

## Financial Flows and the Business Environment in Southern Africa

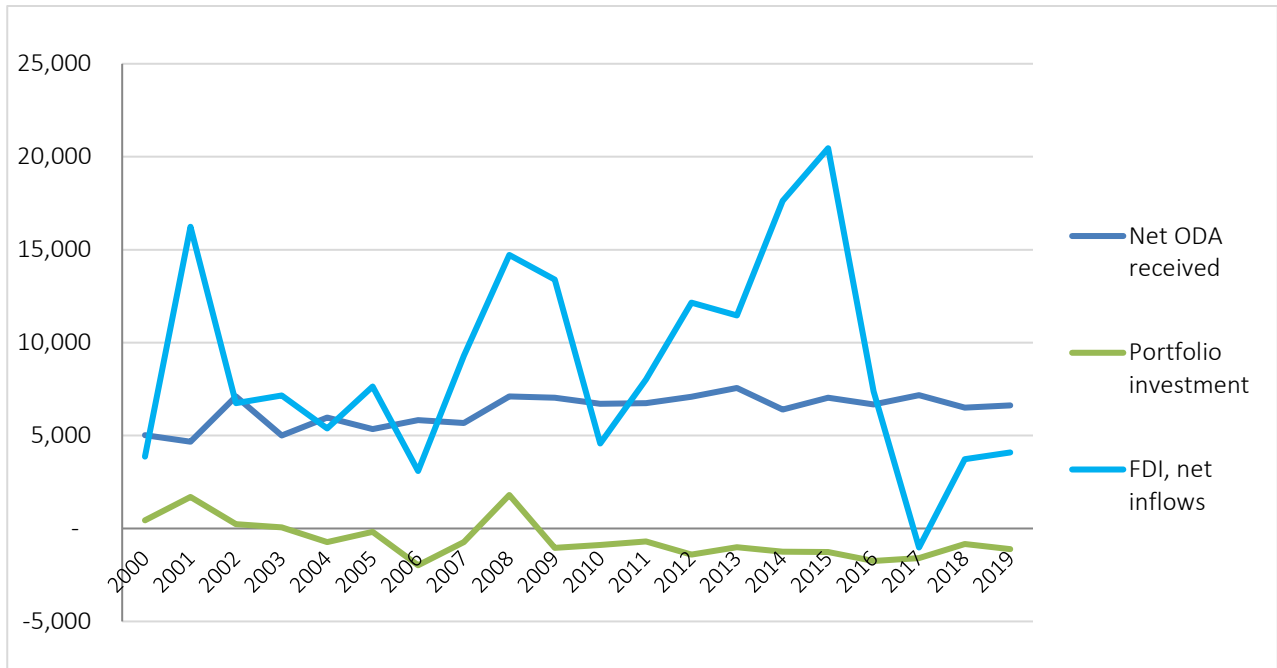
Any developing region requires the benefit of long-term investment both from foreign and domestic sources, yet in the second half of the 2010s, investment into the Southern African region was far below desirable levels. For reasons related to global slowing activity and also the predominance of South Africa and its economic challenges, net FDI inflows to the region dropped quite precipitously after 2015, both in levels and as a proportion of GDP (Figure 1).

Figure 1 also plots the timeline of real net overseas development assistance (ODA) and real portfolio investment over the period 2000-2019. While ODA has risen steadily over the period, portfolio investment has been in a net outflow state for most of the period. This movement has been almost entirely driven by disinvestment from South African capital markets, as is evident from Figure 2; although this figure does also show portfolio disinvestment from Zambia, Malawi, Zimbabwe and Mozambique. On the other hand, the BELN countries and Angola have been in a net positive position when it comes to portfolio investment over the period.

A breakdown by the four major categories of external financial flows, by country and for the latest year of complete data (2019), is given in Figure 3. These are proportions of financial flows out of GDP, in order to scale the various categories.

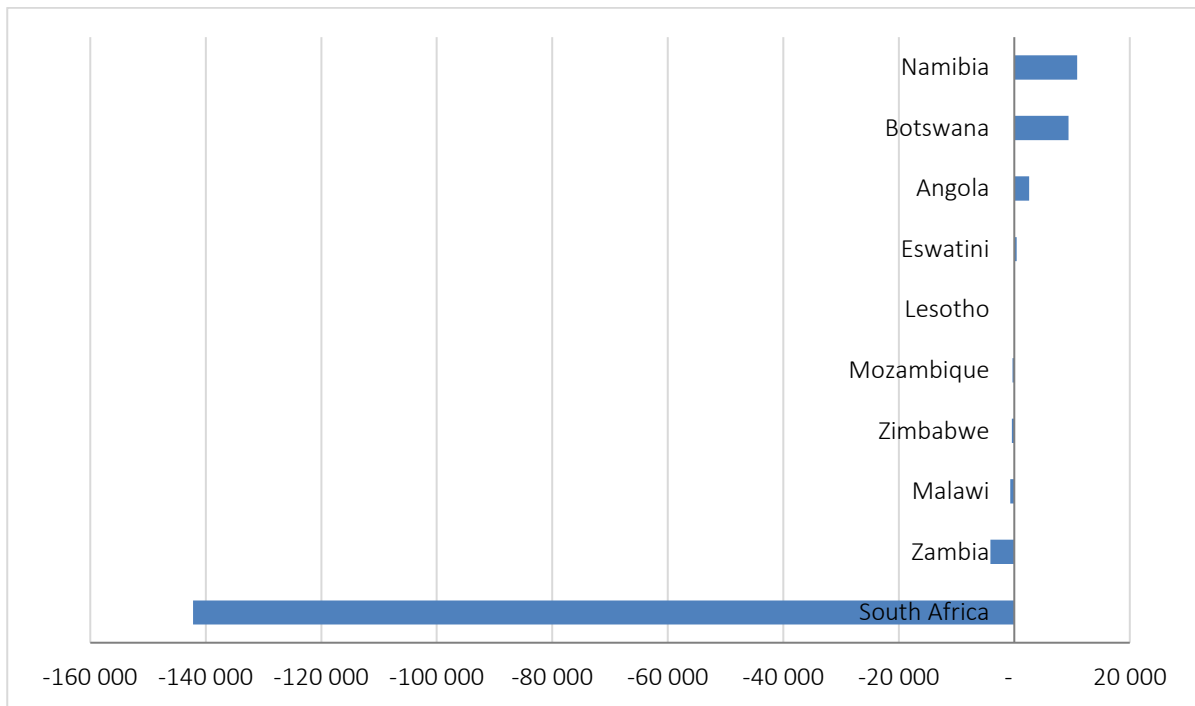
The predominance of remittances and ODA is evident in the figures for the poorer countries – Lesotho, Malawi and Mozambique. On the other hand, the relatively low proportion of FDI and portfolio investments (with the exception of Mozambique and perhaps Lesotho) for the other countries is concerning. The year in question – 2019 – was a year when the global economy was still sluggish and this could be behind these lower figures.

Figure 1: Real net ODA and inward portfolio investment, Southern Africa (\$USm) (2000-2019)



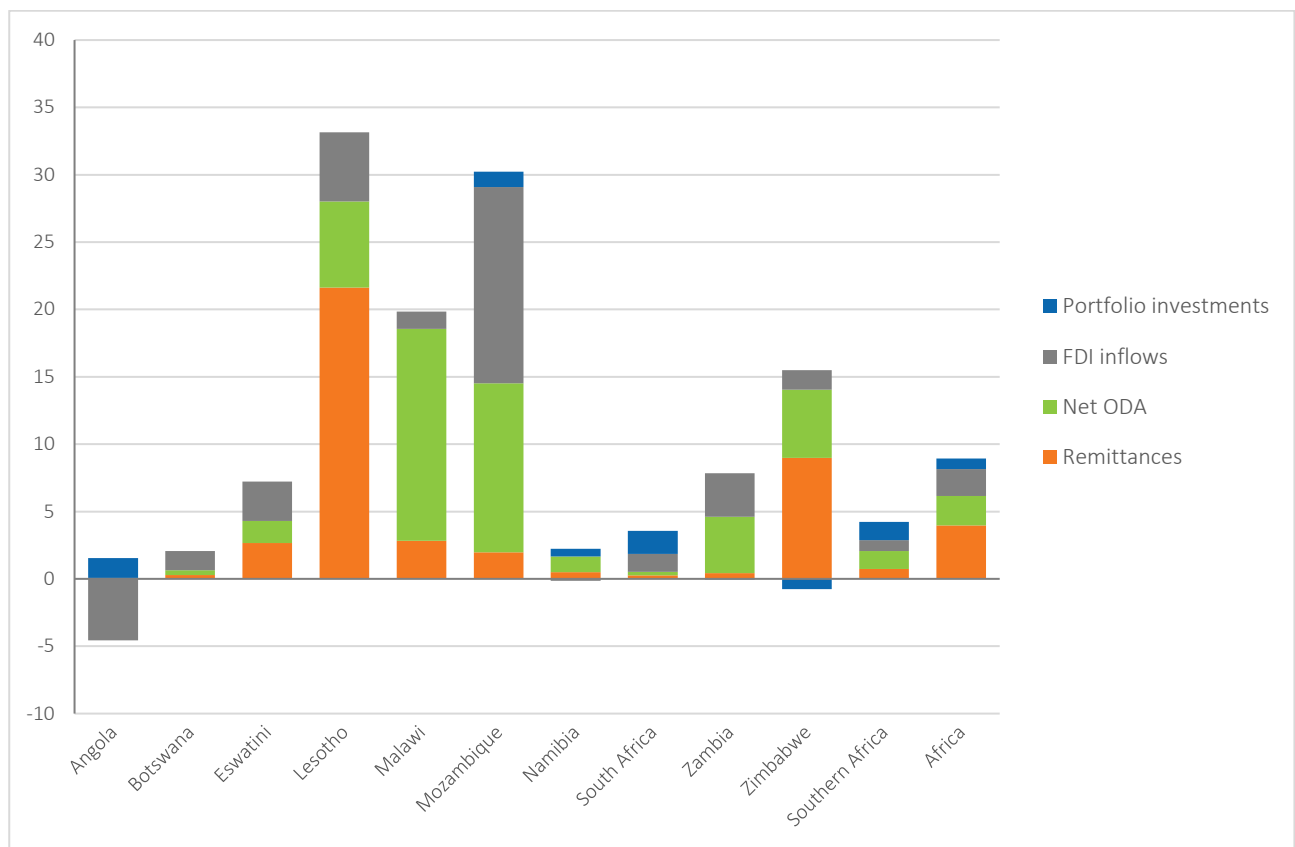
Source: Author’s calculations based on World Bank (2021) (WDI) data

Figure 2: Real net inward portfolio investment by country (\$USm) (Full period totals 2000-2019)



Source: Author’s calculations based on World Bank (WDI) data

**Figure 3: External financial inflows' composition (remittances, net ODA, FDI inflows, and portfolio investments) in Southern Africa, as % of GDP, 2019**



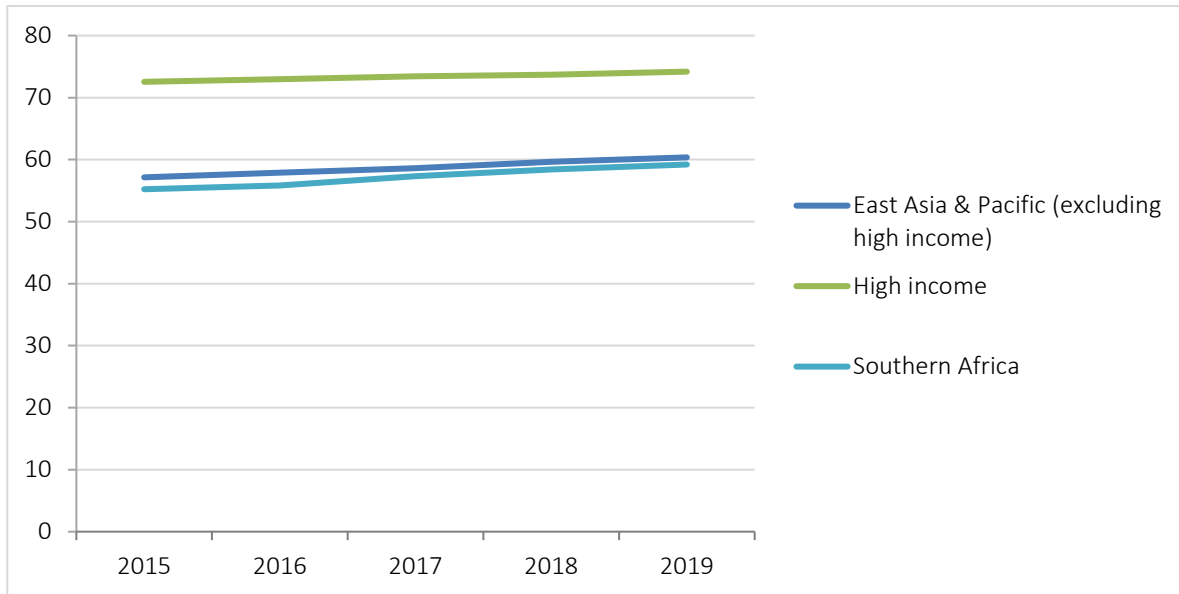
Source: OECD

Investment flows are determined and influenced by various factors, one of which is the suitability of the business environment. In order to give some idea of the business climate for investment, some data on the 'ease of doing business' (EDB) score<sup>1</sup> is provided in Figures 4 and 5. The first figure (Figure 4) plots the time series of the score for the five year period 2015-2019 and the second (Figure 5) ranks the five year changes for each of the countries of the region.

The aggregate index for Southern Africa shows a slow improvement over the five-year period, with the composite index tracking very closely to that of the developing East Asia group. On the other hand, both developing regions still fall short of the extent of ease of doing business in the high-income countries. Nevertheless, the developing regions are at least converging with the index of the high-income countries.

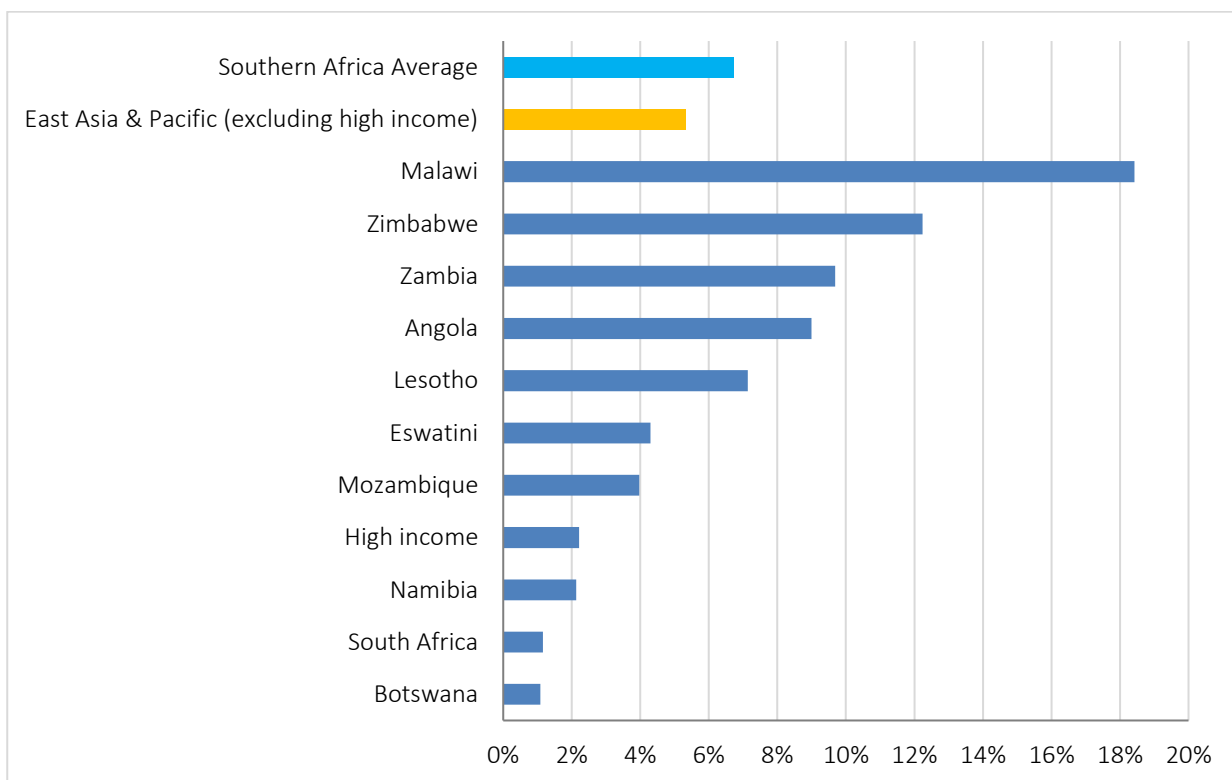
<sup>1</sup> See World Bank 2021 (world development indicators). The score is a composite of other indicators of ease of doing business and is calculated as an index out of 100, where 100 represents the greatest ease of doing business.

**Figure 4: Ease of doing business score, Southern Africa vs other groupings (2015-2019)**



Source: Author’s calculations based on World Bank (WDI) data

**Figure 5: Ease of doing business score, five year changes, ranked (2015-2019)**



Source: Author’s calculations based on World Bank (WDI) data

According to individual country data, the three countries with the worst EDB scores are Angola, Zimbabwe and Mozambique, whereas the three countries that made the most progress in improving their EDB are

Malawi, Zimbabwe and Zambia (Figure 5). Countries with low EDB scores, such as Angola and Mozambique, would need to evaluate their business environments and implement reforms. All countries need to remain on an improving track in order to make their economies attractive to investors and help to reverse the observed patterns of disinvestment.

Whereas South Africa has the best EDB score in the region, it has the second worst rate of improvement score (according to Figure 5) and this could partially explain its very poor investment performance over the five years. Its rate of improvement falls far below the aggregate for Southern Africa and that for the non-high income East Asia reference group.

Finally, regarding the impacts of Covid-19 on the economies of the region, UNCTAD's World Investment Report for 2021 describes large pullbacks in global investment, especially to the developing countries and especially in Greenfield projects. Although the countries in the region have attempted various policy measures to alleviate the pandemic fallout, it is clear from the sharp corrections seen in output in countries such as South Africa and Botswana that these measures have not been sufficient to check contractions in industries, loss of jobs and consequent impacts on supply chains. According to UNCTAD, 64% of investment promotion agencies (IPAs) globally have responded rapidly to Covid-19, but African and other low income countries are lagging in their responses (UNCTAD, 2020). Indeed, a survey of IPA responses in the region could only determine two responses in total, and those both from South Africa. In order to contribute to a sustainable post-pandemic recovery, IPAs and industry & trade authorities must do all they can to attract back investors and capital.