Foreign Direct Investment: Trends, Historical Development and Determinants in Member Countries of West African Monetary Zone (WAMZ)

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in partial fulfillment of the requirements of the M.A. Degree

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ECO 7997

August 2009

Ottawa, Ontario

DEDICATION

I dedicate this project to the Almighty God for his guidance.

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ABSTRACT

This paper looks at the trends and historical development of Foreign Direct Investment (FDI) in the member countries of the West African Monetary Zone (WAMZ). It discusses the determinants of FDI and analyzes its impact on the growth of these economies. There have been studies on FDI in Africa; its trends, determinants and importance but none on WAMZ. This study is important because it intends to establish that, if a common currency is adopted as discussed by the leaders of these countries, then it will have a positive impact. This is a result of the potential benefits they will derive through FDI inflows, since studies have shown that large markets play significant roles in attracting potential investors. Finally, it is also believed that the existence of a common currency can lead to a common and stable financial institution and policy.

ACKNOWLEDGEMENTS

I wish to express my sincere gratitude to my family for their continual cherished source of intellectual, psychological, spiritual, and material support and most importantly for their immense love. Their inspiration and commitment has brought me this far.

This major paper has also been successful, thanks to my supervisor, Professor Yazid Dissou who encouraged and challenged me to bring out my very best and nothing less without his help I would not have finished. To all the Professors at the Department of Economics, I am grateful to you for your diverse contribution which includes the knowledge and guidance to my degree and to the non teaching staff and my colleagues; I appreciate your immense support and direction. I am also grateful to the University of Ottawa for giving me the opportunity to study at such a prestigious University.

Lastly, I thank the Department of Economics at the University of Ghana, Legon for their immense contribution toward the completion of my Bachelors Degree in Economics. I am heartily thankful to K. Tsikata, A. Baah-Nuakoh and to Ebo Turkson, William Bekoe and Theodore Antwi-Asare for writing letter of recommendations for my Masters programme.

INTRODUCTION

The integration of countries into the global economy has boosted their economies and this is as a result of the benefits derived from being part of a big buying and selling institution, which is the global market. The impact of this integration to the economies of the countries involved has not been underestimated. Notable benefits include the inflow and outflow of Foreign Direct Investment (FDI) between countries and economic blocs. FDI flows are an important aspect of globalization which has attracted a number of studies and analysis in recent times. However, much focus has been on its benefits to the host country as it is seen to propel an economy to growth (Ramirez 2000; Chakrabarti 2001; Zhang 2001). Therefore the total amount of FDI inflow to a particular country is seen as an integral aspect of the growth process in that country.

According to World Investment Report (2008), FDI inflows globally rose to about $1,833 billion which was a 30 percent increase over that of 2000. However that of developing countries attained the highest level of about $500billion which was a 21 percent increase over that of 2006. These increases show that FDI flows are rising rapidly. Despite these increments, the inflow of FDI to Africa was just about 3% of the FDI investment globally, as indicated by the report; this figure was unevenly distributed on the continent. The inflows were normally directed to Angola, Egypt, South Africa, Tunisia, Nigeria and Morocco. However, Nigeria and Angola continue to receive a significant share as a result of the existence of oil reserves in the countries. Botswana and Namibia are also noted for

attracting some significant level of inflows as a result of their rich mineral economy. FDI flows in Africa are directed to countries with significant amount of natural resources such as oil and mineral which command relatively high prices on the international market; accounting for the uneven distribution.

The inflows received in Africa play significant roles and these include the reduction of poverty, improvement in the standard of living and a stimulant to the growth process of a country. Others are the development of human capital and the increase in the level of capital in a country which is through investment opportunities as a result of technological spillovers. These provide access to the international market and hence improve international trade and develop a competitive environment for business development (OECD Report: 2008). Countries, who are normally the recipients of these inflows such as those listed above, have shown an upward rise in their macroeconomic indicators suggesting progression in their economies (WIR: 2008).

As a result of these benefits, many developing countries in recent times have developed policies which are not only geared towards creating economic stability but also favourable investment climate to attract the inflow of FDI from multinationals and private investors. Some of these policies include adopting favourable FDI agreements, trade liberalization and privatization programmes. In reference to World Investment Report, during the year 2004, Egypt recorded a significant increase in FDI as a result of its privatization and liberalization policies.

Apart from the linkage between growth and FDI, other studies have also focused on the

importance of FDI to the African continent and narrowed these analyses to specific areas. Some studies explained and analyzed the determinants of FDI in Africa (Onyeiwu & Shrestha: 2004), whereas others focused on specific country analysis of Foreign Direct Investment (Basu & Srinivasan: 2002). However, Marong (1997) in his studies concluded that the economic integration of West African countries (ECOWAS) is likely to attract huge inflows of FDI if the investment laws of the various countries are gradually harmonized to achieve uniformity in order to have a large market size.

Within this ECOWAS group, other integrations exists; these include the French speaking countries commonly known as the francophone and the English speaking ones as Anglophone countries. The francophone integration which is a customs and monetary union has been in existence for over a decade and includes countries such as Benin, Burkina Faso, Cape Verde, Cote D'Ivoire Guinea Bissau, Mali, Niger, Senegal and Togo. This integration was mainly created in order to promote economic integration through the usage of a common currency. Presently, the CFA franc is the currency being used by all its members(ECOWAS Report:1999)

However, the Anglophone integration known as the West African Monetary Zone (WAMZ) although has been in existence since 2000, is yet to issue a common currency. Ghana, Gambia, Nigeria and Sierra Leone[1] make up the Anglophone speaking countries and hence make up this integration. However, though Guinea is a French speaking country, it opted out of the French integration and is currently part of WAMZ. This attempt aimed at creating a large market is a 'herculean' task for these countries and this is mainly due to the failure of member countries to meet the main convergence criteria

[1] The location of these countries can be found in Appendix B which has a map of West Africa.

outlined under their objectives. As a result of this lack of success, the implementation of the common currency (ECO) has been postponed twice; the first in 2003 and the second in 2005 (WAMI Report: 2008).China is yardstick to which developing countries intending to benefit significantly from FDI must measure up to. It is in light of these that this study focuses on the West African Monetary Zone, an integration of five countries creating a larger market. As elaborated in the previous paragraph, there have been some attempts for this integration to take place. My study therefore intends to answer the question, "Is it worthwhile to adopt this common currency in terms of the impact that this monetary integration will have on these countries through FDI inflows"?

The paper will use both qualitative and quantitative research analysis to answer the above question. Part A will focus on a critical analysis of the literature by looking at the numerous studies on FDI. This will then be followed by a general overview of FDI by looking at the trends and historical development in West Africa with specific references to member countries of WAMZ. Subsequently, part C will conclude with the types and importance of FDI to the economies of the countries. In part D, policies implemented over the past years by these countries to attract FDI will be looked at using case study analysis on the 5 countries listed in the abstract. In the next section, which is Part E, the methodology will be to analyse an econometric model of FDI and its determinants to show the growth impact on FDI. The analysis will therefore be based on a panel dataset regression of five countries for a period of twenty years. This will be subsequently be followed by the interpretation of the results and analysis. Finally, the conclusions and recommendation will sum up the entire research paper.

A. REVIEW OF THE LITERATURE ON FOREIGN DIRECT INVESTMENT

There have been numerous studies on Foreign Direct Investment. Some empirical studies focused on the overall impact of FDI on growth and development whilst others were on the impact of FDI on specifics such as employment, poverty reduction, technology and inequality. Results obtained from these studies on the literature of FDI are however mixed.

Chenery and Strout (1966) in their study show that there is a positive relationship between FDI and economic growth of Less Developed Countries (LDC's). Other studies that focused on macroeconomic specifics like Bosworth et al (1999) and Ramirez (2000) shows a positive relationship between FDI and investment as well as labour productivity. In recent time, Zaman et al (2008) also contributed to the literature on FDI by establishing the positive link between FDI and poverty reduction with more focus on Pakistan.

However, a body of the literature found that a negative relationship exists between FDI and overall growth. Nzomo (1971) in his studies concluded that in terms of direct employment generation, FDI has not contributed significantly to the growth of Less Developed Countries. Szentes (1976) also argues in his studies that FDI results in inequality between different regions and groups in a country. In addition, in 1991,

Cockcroft and Riddell made reference to the fact that in the 1980's; the impact of FDI on production was low in most African countries.

Whilst prior studies concluded with either a positive or negative relationship between FDI and growth or other economic indicators, Herzer et al (2006) in their paper had both positive and negative results. In their studies, data for twenty eight developing countries were used for their analysis and a method of co-integration techniques was applied. Their analysis revealed the following: that FDI's impact on growth in the long run was not statistically significant and in certain cases, FDI did contribute to economic growth both in the long and the short run. However, in other countries it had a limiting growth effect in both periods. In terms of economic specifics, there were no clear relationships between the growth impact of FDI on the level of per capita income, the level of education, the degree of openness, and the level of financial market development in developing countries.

In Borensztein et al (1998)'s , a data of 69 developing countries were used to test the effect of Foreign Direct Investment (FDI) on economic growth using a cross-country regression framework for a period of twenty years. The results derived showed that FDI is important to stimulate the transfer of technology and tended to contribute relatively more to growth than domestic investment. Thus FDI was able to derive higher productivity only when the host country had some minimum threshold stock of human capital as well as the absorptive capabilities to be able to retain the new information and there on, transmit to new firms. According to Li and Liu (2001) in LDC's, FDI does exert

negative influence on economic growth, since technological absorptive capabilities in these countries are generally low and therefore unable to absorb spillovers.

In 1999, Mello used both panel and time series data for a sample of OECD and non-OECD countries in the period 1970 to 1990 to estimate the impact of Foreign Direct Investment on capital accumulation and output and finally total factor productivity (TFP) growth in the recipient economy. His studies also revealed that although FDI boosts long-run growth in the recipient economy through technological improvement and knowledge spillovers, the degree to which this was achieved depended on how FDI and domestic investment were able to complement each other. This therefore introduces the terms 'crowding in' and 'crowding out' into the literature. Crowding out is said to occur when FDI substitutes domestic investment whereas crowding in is when FDI supports the expansion of domestic firms by complementing production of local firms.

In 1992, Wheeler and Mody in a study, found economic and political stability to have significant impact on FDI flows to Africa. Additional studies by Elbadawi et al (1997) argued that among the determinants of FDI to the continent, openness and the depreciation of the real exchange rate also play significant roles, since they found a positive relationship in existence. An independent study by other economists; Morisset (2000) and Portes and Rey(2000) also revealed that a better business environment and the ability of the investors to readily access information in the host countries are also determinants of FDI flows which implies that asymmetry of information hinders the ability of foreign investors to invest in a country.

Onyeiwu and Shrestha (2004) used a panel dataset for 29 African countries over the period 1975 to 1999 and revealed that macroeconomic variables such as international reserves, inflation, economic growth, openness of the economy and natural resource availability are significant for Foreign Direct Investment flows to Africa. Political rights and infrastructures were however found to be insignificant thus contradicting studies which had confirmed that political stability was important for FDI flows. In a review of foreign direct investment of five selected sub Saharan African countries, Basu and Srinivasan (2002) indicated that among the countries that had succeeded in attracting huge inflows, political and macroeconomic stability and structural reforms contributed to their success thus confirming that these variables do indeed play important roles.

Much as the existing studies focuses on the determinants of FDI in Africa, there have so far not been any studies on FDI on the West African Monetary Zone. This study will therefore add to the existing literature on FDI by reviewing it in the countries under this integration. Though similar to the previous studies on sub Saharan African countries, the focus will be to illustrate that, large market size as a result of the integration of these countries based on the usage of a common currency, will increase the inflow of FDI to these countries.

B. FOREIGN DIRECT INVESTMENT: TRENDS AND HISTORICAL DEVELOPMENT

In developing countries, yearly FDI have averagely increased from approximately less than $10 billion in the 1970's to a yearly average of less than $20 billion in the 1980's.

This figure increased significantly from 26.7 billion in 1990 to $179 billion in 1998. In 1999, the figure rose to $208 billion in 1999. In 2005, there was a record high of $334 billion, which is a rise of 22% from 2004, whereas developed countries experienced a rise of 37% over that of 2004 (OECD Report: 2008).

The flow of FDI to Africa as a share of global FDI declined from an estimated 5.3% to 2.3% from the year 1980 to 2000 respectively. In 2007, FDI was estimated to be $53 billion which was a growth rate of 3%; it was still a minute fraction of the global FDI flows. (World Investment Report: 2008). Table 1 gives a summary of Africa's share of FDI of developing economies from 2005 to 2007. It shows that in comparison to the other developing economies, Africa has less inflow of Foreign Direct Investment and that its position as the least recipient of FDI inflows has been consistent for the years 2005, 2006 and 2007.

Table 1: Foreign Direct Investment Inflows to Developing Economies

	FDI INFLOWS (BILLIONS OF DOLLARS)		
	2005	**2006**	**2007**
World	**959**	**1411**	**1833**
Developing Economies	**316**	**941**	**1248**
Africa	29	46	53
Latin America & the Caribbean	76	93	126
West Asia	43	64	71

South East Asia & Oceania	168	210	249

Source: UNCTAD REPORT: 2008

The growth rate of 3 percent achieved in 2007 by the continent was attributed to higher prices of oil and minerals commodities on the international market and improved investment policies of countries across the continent (OECD Report: 2008). However, oil continues to be the dominant resource that attracts huge inflows as a result of its price and the rising demand for it.

According to the World Investment Report (2008), the region's share of FDI inflows to Africa declined from about 34 percent in 2006 to 29 percent in 2008. In comparison to other regions on the continent, inflows to West Africa are marginally small. In Southern Africa, countries such as South Africa, Botswana, Namibia, Uganda, Lesotho and Swaziland are noted for receiving a significant share of FDI to the continent. In Northern Africa, Egypt, Algeria and Libya are among the countries receiving high amount of inflows to the region.

In table 2, it is clearly outlined that, most of the countries in West Africa and for that matter the ECOWAS region receive inflows of less than $0.2 billion. Nigeria is the only West African country to receive inflows of over $3.0 billion. Equatorial Guinea, Ghana and Burkina Faso receive FDI inflows in the range of $0.5 to $1.9 billion whereas Cote D'Ivoire and Cameroun received lower recordings of $0.2 to $0.4 billion. For the Anglophone countries in West Africa, Gambia and Sierra Leone receive less than $0.2 billion with Ghana and Nigeria receiving the highest inflows.

Table 2: The Distribution of Foreign Direct Investment Inflows in Africa by range

Africa: Distribution of FDI among economies by range (billions of dollars) (2007)	
Range	**Inflows**
Over $3.0bn	Nigeria, Egypt & South Africa
$2.0-$2.9bn	Morocco, Libya & Sudan
$1.0-$1.9bn	Equatorial Guinea, Algeria & Tunisia
$0.5-$0.9bn	Madagascar, Zambia, Ghana, Kenya, Congo, Namibia, Tanzania, Chad & Burkina Faso
$0.2-$0.4bn	Botswana, Mozambique, Cote D'Ivoire, Cameroun, Gabon, Ethiopia & Seychelles
Less than $0.2	Djibouti, Cape Verde, Mauritania, Somalia, Sierra Leone, Senegal, Togo, Zimbabwe, Rwanda, Malawi, Lesotho, Benin , Liberia, Swaziland, Niger, Guinea Bissau, Burundi, Eritrea, Angola, Sao Tome and Principe, Comoro Islands, Gambia, Guinea and Central African Republic.

Source: UNCTAD: 2008, FDI/TNC database

Figures for the ECOWAS countries from 1980 to 2008 are presented in table 3 which shows the flow of Foreign Direct Investment as a percentage of balances of payments. The pattern of flow indicates that there were inconsistencies between the years 1990 to 2000. Nigeria as seen from the table commands the highest flow of FDI in the region and its position has been consistent over the past two decades. This, as already explained, is

as a result of the oil industry in Nigeria which continues to attract significant amounts of FDI.

Statistics (World Investment Report:2008) indicate that between 1970 and mid the 1990's Nigeria's share of FDI as a percentage of the total FDI inflow to the continent accounted for more than 30%. Between the years 1990 and 1994, FDI increased consistently and dropped to about $1,079 million in 1995. In 1977, the government of Nigeria adopted policies to restrict the inflows of FDI to the country. Some of these included the expansion of activities exclusively reserved to Nigerian investors and a lowering of foreign participation in FDI from 60 to 40 per cent (NIPC and UNCTAD Report: 2008).

In 1980, FDI dropped significantly to a negative value of $739 million as a result of the major decline of oil prices. During the period between 1981 and 1988, the country experienced some growth in FDI which was quite inconsistent over the period. However in 1989, FDI inflow to the country plummeted to a high level of about $1884 million (OECD Report: 2008). One of the main reasons for this sharp rise was the fact that, in that year the government had began to relax policies which initially restricted the inflow of FDI to the country.

From there on, FDI inflow has been quite stable. Apart from the periods between 1990 and 1992, inflows have increased to a four digit number to date. Also, between 2005 and 2007, Nigeria experienced a consistent increase from $2,013 million to$6,087 million respectively. It should be noted that despite the significant increase in 2007, its percentage share of the inflows to Africa declined significantly to 16%. This is attributed

to competition faced with the other oil rich countries like Angola and Sudan (OECD Report: 2008).

The figures for Ghana, Liberia and Cote D'Ivoire however, cannot be compared to that of Nigeria. They are rather more favourable in comparison to countries like Guinea Bissau, Sierra Leone and Burkina Faso. With reference to table 3, Ghana, surprisingly, between the periods of 1980 and 1982, consistently received inflow of about $16million for each of those years.

However, in 1983, there was a downturn to a single digit value in the country and this was maintained till 1988. Average inflow from 1989 to 1992 was about $18 million per annum. The highest of about $22 million was recorded in 1992 and the lowest 1989/90. On the other hand, there was a significant rise to about $125 million in 1993 and $233 million in 1994. Between the periods of 1995 and 1998, there was a considerable decrease to more than 50% but the year 1999 recorded an increase. From the year 2003, the country has been witnessing persistent increase with a record high in 2007 of about $970 million.

A look at the figures for Gambia, Sierra Leone and Guinea , show that they are not as significant in comparison to those of Ghana and Nigeria. Sierra Leone recorded a negative value in 1980 and an average of $5.25million from 1981 to 1983. Inflows took a down turn to negative values of 31million and then 140million in 1984 and 1985 respectively. The country then experienced an impressive increase over its negative value to an amount of about $39 million. Periods between 1991 and 1999 did not experience favourable inflows since they were single digits and in some years, a low recording of

negative figures. On the other hand, between 2000 and 2007, Sierra Leone experienced double digit inflows. For the year 2000, table 3 shows that Sierra Leone recorded a significant increase of about $39million, more than a hundred percent increase over the year 1999 value, which was just about $1million. The country however, experienced a down slide to lower values between $9 and $10 million between 2001 and 2003. From the year 2004 to 2007, figures recorded were higher than the normal average recordings for that country which was between the periods1990 and 2003.

Unlike its sister English speaking country Sierra Leone, Gambia has not seen a significant increase in inflows and has also not experienced a negative value. Inflows from 1980 to 1988 varied from about $2million to $1 million. However, in some years there were no values recorded. After the year1988, the country experienced a high recording of about $15 million and has maintained a double digit value ever since. Nonetheless, there have been isolated single digit inflow recordings. Gambia has had its fair share of inconsistencies with an increase and decrease of FDI over the periods 1990 to 2007. Between 1990 and 1997, the average inflow of FDI to the country was about $10.25million. However, from 1998 to 2007, the country recorded more than its average with a high figure of $82million in 2006.

Similarly, FDI inflows to Guinea have been on the low side until quite recently. From 1980 to 1985, the country recorded single digit values with no inflows for 1982 and 1983. A significant amount was however, recorded in 1991 after a period of double digit flows ranging between $12million and $18million. Nonetheless, after this period, inflows gradually began to decline. For instance, in 1994 and 1995, the country had no inflows

for the former year and an inflow of $1million for the latter. On the other hand, a significant amount of $63million never experienced by the country was received in 1999. However, from 2003 to 2006; FDI has consistently been on the increase. Values recorded range between $79 million and $108 million. Consequently, in 2007, a value of $111 million was achieved.

Overall, inflows to the sub region have not been that impressive. Single digit inflows were dominant from 1980 to 1990. However after 1990, Guinea Bissau continued to experience single digit values. There were isolated single digit values after 1990 for countries such as Burkina Faso, Cape Verde and Sierra Leone. But that of Burkina Faso and Cape Verde were short lived as both countries experienced increased inflows and in 2007, obtained a significant high of $600 and $130million respectively. Countries such as Cote D'Ivoire, Ghana and Mali experienced inflows in the range of three digits with Ghana recording a high of $970 million whereas Cote D'Ivoire and Mali experienced recordings of $427 and $360 million respectively in 2007.

In order to achieve the needed benefit of FDI, governments in West African countries have to work harder on their political and economic environment to create a more welcoming investment environment. For, according to OECD (2008) report, the reason for the slow pace of FDI flow to the region is as a result of unstable foreign exchange coupled with high inflation rates.

Table 3: FDI Net Inflows (BOP Current) to Selected West African Countries

	Country (millions of US$)													
Year	Benin	Burkina Faso	Cape Verde	Cote D'ivore	**Gambia**	**Ghana**	Guinea Bissau	**Guinea**	Ma li	Niger	**Nigeria**	Senegal	**Sierra Leone**	Togo
1980	4	0	..	95	**0**	**16**	..	**1**	2	49	**-739**	14	**-19**	43
1981	2	2	..	33	**2**	**16**	..	**-1**	4	-6	**542**	34	**8**	10
1982	-0	2	..	47	**0**	**16**	..	**0**	2	28	**431**	28	**5**	16
1983	0	2	..	38	**-0**	**2**	..	**0**	3	1	**364**	-35	**2**	1
1984	0	2	..	22	**-2**	**2**	2	**1**	10	1	**189**	29	**6**	-10
1985	-0	-1	..	29	**-0**	**6**	1	**1**	3	-9	**486**	-16	**-31**	16
1986	1	3	-0	71	**-2**	**4**	1	**8**	-8	18	**193**	-8	**-140**	6
1987	0	1	3	88	**1**	**5**	0	**13**	-6	15	**611**	-4	**39**	7
1988		4	1	52	**1**	**5**	1	**16**	7	7	**379**	15	**-23**	13
1989	62	6	0	18	**15**	**15**	0	**12**	6	1	**1884**	27	**22**	9
1990	62	0	0	48	**14**	**15**	2	**18**	6	41	**588**	57	**32**	18
1991	121	1	2	16	**10**	**20**	2	**39**	1	15	**712**	-8	**8**	6
1992	78	3	0	-231	**6**	**22**	6	**20**	-22	56	**897**	21	**-6**	62
1993	1	3	4	88	**11**	**125**	3	**3**	4	-34	**1345**	-1	**-7**	-12
1994	14	18	2	78	**10**	**233**	0	**0**	17	-11	**1959**	67	**-3**	15
1995	13	10	26	211	**8**	**106**	0	**1**	111	7	**1079**	32	**7**	26
1996	36	16	29	269	**11**	**120**	1	**24**	45	10	**1593**	9	**1**	17
1997	27	10	12	415	**12**	**82**	11	**17**	63	18	**1539**	176	**2**	21
1998	38	4	9	380	**24**	**167**	4	**18**	9	-1	**1051**	71	**0**	30
1999	41	8	53	324	**49**	**244**	1	**63**	2	0	**1005**	153	**1**	43
2000	60	23	33	235	**44**	**166**	1	**10**	82	8	**1140**	63	**39**	42
2001	44	9	9	273	**35**	**89**	0	**2**	122	23	**1191**	32	**10**	64
2002	14	15	15	213	**43**	**59**	4	**30**	244	2	**1874**	78	**10**	54
2003	45	29	39	165	**22**	**137**	4	**79**	132	15	**2005**	52	**9**	34
2004	64	14	68	283	**57**	**139**	2	**98**	101	26	**1874**	77	**61**	57
2005	53	34	17	312	**52**	**145**	9	**105**	224	44	**2013**	45	**83**	77
2006	53	34	123	319	**82**	**636**	18	**108**	83	51	**5445**	220	**59**	77

2007	48	600	130	427	**68**	**970**	7	**111**	360	27	**6087**	78	**94**	69
2008	..	..	..	..	..	..	..		..	..		..	..	..
Source: World Bank Indicators, World Bank Group- 2008														

C. GENERAL OVERVIEW OF FOREIGN DIRECT INVESTMENT

1. Definition of Foreign Direct Investment

There are several definitions of Foreign Direct Investment. OECD report (2008) defines FDI as the objective of a long term relationship between a resident entity in one economy (a direct investor) and in an entity resident in another economy other than that of the investor (direct investment enterprise). According to the report, this lasting relationship implies a high degree of influence on the management of the enterprise by the foreign investor.

Foreign Direct Investment can also be defined as the transfer of assets from one country to the other. These assets are normally from a parent company in a country to a prospective recipient or host country with the aim of acquiring an interest in an enterprise or a company so as to make returns on the investment (UNCTAD :1999). Thus the investment occurs after the initiator has analyzed its host country's investment environment and expects to generate wealth through the use of its capital.

In addition, World Investment Report (2008) also defines FDI as a business relationship between a parent company and a foreign affiliate in the host country, which could be through the partial or full ownership of shares in the affiliate creating an entity which is presently known as Multinational Corporation (World Investment Report: 2008). In this

business relationship, the transfer of investment could either be inward or outward. The introduction of these two terms (inward and outward FDI) brings into discussion the various classification of Foreign Direct Investment.

2. Classification of Foreign Direct Investment

Inward and Outward Foreign Direct Investment are the two main broad classification under FDI. This broad classification is however based on the various restrictions imposed and prior requirements for the investment in the host country (Economy, Investment and Finance Report: 2008).

- ***Inward Foreign Direct Investment***

  This refers to a situation whereby investments by the parent company are made in the local resources of the host country. There are various economic factors in the host country that account for this type of investments. These include favourable tax break policies, grants, subsidies, and the removal of restrictions and limitations on investments (OECD Report: 2008).

- ***Outward Foreign Direct Investment***

  This is when investment is in a foreign resource. An outward-bound FDI is normally backed by the government to forestall associated risks. This type of FDI is subject to incentives in the form of taxes and various disincentives. This is because domestic industries are well provided for in terms of risks and subsidies (OECD Report: 2008).

Foreign Direct Investment can also be classified based on the motive behind the investment which translates to determinants (UNCTAD: 1998). Under this, the motives

include, Resource-Seeking, Market –Seeking and Efficiency –Seeking Foreign Direct Investments.

- ***Resource –Seeking Foreign Direct Investment***

Resource seeking FDI is one of the key motives for the flow of FDI to the African Continent. The primary sectors which include oil and natural resources like minerals are a major factor which attracts FDI flow to the region (Basu and Srinivasan: 2002). Nine of the oil rich countries which include Nigeria and Angola accounts for about 75% of FDI flow to the region (OECD Report: 2008). In the mineral industry, countries such as Botswana and Namibia also attract huge inflows of FDI. Apart from the existence of raw materials, UNCTAD (1998) also reports that low-cost unskilled labour, skilled labour, and infrastructure are also significant under the resource seeking motive for Foreign Direct Investment.

- ***Market- Seeking Foreign Direct Investment***

Additionally, investors also seek to invest in large markets where their investments will be worthwhile in terms of demand for the product; this is the Market-Seeking type of FDI. UNCTAD reports that potential investors also look out for the growth of the market, per capita income, the structure of the market and the country's access to regional and global markets. Most of the time, multi -national companies after acquiring significant share of market in their home country seek new markets in order to increase their market share and hence profits (UNCTAD :1998).

- ***Efficiency –Seeking Foreign Direct Investment***

The other motive for FDI inflows to a country is Efficiency-Seeking and Strategic Asset Seeking. In the former, investment is normally done so as to benefit from economies of scale and scope which generate huge revenues and hence profits. In strategic asset motive, firms acquire assets in other companies in order to increase their size (UNCTAD: 1998). Regional integration of countries also gives reason for FDI investment under efficiency seeking since it provides a favourable environment in terms of regional corporate networks of companies.

3. Determinants of Foreign Direct Investment

Foreign Direct Investment flows normally show trends of inconsistencies in its distribution and predictability (ODI-1997). They are normally directed to particular regions and countries in the world creating an uneven distribution. In Africa, specific countries are noted for large inflows of FDI whereas others marginally benefit from such inflows. There have been several studies to analyze the flow of FDI. One of the key areas which have attracted many studies is the determinants of FDI on the continent (Onyeiwu and Shrestha: 2008, UNCTAD: 1995 Chakrabarti:2001, Asiedu: 2002) as stated in the literature review.

In their studies, the growth rate of GDP, inflation, interest rates, openness of the economy, international reserves, external debt, taxes, political freedom, infrastructures, and natural resource endowment were seen as being the determinants of FDI in Africa. Their analysis indicated that economic growth is one of the key determinants of FDI in Africa.

Thus, by acquiring knowledge on the conditions that attract these inflows, potential recipient of FDI investments will endeavor to create a favourable investment and economic environment so as to maximize their chances of being the host to these investment opportunities. Several factors determine the inflow of FDI to a particular region or country. Most important amongst them include:

- ***The Existence of Natural Resource***

This is one of the key determinants of FDI in Africa. A significant share of Foreign Direct Investment inflow goes to the primary sector which involves the drilling and mining of oil and minerals respectively. Studies show that, Angola, Equatorial Guinea and Sudan were the largest recipient of FDI flows in less developed countries (LDC's) between the period 2003 and 2004 (World Investment Report:2008) However, countries such as Nigeria and Angola received a larger share of the FDI to the continent in 2006. These resources are profitable investments as a result of their prices on the international market. Thus, Nigeria is seen as the largest recipient of FDI in the Anglophone countries of West Africa and also the ECOWAS group. It has been receiving more than 70% of FDI flows since 2001 and is consistent as the recipient of that amount of percentage. This indicates the importance of a resource in determining the flow of FDI to a country.

- ***The Inflation Rate***

The rate of inflation in a country reflects its existing economic conditions. A high inflation rate negatively affects investment and this is as a result of the increase in the cost of capital. This therefore discourages the inflow of FDI to a country (De Mello: 1997). A look at Ghana shows that, the estimated average inflation rate was 14.5% in

2003 and 15% in 2006, whereas in Nigeria, it was about 14% in 2003. Gambia on the other hand, had an estimated inflation rate of about 17% in 2003. These figures give the averages on inflation in the Anglophone countries. Thus double digit inflation rate are seen as unfavourable and the economies of these countries in recent times have adopted policies to curb the high rates (World Investment Report: 2008).

- ***Infrastructure of the Host Country***

This is one of the factors which discourage FDI investors in Africa. A well developed transportation and communication network boosts exports and imports and hence international trade. Additionally, uninterrupted power and water supply are important in the process of production. Infrastructure has therefore been shown to be important determinants of FDI in Africa (Morriset: 2000). Foreign investors prefer economies which have all these infrastructural facilities in place to facilitate business. Thus according to Mody and Srinivasan (1998), adequate infrastructure is beneficial for FDI inflows to a country.

- ***Openness of the Economy***

A country's trade policies are a key determinant of investment. A country more open to the outside world has high chances of increasing inflows since it sends signal to potential investors of the country's trading opportunities. This discourages investment if the policies are restrictive and unfavourable (Dupasquier and Osakwe: 2005). Since FDI is a business relationship, investors prefer to invest in a country where they can easily move their capital. Studies indicate a positive relationship between open economies and FDI inflows (Wheeler and Mody: 1992).

- ***Labour costs, efficiency and productivity***

China is a typical example of a country that has been able to attract huge FDI inflow as a result of its relatively low wages. This is important for foreign investors in the labour intensive industry. The quality of the labour force also plays a significant role. The existence of skilled labour in certain sectors of the economy is important for productivity. Certain specialized industries need skilled labour to efficiently operate and produce thus making labour costs, efficiency and productivity a key determinant of FDI in Africa (UNCTAD:1998).

- ***Size of the market***

The size of the market is an important determinant of foreign direct investment. A country with a large population and hence a big market is seen as a potential consumption of the output of investment and with the possibility of higher returns. China can be given as an example of a country with huge population that has attracted a significant inflow of FDI over the past years. In West Africa, Nigeria is a notable example of a country with large market size. This explains one of the reasons why the regional integration of countries has become an important phenomenon (ECA:2004).

- ***Operating Conditions***

These include tax policies of the host country as well as restrictions in the business and investment environment. Enhanced incentives such as tax holidays and government privatization policies contribute to the growth of FDI inflow to a country. In a study (Chen and Tang: 1986) the nature of tax policies in a country was shown to attract FDI

inflows and retain existing investors. The continual improvement of the investment climate for existing investors will more than likely attract other investors. The existing regulations of a country can be made more attractive through the establishment of laws that encourage foreigners to easily transfer their profits, dividends and capital. Domestic investors will also be encouraged to keep their capital in the country thus avoiding capital flights (Dupasquier and Osakwe: 2005).

4. Importance of Foreign Direct Investment

African countries are saddled with many problems which include poor economic performance, debt problems and high poverty levels. Foreign Direct Investment is therefore seen as one of the solutions to solving these problems (UNCTAD 1999). The rippling effect is seen to enhance the economy and thereby promote growth and accelerate development in the host country, depending on the conditions of that country. According to OECD report, FDI effect on growth works through foreign trade flows, spillovers and other externalities. With reference to the openness of the economy as stated on page 27 of my report, a country more open to the outside world in terms of favourable trade policies will attract foreign investment. Countries with good trade policies are able to increase both export and import to generate more revenue. This diversification is important since it gives a country access to a larger market.

Additionally, FDI increases capital formation in LDC's with low capital base. This forms part of the stock of capital for a country and normally helps with the balance of payments for a country. Taking a look at less developed countries with particular reference to West African countries, they are noted for persistent balance of payment deficit as a result of

unfavourable terms of trade due to higher prices of imports and lower prices of exports(OECD Report: 2008). According to the Central Bank of Gambia (2009), the country has substantial trade and current-account deficits which are normally financed largely by official grants and loans and increasing Foreign Direct Investment inflows; hence the need to increase such inflows.

Technological transfer is one of the most important benefits of FDI. The host country benefits from the technology used by the foreign investors through spillovers to the local production processes. Studies (OECD Report: 2008) indicate that the transfer of technology works through some channels. The first is a vertical linkage with the producers in the host country. This is achieved by building on and improving existing inputs of production. Through this, the producers are able to compete favourably with international markets since industries are upgraded and well equipped through the transfer of technology. The oil industry in Nigeria is now the 11th largest oil producer in the world and the largest in Africa. This is because of the capital and technology used by the foreign investors on a scale which domestic resources could not meet (UNCTAD Report: 2008). Additionally according to the report, there are plans to increase production level to 10 million barrels a day by 2010. It should be noted that all other things being equal, this should have a positive impact on the economy since the oil industry's contribution to national exports was about 98 percent generating an amount $56.3 billion in 2006 for the country. Secondly, there is a horizontal linkage which refers to the promotion of competition with local companies. This tends to benefit the host country in the areas of improvement in the quality of a product and lower the prices which are some product characteristics of healthy competition between companies.

Direct Investment is also noted for creating more jobs in the host country as more companies and businesses are set up. Workers experience an increase in their standard of living and are also able to provide market for the output generated since they have 'purchasing power'(OECD Report:2008). As more people are hired, the government generates revenue through taxation.

In Ghana, from 1994 to 2002, $1.4 billion of FDI generated jobs for 72,384 Ghanaians and 4,652 non-Ghanaians. AngloGold Ashanti, a mining company in Ghana has employed 62,895 people as at December 2008.In comparison to other sectors like agriculture, there are relatively low- skilled labour in the mining industry as a result of the capital-intensive nature of production. The company has training programmes to enhance the skills of their employees and equip them with the requisite knowledge to operate the machineries (Ashanti Goldfields Annual Report: 2000). Unilever another foreign company with some Ghanaian shares, in 2000, spent 2.8 billion cedis on local and overseas training of its personnel. Also, in terms of employment creation, it has been estimated that the company employs around 1,200 farmers for the supply of its raw materials and another 800 in the manufacturing sector (GIPC: 2008).

Another reason for the importance of FDI to the economies of LDC's is its ability to improve the infrastructure of the host country. In Africa, and for that matter specifically West Africa, infrastructural development is key for attracting FDI. Most of these countries have poor water supply, persistent power outages and poor transportation and communication networks, which are seen as obstacles to development. However, if a country is able to attract FDI, there is a gradual improvement in these areas, as they

receive some level of investments. For example, FDI is noted for improving conditions in the telecommunication industry in Nigeria. According to the Nigerian Communication Commission Report (2008), there was a drastic increase in the number of subscribers from 35,000 to over 16 million in September 2005.

In Sierra Leone, there was an investment by Sierra-Com of an amount of $3m (foreign company in partnership with a local company) in the telecommunications industry. This involved a high-speed broadband wireless internet and voice over internet protocol. The move has attracted further investment especially in the financial institutions and other sectors helping to improve the economy which had suffered from civil wars (MIGA Report: 2008).

Foreign Direct Investment is also attributed to the significant investment projects that Guinea experienced from 1997 to 1998. Some of these projects included a $200 million railway repair by Slovak Railways and an expansion and modernization project undertaken by the government of Iran, at an estimated cost of $20 million. Additionally, others include: a diamond operation by De Beers which was worth $8 million and another by Société Aurifere de Guinée and Hymex Diamant which was estimated to be $24 million (OPIP Report: 2008).

D. RECENT POLICY DEVELOPMENT OF FDI IN THE MEMBER COUNTRIES OF WAMZ

The positive implications of Foreign Direct Investment on host countries are numerous and economists have over the years tried to prove these advantages in their studies and analysis. Developing countries as a result of this, seek to promote these investments in their economies. These are done through various policies and measures which are pursued to enhance the flow of FDI. Studies show that, China which attracts the largest flow of FDI amongst developing countries has over the years formulated policies directed towards encouraging more of these investments. Preferential treatments are given to foreign enterprises as compared to their local counterparts in the form of tax incentives (Long: 2007).

In Africa, each country has its own policies and regulations to attract FDI. Most of the time, these policies are directed towards creating more favourable and investor friendly environment and are in the form of tax incentives which include up-front subsidies, tax holidays, easy access to loans for the purchase of land and other factors of production(Basu and Srinivasan:2002). Others are in the form of economic and structural reforms which include:

- privatization of state owned companies
- the relaxation on restrictions of capital outflows
- the opening up of more sectors and industries to foreign investments
- the expedient processing of these initial requirement for the set up of new companies
- Improvements in the legal requirements for the setting up of companies.

In 1997, a survey conducted revealed that in Africa, 26 out of the 32 least developed countries had policies which encouraged a relatively liberal regime for the repatriation of

dividend and capital made through investments in the host countries. (UNCTAD: 1997). Additionally, others have sought to improve and maintain macroeconomic stability through policies geared towards the reduction of inflation rates, devaluation of overvalued currencies and budget deficits (UNCTAD, 1998)

Case Study of Nigeria, a Member Country of WAMZ

FDI flows to Nigeria over the past decades have been quite consistent and continue to be dominant as compared to the other countries in West Africa. The flow of FDI is mainly directed toward the oil sector. Initially, policies in Nigeria were directed toward the regulation of FDI rather than the promotion of FDI, since successive governments viewed FDI as the domination of their economy by foreigners (Ayanwale 2007). The policy which was responsible for this was the Nigerian Enterprise Promotion Decree (NEPD). The NEPD was mainly an indigenization policy which limited the investment of foreigners in the manufacturing and commercial sectors to a maximum of 60% participation (NIPC and UNCTAD). The effects of this policy was that 22 business activities were exclusively reserved for Nigerians and these included bus and taxi services, advertising, gaming, electronics, manufacturing, the media and retailing, basic manufacturing, road transport and personnel services (NIPC: 2008).

In 1977, the maximum participation for foreign investors of 60 percent was changed to 40 percent through the passing of a second indigenization decree which further restricted the inflow of FDI to these sectors. Apart from the general reduction in the participation rate, the government also opened up more activities for the Nigerian Investors and specific ones in which foreign investors had participation rate of 100 percent was reduced

to 60 percent. These were in the manufacturing of drugs, some metal industries, glass, hotels and oil service companies (NIPC: 2008).

The structural adjustment programmes which was directed toward trade liberalization through the promotion of exports and the elimination of quotas on imported goods encouraged the government during that period to reduce the initial restrictions imposed on FDI flows in the country. A committee; Industrial Development Coordinating Committee (IDCC) was set up to formulate policies to encourage foreign direct investment. In 1989, this committee further opened up more sectors for foreign investors and allowed citizen ownership of at least 40 per cent depending on the sector (NIPC: 2008).

Finally, in 1995, the government established Nigeria Investment Promotion Council (NIPC) which encouraged investments for foreigners in areas which were initially restricted to Nigerian investors. Foreigners were therefore allowed to have 100 percent ownership in businesses that were set up in the country. Additionally, an export processing zone (EPZ) scheme was adopted in 1999 to mainly promote export of goods and services within demarcated zones. The body responsible is the Nigerian Export Processing Zone Authority (NEPZA). Under this zone, some of the benefits enjoyed by investors include:

- The ability to repatriate their capital
- Remit their profits and dividends
- To employ foreign managers and qualified personnel at their own discretion.

Furthermore, requirements and the approval process for the establishment of a business in Nigeria were made more flexible and the approval of an application was reduced from four weeks to fourteen days if all the necessary requirements are met (UNCTAD Report: 2008).

In 2006, to further improve their investment climate, a One-Stop-Shop Investment Centre (OSIC) was opened. This centre has the main objective of addressing and settling problems related to various aspects of investment in the country. This may include bureaucratization in procedures and poor service orientation (NIPC: 2006). To 'fast track' its objective, the centre has representatives from the various stakeholders and these include: the Nigerian Investment Promotion Commission (NIPC), the Corporate Affairs Commission (CAC) and the Central Bank of Nigeria (CBN). One of the successes that have achieved since its inception is that business permits are issued fairly automatically (NIPC:2008). Apart from these policies, the government has endeavored to effectively manage industrialization, deregulation and market-based arrangements (Ayanwale: 2007)

Case Study of Ghana, a Member Country of WAMZ

In comparison to other countries in sub Saharan Africa, flow of FDI to Ghana in the past decade has been marked with a decline in absolute terms (UNCTAD Report: 2008). Since 1983, the government has embarked on a privatization strategy as a result of an Economic Reform Programme to encourage the opening up of the economy to foreign investors mainly in the mining sector. Amongst the policies to attract FDI at that time was the 'no ownership requirements' and foreign participation of more than 50 percent.

This was because of a preference for local participation which was placed at a minimum threshold of at least 25 per cent (GIPC: 2008).

In 1994, the government of Ghana established the Ghana Investment Promotion Council (GIPC) with the main aim of identifying key areas for potential investment and providing potential investors with the needed information of the country through the development of favourable policies and regulations. Key areas targeted were the fishing and forestry sectors, as well as services such as banking, insurance and real estate. Taking a look at the fishing industry, the maximum ownership holding for foreigners was 50 percent in a tuna-fishing venture and 40 percent ownership for foreign investors in insurance companies. Additionally, foreign ownership of a publicly-listed company on the stock exchange was given a maximum threshold of about 75 per cent. However in the mineral and oil sectors, the State still has a right to ownership of 10 percent at no cost .Entry requirements were also made more flexible in certain sectors in comparison to other developing countries which included a low minimum capital requirement to establish a business entity in Ghana (GIPC: 2008).

Secondly, between the period 1989 and 1992, the country also entered into Bilateral Investment Treaties (BITs) with a number of capital-exporting countries. This was mainly to encourage investment flows as investors were assured of fair and equitable treatments as well as full protection and security for their investments. Other benefits included protection from expropriation and free transfer and convertibility of funds. Some of the countries under this bilateral agreement include United Kingdom, Switzerland, Germany, United States and Italy (UNCTAD Report: 2008).

Thirdly, there are several incentives given to foreign investors. These are in the form of tax holiday from the start of operation, capital allowances, locational incentives, corporate tax rates and exemption from income taxes. Specifically, industries in the manufacturing sector located in regional capitals other than Accra and Tema enjoy a 25 percent rebate and all others located outside regional capitals enjoy a 50 percent rebate. Additionally, industries in the manufacturing sector that use local raw materials enjoy a 3-year tax holiday (GIPC:2001).

Ghana also has a free zone board (FZB) that serves as a 'one stop' regulatory authority of investments in the country. This therefore speeds up processes for prospective investors. Furthermore, there is a free trade zone (FTZ) which was established with the main aim of promoting exports in the country. According to GIPC: 2008, companies under FTZ enjoy:

- A zero per cent income tax for a period of 10 years
- Income tax paid after the period shall not exceed 8 percent
- Relief from double taxation for foreign investors and employees
- No import licensing requirements
- A 100 per cent foreign ownership allowed with no restrictions on repatriation of profits.

Presently, institutions that have been established include a Ministry which is directed towards Private Sector Development and the African Growth and Opportunity Act (AGOA) which was formed based on an agreement between Ghana and the United States to boost and encourage exports in areas such as the textile and apparel industry. There is

also an Investors' Advisory Council, which the government has established with the help of the World Bank Group and the International Monetary Fund (IMF) to promote investment in Ghana at the international level through the formulation of policies to make investment attractive in the country (UNCTAD Report:2008).

Case Study of Gambia, a Member of WAMZ

Statistics indicate that the flow of FDI to Gambia in comparison to the other West African countries has not been that impressive. As a result of this, the government has committed itself to privatization policies geared towards all sectors of the economy as well as, encouraging foreign investments in all areas with the exception of defense, television and other sensitive areas. Businesses may therefore be wholly owned by foreigners or jointly owned with participation by local investors (GIPFZA: 2008).

Like its sister countries, Nigeria and Ghana, the government of Gambia has established the Gambia Investment Promotion and Free Zones Agency (GIPFZA) to help establish a framework to coordinate promote and boost foreign investments. Policies put in place are:

- The exemption from customs duty and sales tax on approved quantities of semi-furnished products, spare parts, raw materials, and supplies and consumables involved in the production process,
- The exemption from withholding tax on dividends for five years as well as turn-over tax,
- Preferential treatment for a possible site for investment and exemption from turnover tax payment obligation. (GIPFZA: 2008)

However, the above concessions are applicable under the condition that the potential investor falls under what is known as 'special investment category, which means the investor has to meet certain criteria laid down by the government (GIPFZA: 2008). Furthermore, the country also has bilateral investments agreements with countries such as Netherlands, Switzerland and the United Kingdom (GIPFZA: 2008).

Case Study of Sierra Leone a Member of WAMZ

In the early eighties, Sierra Leone had favourable investment policies which included the protection and easy repatriation of capital, profits, and interest by the foreign investors. Additionally, there was a tax relief system for a maximum period of five years, an easy access to import licenses, as well as an exemption from customs and duties on capital equipment and new materials. As an incentive, special bonuses were also given to companies who were able to set up businesses outside Freetown (SLIEPA: 2008). However, between the periods 1991 to 2002, there were persistent violence in the country which discouraged investments in the country. On a road to recovery and recognizing the importance of FDI to their growth process, the government established the Sierra Leone Investment Enterprise Promotion Agency (SLIEPA); an institution charged with the responsibility of encouraging and promoting investment in Sierra Leone. It serves as a 'central stop' for doing business in Sierra Leone. So far, incentives put in place include:

- No restrictions on remittances or repatriation of income by foreigners,
- Easy convertibility of funds and
- The ability of foreigners to acquire and dispose of interests in business enterprises at their own discretion. (SLIEPA: 2008)

Presently, there are other policies yet to be implemented to promote investments in the country. These include the establishment of an export-processing zone with duty free status for re-exports and an investment code intended to give detailed incentives for specific sectors in the country(Investment Climate Statement: 2009)

Case Study of Guinea, a Member of WAMZ

Before 1984, not much attention was directed toward attracting foreign investments in the country. The mining and energy sectors were the only exceptions which allowed for private foreign investment. In later years, policies were made and directed toward attracting investments in the agricultural sector. However, in 1984, an investment code was passed by the then government to indicate their commitment and emphasis in increasing FDI inflows to the country. This was followed in 1992, by the liberalization of some policies to permit private ventures in sectors such as telecommunication. For instance, the postal service was separated from telecommunications to allow foreign investment and participation in the latter. Additionally, the government also established the Office of Private Investment Promotion (OPIP) to serve as a One-Stop shop to facilitate the creation of businesses in the country by potential foreign investors (OPIP: 2008).

In 1995, the code was amended. Under the revised code, the country was divided into four administrative zones in order to facilitate and service foreign investment projects. Policies such as the free repatriation of capital by foreign investors, special incentives for small and medium-scale enterprises and exports for the non mining industry were also

included under the amended code as part of the government's effort to increase its inflows. Foreign investors were also allowed to own up to 85% of mining ventures in the country (OPIP: 2008).

Table 4: Doing Business Indicators

COUNTRY	Ghana		Nigeria		Sierra Leone		Gambia		Guinea	
YEAR	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Doing Business	87	82	118	114	156	163	130	128	171	172
Starting a Business	137	143	91	86	53	94	101	100	177	173
Dealing with Construction Permits	142	139	151	161	169	171	74	69	162	159
Employing Workers	145	144	27	28	173	173	55	39	114	115
Registering Property	31	27	176	176	163	175	111	105	157	154
Getting Credit	109	102	84	79	145	141	131	126	163	161
Protecting Investors	38	33	53	49	53	49	170	168	170	168
Paying Taxes	65	83	120	121	160	154	175	175	168	168
Trading Across Borders	76	63	144	143	132	133	73	72	110	107
Enforcing Contracts	50	50	90	89	141	139	63	61	131	128
Closing a Business	104	99	91	92	145	144	120	119	109	114

World Bank Group: Doing Business Report

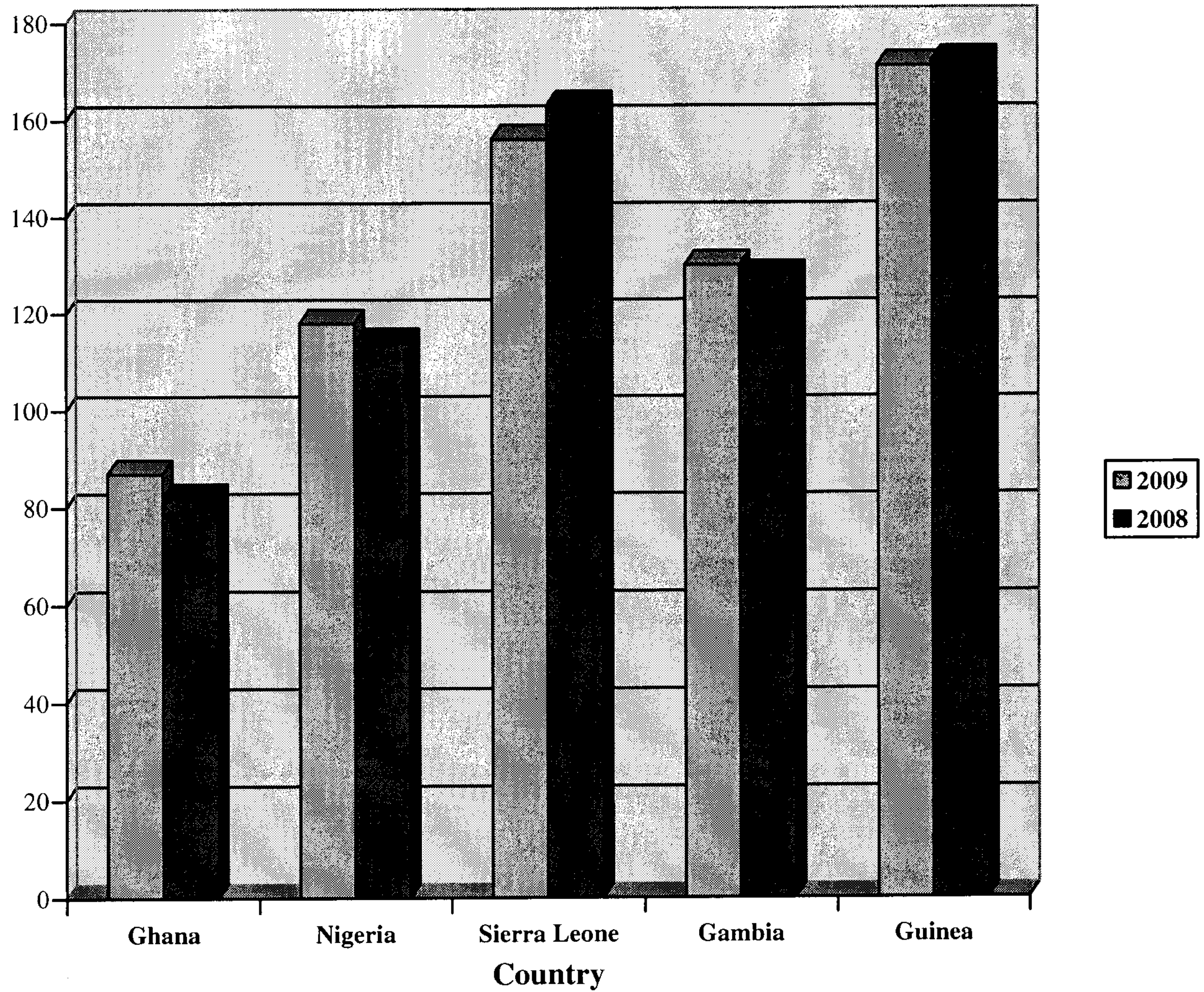
Table 4 summarizes the ranking in 'doing business' in the member countries of the West African Monetary Zone (WAMZ) out of a total of 181 countries. In 2008, the rankings for the category of the ease with which a business can be done were Ghana: 82, Nigeria: 114, Sierra Leone: 163, the Gambia: 128 and Guinea: 172. The graph shows that, the only country to have improved its ranking was Sierra Leone which moved from a very low ranking of 163 to 156; a positive change of 7. This is an indication of an improvement in the investment environment hence creating a positive signal to potential investors.

In starting a business, both Sierra Leone and Ghana showed an improvement in their ranking but that of the former was quite impressive since the country moved from 94 to 53. Ghana recorded a positive change of 6. However in the protection of investors and availability of credit, despite the policies adopted in each of the countries to encourage investment, none showed an improvement in its ranking. For the trading across border indicator, Ghana, Sierra Leone and Nigeria showed a slight improvement in ranking, suggesting that the policies adopted by ECOWAS across the region in terms of the free movements of persons have boosted trading across borders to some extent.

In summary, despite the creation of institutions and policies adopted by each of the countries to attract foreign investment, the indicators show that in comparison to the other economies of the world, it is still more difficult to do business in these countries. The agencies and institutions in charge of investment promotion therefore, need to reform some of their policies especially in the area of getting credit to start a business and the protection of investors. According to the Doing Business Report: 2009, firms consistently rate the ease to which they are able to access credit as one of the key barriers

to their operation and growth since companies grow only when they have the capital to reinvest. This capital is made available either through a bank loan or by attracting equity investors. Additionally in a study (World Bank Report: 2008), the presence of legal and regulatory protections for investors explains up to 73% of the decision to invest signaling the need to adopt legal and regulatory protections policies for foreign investors.

Graph 1



E. EMPIRICAL MODEL

This analysis will be similar to Onyeiwu and Shrestha (2004) where they based their model on 29 African countries for the period 1975 to 1999 as stated in part A of the critical assessment of the literature. Here, the panel regression estimation is based on the

five member countries of WAMZ namely Nigeria, Ghana, Sierra Leone, Guinea and the Gambia for the period 1980 to 1999 with 100 observations. On the left hand side of the equation, we will have the endogenous (dependent) variable which is net foreign direct investment as a percentage of Gross Domestic Product and is lagged by a period of 1 year. The exogenous (explanatory) variables on the right hand side of the equation will be the growth rate of Gross Domestic Product (GDP), the inflation rate, openness of a country to the outside world and external debt stock. The assumption here is that there exists a linear relationship between the endogenous and exogenous variables, but there are other variables that affect FDI flows to these countries which are fixed and their impact is random.

- **Specification of the model:**

$$FDI_{it+1} = \beta_0 + \beta_1 GDPGROWTH_{it} + \beta_2 EXTDEBT_{it} + \beta_3 INFL_{it} + + \beta_4 OPEN_{it} + \varepsilon_{it}$$

FDI_{it+1} = Net FDI as a percentage of GDP in country i in year t+1

GDP $GROWTH_{it}$ = GDP growth rate of country i in year t

$EXDEBT_{it}$ = External debt as a percentage of GDP in country i in year t

$INFL_{it}$ = Inflation rate in country i in year t measured as the change in price level of GDP (US$=100 in current prices)

$OPEN_{it}$ = Openness of country i in year t measured as a percentage in current prices ($)

ε_{it} = Error term

t- time period from 1977 to 2001

- **Data**

The source for the data used for the calculation which is all the macroeconomic variables are the Penn World Table Version 6.2 (Heston et al: 2006) and the World Development Indicators (WDI: 2008) published by the World Bank.

1. Analysis and Estimate Results

In this analysis, my paper calculates Panel Corrected Standard Errors (PCSE) using the Ordinary Least Squares Estimation (OLS). From the estimated results, at the 5% level of significance, openness of a country and external debt stock are significant implying that these variables are determinants for the inflow of FDI to the West African Monetary Zone (WAMZ). However, inflation and GDP growth are not significant which is quite surprising. But as stated in the literature review, studies by Li and Liu (2001) in less developed countries is in conformity to my analysis that FDI does exert negative influence on economic growth, explaining their results using the extent of the absorptive capacities of these countries to absorb such inflows.

Table 5: Results for Panel Corrected Standard Errors for the Period 1980-1999 for the Five Countries.

Variables	Coefficient Estimates
GDP growth	0.0713041 (0.1037104)
External Debt	1.08e-07 (2.62008)
Inflation	1.762291 (1.396511)
Openness	0.0442267 (0.010836)
_cons	-2.025369 (0.8334208)

See Appendix B for Output

The insignificance of inflation in this analysis is puzzling though, since studies done by other economists with specific reference to Onyeiwu & Shrestha (2004) contradict this result and hence indicate that inflation plays a significant role. A country with high inflation rates sends wrong signals to potential investors in the area of poor management of certain macroeconomic indicators. This includes the nominal exchange rate in the country, since this reduces the real effective exchange rate. Secondly, currency depreciation lowers the value of an investor's profits and dividends hence the net worth of their investments (Onyeiwu & Shrestha: 2004). The importance of openness to Foreign Direct Investment is not to be underestimated since foreign investors are attracted to economies which are open and thus indicate flexibility in terms of operation and the transfer of funds (Asiedu :2002).

E. CONCLUSION

Evidence from prior studies indicates that there are numerous advantages of Foreign Direct Investment to host countries. Some of these benefits include the generation of employment and the development of the human resource of the host country. In effect these improve the standard of living in a country, and also the balance of payments since FDI inflow is seen as one of the major sources of financing especially for developing countries (OECD Report:2008). Subsequently, these effects help in the economic development and growth of the host country.

As stated previously, in each of the five case studies in my analysis, the countries have over the years sought to increase FDI inflows by adopting policies deemed appropriate

and also controlling their macroeconomic indicators. The latter is being done through government effort as the stability of certain indicators is part of the criteria and objectives to be attained under the WAMZ economic and monetary integration and hence serve as a disciplinary tool. If these countries are able to implement the common currency as planned, it will lead to favourable monetary and fiscal policies which will have positive effects on their economies and for that matter on the group as well.

My studies confirmed that external debt and openness of the economy are indeed important for the inflow of FDI whereas inflation and GDP growth were not significant. Other studies however found inflation to be an important determinant for inflows to Africa. There are various reasons that could be given to explain the variations in the results. It should be noted that the data and period used for the various analysis differ. In addition, though several factors have been shown to determine the inflow of FDI to developing countries and it will have been appropriate to add these to my analysis, data was not readily available.

In Nigeria, the presence of oil reserves has been one of the key determinants of the inflow of FDI to the country. Quite recently, there have been discovery of some oil reserves in Ghana by Tullow Oil firm (2007) and this has raised speculation as to how this will affect the economy. My study cannot make predictions based on my results, since natural resource was not included in my model. However, from other studies and taking a look at Nigeria, it is obvious that this discovery will have a positive impact on the growth of the country and the potential common currency integration.

F. RECOMMENDATIONS

I recommend that agencies in each of the countries in charge of collecting statistical data should be well equipped and highly resourced to be able to effectively collect and analyze the raw data. Improvement in data will help in econometric analysis and studies in the appropriate sectors of the economy which will help in macroeconomic analysis and subsequently appropriate policy recommendation for key areas of the economy.

Secondly, I recommend that institutions in charge of attracting investments such as the Ghana Investment Promotion Council (GIPC), the Gambia Investment Promotion and Free Zones Agency (GIPFZA) and the Nigerian Investment Promotion Council (NIPC), Office of Private Investment Promotion (OPIP) in Guinea and the Sierra Leone Investment Enterprise Promotion Agency (SLIEPA) must endeavour to ensure that the investment policies and hence climate in the countries are favourable for investments. These include the removal of bottlenecks in institutions. These include the judiciary system which processes the legal documentation in establishing a business and the protection of the rights of foreign investors, the financial institutions for easy access to credits and transfer of funds and authorities in charge of shipments of goods at the Port of entry.

Finally, the member countries of WAMZ must improve their educational institutions with emphasis on technology and the training of more scientists to engage in research and technology. This is to enable the countries have more skilled labour and technology in order to have the capability to absorb the technological spillovers from FDI inflows.

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APPENDIX A

RESULTS FROM ESTIMATION OF THE MODEL

Linear regression, correlated panels corrected standard errors (PCSEs)

Group variable: country Number of obs = 100

Time variable: year Number of groups = 5

Panels: correlated (balanced) Obs per group: min = 20

Autocorrelation: no autocorrelation avg = 20

max = 20

Estimated covariances = 15 R-squared = 0.2044

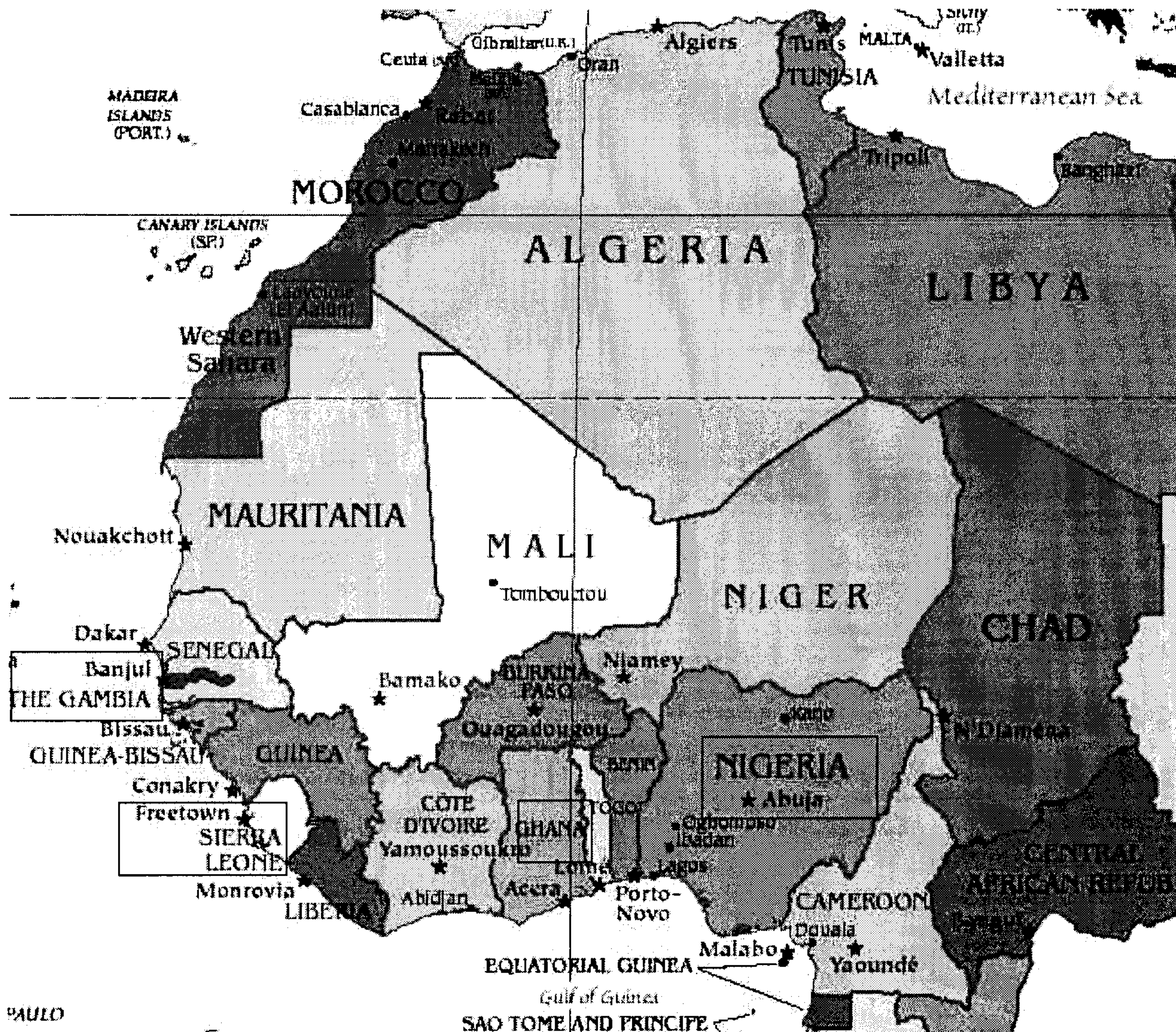
Estimated autocorrelations = 0 Wald chi2(4) = 36.82

Estimated coefficients = 5 Prob > chi2 = 0.0000

	Panel-corrected Standard Errors					
fdigdpt1	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
gdpg	.0713041	.1037104	0.69	0.492	-.1319646	.2745728
debt	1.08e-07	2.62e-08	4.11	0.000	5.63e-08	1.59e-07
inflation	1.762291	1.396511	1.26	0.207	-.9748212	4.499403
openness	.0442267	.010836	4.08	0.000	.0229885	.0654649
_cons	-2.025369	.8334208	-2.43	0.015	-3.658844	-.391894

APPENDIX B

MAP OF WEST AFRICA SHOWING THE LOCATION OF THE FOUR COUNTRIES IN MY ANALYSIS



SOURCE: GOOGLE MAPS

APPENDIX C

A table showing the data showing the figures used for the analysis

Year	FDI net inflows (BoP, current US$)	GDP (current US$)	fdi/gdp (t+1)	GDP annual growth	External debt stocks, total (DOD, current US$)	Price Level	Inflation	Openness in Current Prices (% in Current Prices)	Country
1980	280	241081	1.0426	6.00	136799.00	61.72	-0.03	89.59	Gambia
1981	2281	218786	0.1250	3.00	176028.00	49.47	-0.20	85.07	Gambia
1982	270	216004	-0.1874	-1.00	207088.00	47.12	-0.05	79.99	Gambia
1983	-400	213414	-0.9586	11.00	211730.00	45.47	-0.04	114.97	Gambia
1984	-1700	177344	-0.2215	4.00	230292.00	44.79	-0.02	91.01	Gambia
1985	-500	225719	-1.0739	-1.00	245075.00	52.95	0.18	90.76	Gambia
1986	-1990	185298	0.6694	4.00	270136.00	34.50	-0.35	115.26	Gambia
1987	1477	220639	0.4388	2.00	326672.00	37.67	0.09	98.11	Gambia
1988	1170	266649	5.2051	4.00	325156.00	41.50	0.10	111.80	Gambia
1989	14786	284067	4.4554	6.00	337736.00	44.87	0.08	100.15	Gambia
1990	14120	316922	3.2187	4.00	369110.00	46.00	0.03	100.85	Gambia
1991	10196	316778	1.7721	3.00	383163.00	41.26	-0.10	105.44	Gambia
1992	6157	347446	3.0201	3.00	403396.00	40.23	-0.02	107.10	Gambia
1993	11065	366382	2.7014	3.00	425977.00	34.01	-0.15	93.49	Gambia
1994	9807	363033	2.0375	0.00	422977.00	31.14	-0.08	115.88	Gambia
1995	7782	381945	2.7550	1.00	426068.00	32.37	0.04	109.43	Gambia
1996	10795	391832	2.9236	2.00	451987.00	32.73	0.01	113.01	Gambia
1997	11976	409636	5.6895	5.00	424643.00	25.88	-0.21	100.85	Gambia
1998	23700	416556	11.4554	3.00	459520.00	24.05	-0.07	113.21	Gambia
1999	49480	431935	10.3399	6.00	464618.00	36.02	0.50	106.60	Gambia
1980	-18670	1100686	0.6733	5.00	470356.00	57.61	0.06	61.13	S. Leone
1981	7506	1114830	0.3615	3.00	592406.00	52.28	-0.09	62.77	S. Leone
1982	4683	1295362	0.1705	5.00	628559.00	51.60	-0.01	41.66	S. Leone
1983	1697	995104	0.5386	-2.00	641672.00	39.72	-0.23	33.08	S. Leone
1984	5857	1087472	-3.6127	4.00	613263.00	38.65	-0.03	23.05	S. Leone
1985	-30957	856890	-28.6243	-5.00	707710.00	29.08	-0.25	20.19	S. Leone
1986	-140311	490181	5.6195	1.00	868509.00	14.79	-0.49	24.11	S. Leone
1987	39410	701308	-2.1883	7.00	1031953.00	17.17	0.16	55.15	S. Leone
1988	-23088	1055084	2.3962	-7.00	1024384.00	25.65	0.49	43.11	S. Leone
1989	22356	932974	4.9927	1.00	1077780.00	25.17	-0.02	41.59	S. Leone
1990	32435	649645	0.9621	3.00	1176385.00	17.17	-0.32	46.00	S. Leone

1991	7504	779995	-0.8233	2.00	1250703.00	21.74	0.27	45.98	S. Leone
1992	-5599	680034	-0.9707	-19.00	1370222.00	22.13	0.02	44.67	S. Leone
1993	-7463	768818	-0.3152	1.00	1527877.00	24.01	0.09	43.69	S. Leone
1994	-2874	911912	0.8368	-2.00	1529135.00	26.81	0.12	40.54	S. Leone
1995	7287	870768	0.0705	-8.00	1219572.00	21.94	-0.18	40.18	S. Leone
1996	664	941753	0.2117	5.00	1211712.00	22.28	0.02	39.81	S. Leone
1997	1800	850231	0.0156	-17.00	1170072.00	25.38	0.14	43.20	S. Leone
1998	105	672382	0.0796	-1.00	1280309.00	19.90	-0.22	38.99	S. Leone
1999	533	669393	6.1334	-8.00	1260579.00	20.72	0.04	38.01	S. Leone
1980	-738870	64201789	0.9051	4.00	8921408.00	221.23	0.23	49.91	Nigeria
1981	542327	59918537	0.8653	-13.00	11420678.00	175.99	-0.20	49.23	Nigeria
1982	430611	49763410	1.0427	0.00	11971607.00	161.33	-0.08	39.16	Nigeria
1983	364435	34950459	0.6712	-5.00	17560755.00	168.65	0.05	26.62	Nigeria
1984	189165	28182542	1.7093	-5.00	17770533.00	176.88	0.05	23.00	Nigeria
1985	485581	28407931	0.9560	10.00	18643256.00	151.48	-0.14	25.35	Nigeria
1986	193215	20210788	2.6046	3.00	22211934.00	79.09	-0.48	23.57	Nigeria
1987	610552	23441334	1.6574	-1.00	29021380.00	47.09	-0.40	42.68	Nigeria
1988	378667	22847728	7.9026	10.00	29621029.00	50.23	0.07	34.69	Nigeria
1989	1884250	23843508	2.0647	7.00	30121999.00	37.37	-0.26	58.92	Nigeria
1990	587883	28472472	2.6081	8.00	33438924.00	36.28	-0.03	62.29	Nigeria
1991	712373	27313353	2.7412	5.00	33527205.00	35.23	-0.03	63.57	Nigeria
1992	896641	32710369	6.3007	3.00	29018714.00	32.94	-0.06	59.58	Nigeria
1993	1345369	21352759	8.2795	2.00	30735623.00	32.72	-0.01	57.36	Nigeria
1994	1959220	23663389	3.8396	0.00	33092286.00	42.37	0.29	42.37	Nigeria
1995	1079272	28108827	4.5142	2.00	34092471.00	87.44	1.06	88.54	Nigeria
1996	1593459	35299152	4.2492	4.00	31406607.00	118.46	0.35	55.43	Nigeria
1997	1539446	36229370	3.2707	3.00	28454869.00	118.39	0.00	73.73	Nigeria
1998	1051326	32143819	2.8897	2.00	30294495.00	110.50	-0.07	71.61	Nigeria
1999	1004917	34776039	2.4794	1.00	29127620.00	28.82	-0.74	71.61	Nigeria
1980	15600	4445228	0.3852	0.00	1401747.00	157.73	0.32	17.62	Ghana
1981	16264	4222442	0.4039	-4.00	1538843.00	255.43	0.62	10.08	Ghana
1982	16300	4035995	0.0592	-7.00	1484228.00	333.06	0.30	6.32	Ghana
1983	2400	4057275	0.0453	-5.00	1665925.00	212.56	-0.36	11.54	Ghana
1984	2000	4412280	0.1243	9.00	1959412.00	68.39	-0.68	15.17	Ghana
1985	5600	4504342	0.0751	5.00	2243294.00	54.89	-0.20	21.28	Ghana
1986	4300	5727603	0.0926	5.00	2746613.00	45.27	-0.18	33.69	Ghana
1987	4700	5074830	0.0962	5.00	3284443.00	35.21	-0.22	44.57	Ghana
1988	5000	5195042	0.2858	6.00	3056441.00	34.19	-0.03	41.70	Ghana
1989	15000	5248941	0.2514	5.00	3294417.00	34.66	0.01	48.75	Ghana
1990	14800	5886004	0.3030	3.00	3734359.00	38.39	0.11	39.40	Ghana
1991	20000	6599578	0.3509	5.00	4156472.00	39.68	0.03	39.47	Ghana

1992	22500	6412625	2.0953	4.00	4238500.00	36.67	-0.08	42.85	Ghana
1993	125000	5965704	4.2827	5.00	4575184.00	30.75	-0.16	51.43	Ghana
1994	233000	5440520	1.6493	3.00	5101149.00	26.63	-0.13	56.36	Ghana
1995	106500	6457442	1.7327	4.00	5494878.00	29.25	0.10	57.31	Ghana
1996	120000	6925530	1.1883	5.00	5787710.00	30.78	0.05	59.48	Ghana
1997	81800	6884025	2.2398	4.00	5712283.00	30.01	-0.02	69.30	Ghana
1998	167400	7474019	3.1609	5.00	6310879.00	28.83	-0.04	66.30	Ghana
1999	243700	7709812	3.3330	4.00	6419889.00	29.18	0.01	66.47	Ghana
1980	560	6684482	- 0.01980	3.00	1133455.00	32.41	0.01	58.43	Guinea
1981	-1310	6615916	- 0.00489	1.00	1371004.00	27.77	-0.14	58.43	Guinea
1982	-400	8179318	0.00366	2.00	1365552.00	25.18	-0.09	58.43	Guinea
1983	380	10376709	0.00554	1.00	1346343.00	25.08	0.00	58.43	Guinea
1984	700	12634100	0.00709	1.00	1256203.00	24.38	-0.03	58.43	Guinea
1985	1110	15649875	0.43691	5.00	1465027.00	33.23	0.36	58.43	Guinea
1986	8400	1922601	0.62943	3.00	1764064.00	25.18	-0.24	59.16	Guinea
1987	12850	2041538	0.65764	3.00	2072221.00	21.10	-0.16	58.37	Guinea
1988	15680	2384296	0.50698	6.00	2265688.00	22.88	0.08	57.95	Guinea
1989	12330	2432029	0.66976	4.00	2176221.00	21.43	-0.06	60.88	Guinea
1990	17860	2666616	1.28595	4.00	2476212.00	22.99	0.07	61.51	Guinea
1991	38770	3014890	0.59946	3.00	2622348.00	22.64	-0.02	57.14	Guinea
1992	19690	3284625	0.08295	3.00	2633578.00	21.61	-0.05	48.64	Guinea
1993	2720	3279063	0.00621	5.00	2847980.00	22.67	0.05	48.53	Guinea
1994	210	3383219	0.02082	4.00	3109776.00	23.50	0.04	43.71	Guinea
1995	769	3693753	0.61447	5.00	3241926.00	23.71	0.01	43.96	Guinea
1996	23774	3869032	0.45724	5.00	3240311.00	22.20	-0.06	43.54	Guinea
1997	17301	3783789	0.49632	5.00	3519094.00	20.57	-0.07	42.41	Guinea
1998	17810	3588376	1.83319	5.00	3545870.00	17.93	-0.13	48.21	Guinea
1999	63452	3461282	0.31944	5.00	3522429.00	16.41	-0.08	47.00	Guinea

Source: World Bank Indicators and Penn World Table Version 6.2