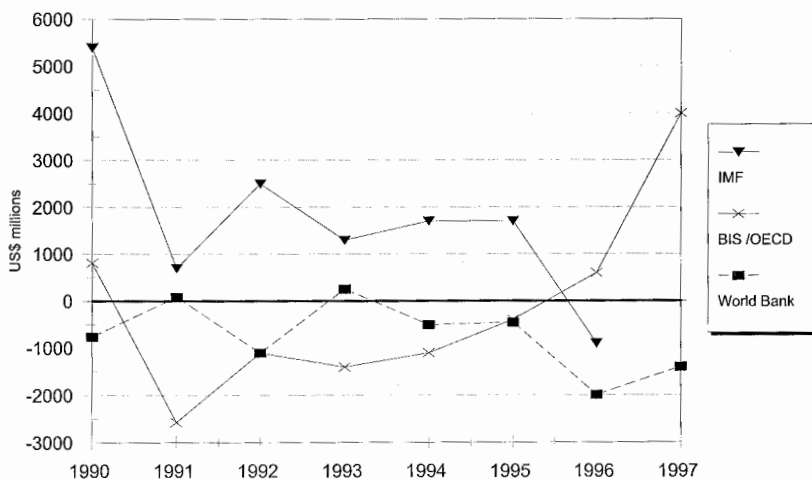
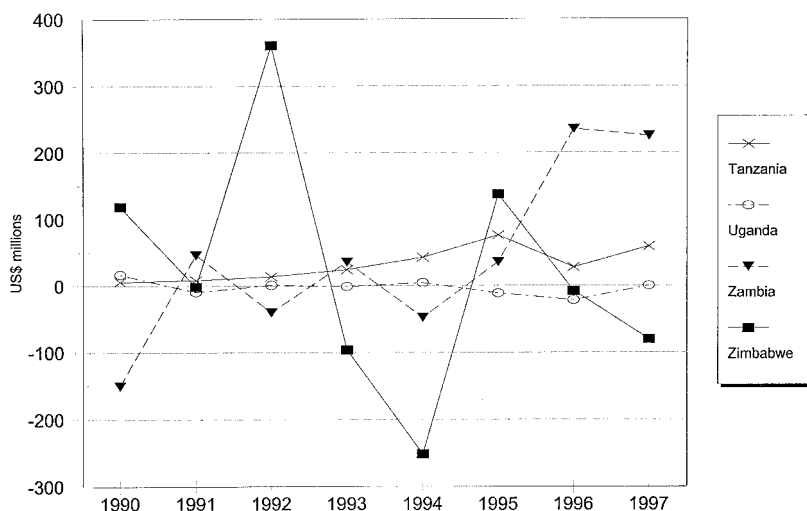
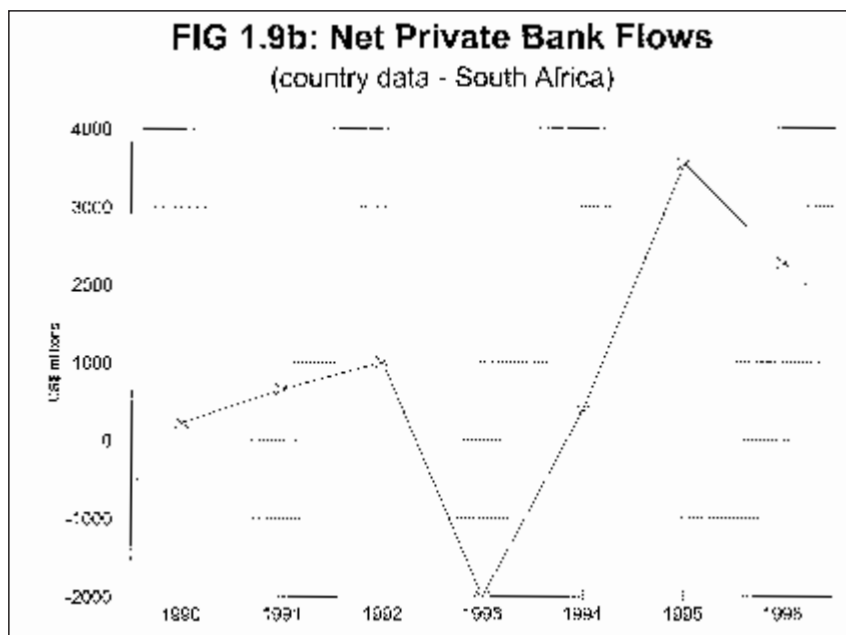


FIG 1.9a: Net Private Bank Flows
(country data excluding South Africa)





Tanzania, Uganda and Zambia also suggest that flows are substantially under-reported due to delays or omissions in data submitted by commercial to central banks. This is particularly true for short-term trade-related flows, which for example in Zambia are often classified in errors and omissions (Kasekende *et al* 1997; Kimei *et al*, 1997:2, 5-7; Matala *et al* 1997:13).

1.2.4 Bonds

Internationally issued bonds have been scarce, partly because few SSA countries have credit ratings high enough to make them creditworthy (see Chapter 5). Thus only four countries have issued bonds since 1994, South Africa accounting for the largest amount (Table 1.8). Again international data are inconsistent. World Bank data show the largest outflow from the region was in 1993 and inflow in 1994 (Table 1.1). This contrasts strongly with IMF data which show high net positive flows over the period, largely to South Africa, Nigeria and Namibia (Table 1.8). Although Congo issued bonds in 1994, the IMF records no associated flows. Data for foreign investor purchases and sales of domestically issued, domestic currency denominated South African government bonds provided by the South

African Reserve Bank, show this to be extremely volatile over the period, reaching a low in 1993, and peaking in 1995 (Table 1.9).

Table 1.8 International Bond Issues and Net Flows
(millions of dollars)

	1990	1991	1992	1993	1994	1995	1996
Issues							
SSA TOTAL	-	-	-	0	1,317	1,242	1,220
Congo	-	-	-	0	492	0	0
Ghana	-	-	-	0	0	0	250
Mauritius	-	-	-	0	0	150	0
South Africa	-	-	-	0	825	1,092	970
Flows (net)							
SSA TOTAL	-264	486	2,548	260	1,507	1,420	1,211
Côte d'Ivoire	-	-	-	-	-2	-	-
Mauritius	-	-	-	-	-	154	-
Namibia	15	-12	-	63	30	53	-10
Nigeria	-197	-61	1,884	-18	-27	-72	-151
Senegal	-	7	-	-	-	-	-
South Africa*	-50	586	700	221	1,514	1,293	1,459
Zimbabwe	-32	-35	-37	-5	-7	-	-

Note:

* IMF, *Balance of Payments Statistics Yearbook 1997* data for net flows to South Africa differ for 1994 and 1995 in Volume 1 (country tables), and Volume 2 by region. Volume 2 gives US\$1999m and US\$821m respectively. Volume 1 figures are used here as they are consistent with the SSA total in Table 1.1. Both years aggregate to roughly the same in either volume.

Source:

Issues from Euromoney Bondware and World Bank Staff estimates in World Bank *Global Development Finance* Vol.1, 1997, p.108, 111. Flows from IMF, *Balance of Payments Statistics Yearbook 1997*, Vol.1.

Table 1.9 Foreign Investor Purchases and Sales of Domestically Issued, Domestic Currency Denominated South African Government Bonds
(millions of dollars)

	1990	1991	1992	1993	1994	1995	1996
	500.9	801.7	776.1	104.8	1,330.5	2,235.7	1,782.0

Source: South African Reserve Bank.

1.3 Monitoring

The previous section of this chapter has amply demonstrated the existing flaws and inconsistencies in data on private capital flows to Africa. In turn these reflect flaws in the recording methods used by African governments and international institutions.

1.3.1 African Governments

Just when flows to the region have been increasing, many African governments have virtually abandoned monitoring. For many, monitoring sprang from comprehensive exchange control regimes. As they have liberalised their external sectors, monitoring has gradually been eroded, making it difficult to analyse trends in capital flows. As discussed in Section 1.2 above, this applies particularly to FDI, private transfers and bank loans, because investment centres, forex bureaux and banks are not monitoring flows in a timely or accurate fashion or reporting them to central banks.

Two additional factors have undermined monitoring of private flows: scepticism about the desirability of monitoring, due to concern that it may be perceived wrongly by investors as a step back to capital controls; and (given that scepticism) a reluctance to devote scarce government staff resources to the task.

The resulting major underestimates of private flows, and inconsistencies between international and country data sets, have had several important pernicious effects:

- most important, African governments have been less able to formulate appropriate and stable macroeconomic policy, by understanding the causes, effects and sustainability of flows, and attracting desirable and stable flows. As a senior policymaker put it, “the difficulty in analysing policy response to the recent capital flows lies mainly in the absence of the relevant data and forecasts that could enable the authorities to react in a timely and consistent fashion” (Kimei *et al*, 1997:30).
- African and donor governments and international agencies such as the International Finance Corporation (IFC) and Commonwealth Development Corporation (CDC), which are responsible for promoting foreign private capital flows and the African private sector, have based their strategies on erroneous and underestimated data and have until recently tended to target the least dynamic sources of investment such as OECD multinationals, large banks and bond issuers, rather than dynamic African regional and developing country investors, equity funds and short-term trade finance;

- potential sources of international capital flows (investors, fund managers, bankers) have perceived Africa as receiving virtually no flows, and therefore been discouraged from investing more;
- those responsible for analysing creditworthiness (rating agencies, export credit agencies, central bank regulators) have continued to perceive high country risk and low government credibility, and therefore to discourage flows;
- in the absence of accurate data, African governments have been either excessively pessimistic or (more often) optimistic about prospects for access to private capital flows, thereby reducing their requests for public sector finance (aid and debt relief).

Ceasing to monitor in a climate of rapidly increasing flows is highly damaging and, as many Latin American and East Asian countries have shown, by liberalising capital accounts but retaining strict monitoring, the two can go together happily (Helleiner, 1997).

In the light of the scale and economic importance of private capital flows into Africa, governments, international organisations and donors now all acknowledge that top-quality, accurate and timely data are essential to policy formulation. Officials from African countries have repeatedly identified this as a priority for the region (EFA, 1997; EFA/MEFMI, 1997; MEFMI 1997). In response to these demands, EFA and CREFSA are now working with 6 African governments to build their capacity to monitor flows (Box 1.1).

The capital flows study and data monitoring workshop have revealed that governments throughout Africa have problems assessing the nature and magnitude of private capital flows. However, some have much more developed recording systems, and individual countries monitor some types of flow far better than others. In general, countries fall into two groups. The first has successful monitoring systems, but wishes to deepen or rationalise current practices to reach international standards such as the General Data Dissemination System and more advanced Special Data Dissemination Standard established by the International Monetary Fund. The second is introducing or reviving monitoring systems, lacks up-to-date time series and fails to record many elements (such as sources of funds for bureaux and bank customers).

Box 1.1 Capacity-Building in Monitoring Private Capital Flows

Six governments in Eastern and Southern Africa, with assistance from EFA and CREFSA and funding from the Swedish, Danish and British governments, are working to improve their monitoring and analysis of private capital flows, to match the international standards of bodies such as the IMF and OECD. This began with a workshop on recording private capital flows in Pretoria in July 1998, to recommend improvements based on regional and international best practices. It shared regional and international best practices on technical and institutional issues, and developed country-specific strategies to improve data quality. It was attended by high-level officials and technical experts from central banks, investment centres, and stock and bond exchanges from 14 countries (Botswana, Ghana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe), and by experts from the Bank of England, the International Monetary Fund, the National Bank of Belgium and the National Bank of Poland. Plenary sessions were devoted to FDI, portfolio investment, bank and private-sector debt flows, and foreign exchange bureau flows, cash transactions and residual flows; each included international and regional presentations. Countries then split into working groups to develop country-specific data strategies, comprising a plan of action for methodological and institutional improvements.

EFA and CREFSA are continuing to meet the capacity-building needs of African countries by supporting intra-regional cooperation on capacity-building and research. Teams of government officials in Mozambique, South Africa, Tanzania, Uganda, Zambia and Zimbabwe are conducting a study examining intra-regional private capital flows in Eastern and Southern Africa, in which the SADC Finance and Investment Sector Coordinating Unit (based in the South African Department of Finance) is playing a leading role. The study will allow policymakers to identify how to encourage regional flows (which tend to be more sustainable) by analysing their scale and economic importance, relative sustainability, sectoral distribution, and determinants of investment decisions. The project is also building regional capacity to monitor and measure flows and to design appropriate policy responses, by developing innovative survey and analysis methodologies. Findings were presented at a workshop in June 1999, and will be published shortly.

All countries share the following problems:

- huge unidentified private capital flows, which appear in residual categories, and seem to hide FDI data. In South Africa, “unrecorded transactions” reached 2.6% of GDP in 1993, equalling identified flows (Khatri *et al*, 1997). In Tanzania, “private transfers” reached 39% of flows in 1995. The Investment Promotion Centre (IPC) does not record approvals below \$0.5m, or FDI ineligible for its incentives. Most private transfers are residents or non-residents returning capital for investment in small businesses or construction (Kimei *et al*, 1997:1-8). In Uganda, “private transfers” have exceeded 4% of GDP for the last decade, reaching 76% of private flows in 1995. They come through bureaux and banks, which classify all remittances as transfers when they cannot identify their purpose. Much of this is FDI by returning Asian Ugandans (Kasekende *et al*, 1997:11, Sajjabi *et al*, 1998:6-7). In Zambia, “errors and omissions” have been consistently high and negative, exceeding recorded flows until 1993. They have grown with bureaux and foreign currency accounts, and liberalisation of the capital account. They reflect capital flight, small-scale FDI and short-term debt (Matale *et al*, 1997:13). In Zimbabwe, improvements in recording have reduced “errors and omissions” from 25% of flows in 1985-90, by identifying them as FDI and portfolio investment (Kufeni *et al*, 1997:14).
- problems distinguishing private and official flows, due to increasing interaction between official institutions and the private sector. For example, how should countries treat investments by the IFC or the CDC in stock markets, or other private ventures?
- uncertainty in classifying the “term” (long or short) of flows, because some flows traditionally classified as “long-term” have proved highly volatile. For example, bonds and bank loans can increasingly be sold in secondary markets, indicating that there are no longer any true long-term capital flows.
- weaknesses in the timeliness and periodicity of recorded data. Infrequent reporting or mismatches between the reporting periods for different types of flows make it impossible to assess their level and composition. For example, Bank of Tanzania’s medium and long-term debt data are incomplete due to “a considerable reporting lag”, although borrowers have to obtain prior approval from BOT (Kimei *et al*, 1997:1-6).

What causes the problems? The main factor is private sector non-compliance with reporting requirements, due to suspicion of the authorities, or failure to take form-filling seriously. This is exacerbated by non-existent or inadequate legal frameworks to enforce compliance (e.g. Zambia’s Central Statistical Office in Matale *et al*, 1997:11), or to failure to enforce existing compliance mechanisms as in Uganda (Kasekende *et al*, 1997:10-11). The

cause and result is “public apathy to documentation”, due often to the pervasive nature of the black market. The problem is worsened by caution on the part of agencies executing transactions (commercial banks and bureaux), resulting from the fear that enforcement would “scare their customers”, forcing them back into the black market (Kimei *et al*, 1997). Another disincentive is the proliferation of surveys by governmental, academic, and private bodies, duplicating the same questions, and without coordination.

However, it is remarkable that compliance varies by country and by type of flow. For example, Uganda’s central bank and Investment Promotion Centre have experienced more problems on FDI than in Tanzania, but Bank of Uganda has better relations with forex bureaux than Bank of Tanzania. The key lesson is that there is no type of flow which cannot be recorded if governments are prepared to work at building relations with the protagonists.

Lack of cooperation among government agencies can cause gaps or double counting, and wastes resources by duplicating effort or assigning monitoring responsibility to agencies which have no connection with those executing transactions, or have inadequate human and financial resources. Tanzania’s experience shows that cooperation among agencies with similar agendas, such as central banks and investment centres, can work wonders.

There are many regional “success stories” on which to build intra-regional cooperation on improving data quality, as shown in Box 1.2.

Box 1.2 Regional Success Stories

Many African governments are meeting or exceeding international best practices. South Africa, Botswana and Namibia have reached international standards on balance of payments (BOP) statistics by conducting integrated surveys.

FDI: Bank of Namibia

In 1990, Bank of Namibia created a BOP division in its research department to gather and analyse external sector data. It assembled a 12,000-entry database of businesses in a year, from which it ran two surveys. The first covered foreign assets/liabilities and trade, and the second focussed on BOP transactions. Initial problems of terminology, language, newness (some assumed Bank of Namibia was a commercial bank!), and confidentiality were overcome by simultaneous training and purchase of computer technology, learning lessons from the mistakes

of others, and help from a resident IMF advisor. Bank of Namibia now conducts targeted annual surveys and research studies of key sectors and topical issues, and works closely with other government departments. It has outstripped most countries in implementing the 5th edition of the *IMF Balance of Payments Manual* by 1997 (Scheun, 1998).

Portfolio Equity: Mauritius Stock Exchange Commission

The Mauritius Stock Exchange has grown rapidly since inception in 1989 in terms of capitalisation, turnover, and number of companies. It now lists 47 companies in tourism, banking, commerce, manufacturing, and sugar. Though the market was closed to foreigners until 1994, listing, auditing, accounting and trade recording now match international norms, thanks in large part to a computerised Central Depository and Settlement System (Dindoyal, 1998).

Bank Flows: Reserve Bank of Zimbabwe

The Reserve Bank of Zimbabwe recognised the need for multiple databases during liberalisation. RBZ's "EPIC" computer system, monitoring interbank foreign exchange transactions by a direct link to authorised dealers, has become essential as exchange controls have disappeared. EPIC captures exports and imports on a cash basis, service receipts and payments, income receipts and payments, cash transfers, and cash capital flows including pre/post shipment finance, portfolio investment, and external debt payments. The UNCTAD DMFAS system captures foreign exchange transactions such as short and medium to long-term loans used for purchasing equipment offshore. It is therefore relatively straightforward to combine the findings of both databases into reports, with the advantage that there is no danger of double counting (Kufeni *et al*, 1997:37-8, Mkwebu and Mpofo, 1998).

Foreign Exchange Flows (Bureaux and Commercial Banks): Bank of Uganda

Uganda receives significant inflows of foreign exchange in the form of "private transfers". As a result, Bank of Uganda has taken steps to identify these flows through a system of surveys, focussing on the source and purpose of such flows. It has successfully sensitised banks and bureaux to the necessity of reporting, by stressing the benefits they can obtain from more comprehensive market information. Compliance with these surveys has therefore been high, enabling Bank of Uganda to draw strong conclusions on the nature of these flows (see Sajjabi and Ddamulira, 1998).

1.3.2 *International Organisations*

Data produced by the international organisations generally come from national sources, but their quality in terms of disaggregation, timeliness or period coverage varies dramatically.

FDI data are generally the most disaggregated and complete. UNCTAD data are the best, because they fill gaps in the “reliable and comprehensive” IMF *Balance of Payments Statistics Yearbook* (BOPSY) with data from recipient countries and the OECD. However, they suffer from 1-2 year lags in national reporting, and unreliable preliminary data, which lead to major underestimates and later upward revisions — and from the omission from national statistics of elements such as reinvested earnings and intra-company loans. UNCTAD also often has inadequate resources to quality control national data, for example with accurate ratios of the historical amount of FDI inflows compared to approvals (which may vary from 20-60%).

Portfolio investment data inconsistencies reflect the newness of these flows. The result is confusion in identification in recipient countries, which feeds through to international data sets, leading to dramatic revisions of data (e.g. the World Bank’s preliminary 1995 data of \$0.5bn shot up to \$5bn (World Bank 1996 and 1997b). While World Bank data are generally the most comprehensive in their country coverage and because they tap recipient and market sources, all compilers agree that there is no adequate global database.

Data on bank flows are hampered by the absence of a single comprehensive database. World Bank data do not separate private from publicly guaranteed short-term flows, though they have the advantage of supplementing debtor with creditor sources drawn from the OECD. BIS data cover short-term debt but are restricted to banks reporting from within the BIS area and come from creditor sources. The most reliable databases on bonds are in the private sector, though the World Bank tracks all of these: but inconsistent recording mechanisms make international data highly variable.

International organisations have faithfully reported the residual unrecorded flows (IMF) or omitted them from their report on capital flows (UNCTAD; World Bank). Though some technical assistance missions have recommended steps to improve recording, they have usually failed to provide the strategies for building permanent capacity and a culture of reporting which are essential to sustainable monitoring. Botswana and Namibia are rare success stories where they have provided sustained assistance.

In the context of the crises in capital flows in the mid-1990s, international organisations have repeatedly exhorted countries to improve their monitoring of flows. They have held international conferences and sem-

inars on recording and dissemination standards. Yet, as at mid-1999, there exists no comprehensive programme by any international organisation to assist countries on the ground to build their capacity to monitor and analyse private capital flows, by supporting them in introducing surveys and analytical techniques. Indeed it would be fair to say that African governments (with some external assistance) have made far greater efforts than the international financial institutions to improve their monitoring.

1.4 Conclusion

Private capital flows to SSA have been much greater than previously believed, and their growth and economic importance match those of other developing regions. FDI is diversifying its source and recipient countries and sectors, largely due to innovation by non-OECD investors. Portfolio flows are rising the fastest, with the creation of new stock exchanges and international equity funds, which are diversifying beyond South Africa. Bank flows and bonds have stagnated, though country data show short-term loans rising.

Data on the flows remain poor. African governments are only just beginning to reverse their earlier decisions to abandon monitoring (prompted by worries about the credibility of liberalisation and underestimates of the costs of poor monitoring — which were in turn often inspired by external organisations). They continue to face severe monitoring problems in spite of some donor assistance. Although there are many regional success stories on which to build intra-regional cooperation in improving data, governments continue to face a lack of will to report by the private sector, and inadequate cooperation among government agencies. Data sets of international organisations build on (and therefore magnify) these flaws. Poor data have undermined macroeconomic policy, decisions by donors, investors and credit analysts, and flows of aid and debt relief, as discussed in the following chapters.