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INVESTMENT INCENTIVE POLICIES IN THE SADCC STATES: THEIR EFFECTS AND DSEFULNESS

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INVESTMENT INCENTIVE POLICIES IN THE SADCC STATES: THEIR EFFECTS AND USEFULNESS

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by

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CONTENTS

Page

LIST OF TABLES iv

INTRODUCTION 1

CHAPTER ONE: LITERATURE REVIEW 13

- Classification of Investment Incentives . 13
- Incidence of Incentives and Performance Requirements. 16
- Investment Codes and Effects on Investor Location Decision 21
- Incentives as Instruments to Compete for Foreign Investment. 30
- Trends in Foreign Direct Investment in LDC. 32
- Determinants of Foreign Direct Investment. 38
- Levels of Investment in SADCC region. . . 42
- Measurement of Investment Incentives. . . 46
- Summary Analysis of Literature Review . . 49

CHAPTER TWO: METHODOLOGY 53

CHAPTER THREE: INVESTMENT CODES AND EXPERIENCE WITHIN SADCC 59

CHAPTER FOUR: DATA ANALYSIS. 72

CONCLUSION 87

NOTES. 90

REFERENCES 91

TABLES

Page

1.1 Taxonomy of Investment Policies. 13

1.2 Direct investment in individual african developing countries. 36

1.3 Investment Levels. 44

1.4 Questionnaire structuring of investment incentive instruments. 56

1.5 Questionnaire structuring of disincentive instruments. 57

1.6 Table showing incentive and disincentive instruments in the 9 SADCC countries 69

1.7- 1.9 Tables showing the responses to the questions posed to foreign investors 76-82

INTRODUCTION

The developing countries faced with severe limitations on the availability of foreign savings through the international banking system and with a reduction in domestic investment rates resulting from recession and adjustment to external disequilibria, have sought to induce foreign direct investment to play a more important role in their industrialisation process.

In order to encourage greater flows of foreign direct investments into the productive sector, several countries have relaxed restrictions on the entry of transnational-corporations in their productive sectors and industries. At the same time, however, the need to earn foreign exchange and to increase employment caused many developing countries to tighten certain aspects of their regulations pertaining to transnational-corporations and to impose export and other performance requirements.

The balance of liberalization and restrictiveness has tilted towards the former. Whether these changes will lead to larger volumes of investment flows is an open question and it is this question which this paper tries to address. However this question must be analysed bearing in mind that such other factors as technological change, trade policies in home countries, and general economic conditions can have as decisive an effect on foreign investment flows as domestic policies.

Developing countries offer a number of tax, tariff and financial incentives to stimulate both domestic and foreign investments. This is because there is a general underlying belief in many developing countries that incentives are important for demonstrating that the "investment climate" is a favourable one. Some may also fear that they may lose their competitive edge in securing international investment unless their incentives match those offered by other countries.

However it is also possible (this has been suggested in some studies) that incentives other than tariffs or quota restrictions have little influence on the investment decision process of transnational corporations and that international investment may be more inhibited by uncertainities in the operating environment than attracted by incentives. The flows of foreign direct investment to developed countries for instance have been motivated primarily by the size and growth potential of the host country's market or the availability of natural resources, not by the liberal investment codes of many countries.

However developing countries continue to devote considerable effort to designing, implementing and modifying investment incentive policies aimed at influencing investment location decisions and operations of foreign investors to their country's favour.

The aim of this study is to try and establish or determine whether or not the existing investment incentive instruments and performance requirements presently offered in the investment policies of the SADCC states are effective and to what extent they influence the foreign investor's decision to locate their investment in these countries. In other words, the aim is not to establish why governments choose particular incentive policies but rather whether such policies attract, repel or have no effect at all on foreign investor's decision to locate investments.

The shortage of capital for development is well understood throughout the SADCC region. As a result, there is a general strategy in all of the SADCC states to encourage foreign investment and in particular private foreign direct investments. The SADCC states have pronounced varying investment incentive schemes and in some cases might be competing among themselves and with other third world states in trying to provide liberal incentives in the attempts to attract foreign investors who are in most cases large transnational corporate investors.

The Zimbabwe government for example issued a policy statement document in 1981 called `Growth With Equity' and subsequently the Foreign Investment Policy, Guideline and Procedures document in 1982, both of which stressed that the government recognised the vital role which foreign investment can play in the development of industry, and that she would encourage and welcome the participation of foreign private enterprise. This sentiment is aired by most of the other SADCC states.

There are a number of different groups of investors that can be distinguished, each of whom view diferently the various investment incentives when making investment location decisions. These groups include:-

a) Public sector investors,

b) Locally owned private sector investors,

c) Foreign owned private direct investors.

This paper centres mainly on investment incentives that influence the foreign investors. The focus is on the investment incentive policies and performance requirements of countries within the Southern Africa Development Conference (SADCC) region.

While it is difficult to capture in one term what is meant by investment incentives, the issue of incentives can be taken as part of a strategy to create `a suitable climate for investment'. The list of items or instruments that are termed investment incentives and disincentives (performance requirements), is given in the literature section of this paper. This list can be considered to be the approximate definition of investment incentives.

Proponents of the open-door policy, argue that foreign entreprenueral capital brings to developing economies a number of advantages, including among other things technology, foreign exchange, managerial resources and the procurement of know-how, marketing and other elements valuable to the development process which benefit the client states.

Investment incentive policies are said to be the most efficient and equitable means of overcoming what are perceived to be market imperfections that impede the rapid growth of developing countries, especially those created by multinational corporations. Investment incentives and performance requirements can also provide the capacity for fine-tuning to governments. Tariff levels for instance can be varied accross industry groups but not accross firms in the same industry among regions of the country. Discretionary incentives and performance requirements permit governments in principle to act as perfectly discriminating monopolists.

Performance requirements may be a useful second-best instrument for stemming the outflow of rents created by the developing countries' own policies. The excess payments to producers created by tariff protection (producer's surpluses) do not represent a cost to society but only a transfer of income from consumers to producers if the producers are all nationals of the country applying the tariff.

Producer's surplus received by foreign investors represent real resource losses to the host country in addition to the normal deadweight loss of consumer surplus arising from tariff protection. Performance requirements that reduce the ability of foreign investors to repatriate these surpluses (limits on ownership and remittance abroad) or exact a price for them may improve national welfare when first-best remedies are not available.

A country can also boost its foreign exchange reserves by incentives which reward enterprises that would improve the balance of payments, either by producing goods for export or as import substitutes, or by requiring few imported inputs. Employment opportunities can be expanded by introducing incentives that reward new enterprises that can provide a set minimum number of jobs.

The concern over investment incentive policies as a means to attract foreign investments is important because of the costs, both direct and indirect, that are incurred in offering incentives and which might be damaging to the host country's economic development.

Some of the more common incentives include the following:-

a) investment allowance, which is an immediate write-off of a proportion of gross investment in addition to normal depreciation;

b) initial allowance, which is an immediate write-off of a proportion of gross investment with the remainder depreciated at the normal rate;

c) gross investment tax credit which is a credit against taxes payable of a proportion of gross investment. The credit may or may not be deductible from depreciation. This is equivalent to a subsidy on gross investment;

d) net investment tax credit which is a credit against taxes payable of a proportion of net investments. This is equivalent to a subsidy on net investment;

e) accelerated depreciation, a rate of depreciation for tax purposes in excess of normal depreciation;

f) interest subsidy, which is the granting of cheap loans for investment.

Each of the incentive provided involves a cost to government. If business in Harare for instance ordinarily pays income tax, exempting a particular firm subsidises it as much as if the state had paid it the same amount in cash. Non-financial inducements have the same effect. Freeing a particular enterprise from foreign exchange control amounts to a decision to expand foreign exchange (generally in short supply) to the benefit of that enterprise. The various arguments in this regard are that governments offer incentives to companies that were going to make an investment in the host country anyway. The cost of these windfall gains to the investor, may therefore exceed the benefit of any induced investment. In Southern Africa, for instance, some countries, notably Botswana, Lesotho, Malawi, guarantee low corporate taxes through various tax concessions and also the free repatriation of large shares of profits. In this way governments forego potential revenue and at the same time deny themselves control of locally generated surpluses.

Another argument is that investors select host countries on the basis of real and enduring factors such as market size and strength or labor and transport costs, rather than in response to artificial and fleeting factors such as incentives.

The indirect costs associated with offering investment incentives can be seen in the distortionary effects on the allocation of resources. For example the right to import goods duty-free is likely to discourage the use of local sources of supply. Yet other types of incentive instruments, (for instance, accelerated depreciation, import duty concessions, etc) are likely to favour the employment of capital intensive methods of production, and the establishment of capital intensive types of enterprises in countries that are anxious to encourage employment creation.

Therefore it can be argued that implementing investment incentives imposes costs on the implementing country in the form of foregone revenue through indirect subsidies from the various concessions, by government eg. tax holidays as well as other indirect costs brought about by bestowing tax and other benefits on firms that had already decided to invest for other reasons.

If it is proved that the majority of inducement policies in use do not affect investment decisions, then whether or not the present or past investments flows are substantial would not matter, as the country would still be losing potential revenue which she would other wisetap to her advantage. If also agreed that there might be costs and other disadvantages that investment incentives can cause to an economy, it becomes essential to ensure that the incentives offered by governments are the effective ones and do attract investment inflows in large enough quantities to outweigh such costs and contribute positively to the economic development of an economy.

It is important to point out that there is no single measure that can be used to stimulate investments. Foreign investors, for example, respond to a variety of other forces in addition to the host country policies. Such forces operate at the level of the corporations themselves and also at the level of the environment in which they operate. They include such forces as corporate strategic considerations, which for example lead to the securing of foreign markets, sources of raw materials, or to take advantage of cheap labor supplies, or the existence of an adequate rate of return on the ivestment. The size and direction of foreign investments can be indirectly affected by economic policies of the home country of the investors. For example, if the main home countries carry out market protectionist measures, this prevents exports of developing countries into such countries and as a result foreign investments for export in developing countries offering attractive conditions for such investments will be minimal.

The paper is divided into four chapters, Chapter one is a review of the literature. It covers different aspects of theoretical issues on investment incentives. The chapter begins by classifying all the various investment incentive instruments and performance requirements known. This classification provides the approximate catch-all term for the definition of incentives. The investment codes and their effects on the investors location decisions is analysed. Here the effects of a number of incentive instruments commonly used by host countries are looked at. The issue of competition for foreign investment by countries is also analysed. The chapter also analyses the trends of foreign direct investments in the less developed countries and lastly the theoretical aspects of the measurement of investment incentives is analysed.

Chapter two explains the methods and materials used to carry out the study. Is also describes the method of data collection and outlines the main contents and character of the questionnaire and how measurement of effectiveness was effected.

Chapter three highlights all the different incentive and disincentive instruments that are offered by each one of the nine SADCC states. It also tries to review whether or not these policies are competitive. There is also in this section an analysis of the nature of these countries investment codes and the salient features of such codes.

It will be noted that it is only a few countries that have investment codes.

Chapter four deals with data analysis and conclusion. Whereas the main conclusion of this paper is that the incentive policies offered by SADCC countries are ineffective and largely unnecessary, these results must be treated with caution because of various aspects which were not covered and especially because of the following shortcomings which the author feels should have been looked at but were not either due to lack of adequate data, time and finance or maybe simply due to ignorance.

a) There are other aspects of private foreign investment, many of which involve deep and complex problems in ethics, politics, law etc. It was beyond the scope of this paper to do full justice to such important areas. The extent that these other factors influence the final decisions of companies to invest is not captured in this study.

b) The data which was used for analysis is based on a small sample which might not be sufficiently representative to come up with any substantive conclusions. Hence there may be need for a larger study, should this study be considered to be of any consequence.

c) The paper does not address the different aspects of foreign direct investments whose responses to the various incentives and performance requirements would be different. For instance no differentiation is made on the influence of incentives on foreign direct investment in services as opposed to foreign direct investment in manufacturing or mining etc.

d) No attempts have been made to calculate the relative costs incurred by any one of the countries of the incentives, because to do this one would need to find out first which of the incentives are ineffective and then calculate how much the governments have been denied in terms of revenues. While such calculations are possible, there was not enough data from any one country, for example, cut-off points or percentages (whether exact or averages) of most of the concessions given.

e) Finally is is not easy to draw a line between investment incentive policies and other policies pertaining to investments.

CHAPTER ONE

LITERATURE REVIEW

Classification of Investment Incentives & Performance Requirements

The policy instruments that are termed as investment incentives or performance requirements (disincentives) are diverse, making it difficult to characterise or define them by any single indicator. Guisinger (1985), provides a list of instruments that governments apply at the time of investment as investment packages and also performance requirements instruments which are used as controlling devices on the investor operations.

This diversity of policy instruments is listed in Table 1.1 below, which also indicates the direction of impact of each policy instrument on investment profitability, for example corporate income tax is considered to be a disincentive which reduces the corporations profitability while accelerated depreciation is considered as an incentive which increases profitability.

Table 1.1
Taxonomy of Investment Policies

Incentive/Disincentive Measures affecting:	Effect on profit
COST OF FIXED ASSETS	
Cash grants	+
Tax credits	+
Subsidised leasing	+

Table 1.1 (continued)

Measures affecting	Effect on profit
Tariff exemption on imported machines	+
Sales tax exemption on domestic machinery	+
Subsidized buildings	+
Subsidized land	+
Tax exemptions on land	+
Prior import deposits	-
* Local content requirements on machinery	-
Limits on use of used equipment	-
Tariffs or quotas	-
COST OF DEBT	
Subsidised loans	+
Loan guarantees	+
Elimination of exchange risk on foreign loans	+
Granting priority access to credit	+
COST OF EQUITY	
Subsidised equity purchases by government	+
Exemption from registration taxes	+
Dividend tax waivers	+
Non-expropriation guarantees	+
Debt-equity swop programme	+
Limits on debt-equity ratios	-
Controls of taxes on remitted dividends	-
CORPORATE TAX LIABILITIES	
Corporate tax	-
Tax holiday and reductions	+
Accelerated depreciation	+
Inflation adjustments in tax accounting	+
Tax sparing agreements	+
Liberal loss-carry forward provisions	+
Contractual stabilisation of rates	+

Table 1.1 (continued)

Measures Affecting	Effect on profit
Other Measures Affecting:	
REVENUES	
Tariffs	+
Export subsidies	+
Quotas	+
Government procurement preference	+
Exclusive licencing	+
Guarantees against government competition	+
* Export minimums	-
INPUT COSTS	
Tariffs	-
Export subsidies	-
Quotas	-
* Local content requirement	-
Limits on royalties, fees	-
Subsidized inputs	+
Cash or in-kind grants per research and development	+
LABOUR	
Wage subsidies	+
Training grants	
Relaxation of industrial relations law	+
* Requirements on use of local labor	-
Wage setting	-
OTHER MEASURES	
* Limits on foreign ownership of equity	-
* Counter trade requirements	-
* Foreign exchange balancing requirements	-

Note: Asterisks indicate performance requirements

Source: Guisinger (1985) "Investment Incentives and Performance Requirement". Praeger : New York pp 2-4

Incidence of Investment Incentives and Performance Requirements

Guisinger points out that investment policies may have multiple attributes, with the net incentive being just one of several that affect investors. It is unlikely therefore, that a single measure will capture the total impact of these multiple attributes. Information that he collected from a variety of sources, including responses to survey questionnaires on investment location decisions, personal interviews with investors suggest that six principle attributes of investment incentive policies influence the location decision. These are the net incentive, the variety of incentives, stability of incentives, timing of incentives, investment activities and investment promotion activities.

The net incentive is the aspect of incentive policies on which most analysts focus. For a proposed investment project, it can be conceived of as the increase in profitability (internal rate of return or net present value) or the net impact of the measures listed in the table. Tariffs are included in this definition because governments occasionally substitute factor-based incentives (such as cash grants and labor subsidies) for commodity based ones. There are different combinations of tariffs for example and tax concession measures that can yield the same after tax rate of return for investors.

The notion that the mix of incentive instruments, quite independently from the actual net incentive received, may influence investment behaviour does not fit well into international economic theory, but it can be explained by theories of management, especially organisational behaviour and marketing. Some instruments may have more appeal, for example, tax abatements may be more intrinsically attractive to corporate decision makers than labor training grants, even though the impact on the after-tax rate of return is identical. Investors may prefer certain incentive instruments because their effects are not transparent to competitors and the tax-paying public. A large menu of incentives also gives investors maximum flexibility to design their own package.

The stability of investment policies over time is an important consideration for investors. Although most incentive policies are fixed contractually prior to investment, governments nevertheless control other policies that can increase or decrease profitability during the course of the investment's life. A country's reputation for "obsolescing bargains", for progressively watering down initial incentives with subsequent disincentives, may deter investors.

The benefits and costs associated with a country's incentive and disincentive instruments are not distributed uniformly over time. Cash grants are disbursed quickly, whereas tariff protection is spread over the life of a project.

Cash is generally more certain to be realised by the investor than are the benefits of tariff protection, which depend on the stability of government policies and the commercial success of the venture. Some countries, for example, Belgium, provide incentives to new investments but impose disincentives (in the form of mandatory severance pay for employees) on investments at the end of their lifetime.

Many goverments spend large sums on investment promotion, including advertising, travelling delegations and representative offices abroad. Although promotion and incentives often appear as complements, they are ultimately substitutes, since governments must allocate funds between the two types of activities.

For some projects, the provision of government services at less than full cost can be an important enticement. In many countries, buildings in industrial estates are provided at subsidised rates. Examples abound of governments building roads, bridges, ports and housing projects to accommodate the plans of potential investors. In almost every case, these services have other users, so it is hard to identify the true subsidy element. Still, the capacity of a government not only to share the cost of infrastructure but also to see that services are delivered in the proper amounts and on time is regarded by investors as an important consideration in their investment location decision.

The "one stop shop" concept, the ability of one agency of government to negotiate and deliver incentive packages that include government services, is often attractive to prospective investors.

Guisinger concludes that although investment policies have at least six different aspects that appeal to investors, no single measure captures the impact of these six attributes on the potential investor. The relative strengths of these various elements are not known, making it difficult to analyse the effectiveness of any one element on investment flows. The impact of the net incentive must be analysed by controlling for the effects of the other five elements. It is commonly assumed that the net incentive dominates these attributes, but to date no evidence exists to confirm or reject this assumption.

He further states that the number and complexity of investment incentives pose serious problems for anyone wishing to assess the importance of such measures. The impact of investment incentives on the investor's rate of return may be quite important when compared with the levels of effective protection that many investors in both developed and developing countries enjoy. While any individual incentive measure may have a small effect, the cumulative effect of all incentive measures granted by a host country nevertheless may be substantial.

Performance requirements magnify and redirect the rents from incentive measures by linking the receipt of incentive benefits to the fulfilment of certain performance criteria.

Another feature of the more broadly defined performance requirements is that they are designed to keep the incentive-created rents at home. This is because if rents were merely exchanged among nationals of a country, only the income redistributive effects and the rent resource of rent seeking would provide cause for concern. However, with foreign investors in the picture, part of repatriated profits due to rents represents real resource losses. Governments seek to block these losses by stipulating limitations on foreign equity ownership and imposing ceilings on repatriations.

Performance requirements may have litle effect in practice for several reasons. First, investors may meet the performance criteria without the need for the explicit requirements. In this case, they are simply redundant. Second, governments have on accasion relaxed performance requirements previously imposed on an investment in response to worsening external market conditions or internal shortage of intermediate inputs. Finally, requirements may not be enforced. Although legally binding, performance requirements are often regarded by governments as little more than good faith agreements that firms should do their utmost to achieve.

No government uses all these measures to implement investment policy. Co-ordinating the more than forty measures on the list would result in an administrative nightmare. Yet governments generally do use more than one instrument. A study of the policies employed in ten developed and developing countries which Guisinger carried out in 1982 found that the national inventories of these measures ranged from a low of twelve to a high of thirty-five, with the average country relying on twenty-two incentives and disincentive measures. National investment policy portfolios, appear to be the product of a country's history, size and government orgnisation, to name just a few determining factors. He says, "The large number of instruments observed in many countries may stem from the fact that old policies are hard to terminate when new ones are added or that competition to attract foreign investment has caused governments to adopt policy instruments they would otherwise prefer to do without."

Investment codes and the effects of host country policies on investor location decision.

Seidman (1986) define the term investment code in three different ways.

1. A code that protects foreign investors by constraining the actions of the host country.
2. It means a law that offers both protection and inducements to foreign investors.
3. Statutes enacted mostly by developing countries and socialist states, restraining most foreign investments while offering inducements in selected sectors in accordance with a well defined national development

strategy (termed investor control codes).

The first definition is said to be the one that implements the most consistently neo-classical approach by responding only to the foreign investors desires for unrestricted freedom to exploit developing countries' resources. In return for guarantees of total freedom of action for foreign investors, the investor protection codes promises a significant inflow of foreign funds. Despite active lobbying by the core capitalist countries, it is claimed that vast majority of third world states reject these codes because they aim to prevent state control of foreign investors.

The second definition of investment codes is said to seek to satisfy the neo-classical call to attract foreign investment by guaranteeing the property rights of foreign companies, and offering a range of tax incentives. These codes also contain some degree of government control of foreign investment which guide foreign investors into priority sectors, usually through tax incentives and subsidies and rarely through directives. Some codes permit unlimited repatriation of profits, interest and capital, even if the enterprises earn no foreign exchange. Others permit repatriation of capital only after a stated period of years, and allow export of only a percentage of profits.

The third definition is said to be that which concerns transforming institutionalist solutions to third world poverty. These solutions call for changes in the existing institutions to ensure the investment of locally produced surpluses to develop an increasingly self-reliant and intergrated economy, under the guidance of the state.

Seidman concludes that in most countries, the investment codes failed in their purposes and more so throughout independent Africa where foreign investments have proved disappointing. The failure of the investment codes is attributable to the fact that third-world governments cannot provide an environment which is sufficiently profitable and risk-free to attract massive inflows of foreign funds.

The other reason for the failure of these codes is explicable at the microeconomic level where, it is contended, the investor passes through four procedural stages in deciding where and how to invest. These four are first, the investor decides to look abroad for investment opportunities. Second, the firm investigates possible projects for internal valuation. Third, various bodies within the firm review and argue over the prospects. Fourth, the decision to invest is made. Different considerations obtain at each stage and investment codes although they usually are reviewed at the third stage, their impact is usually minimal and it is further contended that income tax concessions have almost no effect at any stage in the investment decision. Income tax concessions are said to become important only after the project has returned some profits, that is, after the investment has proven itself.

Seidman's gloomy picture about the failure of investment codes is not shared by some potential investors. For example, the importance of investment codes was reiterated by the Chairman of the Export-Import Bank of the United States (EXIMBANK) (1989), when he stated that United States direct investment in some developing countries is limited not because of lack of interest but because of the failure of these nations to make clear exactly what their policies are on this issue. He further stated that the best kinds of investment climate are those policies that encourage investment that are clear, that are as precise and transparent as possible, and which produce an atmosphere where the investor believes that the rules that they have going into the investment programme will be the same rules that will govern during the course of the investment. American investors, he claimed, are very importantly encouraged by the existence of dispute-settlement mechanisms.

Guisinger (1985) points out that policies that attract and control foreign direct investment have become the focus of consideration in both developed and developing countries in recent years, the interest being promoted by the debt crisis. The poorer countries need additional foreign capital to fuel economic growth but cannot add more loans that call for fixed schedules of repayment. The flexibility inherent in dividend and capital repatriations makes foreign equity investment substantially more attractive than it has been in the past. Developing countries are eager to know what incentive policies can most efficiently attract the desired amount of capital and what controls on foreign investments can ensure that other national objectives, that is, domestic ownership of key industries and balance of trade objectives, for example, are also attained.

Goldsbrough (1986) argues on the other hand that even countries without substantial natural resources or large domestic markets can increase their attractiveness to foreign investors by persuing more stable macroeconomic policies and by avoiding overly restrictive policies toward direct investment. He shows that in Africa, for example, the Ivory Coast, Kenya and Swaziland have been moderately successful in attracting foreign investment, in contrast to the poor performance of many other countries in the region. He further states that countries in which a large share of output and investment is controlled by the public sector would also seem to offer few prospects for foreign direct investment. His analysis is that the medium-term prospects for foreign direct investment will depend considerably on output developments and on the types of macroeconomic policies adopted in developing countries.

Robinson (1981), concluded that whereas governments attached the highest importance to tax concessions as an inducement to foreign firms to invest in their countries, this factor did not even figure in the investor's response to the factors which they attached most importance in making investment decisions. He says for the foreign firms the important factors, presented in decreasing order of importance, were

a) Effective development planning and execution by host governments

b) Liberal capital and profit repatriation

c) Non-discrimination against ownership and control.

Grosse (1980) carried out a similar study and he indicates that there is a wide variety of tools that can be used to affect a national location decision of a foreign investor. On the interviews he carried out on transnational corporations he found that three of the investment code provisions appeared to play a significant part in investment decisions of firms. These are:-

1) Financial restrictions,

2) Acquisition restrictions and

3) Ownership restrictions.

Riddell (1987) on the investment policies in Zimbabwe concludes that, although corporate tax levels are high (51.75% and incentives for investors are less attractive than those offered by other SADCC countries in the region, the high level of corporate tax, while it is a factor in investment decision making, is not a dominant deterrent. He says, as the Preferential Trade Area (PTA) becomes a greater reality and as tariff and non-tariff barriers between member states are reduced, so the need to provide a more unified tax and incentive structure becomes more compelling. This would seem to be especially so for Zimbabwe vis-a-vis Botswana where, in fact, a number of Zimbabwean firms have already relocated, especially within the clothing sub-sector, both because repatriation of profits and dividends are more favourable than in Zimbabwe and because of the easier access for exports to the more lucrative South African market that Botswana provides as a member of the Customs Union. He further shows that the lack of an Investment Code[1] in Zimbabwe, influences investors decisions adversely and whatever arguments the government might make about the constitution of the country providing all the guarantees necessary for potential investors, the reality is that potential investors do not read constitutions. Investors are more interested in agreements like those of the US Overseas Private Investment Corporation (OPIC) that provide the respectability that investors in the United States of America and elsewhere appear to need.

Cable and Persand (1987) also looked at the possibilities of using inducements to attract new flows to countries whose size, location, resources and history are not otherwise attractive from the standpoint of investors. They shed some light on the perceptions and expectations of both investors and official decision makers in this regard. They state that although direct foreign investment decisions are project specific, the one important ingredient is likely to be the assessment of a country's overall attractiveness. Cross-country surveys which they carried out suggest that the major influence on direct foreign investment in developing countries is the wish to gain access to a large host country domestic market (or a regional market). By contrast, low labor costs and tax/financial incentive advantages are relatively unimportant. A survey made for the Malaysia study showed the largest number of foreign investors to be motivated by the lure of the Malaysia market and only 10% by labour-cost considerations. However, there are also successful examples of countries attracting foot-loose[2] foreign investment which is clearly not pulled by the domestic market, Singapore and Barbados, for example, and in these cases, factors repeatedly cited are long-term social and economic stability and a climate conducive to business in general.

Although many less developed countries have introduced far-reaching fiscal incentives for inward investment, for example, tax holidays, supported by accelerated depreciation allowances and investment allowances or subsidies, surveys suggest they are of modest importance in influencing investment decisions in general, Lim (1983). Businessmen appear to regard them as of limited significance for the post-tax profitability of new investments in relation to other influences. Even with a carry forward provision, tax holidays do not offset the lack of markets or the high costs of production. Furthermore, incentives are often regarded as volatile and the tax holidays illusory. Despite these facts most developing countries continue to persue such policies. Cable and Persand's Malaysian study suggest that large scale investments do require incentives which are viewed as compensation for disincentives caused partly by over-regulation.

Cable and Mukherjee (1986) in their analysis of foreign investment in low income developing countries found that there is a growing interest to find out the role that foreign investment can play in the development process not only for the more advanced developing economies, but also for the low income countries, which, with a few exceptions, have so far attracted little investor interest.

On the basis of evidence from commonwealth countries, these authors conclude that although there are some promising possibilities, it would be unrealistic to expect low-income countries to derive benefits from an improved climate for foreign investment. They say even if these countries take the steps necessary to improve the investment climate and offer inducements, most of them will continue to find it difficult to stimulate investor interest because of their lack of a substantial home market, their poor infrastructure, or their

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paucity of resources. Moreover, many of these countries, especially those in sub-Sahara Africa, are currently experiencing extreme external financing and debt problems that have led them to take actions, such as controls over remittances that are inimical to new inflows. The point that Cable and Mukherjee make is that low-income developing countries have particular difficulties in attracting foreign investment because of the above constraints.

These countries will therefore not be able to attract substantial direct investment even with liberal regulations and generous incentives. Such countries are also generally not able to borrow significantly on commercial terms, and must rely primarily on concessional borrowing.

Do countries use incentives to compete for foreign investors?

Guisinger (1985) says competition for foreign investment consists of the independent actions of countries to attract a socially profitable volume of foreign investment in the face of offers from other countries with similar attributes. Competition in this regard is measurable by observing governments raising their incentives in response to competitive bids from other countries. Competitive actions are also seen in countries which adopt strategies consistent with competitive behaviour such as, for example, officials of one country having considerable knowledge of incentive packages offered for specific projects by other countries or with countries adopting incentive instruments designed more with an eye to the policies of other countries than to the needs of the firms to be attracted.

Some of the reasons advanced which lead to countries competing are, firstly, where countries have similar resources, objectives and policy instruments. Secondly, where the flow of investment projects dry up, competition intensifies as each country strives to maintain the level of investment inflow by increasing its market share. Thirdly, where countries produce similar products, there will be competition because buyers have few reasons other than price on which to base purchasing decisions.

According to Guisinger, for a situation to be described as competitive, four conditions must be satisfied:

a) Countries must offer a large number of incentive instruments.

b) There should be minimal linkage of incentives with performance requirements.

c) Governments should resort to offering more factor incentives, that is, those that affect the prices of factors of production. These are considered to be aggresive forms of incentives.

d) The countries should be dependent more on the inflow of foreign capital for economic development.

On the other hand, a non-competitive situation should be seen to satisfy the following conditions:-

a) There will tend to be less or smaller number of incentive instruments offered.

b) There should be high linkages of incentives to performance requirements.

c) Governments should resort to offering commodity protection, that is, incentives which mainly affect prices of final products. These are considered to be passive forms of incentives.

d) Countries should depend more on local capital for economic development and not foreign capital.

Guisinger's study shows that out of a sample of seventy-four foreign investment projects undertaken by multinational enterprises in four industries (automobile, chemicals, food products and computers) fifty, or two of every three investments studied, would have been located in a different country if incentives had been withdrawn (provided that all other countries maintained their incentive system at existing levels). He says this does not suggest that countries can gain by increasing incentive levels, since their actions may be matched by other countries, cancelling out any advantage that the increase momentarily gave the initiating country. However, he found substantial competition among some countries for foreign investment, suggesting that, at least for these nations, policy changes in one country more than likely stimulate changes in the policies of its competitors.

Trends in Foreign Direct Investments in Less Developing Countries

The United Nations (1985) show that foreign investment flows to the less developing countries have contracted sharply since their peak in 1981. Between 1981 and 1983, such flows fell by almost a third. The most affected region was Latin America and tha Carribean, where foreign direct investment inflows fell by 54%. Declines were considerably more modest in other regions. Until the early part of the 80's Latin America was the most important recipient region for foreign investment in the developing world. Some of the causes for the decline of over 50% in foreign investment flows to Latin America from 1981 to 1983 were depressed domestic demand conditions and severe debt-servicing difficulties which may have been perceived to be more than temporary.

It is further stated that perceived exchange rates risks may have also risen. In many Latin American countries real exchange rates have experienced very wide swings as governments have frequently changed policy stances in the face of high domestic inflation and severe external disequilibria. Uncertainities as to the longer-term movement of real exchange rates may have also deterred foreign investment. The experience of the Latin American countries in the 1980s shows the clear relationship between the debt problem and foreign investment flows. It is also noted that the decline in foreign investment flows has been concentrated in the region experiencing the most serious difficulties in making scheduled payment on external debt. The document further shows that, during the 1980s increases in foreign direct investment in Africa have been due entirely to the behaviour of oil-related investment flows, that is, lower rates of investment in Libya, larger flows to Nigeria, and substantial increases in flows to Cameroon, Egypt and Tunisia.

In other countries, a retrenchment in their rather limited foreign investment inflows has coincided with very severe economic difficulties. The energy importing countries of the region account for less than 5% of the total flow of foreign direct investment to developing countries.

The conclusion made by the United Nations document is that foreign direct investment flows to developing countries remain heavily concentrated in a few countries, and this concentration of foreign investment flows appears to have increased in the 1980s. The 20 largest developing countries recipients of foreign direct investment now accounts for almost 90% of all flows to developing countries, as compared to two thirds in the early 1970s. These funds go to very specific groups of countries. Foreign investment is associated with the development of oil resources (Algeria, Cameroon, Egypt, Nigeria and Tunisia in Africa, Trinidad and Tobago in the western hemisphere and Indonesia, Malaysia and Oman in Asia) or other minerals (Chile). It is made to take advantage of relatively large domestic markets (Argentina, Brazil, Colombia, Mexico, Phillipines, Thailand and Venezuela), or it is oriented to the exports of manufacturers (predominantly in Singapore), but also Malaysia and the Phillipines.

Countries that possess neither exploitable raw materials, nor large domestic markets, nor a disciplined but low-wage labour force have not been able to attract significant foreign direct investment flows, even when their governments have been favourably disposed to it and have on occasion offered generous and varied forms of incentives.

Cable and Persand (1987) illustrate the main trends over time of Direct Foreign Investment by use of tables and note that the revival of interest in direct foreign investment as a source of external finance occurs against a background of actual decline in its relative importance. There was a pronounced fall in the share of direct foreign investment in the aggregate flow of external resources to developing countries from 24% in the 1967-73 period to 16% in 1974-80.

They show that even in countries where direct foreign investment has grown rapidly, its relative contribution to domestic investment has not necessarily risen, indicating the unlikelihood even of rapidly growing foreign investments acquiring a dominant position in a growing economy. Direct foreign investment is increasingly concentrated in a small number of the relatively high-income developing countries. Five countries in this category account for approximately 40% of the stock of direct foreign investment as against 25% in 1970. This indicates that generally, foreign investment has a self reinforcing character, being attracted to countries where development is already rapid and successful.

Table 1.2

Direct Investment In Individual African Developing Countries

		1979	1980	1981	1982	1983	1984	1978	Sum	1984	1984
								stock	flows	External	GNP
									1979-84	debt	
								$m	$m	$m	$b
						$m current prices					
Low Income											
Kenya	DAC	56	24	38	13	-2	0	520	129	3,811	5.6
	IMF	78	78	60	80	46	40	-	382	-	-
Ghana	DAC	1	3	24	2	0	3	280	33	1,800	4.3
	IMF	-3	16	16	16	2	3	-	50	-	-
Tanzania	DAC	8	5	19	17	0	-4	170	47	3,232	3.9
	IMF	6	0	0	0	0	0	-	0	-	-
Malawi	DAC	11	12	24	6	-3	0	100	40	865	1.3
	IMF	-1	0	1	0	0	0	-	0	-	-
Middle Income											
Botswana	DAC	2	0	0	2	1	1	570	6	281	0,9
	IMF	75	95	38	0	0	0	-	208	-	-
Ivory Coast	DAC	9	12	22	58	71	0	530	173	7,406	6.6
	IMF	0	0	0	35	49	39	173	128	-	-
Liberia	DAC	41	72	288	313	250	-23	1,230	941	1,007	1.0
	IMF	304	-734	543	430	345	200	-	1,088	-	-
Nigeria	DAC	-49	206	451	631	71	-252	1,130	1,058	19,724	51,3
	IMF	35	62	-38	0	0	0	-	59	-	-
Zambia	DAC	41	37	103	62	-3	-1	330	239	3,888	2.4
	IMF	0	2	4	-1	-2	-3	-	0	-	-
Zimbabwe	DAC	53	86	107	46	-	1	400	293	2,134	5.4
	IMF	1.211	541	747	285	471	731	-	3968	-	-

Source: Table 1.2 is an extract from a larger table in V. Cable and B Persand, 1987 'Developing with foreign investment' : New York Croom Helm Publication 20-21

Note: The major difference between International Monetary Fund (IMF) and Development Assistance Committee (DAC) estimates is that the former uses a flexible definition relying heavily on the host country's own assessment of foreign investment flows, while Development Assistance Committee's definition takes in indirect as well as direct capital subsidies and also reinvested profits.

The conclusions drawn by Cable and Persand is that Direct Foreign Investment is no longer a major channel of resource flows to developing countries. This is because the strengthening of the indigenous private and public sectors in most developing countries has provided counterweight to transnationals. Most companies have adapted to the changing political environment in developing countries and have learnt to operate where necessary through joint ventures or non-equity arrangements.

Developing country decision makers, for their part, have become more pragmatic and willing to recognise the contribution which foreign investors can make to capital formation, export earnings and technology transfer. This creates an atmosphere which is generally less confrontational and more businesslike, between the governments and foreign investors.

This businesslike approach to foreign investment, combined with a more positive attitude towards the private sector in general, is likely in due course, to lead to increased foreign investment flows to developing countries. The danger, however, is that exaggerated expectations are being aroused, not least by industrial country governments which, rather irresponsibly, have encouraged the notion that large rapid increases in foreign investment can be generated to act as a substitute for aid and for other official flows of finance. Experience shows, that foreign investor perceptions do not change quickly, that the process of generating large inflows of capital is gradual and cumulative, that foreign investment is usually complimentary to other capital flows, private and official, and that special incentives and sudden declaration of support for foreign investment cut little ice.

Determinants of Foreign Direct Investment

The theory of direct investment is said by Lal (1981) to be an intergral part of the theory of industrial organisation, in particular of the theory of monopolistic competition. This is so because if the world was characterised by universal perfect competition there would be no direct investment, as the foreigner would always be at a disadvantage compared with local competitors (actual or potential) in the host country, because of the costs of overcoming economic, cultural and social distance. Some of the monopolistic advantages which are believed could lead to direct foreign investment are said to be as follows:-

a) Departures from perfect competition in goods market, including product differentiation, special marketing skills, retail price determination, administered pricing etc,

b) departures from perfect competition in factor markets including the existence of patented or unavailable technology, of discrimination in access to capital of differences in skills of managers organised into firms rather hired in competitive markets,

c) internal and external economies of scale, the latter being taken advantage of by vertical intergration,

d) government limitations on output or entry,

e) foreign investment may invest in less developed countries with cheap labour to give rise to 'wage-gap' trade in high technology products as compared with the technology-gap trade which characterises the first stage of the product cycle.

f) another form of direct investment has been through the growth of the vertical division of labour by transnational corporations, the location decisions for various parts of vertically intergrated process being determined by relative factor prices.

Experience of foreign direct investment trends especially in developing countries where investment levels have been declining shows that such factors as protectionisim, domestic policies of host countries, external finance do affect investment levels in various forms.

There is the new forms of protectionism (gradual abandonment of the liberal trading system) such as orderly marketing agreements and voluntary export restraints which have been on the rise since the mid-1970s. These protectionist measures have been one of the factors behind the decline observed in the 1980s in foreign investment inflows into the more export-oriented developing countries. This owes to a number of factors including slow economic growth, high unemployment, specific regional and sectoral difficulties. Although the export of manufactures from developing countries have continued to grow, the expansion of exports of many products which can be produced at lower costs in developing countries have been effectively constrained by these new forms of protectionisim.

Domestic policies in host countries are important determinants but they are by themselves unable to overcome some of the other major roadblocks to a dynamic expansion of foreign investment. In particular the instability that has characterised the international economy for example, sharp and unpredictible exchange rate movements, changes in policy stances and the absence of policy co-ordination among major trading countries. This sluggish growth of world trade can be overcome only by collective international action.

The links between foreign direct investment and other forms of external finance have been brought to the fore by recent invents. In this connection, it should be noted that the bulk of foreign direct investment flows to the developing world goes to countries that have also been favoured by the transnational banks and that the decline in foreign investment flows has been heavily concentrated in the countries experiencing debt serving difficulties. This correlation seems to indicate that policies of encouragement towards foreign investments in developing countries are unlikely to yield significant results if those countries' debt problems are not resolved in a satisfactory manner. Foreign investors are unlikely to increase their participation in economies that are expected to remain affected by foreign exchange scarcities for several years into the future. Concerted international measures to deal with the problem of external indebtedness would appear to be neccessary for a restoration of foreign direct investment flows to the indebted countries.

Capital flows towards those countries which offer a combination of higher expected yields and lower risks. Transnational corporations are highly selective in their foreign investments and will choose only those activities that have an adequate expected rate of return. A large number of factors influence firms' calculations of their expected returns on an investment, but risk is one of the more important.

Developing countries are frequently perceived by the business community as being subject to greater economic and political volatility than developed countries. This causes firms to discount substantially their expected stream of income from an investment, most particularly the payments that may be expected in the medium to long term. As a result, much foreign investment in developing countries tends to be in ventures that will yield a high rate of return over a short period, while the pressing need of many developing countries continues to be for long-term investment , much of it of an infrastructural nature.

Such investments which have considerably higher social than private rates of return tend to be less attractive to transnational corporations.

Most of the SADCC member countries belong to the group of the world's least developed countries. Nationwide their economies and markets are small. Some are landlocked with a difficult and costly transport situation for its international trade. The physical infrastructure is not enough developed to service a modern industrial sector. In other words, all shortcomings which are effective obstacles for a self generating industrial developing process can be found in practically all SADCC member countries. These obstacles have to be overcome in order to achieve the aim of increasing the flow of private investments to the SADCC region.

Levels of Investment in SADCC region

It is difficult to prescribe in general the ideal level at which investment in fixed capital should be since investments is said to be only a necessary, but not a sufficient condition for economic growth. Such other factors as, technical skills, management, technology and the availability of foreign exchange for importing inputs, must also be raised simultaneously to achieve sustained rates of economic growth. However, some economists use 25% of the gross domestic product (GDP) as a rule of thumb.

Using the 25% of GDP as a criterion for measuring adequate investment levels, it appears that all the countries in SADCC are getting relatively worse off, with a general downward trend in investment levels.

In Zimbabwe, for example, gross fixed capital formation (GFCF) fell by about 13% in absolute terms in 1985 and by 16% in 1984 to 13% in 1985 and 12% in 1986. The fall in the rate of GFCF reflects foreign exchange-related shortages of inputs and a decline in aggregate demand.

In Malawi, GFCF declined from 12.8% of GDP in 1985 to 10.6% in 1986 before recovering slightly to 11% in 1987. The main factor was shortages of capital goods and other inputs. Over the same period there has been a decline in stock building and in private large-scale investment.

In Botswana the pattern of GFCF has been irregular. It rose to 26% of GDP in 1985 then in the absence of new large-scale investment in plant and equipment, fell to 20% in 1986.

These trends in investment rates parallel those that have occurred in the sub-saharan region as a whole. According to the World Development Report 1987, investment in sub-saharan Africa as a percentage of GDP was 22.2% in 1980. By 1983, it had declined to 16% and was estimated at 14.2% in 1986.

Table 1.3 below shows the annual investment levels of the SADCC region.

Table 1.3 INVESTMENT LEVELS

	Botswana	Lesotho	Malawi	Swaziland	Zambia	Zimb.[5]
1980						
Investment	248.6	100.1	259.6	106.9	538.3	495
% of GDP	21.5%	14%	16.9%	12.2%	12.1%	10.9%
1981						
Investment	306.6	111.1	202.2	127.9	610	788
% of GDP	22.7%	13%	12.9%	12.2%	12.4%	13.6%
1982						
Investment	304.6	127.5	218.6	153.6	620.8	1007
% of GDP	21.3%	12.9%	12.9%	13.3%	12.7%	15.5%
1983						
Investment	320.3	134.4	254.4	169.5	579	968.9
% of GDP	181.%	-	12.1%	13.6%	10.5%	13.1%
1984						
Investment	-	-	-	-	-	1110
% of GDP	-	-	-	-	-	16.6%
1985						

Table 1.3 (continued)

INVESTMENT LEVELS

Investment	273.8	183	361.7	-	-	1347
% of GDP	21%	32%	12.9%	-	-	16.6%
1986						
Investment	-	-	248.2	-	308	1580
% of GDP	-	-	17.9%	-	12.8%	15.5%
1987						
Investment	-	-	356	-	395	1623
% of GDP	-	-	10.8%	-	9.5%	14.4%

Notes 1. GFCF expressed in millions of national currency in current price terms.

2. Data for Angola, Tanzania and Mozambique not available.

3. The investment figures shown indicate "total investment" encompassing both domestic and foreign investment.

4. The investments do not account for investment in human capital and inventory investment.

5. Zimb. stands for Zimbabwe

Source: SADCC Macro Economic Survey 1986
Gaborone, September 1985 (p 162)

SADCC Regional Economic Survey 1988

Reserve Bank of Zimbabwe, Quarterly Economic and Statistics Review vol. 9 no. 3 September 1988

The measurement of investment incentives

On the empirical studies of incentives effectiveness that was carried out, it is noted that one difficulty in conducting empirical studies of the effectiveness of fiscal/financial incentives is that no country keeps good record of the incentive measures granted to new investors (Guisinger 1985). Whereas tariff protection is often granted through one instrument by one agency and applied uniformly to all firms in an industry, fiscal incentives are spread over many instruments, administered by a variety of agencies, and often applied at different rates to firms in the same industry. Guisinger states that sometimes good information exists on the use of one particular incentive instrument. At other times, complete information is available on incentives in a few selected investments. But neither of these provides the type of data needed to test hypotheses about the impact of the incentive on investment decisions.

In his study, he attempted to bridge the data gap by collecting detailed information on seventy-four foreign investment projects directly from multinational enterprises in four industries, food products, automobiles, computers and petrochemicals. It is claimed that problems were encountered in obtaining data. Firms do not maintain complete records on incentives received in the past, nor do managers always have a clear concept of what is meant by the term "incentives". Some managers, for example, regarded tax holidays as investment incentives but treated accelerated depreciation strictly as an accounting convention. Another problem was the definition of efectiveness. When countries compete for foreign investment, several of them often offer more or less the same investment package. The slight advantage that the incentives of one country may have over another's package generally makes little difference in the site selected.

In surveys of the importance that decision makers attach to various factors affecting the investment location, other cosiderations like the cost of labor, infrastructure availability, proximity to markets, frequently ranked well above incentives. To be able to conclude from such surveys that incentives are not effective, Guisinger says a country would have to eliminate its incentives with no loss of foreign investment. Whether this is true or not depends on what other countries do. If they maintain their incentives, it would seem likely that the country dropping such measures would lose foreign investors. If, on the other hand, other countries follow the first one's lead, each country would more than likely maintain its share of investors.

Finger and Olechowski (1987) say that the influence of a country's policies on a decision to invest, export, or import can only be judged by reference to the net incentive. The net incentive being the value of incentives minus the value of disincentives that apply to a particular investment. However, there is no widely accepted yardstick for measuring the net investment incentive. The problem of measurement is said to be further compounded by performance requirements (disincentives).

Performance requirements are said to impose quantitative limits on managerial decisions rather than operate indirectly through the price system and since they are always accompanied by incentives, their independent contribution to the net investment incentive is often hard to establish.

Effectiveness is a much more difficult topic to tackle in research because a researcher must be able to infer changed behaviour between two states, the first in the absence of one or more of the investment policies and the second in the presence of these policies. But it is not easy to take before and after snapshots of investment behaviours, hence the empirical researcher must use roundabout process for drawing inferences about effectiveness.

One method is to measure, as best as one can, the net investment incentive and compare its magnitude with other policy instruments known to affect investment. This could be done by examining the total protection to the manufacturing sector by adding the benefits of incentives and tariff protection together.

Another way to determine effectiveness may be to survey attitudes of investors, as to how they view such policies affecting their decisions to invest. Using this method of measure, several surveys of foreign investors have concluded that investment incentives are not effective.

Another method for drawing inferences about the effects of incentives and performance requirements is to enlist the judgement of experts familiar with cost and market conditions in their special fields and who are able to assess effects on an industry arising from changes in investment incentives and performance requirements.

There are many other factors that affect the decision of investors to locate their investments, factors like, availability of resources, labor and markets. Therefore to control for these other factors, only footloose industries must be the ones to be analysed if one is to capture more effectively the influence of investment incentives. The analysis of footloose industries enables a study of effectiveness of incentives to concentrate on foreign corporations that had alternative locational choices in different countries.

Summary Analysis of the Literature Review

The literature that is included in this paper is aimed at trying to have a better understanding of the concept under study, that is establishing the theoretical base for understanding the influence of investment incentive policies on investors decision to locate their investments. While there is an abundance of literature on investment policies and incentives that are applied by countries, the literature or theory about what influence such policies have on investment decisions is rather limited.

Nonetheless this chapter has tried firstly to put the reader in a proper perspective by giving approximate definitions of investment incentives and performance requirements. In brief, one can define incentives as those instruments which at the discretion of the government are used to attract or influence or direct investors to invest in certain ways or in specific areas. These effects of incentive instruments is transmitted through their ability to reduce investment costs or boost up the profitability of the investing firm. The unique character of investment incentives is that their application is completely at the discretion of the host governments and not as a necessary business requirement.

The literature also review whether countries engage in competitive bids in offering incentives with the view to attract more investors than the other. Competition is viewed as unnecessarily costly because its effects cancells out any advantages enjoyed momentarily by the initiating country while it increases the costs of implementing the introduced incentives.

Empirical studies found substantial competition among countries for foreign investments. Such competition has resulted in countries increasing the number of instruments offered but there has not been any significant flows of foreign investments into such countries. Infact the actual trends of foreign direct investment into such countries are shown to have been contracting rather than increasing. The conclusion drawn by most of the studies is that, investment incentives do not seem to have achieved their intended purpose. These findings indicate that investment incentives are most probably ineffective as instruments of inducing investment flows into host developing countries.

The empirical studies further suggest that offering a variety of investment incentives is not always in the best interest of the host nations because investors themselves do not consider most of the incentives, especially tax concessions when planning out their investment strategies. It is contended that it is factors other than incentives that induce investments into a country, such other factors as infrastructural development, home markets, availability of resources etc.

Finally the chapter reviews the literature on the methods that are used to try and measure the effectiveness of incentive policies and it is shown that, there is no theoretical concensus on what method of measure can be used, mainly because of the multiple effects that most incentive instruments havé on a company's costs and profitability.

CHAPTER TWO

METHODOLOGY

As stated in the introduction, the main aim of this dissertation is to establish, from the point of view of the investors themselves, how effective they think the investment incentive policies of countries in SADCC have been influencing foreign investors' decisions to locate their investment in the region. This is with a view to try and establish to what extent the existence of such investment incentives and performance requirements, attract foreign investment flows.

Because of limited time and resources, data was only collected from four countries instead of all the nine SADCC countries. These four are Botswana, Malawi, Zambia and Zimbabwe. These countries were chosen because of their proximity, making it easy to collect data.

Effectiveness of incentive policies are measured in this dissertation by analysing the perception or views of existing foreign companies from which data was collected. The information collected from these companies was structured in such a way that it is possible to infer from the responses how the incentive policies currently on offer in these countries influenced their decisions or would have influenced their decision to locate, from the prominence that investors place on the incentive instruments actually in use in the four countries from which data was collected.

Data was collected in two stages. First a survey questionnaire was sent out to sixty-five foreign owned companies in the four countries, that is, twenty each to Zambia and Zimbabwe, fourteen to Botswana and eleven questionnaires to Malawi based foreign companies. The random numbers table sampling technique was used in which the sixty-five companies were sampled from a total of one hundred footloose companies. The identity of such companies for each country was sourced from various publications including commercial magazines, Botswana (1986) and (1987), Malawi (1986), Zambia (1987). On Zimbabwe's foreign companies, the information was obtained from Clarke (1980).

In order to make a detailed comparison of the incentive/disincentives of the four countries, and eventually come out with some conclusions about their effect, data pertaining to investment policies was collected through interviews with government officials of the countries concerned. Initially questionnaires were sent to government departments, that is, two to each country, to the Ministries or equivalent of Finance, Economic Planning and Development and Ministry of Industrial and Technology to which officials in the investment sections were asked about government views and policy on foreign investment. The response in this regard was very poor.

The incentive and disincentive instruments from which respondents were required to respond to are those offered by all the nine SADCC countries. Not all the thirty-five, plus, instruments listed on the questionnaire are offered by any one country, but the total number of different incentives offered by each country add up to this figure. Incentive instruments in all the SADCC countries were included in the questionnaire because the emphasis of the dissertation is on establishing the influence to investors of incentive policies offered in all of the SADCC states in general.

Company respondents were required to rank each of the incentive (inducement) instruments listed according to the importance which each of the instrument played in influencing the corporation's decision to locate its investment in the particular area/country chosen. The ranking was indicated for each listed instrument by ticking in one of the six columns provided. These columns were divided from `very important' influences to `not considered' as shown in Table 1.4 below.

Table 1.4 shows an example of the structuring of part of the questionnaire. The X in column 1 represents the response.

Incentive Instrument	Ranking					
	Very Important......			Very Important		Not Considered
	1	2	3	4	5	6
Example Profit remittance	X					

The questionnaire also required respondents to indicate on each of the eleven performance requirement instruments (disincentives), which they considered to be impediments to carrying out investment. Like the first part, they were asked to indicate on a six-point scale as indicated in table 1.5 below.

Table 1.5 Example of the structure of questionnaire on performance requirements

Performance Requirements	Most Detrimental Impediment..		Least Detrimental Impediment			Do not Know
	1	2	3	4	5	6
Example Domestic content requirements	X					

The third part of the questionnaire asked respondents to weigh the influence of investment to other factors in making an investment location decision. They were asked to indicate whether each of these other factors were either more important, equally important or less important than investment incentives. These other factors are market considerations, profitability, skilled labor supply, cheap labor supply, infrastructural development, resource availability, political considerations and any other factors not listed but which the company cosidered.

They were also asked a range of open-ended questions requiring short answers, which tries to highlight the following points, with a view to further establishing the esteem with which they regarded the whole question of incentives.

a) Whether investors considered alternative countries in the region in making their investment decisions?

b) Whether or not such investors were aware of incentive policies offered in such countries?

The data collected was coded and input into the SPSSX programme which produced frequency tables of percentages of responses of firms. The frequencies were analysed as follows:-

For any instrument (whether incentive or disincentive) to be considered as an effective instrument, it had to satisfy two conditions.

a) It had to have 30% or more response from all respondents.

b) Such an instrument had to be in the `very important' column in cases of incentive instruments and `most detrimental impediment' in the case of performance requirements. The 30% mark was chosen arbitrarily and not in response to any known measurement conventions.

Similarly for an instrument to be considered as ineffective in influencing investment location decisions, it had also to satisfy two conditions, that is,

a) Had to receive 30% or more response from respondents

b) In the case of incentive instruments, had to be in the `very important' and `not considered' columns (column 4, 5 and 6). In the case of performance requirements the instrument had to be in columns 4, 5 and 6, that is, `least impediments' and Do not Know' columns.

The instruments that were placed in between these cut-off points were ignored as their influence are considered to be such that their presence was important, but not important enough to influence any investment decisions.

CHAPTER THREE

Investment codes and experience with SADCC countries

Zambia

Zambia's Investment Act was enacted by an act of parliament in 1986. The main objective of the Act was to revise the law relating to investment in Zambia, with the aim of promoting investment and also providing related incentives. The Act defines a foreign investor as follows:-

a) Any person who makes an investment in foreign exchange valued in excess of US$35 000,00 in any business enterprise in Zambia, or

b) Any non-Zambia who makes an investment in any business enterprise in Zambia.

Part 5(v) of the Act deals with facilities and incentives, and stipulates that all business enterprises operating in Zambia which are net earners of foreign exchange through export of non-traditional products or services shall benefit from the following facilities:-

a) Retention of such percentage of their foreign exchange earnings and the utilisation for such purposes and on such terms and conditions, as the minister responsible for finance may from time to time determine either by himself or through the Bank of Zambia.

a) Have access to any foreign exchange revolving fund which may be set up to promote exports from Zambia.

c) Receive preferential rates of tax on part of their income as parliament may from time to time provide.

d) Have access to any free trade zones which may be set up in Zambia.

e) Enjoy exemptions from the payment of selective employment tax as may be prescribed by the Minister of Finance, and

f) Have access to preferential borrowings as may from time to time be declared by the government.

The following performance requirements must however be met at the same time if the investor is to enjoy the aforementioned incentives:-

a) It is an exporter of non-traditional products or services which result in foreign exchange earning in any calendar year of at least 25% of its total gross earnings for that year, or

b) It is an enterprise which uses a high proportion of local raw material and resources (including labour) amounting to more than 75% of its total annual operating costs, or

c) It is an enterprise which has more than 85% of its labour force working in facilities located in rural areas.

An enterprise that satisfies any two of the above conditions would be classified as a "priority enterprise". Priority enterprises receive preference for government purchasing and import licences, as well as relief from certain customs duties and taxes. Any enterprise which satisfies the above conditions can also apply for a certificate of incentives.

Under Section 26(1) of the Act, every holder of a certain certificate of incentives is entitled to the following incentives starting from the date of commencement of operations or the granting of the certificate of incentives, whichever is the latter.

a) For a period of five years, a deduction from taxable income for each tax year of fifty percent (50%) of the total salaries paid to Zambian manpower employed in the enterprise during that tax year (provided that the amount of salary of any such employee which is in excess of five times the minimum wage for the time being fixed for a general worker shall not be taken into account for this incentive).

b) For a period of five years, full exemption from tax on dividends.

c) For a period of three years, exemption from payment of selective employment tax and

c) For a period of ten years, a deduction from taxable income of 50% of the expenses incurred during each tax year on,

i) Any training programme agreed upon by the Committee to train Zambian employees and

ii) Any research and development programme agreed upon, by the Committee conducted either by the enterprise itself or through a recognised research insitution for the purpose of adopting a technology or product to local conditions or of substituting a local input for an imported one.

Angola

A law to encourage foreign investment was enacted in 1979. Foreign investments are guaranteed against nationalisation for 10 to 15 years. If nationalised, the investor is entitled to compensation, including accrued interest, in the currency of the original investment. Profits of up to 25% of capital invested can be transferred abroad each year, and this can be in the form of exports of goods produced. Tax holidays and exemtpions from import duties may be allowed.

Botswana

In the manufacturing sector for new projects which do not adversely affect existing firms, there is a five year tax holiday and grants for up to five years for the employment of unskilled labour and for training. In addition, there are special grants to new or expanding businesses, decided on a case by case basis. All companies are also eligible for a 15% tax allowance for new buildings and a 15% allowance for new plant and machinery. There are certain exemptions from customs duties and the possibility of infant industry protection under the South African Customs Union. The Botswana Development Corporation is prepared to put up some of the required finance as equity capital or long term loans.

Lesotho

The Pioneer Industry Board can give "pioneer status" to new factories, which involves a tax holiday of up to six years or a variety of tax allowances. Training grants of up to 75% are available from the Lesotho National Development Corporation. The Lesotho National Development Corporation also provides loans and loan guarantees. It can provide factory buildings and other infrastructure, and has serviced industrial sites. Lesotho National Development Corporation policy is not to take an equity position, except for agro-industries where a strong local content is expected.

Swaziland

Licences are required and purely foreign firms are allowed but joint ventures with local firms are preferred, especially with the Tibiyo Taka Ngwane Fund or the National Industrial Development Corporation of Swaziland. There are tax holidays in the early years and various investment allowances. Training costs are deductible from income of double the actual costs. Infant industry protection is available under the South African Customs Union. Raw materials to produce goods for export outside the South African Customs Union are imported duty free.

Tanzania

Foreign investments require approval, but approved investors are guaranteed full compensation in hard currency in the event of nationalisation. In general, foreign investors are expected to be the minority partner in a joint venture.

Malawi

All manufacturing firms require an operating licence. In exceptional cases, new firms may be given exclusive protection or tariff protection for a limited period of time. Imports for the establishment of a new firm deemed to be of national importance enter at concessionary duties. Tax rebates are allowed for imported raw materials and capital expenditure. Serviced industrial sites are available.

Mozambique

Mozambican legislation on direct foreign investment was enacted in 1984 and guarantees the legal protection of the property and property rights as well as tax incentives. The code also guarantees the transfer abroad of exportable profit, re-exportable capital and the repayment of principal and interest in the case of loans contracted by the foreign investor in the international financial market used for the undertaking in Mozambique.

Equipment for carrying out feasibility studies as well as imported raw and subsidiary materials for the production of goods destined for export are exempt from customs duty. On labour matters, investors in Mozambique are free to recruit according to their needs and have the right to dismiss workers when it is justified. All training costs are deductable from taxable income at triple the actual cost. Tax exemptions will be granted for 2 to 10 years for new investment projects. An office of Foreign Investment Promotion has been created, and promises to process applications in three months. Foreign investment and re-investment requires government authorisation and joint ventures with Mozambican state or private firms are expected except "in cases where high technology is used in the production process".

Zimbabwe

The Zimbabwe govenment produced an investment code in April 1989 entitled "The promotion of Investment: Policy and Regulations". This document replaced and updated the previous document issued in September 1982 entitled "Foreign Investment: Policy Guidelines and Procedures".

The document defines a foreign investor as:

a) Any company at least 25 percent of whose shares are owned by non-Zimbabweans, or

b) Any partnership at least 25 percent of whose capital is owned by non-Zimbabweans.

Majority Zimbabwean participation in new foreign investment projects is emphasised and it is one criterion used for assessing applications by foreign investors. In order to facilitate quick decisions on investment proposals, the government introduced a one-stop shop called the Investment Centre which would replace the existing Foreign Investment Committee (FIC). The centre aimed to process investment applications within 90 days.

The incentive provisions that are contained in this document are as follows:-

1) Constitutional guarantees to compensate in full any property that is nationalised or acquired.

2) Acceded to treaties for the protection of foreign investment for example, Zimbabwe is now a member of the Multilateral Investment Guarantee Agency (MIGA). The government has expressed willingness to negotiate

mutually satisfactory bilateral investment treaties with governments whose nationals are likely to invest in Zimbabwe. In addition government has also acceded to the 1965 Convention on the Settlement of Investment Disputes between states and nationals of other states and to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

3) Export incentives, where export-oriented projects are presently given special access to foreign exchange in order to finance imports through the operation of two export incentive schemes.

i) An Export Revolving Fund, which guarantee manufacturing companies producing for export automatic access to foreign exchange in order to finance the import content of any confirmed export order.

ii) A Bonus Scheme, where exporters who increase their export earnings from one year to the next are allocated 25 percent of the incremental value of the exports to cover the import of raw materials which could be used in production for the domestic market.

4) On incomes and labour policies, the government stipulated that salaries and wages would be determined through collective bargaining within parameters established by government. Greater flexibility is promised with regard to the current labour regulations dealing with termination of employment.

5) The Remittance of Income is structured such that Old Investment, that is, that made prior to 1 September 1979, can remit only 25 percent of net after tax profits, declared either as dividend, branch or partnership profits. On the other hand dividend and partnership profits remittances on existing equity capital introduced to Zimbabwe from external sources after 1 September 1979 (New Investment), is allowed immediate repatriation equivalent to 50 percent of ner after tax profits. As a further inducement to new investment in high priority projects government may allow only in exceptional cases immediate dividend and profit remittances in the range of 50 percent to 100 percent of net after tax profit for a period stipulated at the time of the investment.

6) With respect to dividend as it applies to both old and new investment, any dividends declared in excess of 25

percent or 50 percent of net after tax profits respectively must after deduction of 20 percent of the Non-Resident Shareholders Tax (NRST) on the excess, be paid to the local blocked account of the foreign shareholder. These blocked funds may either be remitted to the foreign shareholder through the medium of the 12 year Government External Bonds for an individual shareholder, and 20 year Government External Bonds for a company, or they can be reinvested in a project approved by the Exchange Control Projects Review Committee, in which case the blocked funds qualify for venture capital status, with the attendant 50 percent remittance and disinvestment rights after 5 years.

7) In May 1987, Govenrment liberalised the use of blocked funds by amending Exchange Control regulations which required a matching of new investment funds from external sources on a 50/50 basis. Foreign shareholders can now use blocked funds for reinvestment purposes in approved projects, and depending on the type of project and its contribution to exports, import savings and employment, the external element will vary from 50 percent to zero.

8) Foreign companies have got access to local credit facilities and may borrow locally at least the equivalent of 25 percent of their shareholder's funds and increased local borrowings may be allowed with the approval of the Reserve Bank.

9) In April 1988, the nominal income tax rate for corporate bodies was reduced to 50 percent, which is the rate at which taxable income is currently taxed. In the determination of taxable income a variety of deductions are allowed.

a) Depreciation allowances for buildings, articles, implements, machinery and untensils in respect of industrial, agricultural, hotel and mining activities. These allowances may be taken over the life of the asset or as 100 percent Special Initial Allowance, representing accelerated depreciation.

b) Expenditure (not of a capital nature) on research.

c) Expenditures incurred before the commencement of business.

d) An investment allowance of 50 percent of the cost of buildings erected and equpment purchased exclusively for the training of employees.

10) In the ‘Growth Point Areas', commercial and industrial operations carried on in these designated areas are entitled to a Special Initial Allowance of 100 percent of the construction cost of commercial buildings, plus an extra investment allowance of 15 percent of the cost of construction of commercial and industrial buildings including staff housing.

11) Withholding taxes are levied at source on the following incomes from Zimbabwean source payable to persons not resident in Zimbabwe:

Dividends (Non-Resident Shareholder's Tax) 20 percent interest (Non-Resident's Tax on interest) 10 percent fees (Non-Resident's Tax on Fees) 20 percent Royalties (Non-Resident's Tax on Royalties) 20 percent.

12) Double Taxation Treaties have been signed with the United Kingdom, Federal Republic of Germany, German Democratic Republic, South Africa, Bulgaria, Norway and Sweden. It is expected that treaties will shortly be concluded with the Netherlands, Romania, and Canada.

13) Customs Duty, Surtax and Import Tax are levied on various items imported into Zimbabwe. However, the rates on items of primary interest to potential investors are said to be very modest. The main provisions are:-

a) Customs Duties which range from 0 percent to 50 percent, with most items of interest to investors being in the range of 5 - 20 percent. Rates of Import Tax range from 12.5 -20 percent.

b) Many raw materials and components are either imported duty free or at rebated rates of duty. Industrial drawbacks allows full remission of duty on those imported raw materials and components contained in exported goods.

14) A recent concession announced by Government provides for the refund of Import Tax on the importation of new goods of a capital nature, earmarked for approved new projects which are either, priority projects, that is those which involve exports or create an appreciable number of job opportunities or introduce new technology

or any type of projects which are located in a designated `growth point' area.

The Incentive and Disincentive instruments mentioned in the previous section for the nine SADCC states are placed together in table 1.6 below which show the number of countries offering each one of the stated instrument.

Table 1.6 Incentive and Disincentive Instruments

Incentive/Disincentive Measures	Country								
	A	B	L	M	MO	S	T	ZA	ZI
Import Duty Concessions	X	X	X	X	X	X	X	X	X
Credit guarantees	X	X	X		X			X	
Interest rate on foreign loans	X				X				
Factory Building tax exemptions		X	X			X	X		X
Dividend tax exemptions						X			
Dividend withholding tax		X				X	X	X	X
Housing allowance for personnel		X	X			X			X
Incentives for hotel contruction						X			
Accelerated depreciation		X		X		X			X
Double taxation agreements		X					X	X	X
Tax holidays		X	X			X			
Export subsidies	X			X					X
Guarantees against government competition			X	X		X			X
Tariffs				X	X				X
Quotas									X
Exclusive licences				X					
Subsidised imported inputs	X	X		X	X				
Assistance in feasibility and marketing studies					X				X

Table 1.6 (continued)

Incentive and Disincentive Instruments

Incentive/Disincentive Measures	Country A	B	L	M	MO	S	T	ZA	ZI
Job training subsidies		X	X		X	X			X
Minimum wage laws									X
Employing nationals	X	X							
Incentives for management of enterprises					X				
Profit remittance	X	X	X	X	X	X	X	X	X
Controls on remittance dividends/profits			X				X	X	X
Import Licence requirements	X	X	X	X	X	X	X	X	X
Exclusive operations by state	X					X	X		
Total number	9	13	10	9	10	13	8	7	16

Source: SADCC 1986, `Investment Policies and Mechanism of SADCC countries'. Dar-es-Salam, Printpak

Note: The letters A,B,L,MO,S,T,ZA,ZI are initials, for the SADCC countries, that is, Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe respectively.

The number of incentives and performance requirements in each of the SADCC countries are by no means large when compared to the average number of incentives offered in developed countries which are said to range from a low of 17 to a high of 32 per country. This does not also fit well into theory which states that poor countries will tend to offer large numbers of different incentives to attract more inflows of foreign capital. Thus SADCC countries do not seem to give much prominence to investment incentives and this could be either because they are ignorant about the importance of incentives or because they have realised that incentives are not as influential as they are claimed to be in attracting investments.

It is also not easy to say whether or not SADCC countries are engaging in competitive bids to attract foreign investment through incentives. This is especially so when one uses Guisinger's criterion for determining competition because the SADCC countries incentive policies satisfy two of the four conditions that must apply for competition to exist. These are, the use by countries of more factor incentives, that is those incentives that mostly affect the prices of factors of production and the dependence on the inflow of foreign capital for development. On the other hand SADCC countries also satisfy two of the four conditions that should exist to indicate a non-competitive situation and these are, the use of a smaller number of investment incentives and the minimal linkage of incentives with performance requirements.

CHAPTER 4

DATA ANALYSIS AND CONCLUSION

The analysis starts by reviewing data collected from the governments with an attempt to highlight whether the four countries engage in competitive strategies to offer incentives to foreign companies. This is a test to see whether the situation is the same as in other regional areas where empirical studies have concluded that there is substantial competition in this regard. Furthermore, competition for incentives lead such countries to loose sight of what incentives intend to achieve and incure unnecessary costs in trying to outbid each other by offering incentives arbitrarily, while the levels of investment flows remain constant or even decline.

The government officials who were interviewed, were asked a number of questions which tried to highlight the question of competition. On the question about what influence other regional country incentives had on government's own policies, the response by the Zimbabwe official was that there is indirect liaison with other countries but other countries' policies are considered for possible implementation in Zimbabwe only if experience shows that such policies have been successful in those countries. Zambia said she liaised with other countries, for purposes of exchange of ideas but that such policies had very little influence to its own investment policies. Malawi had a response similar to that of Zambia and there was no response from the Botswana government. However, all these countries admitted to having intimate knowledge about each other's incentive policies.

In response to a question about their views about the harmonisation of incentive policies in the SADCC region, Zambia said she favoured the idea especially in regard to the implementation of regional projects, while Malawi said that she would firstly need to be made aware of the implications of such a move. Zimbabwe and Botswana both said there was no policy yet on the issue of harmonisation.

On the question of whether each of the countries viewed other SADCC countries' incentive policies as competitive or not, Malawi replied that they were competitive while Zimbabwe was not sure what the position was and Zambia said some policies were competitive but not all of them. Botswana did not respond. However, all the countries said they had increased the number of incentive instruments offered to investors.

The above response suggest that there is a tendency by these countries to engage in competition of a hidden and subtle character, that is, they are competing but would not want to show or admit openly.

Assumptions

In order to remove or neutralise some of the problems which effect measurement of effectiveness of incentives, the following assumptions are made:-

1) The effects of investment policies can be measured along a simple dimension whose values are known to the investors, and the cumulative value of incentives less the value of disincentives can be determined by the investor in a manner similar to the way in which the rate of effective protection provides on scale for assessing the strength of tariff protection.

This assumption is necessary in order to make the responses of the firms valid, that is, we must assume that when they indicated that a specific instrument was very important or not considered in the decision to make an investment location decision, it was not simply out of the respondent's head, but the response was a result of a known method of measure by the firm of such factors.

2) Those incentive instruments for which the majority of firms stated to be in the 'very important' category are effective enough to influence their investment location decision. Similarly those in the 'most deterrent' category are such impediments as to potentially prevent investors in locating in the country implementing such performance requirements.

This assumption is made because as stated in Chapter Two, effectiveness of incentives and performance requirements was going to be determined in this dissertation from the point of view of the investor, that is, as to how the investor thought each instrument affected or would affect the investment location decision. The respondents were made to understand that any indication in the very important column of the questioner would mean that, that instrument was important enough to influence a location decision. Also since incentives do vary accross countries, that is, if an incentive is not offered, it will perhaps be regarded as immaterial in that country. The responses would then be expected to differ between countries for this reason. However the questionnaire to the foreign investors (respondents) was structured in such a way that they respond not only to those incentives that are offered in their specific country in which they are based, but respond to all the incentives offered in all the nine SADCC countries as though they were offered in their host country.

Tables 1.7 -1.9 below, indicate the interpretation of the results to questions posed to the sampled companies in the four countries with a view to establishing whether or not incentive policies are influential in decisions to invest.

Table 1.7 Percentage responses to the question about how each incentive instrument affects the corporation's decision to choose a location for investment

Incentive Instrument	Very Important	Essentially Important	Important	Almost Important	Very Un-important	Not Considered
Import duty concessions	28	17	17	6	-	33
Customs duty exemptions on capital imports	28	28	22	6	-	17
Preferential entry for imported foreign capital	11	11	28	28	6	17
Exemptions on imports of raw materials	28	17	17	6	6	28
Duty reduction on export of goods manufactured	22	-	22	17	6	33
Profit remittance	50	17	11	11	-	11
Remittance of loan interest and principal	39	11	11	6	-	33

Table 1.7 (continued)

	PERCENTAGE RESPONSES					
Incentive Instrument	Very Important	Essentially Important	Important	Almost Important	Very Un-important	Not Considered
Profit remittance in form of export of goods	-	6	17	17	6	56
Incentives for reinvestment of profit in host countries	11	28	22	17	6	17
Tax exemption for interest paid on foreign loans	11	-	1	17	17	56
Dividend tax exemption	22	11	22	22	-	-
Income tax exemption on initial operations	17	11	22	17	11	22
Tax concessions on office equipment for business start-ups	6	17	28	22	6	22

Table 1.7 (continued)

	PERCENTAGE RESPONSES					
Incentive Instrument	Very Important	Essentially Important	Important	Almost Important	Vey-Un important	Not Considered
Tax concessions on employing nationals	11	11	6	17	22	33
Factory building tax exemptions	11	11	6	17	17	39
Double taxation agreements	11	11	33	28	6	11
Industrial rebates and drawbacks	11	-	28	6	11	44
Credit loan guarantees	11	6	17	11	28	28
Guarantee against confiscation and nationalization	61	-	6	22	6	6
Signatory to the settlement of disputes	11	6	6	6	28	44
Guarantee to compensate on nationalisation	61	11	-	6	6	17

Table 1.7 (continued)

	PERCENTAGE RESPONSES					
Incentives which cut launching costs	22	28	17	17	11	6
Job training subsidies	22	-	28	17	17	17
Accelerated depreciation	56	33	6	-	6	-
Assistance in feasibility and market studies	-	17	22	33	11	17
Government competition protection guarantee	-	39	17	11	11	22
Housing allowance for personnel	-	6	17	11	33	33
Exclusive licences	11	11	22	17	6	28
Incentives which cut production costs	6	11	50	11	-	22

Table 1.8 Percentage responses to questions about how much the corporations considered each of the instruments to be impediments to carrying out investments.

	PERCENTAGE RESPONSES					
Performance Req. (Disincentives)	Most Detrimental	Second Most Det.	Det.	Less Det.	Least Det.	Do Not Know
Domestic content requirement	33	6	22	17	22	-
Tariffs	-	-	50	22	6	22
Quotas	17	6	33	33	6	6
Dividend withholding tax	11	17	17	22	11	22
Controls on remittance of dividends	56	6	11	22	6	-
Foreign exchange controls	67	11	11	6	6	-
Import licence requirement	28	17	11	11	18	6
Exclusive operations by the state	6	6	33	22	11	22
Minimum wage laws	11	-	28	17	33	11

Table 1.8 (continued)

	PERCENTAGE RESPONSES					
Performance Req. (Disincentives)	Most Detrimental	Second Most Det.	Det.	Less Det.	Least Det.	Do Not Know
Labor protection laws	11	-	22	28	28	11
Restriction on employment of expatriates	22	6	17	22	28	6

Note: The figures in the columns are in percentages, and for each row represent the percentage of companies responses to each instrument in the appropriate column.

Table 1.9 Shows the percentage responses on questions about how the corporation weiged the influence of investment incentives to ‘other factors', in making and investment location decision.

	PERCENTAGE RESPONSES			
Other Factors	More Important	Equally Important	Less Important	No response
Market considerations	56	22	17	6
Profitability	44	22	28	6
Skilled labour supply	6	67	22	6
Cheap labour supply	17	11	67	6
Infrastructural development	17	61	17	6
Resource availability	22	28	44	6
Political considerations	28	39	28	6

As stated earlier on, `effectiveness' was to be measured by inffering from the investors's responses as to which instruments affected them the most in making their investment location decision. The results on incentive instruments in their order of prominence to investors (Table 1.7) are as follows:-

Effective Instruments (Those whose effect is considered enough to influence investor location decision)

- Guarantees Against Confiscation on Nationalisation
- Guarantees to Compensate on Nationalisation
- Profit Remittance
- Depreciation Allowances on Fixed Assets
- Remittance of Loan Interest and Principal

Ineffective Instruments

(Instruments that firms said were not considered during the investment decision)

- Tax Exemptions for interest paid on foreign loans
- Profit remittance in form of export of goods
- Signatory to the settlements of disputes
- Housing allowance for personnel
- Tax concessions on employing nationals
- Credit loan guarantees
- Industrial rebates and drawbacks
- Duty reduction on export of goods manufactured
- Preferential Entry for imported foreign capital
- Exclusive licence incentives
- Job training subsidies
- Income tax exemptions on initial operations
- Government competition protection guarantee
- Double taxation agreements

- Incentives for re-invesement of profit in the host country
- Import duty concessions
- Incentives which cut production costs.

The overall average response to all the incentive instruments came up with the following results:-

20% of the firms indicated that incentives offered in SADCC countries are very important, hence influential in their investment decisions. 49% of the firms did not consider incentives in their investment decisions. The rest fell in between and their response can best be described as indifferent.

Table 1.8 shows the effect/influence that performance requirements (disincentive instruments) have on investors' decision to locate as perceived by the foreign investor. In this case investors were asked to indicate on a six-point scale, whether each one of the eleven instruments listed in the table was considered as an impediment or not to carrying out investment. The results are as follows:-

a) Instruments considered deterrent enough to affect investment decision.

- Foreign exchange controls
- Controls on remittance of dividends

b) Those regarded as less or non-deterrent instruments

- Labour protection laws
- Restrictions on employment of expatriates

- Minimum wage laws
- Import licence requirements
- Quotas restrictions
- Domestic content requirement
- Dividend withholding tax
- Exclusive operations by the state

Overall average response was such that 24% of the investors indicated that the performance requirements in use by the countries are potentially deterrent, while 47% said they did not mind such performance requirements.

Table 1.9 analyses the relative importance that foreign investors placed investment incentives with other factors that affect investment considerations. Companies were asked how they weighed the influence of investment incentives in making an investment decision to such other factors as market considerations, profitability, skilled labor supply, cheap labor, infrastructural development, resources availability as well as political considerations.

The response was as follows:-

1. More important factors:
   - Market considerations
   - Profitability
2. Factors considered equally important to incentives
   - Skilled labour supply
   - Infrastructural development
   - Political considerations

3. Factors considered to be less important

   - Cheap labour
   - Resource availability[a]

The company respondents were also asked questions that tried t highlight whether or not foreign investors look around the SADCC region in search for a country that offers the most liberal or attractive investment incentves. Sixty-one percent (61%) of the investors said, they did not consider alternative countries in SADCC as possible places for investment and thirty-three percent (33%) of the comapnies were ignorant of the type of incentives offered by other countries in the region. Of the thirty-one percent (31%) companies that looked at alternative countries, only thirty-three percent said the country they chose had on a comparative basis better incentives.

Sixty-seven percent of the investors in the sample said they did not seek to be granted special incentives. This indicates either, contentment with the ones available or the relative unimportance of incentives to the companies decision to invest.

CONCLUSION

The results appear to suggest that out of the variety of incentives offered, very few seem to matter to investors in influencing their decisions to locate their investment in a particular area or country. The incentives that were cited as influential are, profit remittances, the right to remit loan interest and principal, guarantees against confiscation and nationalisation, guarantees to compensate on nationalisation and depreciation allowances on fixed assets. This is out of a total number of about 29 or more different incentive facilities offered in the SADCC states. This wide range of incentives include, tax concessions, official financial support facilities, subsidies and other measures pertaining, liberal exchange controls, labor and environmental standards.

On the other hand, investors do not appear to be seriously concerned with the variety of performance requirements (disincentives) that these countries have effected to try and maintain some control of the activities of investors. Out of about eleven or so performance requirements, the sampled investors cited only two performance requirement as adversely affecting their investment decisions, these are foreign exchange controls and controls on remittance of dividends and profits.

In the light of arguments that most incentives are necessary in order to neutralise the effect of performance requirements, that is, controls on investor's activities, this study suggets that countries can place controlling measures on investors without compensatory measures. Investors expect governments to act in this manner. However, performance requirements must be realistic and maybe countries need to concentrate on a few key requirements instead of prolifering requirements, some of which maybe incompatible with one another, for example where the emphasis on increasing the local content of inputs in production is combined with ambitious and stringent targets for export expansion.

By saying that certain instruments are not effective does not necessarily mean that a country should do away with such instruments. However, countries should not make such policies the main focus for their attention and give them undue prominence, engaging in competitive bidding with each other to facilitate such incentives, because they would end up losing revenues and scarce resources by offering super concessions in the false hope that such inducements would attract the foreign investor into their country.

One is therefore not advocating for the complete removal of the existing incentives, but suggesting that countries in SADCC co-ordinate their incentive policies in order to abolish competitive bidding and to attract investors in ways that are less costly to their economies. Abolishing incentives completely would be counter-productive in that investors perceive a place without incentives as more riskier.

As a concluding note therefore, it seems that investment incentives are not an efficient and equitable means of overcoming the problem of investment shortage.

NOTES

1. At the time of writing this dissertaiton, the new Investment Code for Zimbabwe was still under formulation. This Investment Code was finally published in May 1989, but for the purpose of this tudy, there is not much difference with the previous guidelines document, that the new Investment Code replaced.

2. Footloose industries or companies are those industries which are not restricted to investing only in places with a particular type of natural resource or advantage.

3. Resource availability was considered by investors to be less important in influencing location decision than investment incentves because the companies analysed were footloose industries.

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