

Attracting FDI in Africa

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I have been asked to provide the perspective of U.S. multinationals on the subject of attracting FDI to Africa.

There is no mystery here. Investment will go where the necessary markets exist or to places in proximity to those markets, and where the necessary resources exist. Sometimes, this is not discretionary. An investor will have to accept large amounts of risk and high costs, for example for access to scarce natural resources.

But to move up the value chain, to diversify their economies, to increase their global competitiveness, to spread the benefits of prosperity more widely, many African countries are seeking to attract FDI for an array of new industries. And here those investors who have a choice look for the same things in Africa as they do anywhere else:

- political stability
- rule of law, including enforcement of contracts [Think of the impact on foreign investors in Russia of the abrogation of oil and gas contracts. Global oil firms have been forced to divest and uncounted others have been deterred]
- protection of property, including protection of intellectual property
- infrastructure and public services [This isn't only a matter of having the roads and ports to get goods to market or reliable telecommunications, although these of course are important. It is that US and other foreign investors want to come to your country for the long term, and to be able to treat their employees there as they do those at home. That means, at minimum, being able to count on their employees having reliable access to clean water, electricity, schools for their children, etc]
- an educated, skilled workforce [Think of the example of Costa Rica, which many years ago made a conscious decision to downsize its military and

- invest instead in educating its children and creating a first rate workforce. These policies paid dividends in economic growth and attracting FDI]
- proximity to markets and customers
 - lack of corruption – including both “big time” corruption (bribes and kickbacks to public officials) and “quiet corruption” (absenteeism, shoddy goods, poor inventory controls)
 - a positive attitude toward investment and investors, including willingness and ability to address problems

Obviously there is enormous variation among the countries of Africa with respect to these factors. And obviously too the factors themselves interact and are of differing weights in differing circumstances. But in general business investment, both domestic and foreign, will develop where market opportunities meet predictability and efficiency of operation. And the more items that can be ticked off on the above list, the better.

Here’s an example: The Economist recently reported that Kenya hopes to experience an information technology boom, and to build a business processing outsourcing industry. Key to these plans are infrastructure – in this case the recent arrival of three international fiber-optic cables and the expectation of increasing soon the availability of cheap telecoms links with the rest of the world – and an educated, hard-working workforce. But potential investors still voice a number of concerns, ranging from an unfriendly tax code, poor public services and infrastructure, to the cost of crime and corruption and high political risk.

What to do? I’d like to suggest that one good way (perhaps the best way) for a country to make itself attractive to US investors is to make itself attractive to its own business community.

You know better than I what it takes for your local businesses to thrive, what drives domestic investment, what are the barriers to formality in your countries. But a convenient set of indicators can be found in the World Bank’s *Doing Business* project, a series of annual reports investigating the regulations that enhance business activity and those that constrain it. *Doing Business* presents quantitative indicators on business regulations and the protection of property rights that can be compared across 183 economies from Afghanistan to Zimbabwe, as well as over time. It is now in its seventh edition.

Regulations affecting 10 stages of a business’s life are measured: starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. These are indicative not comprehensive. They focus on topics that measure the regulation and red tape relevant to the life cycle of domestic SMEs. The indicators are used to analyze economic outcomes and identify what reforms have worked, where and why. The World Bank itself calls *Doing Business* a kind of cholesterol test for the regulatory environment for

domestic business. Such a test won't tell us everything about our health, but it nevertheless measures something important. And it puts us on watch to change behaviors in ways that will improve not only our cholesterol rating, but our overall health as well.

There are individual country chapters. Mauritius for example ranks 17 out of 183 economies for ease of doing business. South Africa ranks 34. Botswana is number 45, Ghana 92, Kenya 95, and Nigeria 125. This is a weighted ranking of all the factors "ease of doing business". When you examine the detailed statistical breakdown, you see the specific areas where more progress can be made. Everyone can make progress. And indeed three of the world's top 10 business reformers of business regulation this year are in Africa: Senegal, Burkina Faso, and Botswana.

Senegal, among other things made it easier to trade across borders. Burkina Faso introduced a new labor code and reforms for registering property. Botswana cut the time to start a business, facilitated trade, and strengthened investor protections. Post conflict countries Liberia, and Sierra Leone, along with Rwanda, were among the regions' most active reformers of business regulation.

Does this mean that US investors are lining up at their doors, or that there is an automatic or simple correlation between Doing Business reforms and attracting investment? Of course not. But if you compare the Doing Business rankings and other major economic benchmarks like the OECD's regulatory indicators and the World Economic Forum's Global Competitiveness Index, you will see strong correlation. These correlations suggest that where peace and macroeconomic stability are present, domestic business regulation makes an important difference in economic competitiveness. We know that SMEs are key drivers of competition, growth, and job creation. We know that where regulation is burdensome and competition limited, success depends more on whom you know than what you can do – and the opportunities for quiet corruption multiply – as does the culture that tolerates or even requires big time corruption (which is one of the biggest barriers to FDI).

So I will go out on a limb here and suggest that the domestic regulatory climate is an important leading indicator for potential investors. And even if this were not the case, or not clearly the case, these reforms would constitute "no regrets" policies – i.e. good in themselves – for countries that undertook them.

In the current global crisis, policymakers around the world have seen rising unemployment and income loss. The foremost challenge for many governments, my own included, is to create new jobs and economic opportunities. Many, especially here in Africa, have limited fiscal space for such things as infrastructure investment or provision of social services. But reforms aimed at creating a better investment climate, including reform of business regulation, are possible everywhere.

And at the end of the day every single one of the factors I listed as being important to foreign investors is equally important to domestic businesses – of all sizes. So, US investors want the same things you want – and we should work together to try to achieve them.