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مركز التكامل المتوسطي

# FDI in the Mediterannean and post-Covid opportunities

*Club des Investisseurs  
Méditerranée du Future, Acte IV*



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Director

# Outline

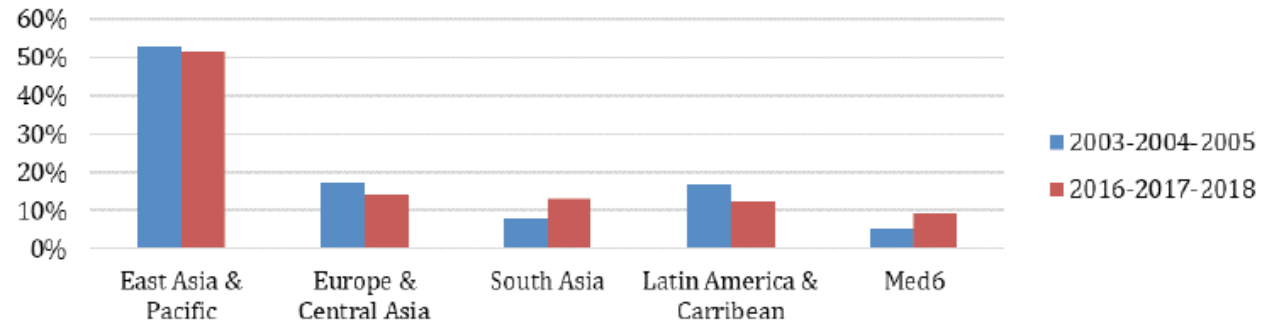
## Foreign Direct Investment (FDI) to the Mediterranean

- Pre-Covid
  - Trends
  - Composition
  - Binding constraints
- Post-Covid
  - Expectations
  - Opportunities
  - Country cases: Morocco, Tunisia and Egypt
  - Recommendations

# Evolution of Trends (pre-COVID)

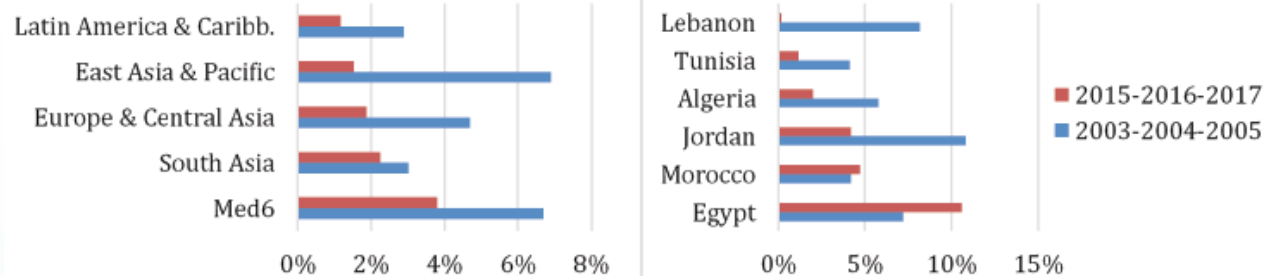
- Mediterranean countries** (sub-group of MENA), specifically Med6 (**Algeria, Egypt, Jordan, Lebanon, Morocco, Tunisia**)
- Out of total FDI in developing/emerging countries, half is directed towards East Asia.** The remaining is split between Europe (14%), South Asia (13%), Latin America (12%) and **Med countries (9%)**
- Med countries: 3.9% of GDP**

**Regional distribution of FDI towards developing & emerging countries**



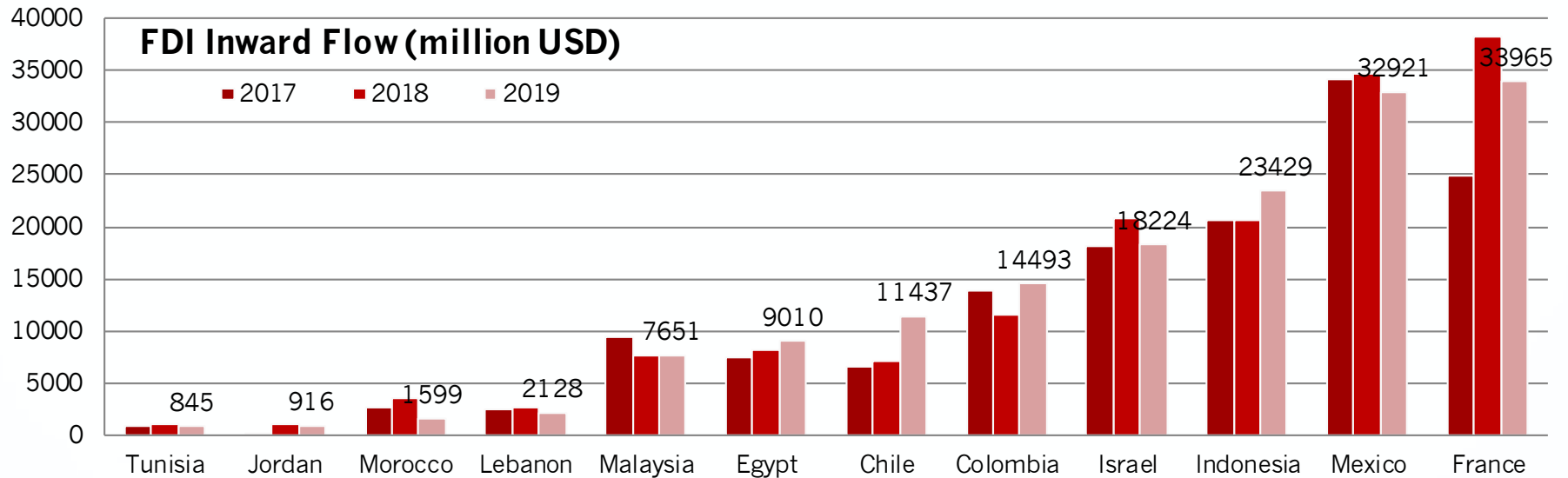
Source : FEMISE 2019

**FDI/GDP ratio for developing/emerging countries and Med countries**

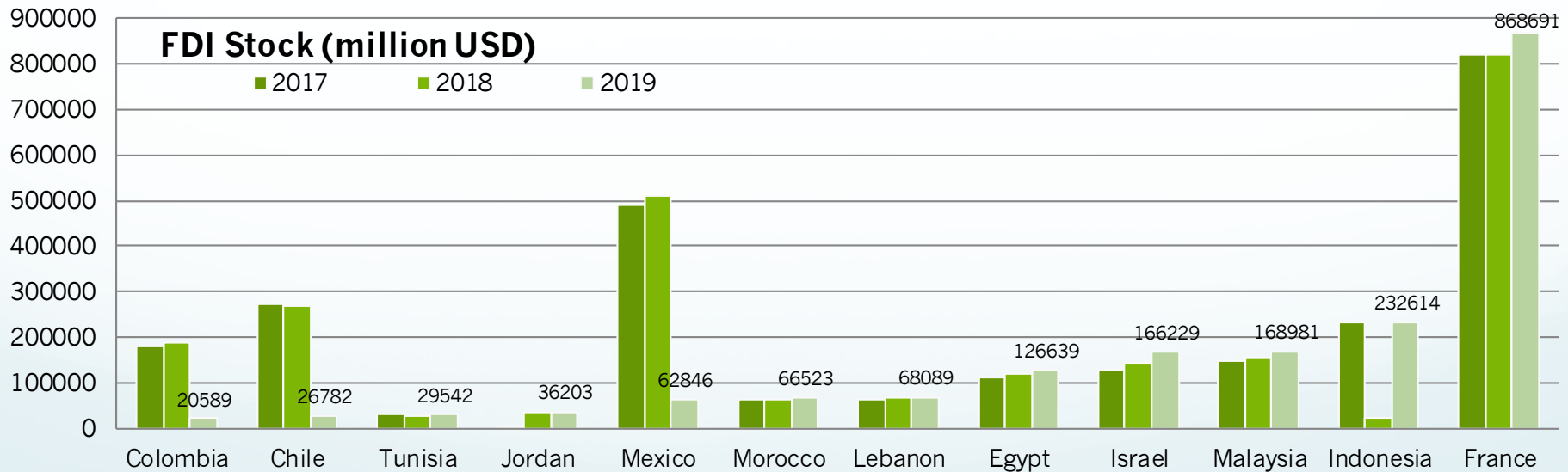


Source : FEMISE 2019

# Trends (pre-COVID) : MED deceleration in 2019

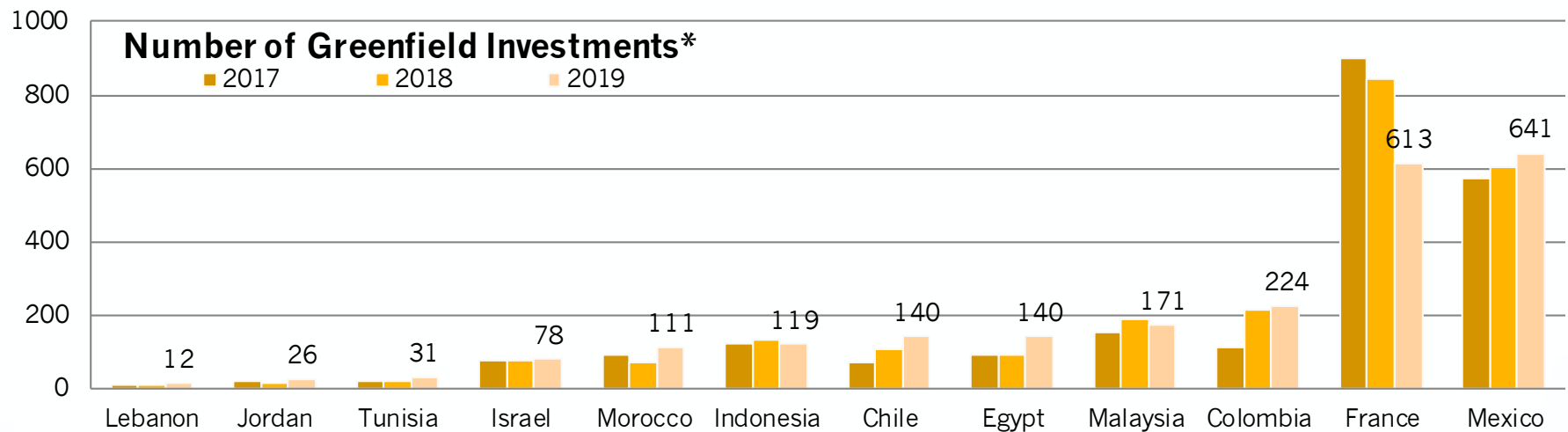


Source: UNCTAD, Latest available data

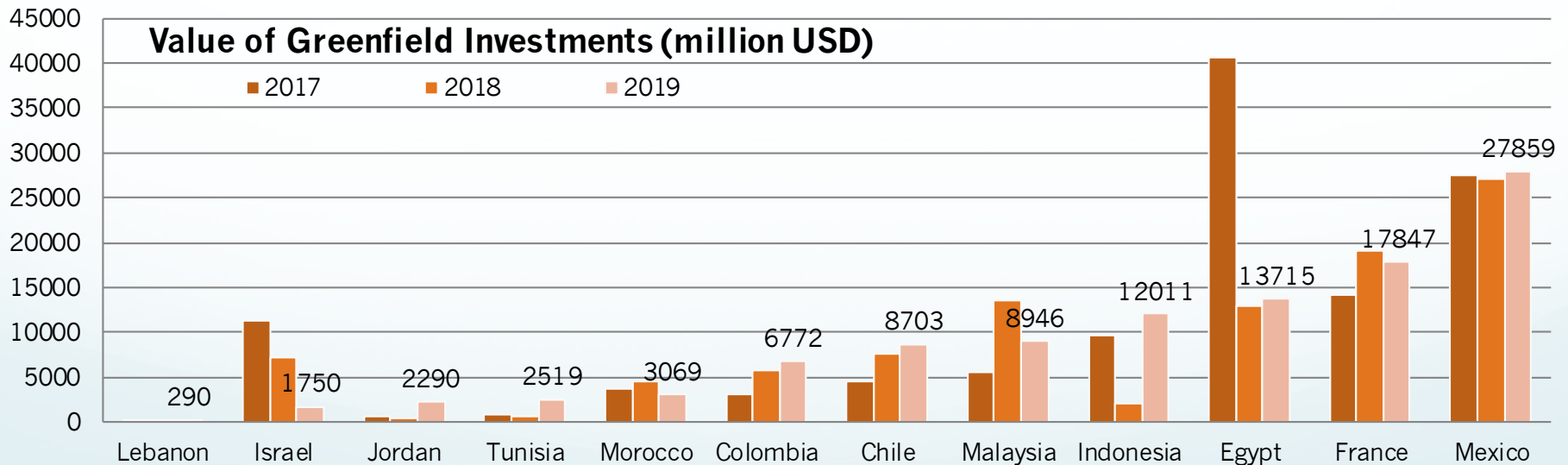


Source: UNCTAD, Latest available data

# Trends (pre-COVID) : more MED Greenfields, less value

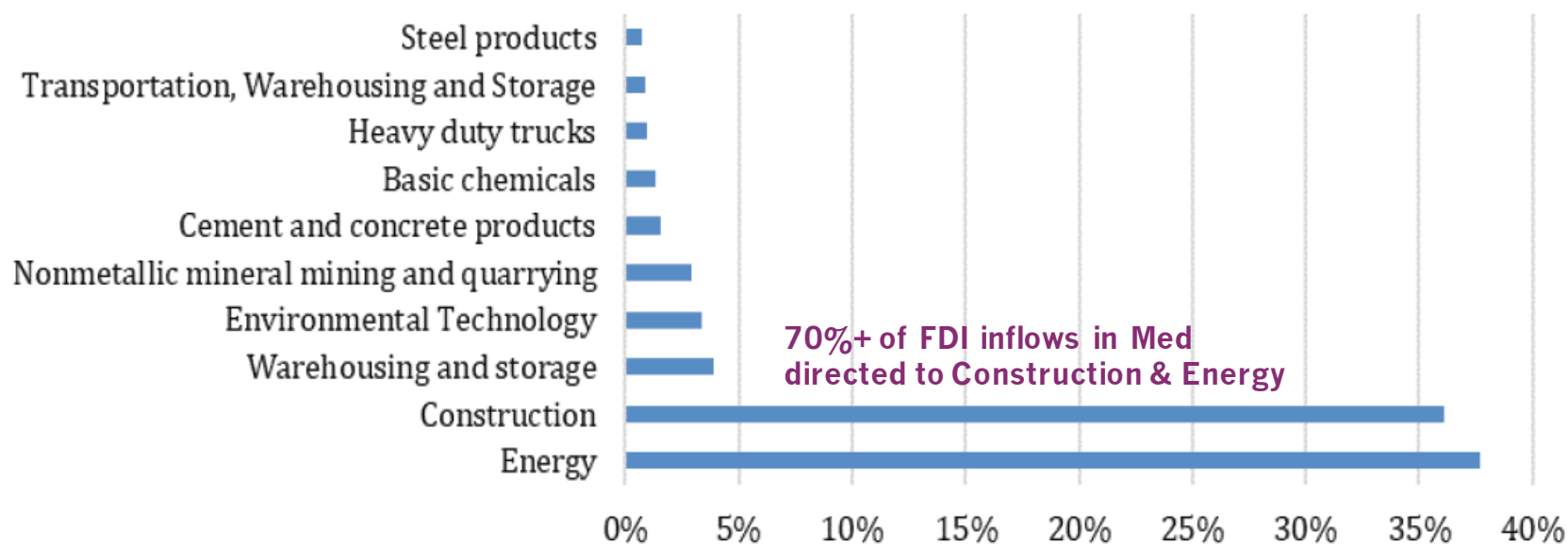


**Mediterranean Greenfields : +36.8% in volume, -59.3% in value compared to 2017**



# Trends (pre-COVID) : FDI in MED concentrated in few sectors

## Sectoral decomposition of FDI inflows in the Mediterranean

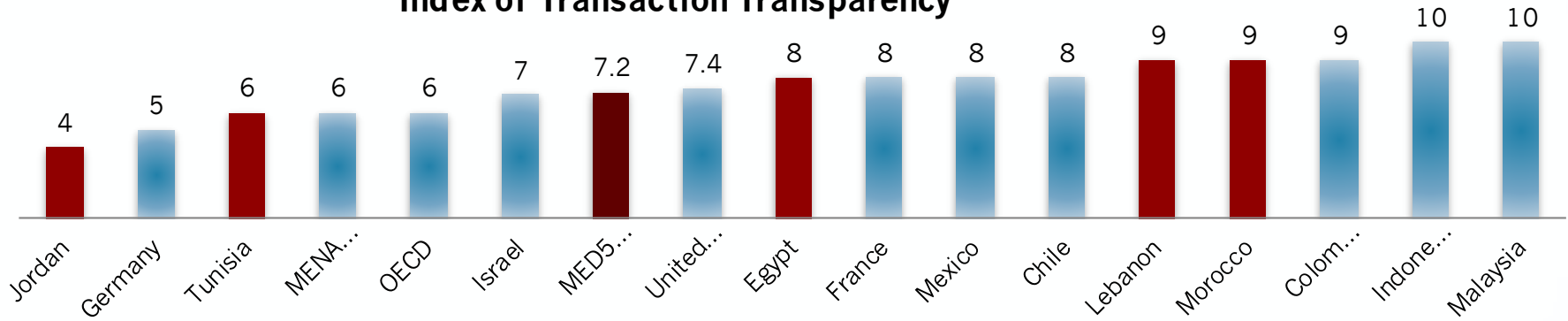


Source : FEMISE 2019, compiled from FDI Intelligence, Financial Times Ltd 2018.

- **Algeria : FDI too concentrated** (warehousing, mining & quarrying)
- **Egypt : FDI too concentrated** (90%+ to construction and energy)
- **Jordan : FDI concentrated** (73% in solar electric and fossil fuel electric power)
- **Morocco and Tunisia : more diversified**

# Investors protection: from mediocre to great

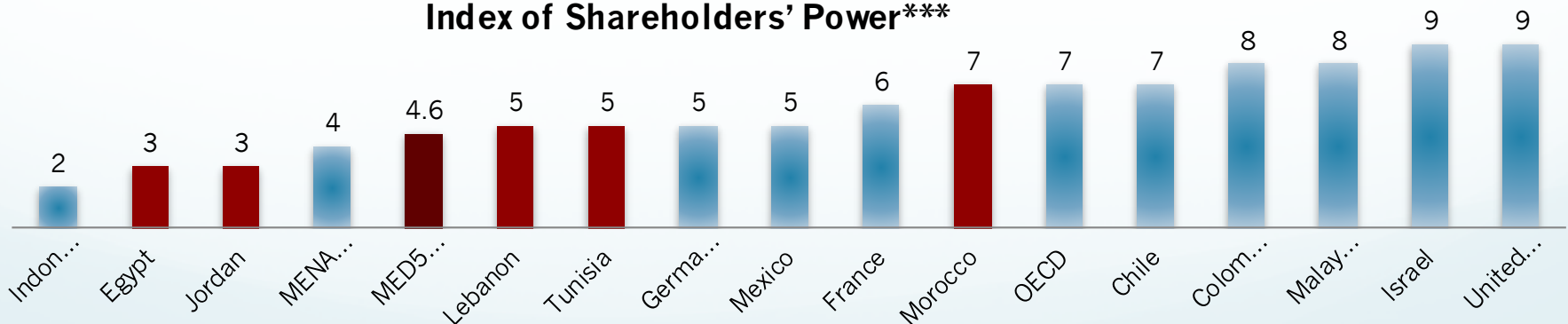
## Index of Transaction Transparency\*



## Index of Manager's Responsibility\*\*



## Index of Shareholders' Power\*\*\*



Source: Doing Business, \*The Greater the Index, the More Transparent the Conditions of Transactions. \*\*The Greater the Index, the More the Manager is Personally Responsible. \*\*\* The Greater the Index, the Easier it Will Be For Shareholders to Take Legal Action. \*\*\*\* The Greater the Index, the Higher the Level of Investor Protection.

## Trends (post-COVID), bleaker scenarios ahead

- In the pre-Covid world → Mediterranean already needed to attract more AND **better-quality investment.**
- In the post-Covid world, global FDI could fall by 40% in 2020 (UNCTAD) → **Mediterranean countries need to survive (short-term) and rethink the approach to FDI (long-term)**



# The Mediterranean post-covid : Need to create a better “absorption capacity” and integrate better...

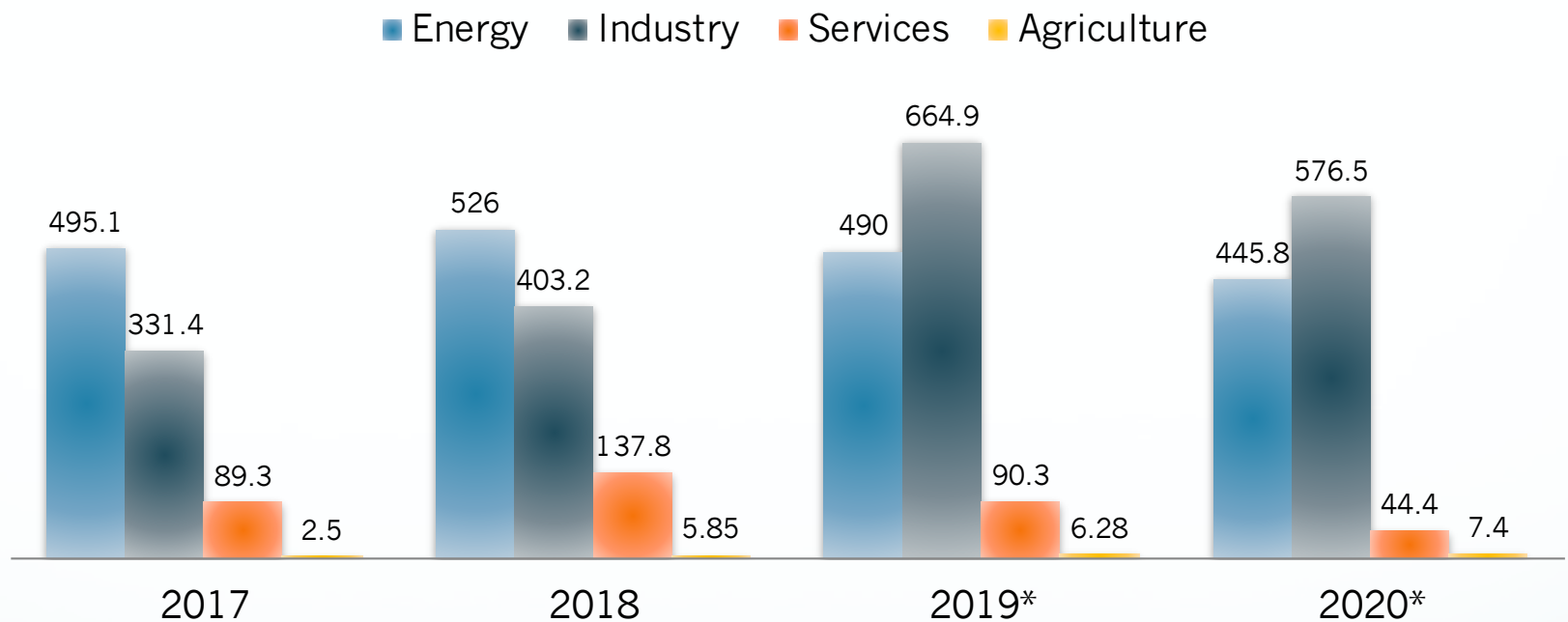
- MED issues:
  - Capital accumulation + unskilled labor = **FDI goes to lower-end activities**
  - Political economy roadblocks (mistrust, lack of transparency, cronyism) + lack of Med regulatory harmonization (ex. non-tariff barriers) + inadequate business environments → **Limited Integration** → **Foreign investors discouraged**
- Priority → improving the **efficiency of investment**
- But **this is not automatic**, depends on many factors
- Solutions → **Create strong internal "absorption capacity »**  
+ Better **integration**

## For Development Opportunities post-COVID to flourish, MED countries also need...

- 1. Change the role of the state:** from producer to promoter
- 2. Regulatory framework** → transparency.
- 3. Specific agency** → ensures promotion and regulation
- 4. Surveys** → identify issues and opportunities of foreign companies
- 5. Catalytic factors:**
  - 1. African Continental Free Trade Area (AfCFTA) regional market** → potential game-changer
  - 2. New EU Neighborhood Policy: Trade Agreements, mobility**

# Tunisia: A country with growing diversification, fairly-skilled workforce, but slow economic reform and tax-regime an obstacle to SMEs

## Tunisia : Sectoral FDI inflows (MTND)

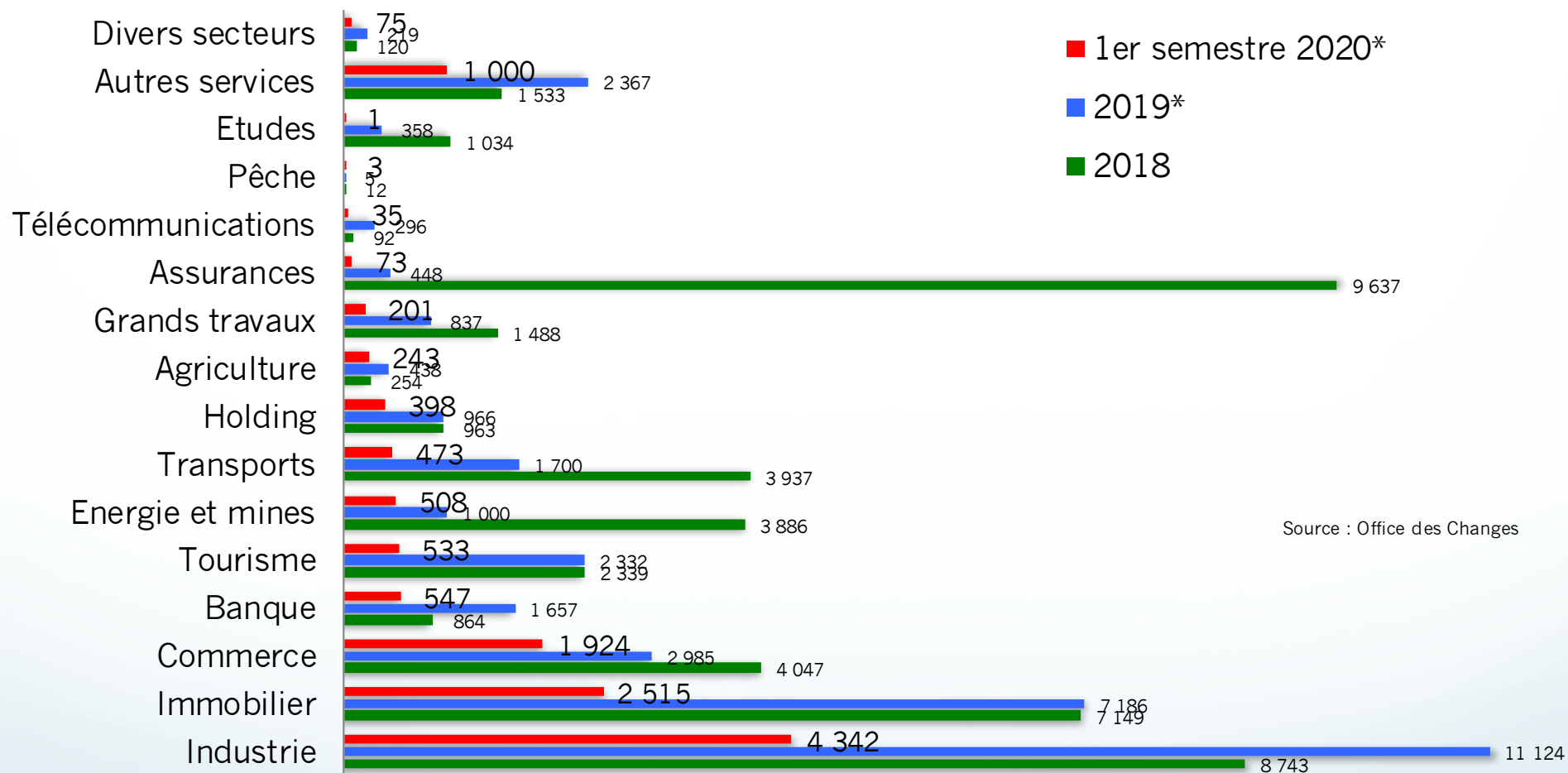


Source : APII - APIA - ONTT - DOUANE - BCT - DGE - CMF - BVMT

In 2020 first nine months, **FDI had fallen by 23.2%** compared to FY2019 and all sectors are concerned.

# Morocco: A country with a legal framework and assistance favorable to investors, well-trained population, but small internal market

Morocco : sectoral FDI inflows



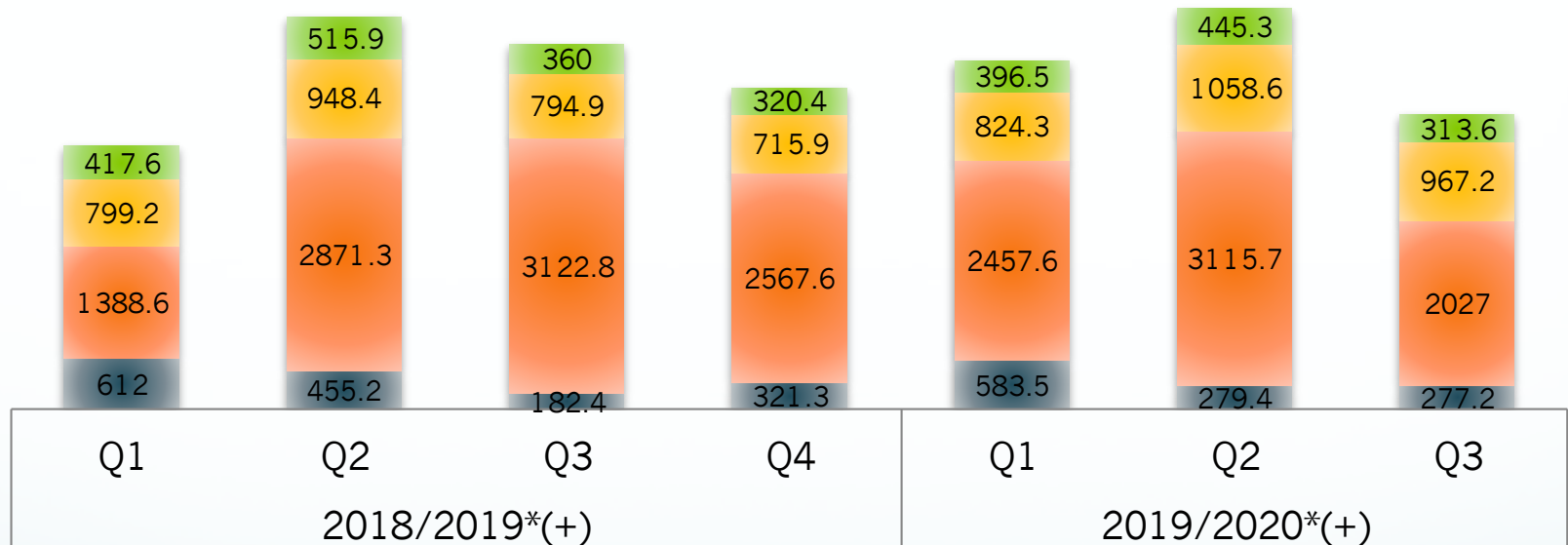
Source : Office des Changes

End of Sept 2020, net inflows of **FDI had fallen by -28.3%**

# Egypt: A country with high-potential, to be affected by the fall of expected earnings of large investors in Africa

**Egypt : FDI inflows (US\$ mn), by country**

■ USA ■ EU (incl. UK) ■ Arab Countries ■ Others



Source : Central Bank of Egypt

Figures from Q3 of FY2019/2020 show **-19.6% fall in FDI**

# North-South cooperation, concrete projects, and their financing: **key for the future**

- **Co-production** is key
- Capitalizing on regional networks (**diaspora**)
- Supporting **SMEs to enter new partnerships** (mapping them + connecting them with each other and with Social Finance actors)
- Need to identify, support, and fund **concrete projects**
- **Invest in regional public goods: human capital, clean environment, access to water..**
- Supporting the Realization of Opportunities:
  - ***Méditerranée du Future***: regional investments
  - **Two Shores Dialogue: Digital Platform for Mediterranean projects, CMI hosted**





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Thank you



# ANNEX. Some « friendly » procedures relative to foreign investment, but there is room for improvement

	EGYPT	JORDAN	LEBANON
<b>Freedom of Establishment</b>	<i>In theory, free in most of Egypt. In practice, there can be discrimination.</i>	<i>Guaranteed except in sensitive sectors</i> (ex. publishing, aeronautics). Some sectors forbidden to foreigners (ex. security, passenger transport).	<i>Same conditions as for a Lebanese investor.</i> Employer's work permit & residence permit needed. Buying property is sometimes limited. Some other conditions.
<b>Acquisition of Holdings</b>	<i>Allowed.</i> Only in case of LLCs at least one manager should be Egyptian.	<i>Legal, except in certain sectors</i> where it cannot exceed 49%.	<i>May not hold directly more than 40%</i> of shares of two companies active in the same sector.
<b>Obligation to Declare</b>	Companies required to obtain a commercial and tax license, pass <i>lengthy security clearance.</i>	The Agency for the promotion of FDI provides information about the necessary authorizations.	<i>No obligation to declare.</i>
<b>Competent Organisation For the Declaration</b>	General Authority for Investment and Free Zones in Egypt (GAFI)	Website of the Amman Stock Exchange; Jordan's Securities Commission	Lebanese Stock Exchange website.



# ANNEX. Some « friendly » procedures relative to foreign investment, but there is room for improvement

	MOROCCO	TUNISIA
<b>Freedom of Establishment</b>	<i>Guaranteed</i> except for agricultural sector.	<i>Yes</i>
<b>Acquisition of Holdings</b>	<i>Majority acquisition is authorized</i> by way capital subscription or acquisition of already issued securities.	<i>Possible</i> but you must obtain a business card from the Foreign Trade Services.
<b>Obligation to Declare</b>	<i>Investors do not have to obtain prior approval</i> , just have to send the Foreign Exchange Office a report in the 6 months following completion of the operation.	-
<b>Competent Organisation For the Declaration</b>	Foreign exchange office	Foreign Investment Promotion Agency