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THE FOREIGN INVESTOR'S VIEW OF THE INVESTMENT CLIMATE IN DEVELOPING AFRICA

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I. INTRODUCTION

1. The need for a statement of the foreign private investor's view of the investment climate in developing Africa issues from two distinct elements in the African economic situation. In the first place, there is a fair-size gap 1/ between the overall investment ratio and the savings generated within the economies. This reliance on external resources, which will probably enlarge further during the acceleration of investment requirements in the course of the Second Development Decade, is even more crucial in developing Africa than in other under-developed areas because of the greater paucity of all kinds of skills required in modern economic development. Secondly, the composition of the international flow of resources from the DAC countries has definitely shifted in the course of the 1960s against official development assistance and in favour of private capital, both direct investment and export credits. Thus, in 1969 2/ the flow of private capital amounted to US$6,277 million compared to US$2,352 million made available for official development lending proper. All present indications are that the trend in favour of private capital flows will continue to operate.

2. The present catalogue of the views of the foreign investor is divided into two parts. In the first part, the positive elements in the investment climate often noted by non-African business analysts and

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1/ The Pearson Report (Table 2-2, p.31), relating to the period 1960-1967, is the basis for the following supporting evidence.

	Savings as % of GNP (1)	Investment as % of GNP (2)	1 as % of 2 (3)
A. Industrialized countries	21.7	21.2	102
B. Developing countries	15.0	17.8	84
C. Developing Africa	13.1	16.7	78

2/ Based on the OECD observer, October 1970, P. 21

investors are brought together. In the second part, the negative elements similarly noted are summarized. The presentation here of these views does not imply any affirmation on the part of the ECA secretariat of the particular points made. Three aspects of the situation, however, assist in setting the overall perspective in relation to the viewpoint of the foreign private investor, and, as such, need to be explicitly stated. Firstly, in the course of the 1960s, as illustrated by the statements in another document (E/CN.14/INR/189) presented to the Meeting of Ministers of Industry and as indicated in other ECA studies elsewhere, the ranks of investors in industrial projects have grown to cover over thirty-five countries. Thus, judged by the most valid of all tests - namely, actual investment - the investment climate, exceptions apart, cannot be regarded as being underpinned by self-defeating policies on the part of the States in developing Africa interested in attracting foreign private investment. Secondly, the indemnified losses of the investment insurers in the United States, Germany and Japan have been only about one-tenth of one per cent of the value of the insurance cover contracted for in all developing countries. Thirdly, the foreign private investments most vulnerable to nationalization (which of course is not necessarily identical to expropriation), on the record, have been those dating from the colonial regimes and not new investments.

II. THE POSITIVE ELEMENTS IN THE INVESTMENT CLIMATE

3. The main positive elements supportive of a favourable investment climate as viewed by foreign private investors are indicated below.

(i) The more or less extensive existence in the countries of developing Africa of incentive for foreign investors, collected in a single code or otherwise, have a powerful, favourable impact on the cash flow of potential projects as well as their likely profitability. Most country schemes have varying provisions which cover, inter alia, favourable terms for the transfer of profits; special conditions for the eventual repatriation of capital; a holiday of some length from income, turnover, registration, stamp and other taxes; provisions which ensure the stability of taxes in the case of particular (usually large) projects; accelerated depreciation allowances; tariff exemptions or enabling provisions for refund of customs duties paid; the possibility of formal protection arrangements; and compensation in the event of nationalization.

(ii) The presence of financing institutions and development corporations in the countries of developing Africa not only shares out the risks inherent in investment, but is also felt to act as *de facto* insurance against nationalization, by many foreign investors.

(iii) The general reputation of a specific country for fair and expeditious dealing in matters of concern to the foreign private investor is naturally an agglomerative distillation of thousands of individual experiences. When positive, it has been felt to be a very strong influence particularly in decisions about the location of those production and sales facilities which are relatively footloose.

(iv) The capacity of African countries to use their lower, absolute levels of labour costs (compared to the developed countries) in order to attract foreign manufacturers oriented to world markets is limited by several considerations, and does not quite compare with developments in certain other developing areas. 3/ However, a few interesting developments do indicate the potential supportive role of this factor in the African investment climate.

(v) Developing Africa offers, on the record, a high degree of relative freedom from acute and recurrent strife in labour relations.

3/ For an interesting assessment of the developments see Stanford Rose: "Poor Countries Turn from Buy Less to Sell More", Fortune,- April 1970, P. 90 at Seg.

III. NEGATIVE ELEMENTS IN THE INVESTMENT CLIMATE

4. The negative elements in the investment climate are summarized below. In addition to the considerations indicated in the introduction to this note - namely, the sizable expansion of private foreign investment during the 1960s; the minuscule losses recorded by investment insurers in the developed countries; and the greater immunity of new investments to the actual experience of nationalization - two further elements should be permitted to qualify the following summary. Foreign private investors, in the first place, are not a single, homogeneous category in terms of capabilities, honesty, attitudes to risk-taking or freedom from prejudices and rigid mental attitudes. Secondly, all negative elements are obviously incapable of being present or relevant in each country-situation, and are not arranged below in any order of significance.

(i) Many investors feel that they are faced with ignorance on the part of rapidly shifting officials in some countries of the ultimate responsibilities of the foreign private investors (to his shareholders) and the competitive pulls and pushes the latter is subject to.

(ii) Bureaucratic frictions, as distinguished from legislation or policy, not only slow down the process of investment decisions for the foreign private investor, but make it needlessly more expensive. In extreme cases, the stickiness of the slow-grinding bureaucratic wheels actually amounts to a flat contradiction in practice of what the State and its plans declare as their aims.

(iii) The fear of nationalization and/or expropriation haunts many potential and existing investors, particularly of the relatively small/medium type. The adoption of various socialistic or quasi-socialistic measures usually upsets foreign private investors, even if they are not directly affected.

(iv) In some countries, for whatever reason, certain categories of foreign private investors sense an active feeling of hostility against the foreigner, sometimes reinforced by what is regarded by the foreigner as unfavourable treatment of existing groups of expatriate residents.

(v) Too many sudden changes in governments, institutions, policies and procedures create serious doubts in the mind of some investors about the validity of the formal and informal (implicit) elements in any contractual arrangement.

(vi) Some currencies are overvalued, and as such present a greater risk. A tight foreign exchange position creates doubts about the capacity of the country in question to service its own commitments in matters like transfer of profits, etc.

(vii) A communication gap is often nurtured by the scattering of relevant information in a multiplicity of policy statements or legislation, among other factors.

(viii) Occasional specific factors, which might be illustrated by the odd case wherein the duty on raw materials is larger than the duty levied on the finished product, adversely influence particular project situations as distinguished from the general environmental factors which go into the shaping of the investment climate generally.