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WEAK BUSINESS INVESTMENT CLIMATE, POOR ECONOMIC GROWTH AND AFRICA'S POOR SOCIO-ECONOMIC DEVELOPMENT

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ABSTRACT

Africa suffers from unusual low foreign and domestic investor confidence. Investors, both domestic and foreign, will put their money or invest only where they feel that risks are minimal or acceptable in relation to returns and proceeds. However, in an environment where there is weak governance, rash in conflict, high crime network, corruption prevalent, or infrastructure is poor; investors are unwilling to risk their hard earned wealth and resources. This paper argues that Africa's low economic growth rate and poor socio-economic development is as a result of unfavourable business investment climate. The paper concludes that there is the need to address these militating factors in order to provide congenial atmosphere that will attract both domestic and foreign investments in Africa.

Keywords: Investment climate, governance, growth, economic development, crime, corruption, conflict

Introduction

Socio-economic conditions of the Africans have little or no impact on the welfare of the people (Oputa, 1994). In spite of the fact that the African continent exceeds in its size and natural resources of the combined territories of Europe, the United States and China; most Africans must struggle for bare survival (Seidman *et al*., 2006). Studies reveal that the major factor behind the poor socio-economic conditions of the continent is as a result of poor economic growth.

In much of Africa, very little economic growth has occurred over the past fifty years. Some countries are even poorer today than they were thirty years ago. Sub-Saharan Africa has had the lowest Gross

Domestic Product (GDP) for decades. Statistics confirm that Africa has a population of about 600 million, more than double that of the United States, yet it is estimated that average real GDP per capita, which is 11% in Africa is lower today than it was in 1970 (Marke, 2007). Africa urgently needs economic growth than the rest of the world. In order to close the gap with the wealthy nations, Africa, particularly the Sub-Saharan Africa must achieve sustained high rates of real growth in GDP for decades. A joint study by African Development Bank (ADB), African Economic Research Consortium, Global Coalition for Africa, Economic Commission for Africa and World Bank warned nine years ago that 'five percent annual growth is needed simply to keep the number of poor from rising… (and that)...halving severe poverty by 2015 will require annual growth of more than seven percent, along with a more equitable distribution of income' (World Bank, 2000: 2). However, Schaefer (2006) points out that rather than very much needed economic growth, the countries of Sub-Saharan Africa as a region witnessed a decline in per capita GDP from $575 in the 1980 to $524 in 2003.

Any socio-economic indicator suggests that Sub-Saharan Africa lags behind the rest of the developing regions in the world. Among the 49 countries classified by the UN as 'least developed' in the year 2001, sadly, Sub-Saharan Africa had 34. Since 1975 precisely, the region has been backwards economically, while the rest of the developing regions are making accelerated advancement. In the periods 1960-73 for example, the growth rate of the region cannot be differentiated with those of both East and South Asia. Ghana, for example at independence in 1957, was more flourishing than the Republic of Korea, however, between 1975 and 1995 Ghana's exports increased by four times, compared to more than 400 times in the Republic of Korea. Nigeria, in 1965 had economic output approximately that of Indonesia, but by 1997 Indonesia's output was as high as eight times that of Nigeria (RSW, 2002).

Given the continent's overwhelming gift of resources and the billions of dollars spent in various development projects across Africa since independence, yet the life of average African is not better, rather he/she is poorer today than he/she was 35 years ago. A situation contrary to what is obtainable in other regions within the globe (Wentling, 2002). The pertinent question then is why Africa has continued to experience poor growth in spite of the continent's abundant human and natural resources. The simple answer, which this paper provides is – it is because of the unfavourable business investment climate in the continent. Against this backdrop, this paper will argue that the poor economic growth in Africa is because of the unfavourable business investment climate, and that this is the major or crucial factor behind the poor economic development in the continent.

Explanatory Variables for Africa's Poor Economic Growth

Scholars and writers have provided divergent explanations for the poor economic growth in the African continent. The present poor growth in Africa's economy has stimulated research projects that endeavour and strive to unravel the causes of this problem. While some studies argue that the cause of Africa's poor economic growth is high population, others maintain that a volatile climate/environment or economic dependencies are crucial factors. Yet other studies contend that weak trade is important.

High Population

High population is one of the possible explanations adduce by some scholars for the poor growth in the continent. The argument here is that there has been a tremendous increase in population in developing countries, particularly Africa, which has surpassed economic growth. According to the Report of the Commission for Africa ('RCA' Commission for Africa, 2005), between 1980 and 2002, the population of Sub-Saharan Africa has grown from 383 to 689 million people, which is an increase of 80 percent. In contrast, in much of Africa, very little economic growth has occurred over the past fifty years. Some countries are even poorer today than they were thirty years ago. Sub-Sahara Africa has had the lowest Gross Domestic Product (GDP) for decades; statistics confirm that Africa has a population of about 600 million, double that of the United States, yet it is estimated that average real GDP per capita is 11% lower today than in 1970 (Marke, 2007).

The argument is, therefore, made that high population growth has made things difficult in developing countries, as people have to scramble for available resources and that this has resulted in crises. The contention is that the problems induced by high population in African countries have forced the various governments to divert attention to redressing such crises, rather than focusing on projects that create growths. There are the obvious issues of lack of food, lack of good drinking water, poor sanitary conditions, and poor housing (United Aid West Africa, 1997, in Awake, 2004). For example Raikes (1988) argues that over the past decade and a half, Tropical Africa has become a significant net importer of basic foodstuffs, notably cereals because population is growing more rapidly in Africa than anywhere else in the world. Tibaijuka (2005) contends that the population pressures on Africa's infrastructural investment for housing, water supply and sanitation are intense. With all these population-induced crises, it is difficult to achieve high growth in Africa. Large population in some Africa countries have impacted negatively on the economy, with the current projection of its growth at 3.2%, it is predicted that Sub-Saharan will double its population every 25

years. And as Africa's economies stagnated while the population grew rapidly, the percentage of people living in poverty grew (RSW, 2002).

However, Asia has succeeded in improving both in economic growth and reduction of poverty, in spite of its large population – Economic growth in some parts of South Asia has been more than double the average figure for all countries. Growth rates for 2008 are projected to be above 5% for China, Japan and India (Marke, 2007). These countries certainly have larger populations than most African countries. Thus, population is not the major explanation for the poor growth in the African continent.

Volatile Climate and Environment

Volatile climate/environment is yet another crucial factor that causes or worsens poor growth in the continent. The argument is that in Africa, the combined effects of high reliance on agriculture, and very low levels of irrigation makes these regions susceptible to the vagaries of its volatile climate/environment. There is irregular rainfall and natural risks such as droughts and floods are frequent (RCA, 2005). As Wisner (1988) pointed out, drought was one of the factors that caused the famine at the end of 1986, which critically affected the economic growth of thirteen African countries. Apart from its threat to life, crops fail routinely, livestock is lost and housing and infrastructure is often severally damaged. Over recent decades Africa has experienced growing environmental degradation, such as deforestation, desertification, declining soil productivity, loss of biodiversity, and depletion of fresh water, all that work against the actualisation of high growth (RCA, 2005).

In Kenya for example, the World Food Programme (WFP), and the government announced that the northern parts of the Rift Valley and Eastern Provinces, the entire North Eastern Province and parts of the coast were hit by drought in 2006. In this region 70 percent of the total of a quarter of a million cattle have died. This has exacerbated tension and conflicts between the different nomadic tribes that live in the area, particularly between the Kikuyu and Maasai tribes (Mason, 2006). In Somalia, some 1.7 million people are in need of food aid as a consequence of drought. Drought has also hit South Eastern part of Ethiopia, where nearly two million people were affected. A recent study by Save the Children shows that at least one in five children in this region is malnourished (Mason).

The environment of the continent has been under intense pressure, particularly over the past twenty-five years. The rise of population as discussed earlier, over cultivation and over-grazing have reduced the fertility of vast portions of lands and turned other areas into wastelands (RSW, 2002). The UN Environment Programme (UNEP) estimates that an area twice the size of India is under threat of desertification. And that during 1990-95, the continent's woodlands were being diminished at an annual rate of 29, 400 sq km. Civil wars have also impacted negatively on the environment; particularly in the late 1980s and 1990s. Civil wars have had devastating consequences on the environment in countries such as Somalia, Angola, Chad, Mozambique and Sudan. Besides, the displaced populations in these and other countries have fled not just because of destabilising political situations, but also based on environmental degradations that were unable to sustain them economically. In fact, in recent times, unlike in the past, many government leaders have seen that sustained economic growth and stability will be difficult in the absence of adequate environmental protection (UNEP, 2000 in RSW, 2002: 18).

However, this cannot provide a full explanation for the poor economic growth in the continent. Just as Wisner (1988) argues that drought and other environmental problems cannot explain the 1986 disaster that hit 13 African countries, which experience poor growth, since ten of these thirteen affected countries have experienced other problems such as war, civil strife, destabilisation (including apartheid) and or massive influx of refugees. In the same vein, Sen (1999) argues that famine, drought and related disasters are not allowed to occur in democratic polities because people have an established mechanism to compel governments to address their needs and pressing problems. Moreover, poor growth, poverty and other associated problems that are resultant effects of famine, drought and starvation happen because of the failure of entitlement of the weaker segments of the population. Nyong'o (1993: 2) also argues 'states, or governments for that matter, justify their existence on the grounds of being able … and to ensure social progress or development'.

The above contention needs to be substantiated with more evidence; Japan and Hong Kong for example have a weak climate, coupled with negligible natural resources. Japan is rugged and mountainous, and Hong Kong is mountainous with sleep slopes. Yet these two countries (like other New Industrialised Countries) conquered their environment and have been experiencing high growth. This suggests that there are other explanations, besides volatile climate/environment for the explanation of Africa's poor growth.

Economic Dependency

It has also been argued that poor growth in African states is as a result of extreme dependence of their economies on international competitive economic conditions over which they had little control. This is popularly known as the dependency theory, which is predicated on the notion that there is a 'centre' of wealthy states and a 'periphery' of poor, underdeveloped states. Resources are extracted from the periphery (developing nations) and flow towards the states at the centre (developed nations) in order to sustain their economic growth and wealth. The major contention here is that the economic development of the developing countries (the Global South) was rendered impossible by the domination of the global economy by the already industrialised capitalist powers (The Global North, Offiong, 1980). The implication is that the poor growth and poverty of the countries in the periphery is the result of the manner of their integration of the 'world market system'; according to Sandbrook (1982) the historical incorporation of dependent territories into a global division of labour entailed a tendency toward economic stagnation in the colonies and neo colonies. Onimode (1981) argues that sustained economic development in the periphery is incompatible with the international capitalist system. This is because the wealthy become more isolated from the poor with sustained underdevelopment of the later, and they gained disproportionately from imperialistic practices, this also minimized the domestic peasant revolts and rebellions by the poor when the exploitation was internal before the establishment of global trade in the nineteenth century. Hence, to the ruling class of North America, Western Europe and Japan, the drive for development in the satellite (periphery) countries appears profoundly subversive of the prevailing system of international domination. Therefore, it has to be 'blocked, bribed or broken' in order to preserve the exploitative capitalist system. In fact, once the imperialist rich nations establish formal control, it could not be easily removed. This control ensures that all profits in less developed countries are remitted to the developed nations, preventing domestic reinvestment, causing capital flight and thus hindering growth. Furtado (1965) calls this a method of harnessing economic activities in the poor countries to the dictates of the prosperous countries, the structural elements of monopoly capitalism, which ultimately lead directly to deficit balance of trade and balance of payment for the less developed countries, such as countries in Africa. For the full discussion and analysis of economic dependency and the application to Africa (see Ikejiaku, 2008).

However, the economies of African nations, like the Asian countries were formerly dependent on those of the advance western countries and were facing intense competition in the global market, with poor growth. As a result of technological break through and favourable investment climate in recent decades, Asian region, unlike African continent has continued to experience high growth rate, and have broken into the global market. As argued, growth rates for 2008, for example are projected

to be above 5% for China, Japan and India (Marke, 2007). Clapham (1996) also making reference to the major capitalist states and international financial institutions argues that rather than economic dependence exclusively, Africa's poor growth is caused in part by the way African states and their governments manage their economy, in part by militarisation, abuse of power and gross corruption within the power circle. It is, therefore, contestable whether poor growth in the developing countries, particularly Africa, is caused exclusively by their economic dependence on the Western capitalist nations. Economic dependence, therefore cannot adequately explain Africa's poor growth.

Weak Trade

The submission here is that Africa's poor growth is as a result of weak participation or performance in the global trading. The view is that the collapse of the continent in share of the global trade, which is partly due to its low ability to produce and trade in commodities, manufactured goods and services, has led to declining economic growth in the continent (RCA, 2005). There has been structural imbalance, particularly poor growth in African economies, compared to other regions because of their over dependency on the export of a narrow range of primary products. Africa has also been vulnerable to declining and volatile commodity prices and this seriously reduces growth and hinders their internal development. Green and Seidman (1996) argue, an economy limited to specialising in the production of a few primary products for export is, by definition, highly dependent. This structural imbalance and dependence on export has been responsible during the last three decades or so, for most of the countries incurring a trade deficit. This has negatively affected growth in most African countries. Statistics for example show that from 1980-2000; the greatest fall was in cotton (47%), coffee (64%), cocoa (7%), and sugar (77%). And within a short span, the losses were extremely severe. Between 1968-89, Sub-Saharan Africa experienced losses, associated with price falls, of US $56 billion or around 15-16 per cent of the then GDP (RCA, 2005: 109).

However, trade has been the driving force and key to growth in some other regions over the last 50 years. After the economic depression and protectionism of the 1930s, many developing countries joined in singing the 'jiggle, jangle and rattle of liberalism' by opening up their markets for international trading. Statistics reveal that there is expansion of trade among these countries, which contributed to the highest growth records in their economy ever. For example, trade has mostly accelerated the growth rate of both China and India. For the fact that the share of developing countries in global trade has improved tremendously, with the share in manufacturing increasing from 17 percent in 1990 to 27 percent in 2000 (World Bank, 2004), it is highly doubtful that weak trade is the main explanation for the continent's poor growth.

Unfavourable Investment Climate

The position of this paper is that the continent's poor economic growth is most explainable by the unattractive business investment climate or environment. A close examination on the continent suggests that Africa, particularly Sub-Saharan Africa, has an unattractive investment climate. Unattractive business environment has been a strong barrier for investment both by Africans themselves and foreign investors, and this cause or worsens the level of economic growth of the continent. It is particularly crucial that low foreign investment negative growth in Africa. The greater volume of inflow of capital and foreign exchange into the continent is through aid. The total private inflows to Sub-Sahara Africa, measured on percentage of GDP are lower when compared to the rest of developing regions. In the early 1970s this was not the case, Africa attracted more foreign direct investment (FDI) than the regions of either Asia or Latin America. However, since 1980s, statistics show that investment flows into Latin America were 5.5 times higher than those of Africa, while those into Asia were nine times higher than investment flows into Africa (UNODC, 2005).

Low domestic and foreign investment is a salient issue in Sub-Saharan Africa. There is high flight and low remittance flows into Africa compared with those of other developing regions. The ratio of Africa's investment based on her GDP at 18 percent is below the average of 24 percent for all developing countries and the lowest of any developing region. Statistics suggest that just six to seven percent of foreign direct investment and close to five percent of remittances going to developing countries flow into Sub-Saharan Africa. It is also estimated that around 40 percent of private wealth is held outside Africa compared to 3 percent for South Asia (RCA, 2005: 229). The long projected growth in Sub-Saharan Africa will not materialise if there is lack of favourable atmosphere for both foreign and domestic business investment. The fact is that any region that has low investments, hardly participate meaningfully in the global trading, this in turn affects the rate of economic growth and the level of social and economic development in that region. There is a correlation between investment climate, global trading, economic growth and socio-economic development. Marke (2007) argues that Africa has to develop policies to attract domestic and foreign business, and encourage a functional active private sector investment that can compete in the global market or global trading, since the role of investment in an economy is crucial to growth. Wentling (2002) contends that Africa has fallen behind in our highly competitive world, particularly in global trade and to catch up, it must run as twice as fast as any other area of the world; but this is not possible if the grounds are not stable and attractive for optimum business investment.

Statistics of 59 countries evaluated by the Economist Intelligence Unit (EIU that runs a service known as 'Riskwire', which evaluates the safety of a number of countries for foreign business), reveal that out of only six African countries (South Africa, Nigeria, Kenya, Egypt, Morocco, and Algeria) evaluated, South Africa makes the most impressive risk evaluation, ranking 29th of 59 ahead of the North African countries. Nigeria with a ranking of 59 is rated as the riskiest country for business in the world, while Kenya ranked 54th is not impressive also (UNODC, 2005: 79). Economic growth of Africa continues to dwindle because among the few Africans who can save, many of them that decide to invest choose to invest their wealth abroad. Africa has the highest record of incidence of capital flight, with 40% of private portfolios being held outside the continent (Collier, Hoeffier and Pattillo, 2001). 'Africa has been rated by international investors as the riskiest continent, but Africa is regarded as more risky than is warranted by the fundamentals' (Ibid: 59). This suggests that unattractive business environment is the major obstacle to economic growth in Africa.

While all the factors discussed above contribute in the understanding and explanations of the causes of poor economic growth in Africa, however, unfavourable business climate is the most persuasive explanation.

Factors Militating Against Favourable Business Investment Climate in Africa

There are many barriers to business investment in Africa, these includes the problems of governance and provision of infrastructure, conflict, corruption and the most terrible crime. All these contribute to the increase of the risk and costs of business investment in Africa.

Governance

The practice of good governance is usually associated with state responsiveness and accountability to the citizens on whose behalf the leaders govern or manage public affairs. Good governance also employs resources in an efficient and equitable manner. Where leaders govern in this way and derive their authority from the citizens, this is referred to as democratic governance (Wayande, 1997). However, in most countries in Africa, there are governance issues such as capacity and effectiveness of governments. A situation where the government is incapable of creating the right social, economic, political and legal framework that will accommodate and facilitate business investment in Africa. One of the ways in which government is seen as functioning well is when it can provide basic functions such as providing security, setting sound economic policies under the law, collecting taxes and the capacity to deliver adequate public services like health and education. It also means the

availability of social infrastructure, such as roads, water, electricity and telecommunications. But in most African countries, governments have failed the people. For example there is high cost and erratic supply of electricity, weak or absence of communication and transport connections and unnecessary rood checkpoints around the continent (Ikejiaku, 2004). All these issues concerning the government effectiveness need to be addressed, in order to achieve conditions necessary for a stable and attractive business investment environment. Illustration with Table 1 below (on government effectiveness) suggests that no African country is placed or rated at the top quintile, and all the countries except those placed in the 4th quintile are negatively rated under the government effectiveness.

Table 1: Categorises African Countries in their Levels of Government Effectiveness

Government effectiveness	**Bottom quintile**	**2nd quintile**	**3rd quintile**	**4th quintile**	**Top quintile**
	-0.87	**-0.84 to -0.39**	**-0.37 to -0.03**	**0.22 to 0.83**	
	Angola, Burundi, Central Africa Republic, Chad, Comoros, Congo, Dem. Rep., Cote d'Ivoire, Equatorial Guinea, Guinea Bissau, Liberia, Niger, Nigeria, Sao Tome and Principe, Sierra Leone, Somalia, Sudan, Togo	Algeria, Benin, Burkina Faso, Cameroon, Djibouti, Gabon, Gambia, Kenya, Libya, Madagascar, Malawi, Mozambique, Rwanda, Swaziland, Uganda, Zambia, Zimbabwe	Cape Verde, Egypt, Ghana, Lesotho, Mali, Morocco, Senegal, Seychelles, Tanzania, Tunisia	Botswana, Mauritania, Mauritius, Namibia, South Africa	

Source: Africa Development Indicator (2006), The World Bank: Washington, D.C.
Note: Within each quintile, countries are listed in alphabetical order

Corruption

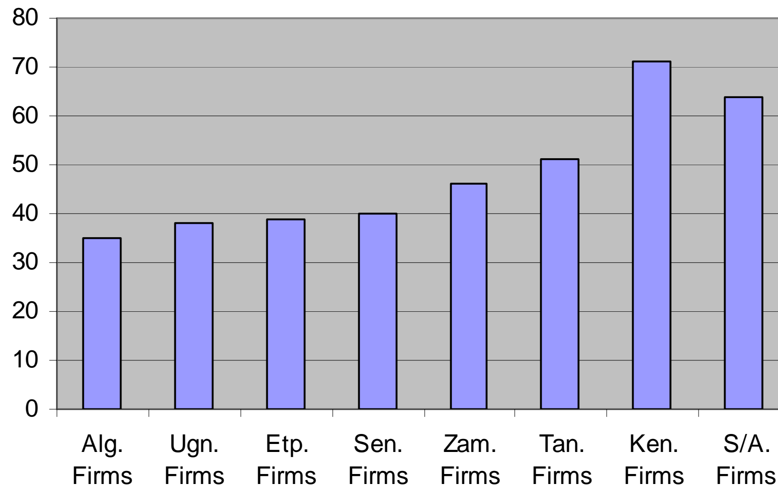
Corruption is another impediment to business investment, this include both bureaucratic and political corruption. Corruption is a serious concern for investors in Africa. Much of bureaucratic corruptions which are likely to have an impact on investment are perpetrated through bribes paid to government officials, or non-delivery of services to the poor, and other forms of services such as obtaining

licences, or access to benefits. The demand for bribes raises transaction costs and uncertainty to an economy. Also political corruption in Africa, particularly through outright embezzlement by political leaders has contributed in making the continent unattractive for business investment. There is lack of confidence in setting up businesses in Africa by foreign investors because of political corruption.

For example, focusing exclusively on the top leadership, Transparency International estimates that Mobutu in Zaire and Abacha in Nigeria may have embezzled up to US $5 billion each. The Mwai Kibaki government in Kenya, which ousted President Arap Moi in an election in 2003, is investigating embezzlement to the tune of $1billion by former officials, and the notorious 'African Big Man' the late President G. Eyadema of Togo was very corrupt (Azami, 2005). According to Global Witness (Ibid), several current leaders in Africa are plundering their own treasuries. Among them are Angola's President Jose Eduardo dos Santos, who it says keeps large sum in bank accounts abroad, and Equatorial Guinean President Teodoro Obiang, who calls oil revenues a 'state secret' (Wrong, 2005).

In countries, such as African countries were most of the leaders succumb to corruption, foreign investment is abysmally low. The IMF notes 'there is a close association between corruption and slow growth, as well as between corruption and political instability' (World Bank, 2004). Corruption impacts on growth severely through its effect on the rate of investment. According to investment climate survey conducted for the 2005 World Development Report, corruption is marked the number one impediment to investing business in Africa, outweighing taxes, infrastructure, and inflation (Bruntti, Kisunko, and Weder, 2004). Again, in the World Bank African Firms Surveys, all the countries surveyed responded that corruption was a critical constraint on business investment in their individual countries (Table 2 below).

Table 2: Illustrates the Responses of Firms in African Countries (in Percentage) that Corruption is an Obstacle to Business Investment



Sources of figures for all countries, except South Africa, World Bank (2005), on South Africa UNODC (2005)
Note: countries surveyed are Algeria, Uganda, Ethiopia, Senegal, Zambia, Tanzania, Kenya and South Africa.

Table 2 shows that generally corruption is a serious obstacle to doing business in the African continent though not all countries are equally affected.

Conflict

Conflict has impacted negatively on business investment in Africa. No single internal factor has contributed more to socioeconomic decline on the continent than the scourge of conflict; Africa has paid enormous costs to wars. The upsurge of conflict in many countries of Africa is a serious barrier to business investment. In these ugly trends, it may seem odd to talk of optimism in most African countries where conflicts have become common, as in Nigeria (since 1985), apartheid South Africa (1948-1994), Mozambique (1976-1992), and DRC (1996-2001); others include Sudan (1983-2003), Somalia (1981-2002), Sierra Leone (1991-2000), Liberia (1989-2003) Rwanda (1990-ongoing), Burundi (1991-onging), Angola (1975-2002) (UCDP, 2003, in UNODC, 2005). Statistics reveal that between 1998 and 2002, some four million people died in the civil war in the Democratic Republic of Congo alone (RCA, 2005). In recent decades Africa experienced more brutal coups, drawn and bloody instability than any other part of the world (Ibid). Africa's instability as a result of conflict is real impediment to business investment.

Crime

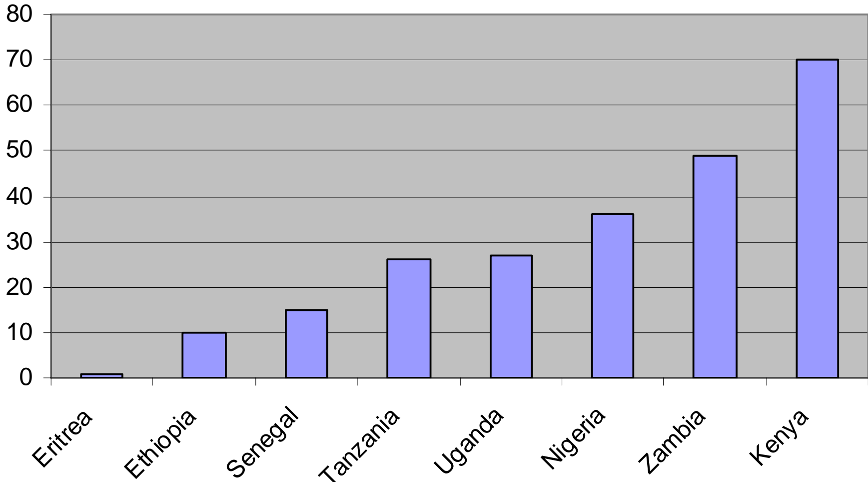
A firm relationship exits between development and crime (conventional). Of particular importance is that crime affects both growth and economic development. The threat exacted by crime redirects resources to protection efforts, imposes health costs through increased stress,

and generally creates an environment unfavourable for productive activity. For the fact that business investment cannot flourish in such an unsuitable climate, this retards growth and economic development (Ikejiaku, 2009). Crime corrodes both Africa's social and human capital, degenerate standard of living, and also is capable of compelling skilled workers abroad, while at the same time hindering investment opportunities in the continent (UNODC, 2005).

According to UNODC, the World Bank Investment Climate Survey data from nine African countries reveals that more than 29% of respondents that engaged in business undertakings in Africa responded that Crime was a cardinal obstacle on business investment opportunities; this is around 50% above the global average. People reporting direct losses to crime differ in the range 11%-80% in each of the countries surveyed (Table 3 below) and the rate of these losses differ between 2%-12% of the entire sales. Again, costs on security are in the region of 3% of aggregate sales in many countries surveyed. These direct, but unreasonable cost poses a considerable task to new businesses and those that function on slight edge. Just as the UNODC recapitulates:

> Crime…increases the cost of business, whether through the direct loss of goods or the costs of taking precautions such as hiring security guards, building fences, or installing alarm system. In the extreme, foreign firms will decline to invest, and domestic ones will flee the country for a more peaceful locale (UNODC: xiv).

Table 3: Share of Business Reporting Crime as a Major Constraint



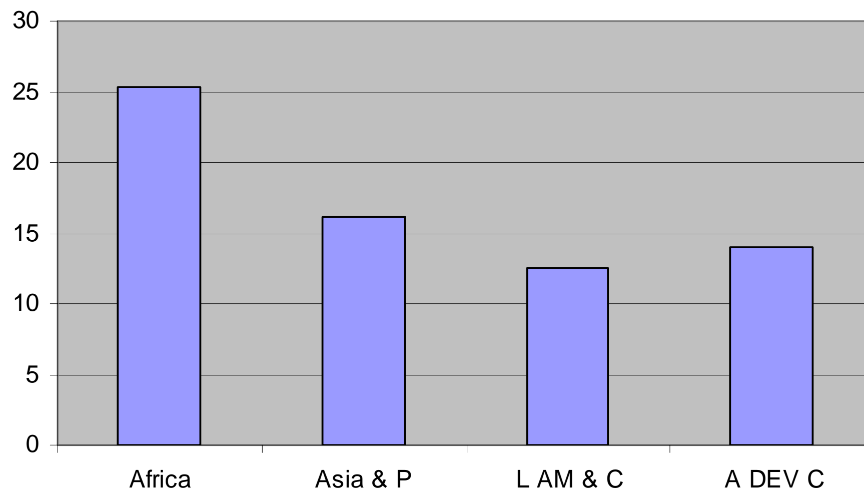
Source: World Development Report (2005)

The paper surmises that while all the factors highlighted above are serious impediments to business investment in the continent, the impact of conventional crime is the most excruciating on investors.

Business Investment as the Mechanism for Growth and Development in Africa

The discussion in this paper so far suggests that the continent of Africa has been an unattractive or unfavourable environment for business investment both by domestic and foreign investors. Since Africa has enormous natural resources yet to be exploited at its disposal, the reason for low investment in the continent is not that it is unprofitable to invest in Africa, but that the investment climate is unattractive because of the factors that militate against investment as identified and argued. As the UNODC argues that people dread to invest in the continent of Africa, notwithstanding the fact that levels of proceed or return on Foreign Direct Investment (FDI), have generally been much higher in Sub-Sahara African when compared to those of other regions (Table 4).

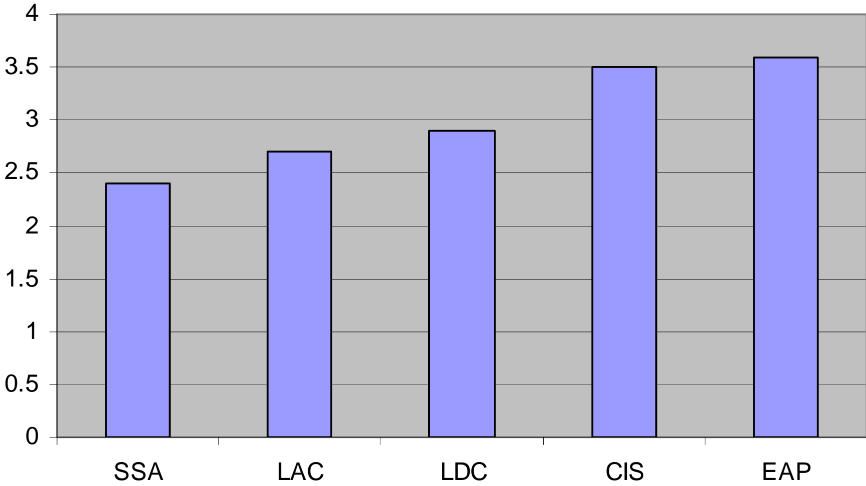
Table 4: Rate of Return on Investment



Source: UNCTAD, [in UNODC, 2005: 78]
Note: The regions covered by the data are Africa, Asia and Pacific, Latin America and Caribbean and All Developed Countries

Indigenous Africans own the vast of investment in Africa and, therefore, domestic statistics have shown that domestic investment is about 80 percent against 20 percent for foreign investment (RCA, 2005). Therefore, what is needed is concentration on creating an environment that will create conducive climate for domestic establishment, this will in turn also attract more foreign investment flows into the continent. Statistics confirm that the level of Foreign Direct Investment flowing into the continent at the moment is lowest compare to those of other developing regions (Table 5).

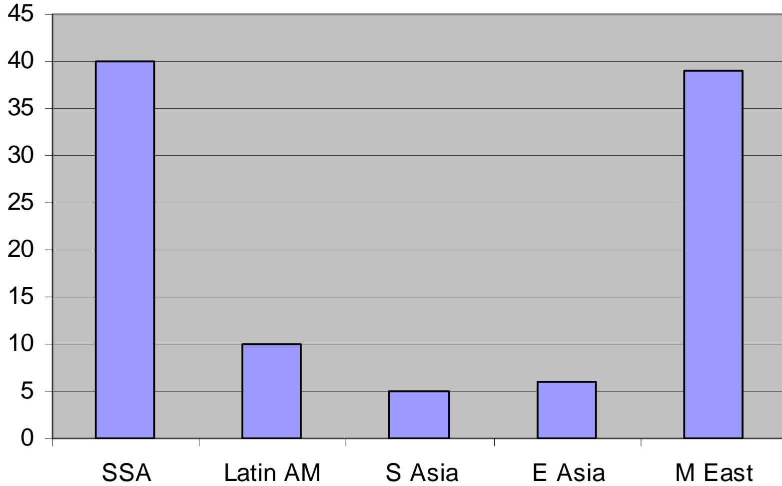
Table 5: FDI as Percentage of GDP



Source: UNDP Human Development Report (2004)
Note: Areas covered by the data are Sub-Sahara Africa, Latin America and the Caribbean, All Least Developed Countries, CIS and East Asia and the Pacific.

As previously argued, one of the reasons why the continent needs FDI is because few Africans save and out of this few, those that choose to invest their wealth prefer overseas investment. 40% of private portfolios of Africans are held outside the continent, and this represents the global highest rate of capital flight. And if Africa is capable of attracting back this volume of private wealth, the private capital stock would rise by around two thirds (UNODC, 2005: 77; See Table 5 below).

Table 6: Share of Private Wealth Invested Abroad



Source: Collier, Hoeffler, and Pattillo (2001)

According to the World Development Report (WDR), improving the investment climate is capable of enhancing economic growth tremendously (WDR 2003, in AU/NEPAD and Development Bank of Southern Africa, 2003). A study carried out in 10 countries including 7 in Sub-Saharan Africa, this include Tanzania, Ghana, Zambia, Malawi, Uganda, Kenya and South Africa, related the increased growth of 2.4 to 4.8 percentage figures to enhanced deregulation, property rights and commercial justice (RCA, 2005).

The continent should adopt a positive attitude to attract FDI, because of some benefits associated to it. And to this end, priority must be given to enabling business investment climate, particularly improvement in infrastructure, to enable business to operate adequately (Marke, 2007). The benefits of favourable climate for investment are far reaching, because this attracts foreign investment, which is an aid to economic growth, since foreign capitals will flow into the continent, thereby enhancing trade and accelerating growth. Examples: In Tanzania, as a result of improvement in the investment climate, the country witnessed fastest growth in 15 years. Uganda that passed through widespread investment climate reforms had her GDP increased about 7% per year in the period 1993-2002. This subsequently reduced the number of the population living below the poverty line from 56% in 1992 to 35% in 2000. The improvement of investment climate in Mozambique led to an increase of her private investment by two-folds, as a share of GDP during 1998-2002 (RCA, 2005: 230). The scenario is applicable to other regions, for example, in China, the improvement of property rights that commenced with agriculture in the past 25 years, assisted in lifting 400 million people out of poverty. Also Ukraine's reforms and reforms in other regions on investment climate have resulted in an increase in employment between 15 and 35% (Ibid).

Conclusion

This paper examined some of the explanations for the poor economic growth and poor socio-economic development in Africa; it however argued that weak investment climate is the primary explanation. The paper also identified and looked at certain factors that militate against favourable business investment climate in Africa, such as effectiveness of governance, conflict, high crime network and corruption. The paper finds that Africa has enormous natural resources yet to be exploited at its disposal; the reason for low investment in the continent is not that it is unprofitable to invest in Africa, but that the investment climate is unattractive because of these identified and highlighted factors that militate against investment. There is the need therefore, to address these militating factors in order to provide congenial atmosphere that will attract both domestic and foreign investments in the continent.

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