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Accessibility of Government Information as a Determinant of Inward Foreign Direct Investment in Africa

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Abstract

Development priorities of African countries include achieving sustained economic and human development to reduce poverty by strengthening technological capacities and skills, improving access to world markets, creating more and better employment opportunities, and protecting and sensibly exploiting their natural endowments. To pursue these strategies confidently, the countries need significantly increased flow of investment capital, especially foreign direct investment (FDI). Unfortunately, Africa's share of global inward FDI flows and other forms of equity investments has been very low. A new wave of reforms in economic and political spheres designed to change this situation is yielding only very weak results due to the fact that the continent continues to suffer from high investor perception of risk far greater than warranted by objective factors. The negative investor perception and the consequent low capital inflows could be linked to inadequate information possessed by investors. The findings of this study that there is a direct relationship between high accessibility of government information and high inward FDI flows, go a long way to support this hypothesis.

1. Introduction

African countries face daunting development challenges. With 800 million people and vast natural resources, Africa's potential is high, but the performance of almost all African countries fall behind in the main dimensions of economic and human development. This state of affairs characterized by low tradable value creation, corruption, low human capital, massive health crisis, deep-rooted poverty and low life expectancy, is as a result of weak institutions and widespread exclusion of the large segments of the population from participation in economic and political activities.

It is now widely accepted that rapid development in Africa, including achieving the Millennium Development Goals (MDGs), rests on generating surpluses through innovation, massive value-creating investments, increased productivity and trade. In this vein, one of the main priorities of African leaders as outlined in the New Partnership for Africa's Development (NEPAD), is to attract foreign direct investment (FDI) as a means of improving Africa's share of world trade and to move African countries from the margins to the centre of the global economy (North-South Institute, 2003).

2. FDI in economic and human development

Research results tell us that there is a correlation between FDI inflows and host country economic and human development - when the transfer of the tangible and intangible gains of FDI to appropriate sectors is managed effectively. The following are among the gains FDI inflows bring to a country:

Dependable foreign capital: FDI increases productive financial resources in a host country by bringing in foreign exchange and supplementing domestic savings. Typically invested in long-term projects, FDI is a dependable source of foreign capital, as it does not take a quick flight during most financial crises, and it is easier to service than commercial debt or portfolio investment (Lipsey, 1999).

New knowledge and best practices: FDI brings new knowledge to a receiving country. Inflow of new knowledge may benefit domestic firms through imitation and learning of best practices, increased competition in local markets, as well as efficient local labour mobility and virtual knowledge linkages among firms (Busse and Groizard, 2006).

Technology and innovation: Foreign firms bring in proprietary and new technology to an economy. They also can easily adapt technologies to local conditions, set up local

R&D facilities, and stimulate technical efficiency and technical change among local firms, suppliers, clients and competitors.

Market access: Foreign investors can provide access to foreign markets for goods and services that exploit a host economy's comparative advantages. The growth of exports itself offers benefits in terms of technological learning, realization of economies of scale, and gaining of knowledge of the investors' home country markets.

Environmental management: Environmental sustainability can be enhanced by FDI, especially from transnational corporations (TNCs), which are leaders in developing clean technologies and modern environmental management systems. And the spillovers of technologies and management methods can potentially enhance environmental management in local firms.

Stimulus for good governance: Global mobility of capital limits the ability of governments to pursue bad policies, as FDI acceptance may come with more openness and disclosure requirements from home countries of foreign investors.

Tax revenue: Profits generated by FDI contribute to corporate tax revenues in the host country.

3. FDI inflows to Africa

Over the last ten years, the share of global FDI inflows to Africa's 53 countries of 800 million people averaged less than 2%, which is less than the percentage inflows to Singapore with a population of about 4.5 million. The quality of the flows is also poor, as the largest portion goes to extractive sectors especially petroleum and solid minerals, which tend to have a less pronounced impact on productivity and poverty reduction than investments in other sectors such as manufacturing and services.

Table 1 below shows a comparative picture of the global inward FDI performance by region for the period 1988-2003. A rating of above 1.00 means performance is above global mean, and below 1.00 means performance is below mean. It can be seen that Africa as a region fared less than all other developing regions throughout the period. Its above global performance in 2001-2003 was due to the sky-high commodity prices, which attracted "gold rush" risk capital into Angola, Equatorial Guinea, Nigeria, and Sudan. These four natural resource-rich countries along with Egypt accounted for roughly 50% of FDI inflows to Africa during this period.

Table 1: Inward FDI Performance Against a Global Benchmark by Region, 1988–2003

Region	**1988–1990**	**2001–2003**
Global	**1.00**	**1.00**
Developed countries	1.03	0.92
Developing countries	0.99	1.25
Africa	**0.70**	**1.16**
Latin America and Caribbean	0.90	1.42
Asia	1.09	1.19
Central and Eastern Europe	1.04	1.35

Adapted from World Investment Report, UNCTAD (2004); and Dupasquier and Osakwe (2006)

Despite this significant change, Africa's share of FDI flows worldwide remained low, clearly underlying the very low assessed potential for inward FDI of African countries.

Table 2 illustrates clearly illustrates how poorly most African countries perform on inward FDI inflows. Even then, the majority of African countries are still awaiting the realization of their inward FDI potential as can be seen on table 2, which presents inward FDI achievement rating (difference between potential and performance) for African countries for which was available. The figure was calculated using median Inward FDI Performance Index (2000-2004) and median Inward FDI Potential Index (1995, 2000-2003) from the *World Investment Repot 2005*. Median figures were used because they offered the most representative data.

Table 2: Relative Performance of African Countries on Inward FDI (showing performance above or below assessed Potential)

Economy	Performance Above or Below Potential		Economy	Performance Above or Below Potential
Libyan	96		Malawi	-17
Gabon	52		Ghana	-18
Egypt	39		Congo, DR	-22
Cameroon	22		Cote d'Ivoire	-28
Algeria	19		Madagascar	-30
South Africa	14		Nigeria	-34
Botswana	1		Uganda	-36
Tunisia	-1		Benin	-37
Kenya	-4		Namibia	-41
Sénégal	-4		Sierra Leone	-48
Burkina Faso	-6		Togo	-49
Niger	-6		Ethiopia	-72
Guinea	-7		Zambia	-73
Zimbabwe	-10		Mali	-75
Rwanda	-11		Congo	-76
			Gambia	-95

Formulated from data from UNCTAD, 2005 (World Investment Report 2005)

It can be seen from the table above that indeed Africa's potential for inward FDI is grossly under-tapped, as only seven (7) of the 37 African countries studied perform at or above potential. That means that only about 4% of African countries are performing well on inward FDI. It can also be seen that six of the seven best performers are resource-rich countries, showing that FDI in Africa at present is extracting instead of creating wealth.

4. Market Failures due to Information Failure

Foreign direct investment and the benefits of FDI do not accrue automatically. Normally, countries must work for them. That much of Africa's potential for FDI is unutilized represents major market failures across Africa as a result of the failure of must countries to communicate appropriate information about their endowments in adequate quantity and through proper channels. Because the objectives of foreign investors differ from those of host governments: governments seek to spur national development, while foreign investors seek to enhance their own competitiveness to maximize profits in an international context (UNCTAD, 1999) – policy measures and communication of information must aim to achieve congruence between investor objectives and country economic objectives. To achieve this congruence, governments must use policy instruments, comprehensive information services and country institutions to link investors and opportunities. This is to say that opening up economies by providing a level playing field and letting investors respond to market signals is sufficient only to the extent that markets work efficiently. To achieve the desired results, deliberate information dissemination about investment policies, geographic and human factors, as well as business climate need to be carried out as a last mile programme to attract foreign investors.

5. The Link between FDI Inflows and Accessibility of Government Information

In searching for a strong link between government information and inward FDI, it was necessary to establish what attributes of a country's information disposition would matter most to investors. Availability of information is the first necessary attribute, followed by awareness of what is needed, and then the accessibility of the available and needed information. Accessibility emerged as the most important factor on which analysis could be anchored.

In determining what constitutes accessibility of government information that is comparable on the basis of the timeframe of the data used in evaluating inward FDI flows for the various countries, standardized information was sought and found in *Benchmarking E-government: A Global Perspective* (United Nations, 2002) compiled by the United Nations Division of Public Economics and Public Administration (DPEPA) in collaboration with the American Society for Public Administration (ASPA). Two overlapping indices presented in that work: E-Government Index and Access to Information Index were found to encapsulate accessibility of information. E-government index captures the capacity of a country to sustain the development and delivery of online information services. It incorporates accessibility of government information enabled by official online presence, telecommunications infrastructure to facilitate information flow, and human development capacity to manage and disseminate information; while Access to Information Index incorporates elements that measure public access and dissemination of information and public sector corruption due to opaque processes. The data to formulate Access to Information Index were complied by Transparency International and Freedomhouse International. The indices were considered to be composite enough to capture the essence of accessibility of government information in this digital age, and hence very suitable for the purpose of this paper.

Information Access Index forms part of E-Government Index in their originators' conception, but it was used on its own for the purpose of this paper because it directly measures the essential intermediate outcomes of information accessibility irrespective of the level of information and communication technology (ICT) infrastructure. This methodological adjustment is particularly practical given the African context in the early 2000s (the time scope of the research) when ICTs in government were still in their very infancy in Africa.

Table 3 shows the global comparative summary of accessibility of information by regions.
Africa lags on both access to information index and e-government index. Africa's mean e-government index is just half of the global mean, and four times lower than North America's.

Table 3: Accessibility of information by Continent

Economy	Information Access Index (2001)	E-Government Index (2001)
Global	0.646	1.62
Africa	**0.446**	**0.84**
Asia/Oceania	0.446	1.34
Europe	0.863	2.01
South America	0.740	1.79
North America	0.916	2.60

Table 4 displays the performance of African countries on the two dimensions of accessibility of government information. It can be seen that in Africa, only Egypt achieved e-government performance that was above the global mean. All other African countries performed below global average.

Table 4: Accessibility of Information as Measured by E-Government Index and Information Access Index

Economy	Information Access Index Max=2	E-Govt Index Max = 4.00	Economy	Information Access Index Max=2	E-Govt Index Max = 4.00
Egypt	.250	1.73	Tanzania	.500	0.83
Libyan	.001	1.57	Sénégal	.583	0.80
South Africa	.916	1.56	Madagascar	.667	0.79
Morocco	.416	1.47	Zimbabwe	.250	0.76
Tunisia	.250	1.36	Burkina Faso	.500	0.75
Djibouti	.416	1.35	Zambia	.416	0.75
Algeria	.250	1.27	Mozambique	.583	0.71
Gabon	.416	1.17	Sierra Leone	.416	0.68
Cote d'Ivoire	.460	1.05	Guinea	.250	0.65
Nigeria	.500	1.02	Namibia	.750	0.65
Botswana	.833	1.01	Togo	.333	0.65
Cameroon	.83	0.99	Gambia	.167	0.64
Ghana	.750	0.98	Malawi	.667	0.64
Congo	.333	0.94	Mali	.750	0.62
Mauritania	.250	0.91	Ethiopia	.333	0.57
Kenya	.250	0.90	Chad	.250	0.55
Angola	.167	0.85	Niger	.500	0.53
Mauritius	.916	0.84	Uganda	.250	0.46

Source: United Nations, 2002

However, the purpose of the research is not to rank African countries on e-government and FDI inflows, it is to see whether there is a strong link between inward FDI achievement and accessibility of government information.

To determine the link, 31 countries were used. These are the ones which had both information for inward FDI and accessibility information indices. These countries where divided into two: 16 countries were at or above African average for relative FDI performance, and the other half scored below the African average.

These two categories were displayed on a four-window matrix according to their performance on accessibility of government information. A country which scored above African average for either e-government index (0.84) or access to information index (0.446) is scored above average for accessibility, and a below average score on either of the two, got below average score for accessibility. The result is displayed on Table 5.

Table 5: Relative Inward FDI Performance Compared Against Accessibility of Government Information

<table>
<tr><td rowspan="2">Relative Inward FDI Performance</td><td>Above African Average</td><td>Algeria, Botswana, Burkina Faso, Cameroon, Cote d’Ivoire, Egypt, Ghana, Kenya, Libyan, Malawi, Niger, Senegal, South Africa, Tunisia</td><td>Gabon, Guinea</td></tr>
<tr><td>Below African Average</td><td>Madagascar, Mali, Mozambique, Namibia, Nigeria, Tanzania</td><td>Angola, Congo, Ethiopia, Gambia, Sierra Leone, Togo, Uganda, Zambia, Zimbabwe</td></tr>
<tr><td></td><td></td><td>Above African Average</td><td>Below African Average</td></tr>
<tr><td></td><td></td><td colspan="2">Accessibility of Government Information</td></tr>
</table>

It was found that 14 of the 16 (88%) countries with above average inward FDI, scored above average for accessibility of government information, and 9 of 15 (60%) with below average inward FDI also scored below average on accessibility of government information. Even more confirming of the link is the fact all the seven countries that performed above their inward FDI potentials all had above average scores on accessibility of government information.

Accessibility of government information seems to correlate with positive perception also. In a UNIDO investor perception survey, the five countries which scored above average on government information accessibility were ranked the most attractive to foreign investors in Africa for the period 2000-2003, they include South Africa, Nigeria, Botswana, Côte d’Ivoire and Tunisia. Also among the five countries that were most frequently mentioned as regards the creation of a business-friendly environment: Botswana, South Africa, Nigeria, and Côte d’Ivoire, scored high on accessibility of information too (UNIDO, 2003).

6. The value of government information in attracting inward FDI

How does government information contribute to investor decision-making? From my analysis I could identify five ways in which government information influence FDI decision-making:

a) it enhances an investor’s knowledge of the behaviours and operations of institutions in a target economy;
b) it helps reduce uncertainty about future changes in policies and administrative practices in the business environment,

c) it increases transparency of transactions involving state and non state actors;
d) it contributes data and perspectives on how best an investment project can be initiated and managed; and
e) it contributes to the creation of country image and affect investor perception.

6.1. Accessibility of Government information enhances the knowledge of institutions in the investment environment

Institutions are rules, enforcement mechanisms and organizations (World Bank, 2002; Rodrik et al, 2002). Institutions facilitate information flow and transactions cross sectors and among legal persons, enforce rules of equity and resource utilization, and promote competition. They form the bedrock of effective economic development.

The most important determinant of investor success is the quality of knowledge it has about institutions in the business environment, because as can be seen from the above definition, institutions rule in matters of markets and public management. Hence, the firm that knows the institutions, knows the economy as well as the polity. And the more quality information a firm has about what institutions exist and how they operate, the more understanding of their behaviours and operations it would have.

Government information gives perspective pictures of the performance of institutions. Hence, the more comprehensive, regular and complete the information provided, the more knowledge of institutions would be afforded investors.

6. 2. Reduction of uncertainty about future policy and administrative changes

A core constraint on foreign investment by firms is uncertainty and asymmetric information (Audretsch and Weigand**,** 2005). This thesis suggests that corporate investment opportunities can be represented as a set of real options to acquire productive assets, and that the present values of cash flows generated by these assets are uncertain and that their evolution can be described by a stochastic process. Consequently, identification of the optimal exercise strategies for the real options plays a crucial role in capital budgeting and in the maximization of a firm's value. Within such a framework, the implicit assumption is made that the firm has virtually no information about the mechanisms governing the shocks in the economy. Hence, the shortest average expected time to invest is strictly associated with positive change in the perception of uncertainty (Grzegorz and Kort, 2005). The main means of changing perception of uncertainty in foreign investment situation is the accessibility of relevant government information.

6.3. Accessibility of Government Information increases transparency of transactions involving state and non-state actors

The subject of transparency focuses on a state of affairs in which foreign participants in the investment process are able to obtain sufficient information from host governments in order to make informed decisions and meet obligations and commitments. At the same time, however, transparency issues may also be of particular concern to the host country in an investment relationship. At the broadest level of generality, the host country may wish to have access to information about foreign investors as part of its policy-making processes and for regulatory purposes. Similarly, the host countries and the foreign investor may want to have access to information concerning investor's home country measures designed to promote development oriented outward FDI (UNCTAD, 2004).

The overriding aim of transparency in relation to FDI policy is to enhance the predictability and stability of the investment relationship and to provide a check against circumvention and evasion of obligations by covert or indirect means. Transparency demands clear rules and expectations, and information about them in other to monitor performance (World Bank, 2006). Thus, transparency is served when the following information related events, among others, occur in an investment context: dissemination of information on investor support measures, information about business conditions and opportunities in host countries is targeted to prospective investors, and when open and free access to information creates a climate of good governance, including, for example, a reduction of the likelihood of illicit payments in the investment process.

In relation to government information, the categories of items used to promote transparency include:

a) general host country policies that may be of importance to investors;
b) laws and regulations;
c) administrative rulings and procedures, including the criteria and procedures for applying for or renewing relevant investment authorizations, as well as to deadlines for processing applications;
d) specific administrative decisions as evidence of application of policies, laws and regulations;
e) information relating to proposed laws or regulations, which may be disclosed to afford interested parties the possibility to express their views on such proposals before their final adoption;
f) judicial proceedings in open courts;
g) instruments that demonstrate general commitment to the rule of law;

h) publications on the process of conducting government business, including procurement and privatization procedures; and
i) issuances on government budgets and planned business events, including information on projects, privatization and other forms of asset disposals.

Means of assurance of information access include consultation and information exchange,
making information publicly available and accessible, answering requests for information, and notification of requirements of specific measures to investors. Freedom of information laws go further to provide legal persons, including firms, with the objective right to access government information.

6.4. Contribution of data and perspectives on how best the investment project can be initiated and managed.

Goldstein and Razin (2006) demonstrates that the choice to make direct investment instead of portfolio investment in a particular economic space is highly information-intensive. This is to say that foreign direct investors attempt to know a great deal more about the fundamentals of their investment projects than foreign portfolio investors because they take more risks and expect to manage their projects themselves. Therefore foreign direct investors require much more pre-investment information. They like to know how administrative and legal process would affect their activities and returns, as well as the costs of setting up facilities, operating them, dealing with labour issues, importing and exporting goods, and paying taxes. The more accessible those sets of information are the faster the decision on a direct investment is made.

6.5. Information can be used to build a positive country image and affect investor perception

Despite good resource base and strong economic fundamentals, it is still possible for a country to receive lower FDI than its potential if it has a generally negative image. Country image affects perception and investment inflows. Hence the use of specialized and general forms of government information to build a positive image of a country is a legitimate practice.

7. Investment Promotion or Information Targeting

In addition to opening up their economies, African countries have emphasized investment promotion through the use of investment promotion agencies (IPAs) as the main informational cum incentives strategy to attract FDI. Unfortunately research has shown that IPAs in Africa have been minimally effective in attracting the right investors (UNIDO, 2003).

Effective promotion should go beyond simply "marketing a country" to provide targeted information services. In general, incentives play a relatively minor role in a good promotion programme, as good long-term investors are not the ones most susceptible to short-term inducements. IPAs must therefore be prepared to use information targeting to address specific investor needs and attempt to alter the perception of potential investors by providing more and better information. Such promotion efforts are highly skills-intensive and potentially expensive, therefore they need to be carried out by professionally qualified and experienced personnel to maximize their impact. The experiences of Ireland, Singapore and Costa Rica suggest that jointly using incentives and information targeting can be quite effective in raising the inflow of investment and its quality (United Nations 1999).

8. Conclusions and implications

Certain country characteristics are cited as attracting FDI, including sound macroeconomic policy management, political freedom and stability, physical security, reliable legal frameworks, an open trading environment, competent institutions, and no or low corruption. Regulatory regimes based on transparency, predictability, and fairness is also important. But the potency of these conditions is dependent of the accessibility of information, especially government information, because foreign direct investors are affected by market failures due to their lack of adequate information due partly to geographical asymmetry of information accessibility (Portes and Rey, 2000).

Countries in Africa should re-examine their investment promotion strategies to include information targeting so as to do more than simply "marketing a country." To make this move would mean the adoption of a new form of investment information strategy designed to remedy the information or coordination failures in the investment process, which can lead a country to attract insufficient FDI, or the wrong quality of FDI.

This work breaks the ground for further research on the link between access to government information and FDI inflows. It also points to the need for targeted as well as generic information production and dissemination by African governments to address the decision-making requirements of foreign investors. Governments hoping to attract FDI must first close investors' information gaps before they can close their countries' inward FDI gaps.

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