Corruption, an Obstacle to Attracting
Foreign Direct Investment in
the Least Developed Countries

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Abstract

Foreign direct investment is a crucial factor for economic growth and development. It is the essential element that allows the least developed countries to progress. These countries have put in place attractive investment codes by granting tax incentives to foreign investors. In these countries, the level of inward FDI flows remains negligible and the results have not led to the desired development. Why the low level of inward FDI despite the incentives taken by LDCs in light of investment codes? The study shows that it is not enough to offer fiscal incentives to foreign investors but that other factors must be taken into account to accelerate the flow of inward FDI. Among these factors, it identifies the fight against corruption as an influential tool for attracting FDI.

Keywords: Corruption, Burundi, poverty, investment, foreign workers

1. Introduction

Since the 1960s, the United Nations has recognized the existence of developing countries, including a significant number of least developed countries (LDCs)[1], [2]. LDCs are the poorest and weakest group of countries in the international community[3]. They have been defined as low-income countries facing severe structural handicaps that constrain their economic growth[4]. Based on the criteria (Gross National Income (GNI) per capita, Human Capital Index (HCI), Economic Vulnerability Index (EVI)), the Committee for Development Policy (CDP) within the United Nations proposed during its seventh session, in 1971, a provisional list
of 25 countries established and approved both by the Council in its resolution 1628 (LI) of July 30, 1971, and by the General Assembly in its resolution 2768 (XXVI) of November 18, 1971[5]. In the case of the 2006 review, the World Bank thresholds for low-income countries were US$755 (2000), US$745 (2001), and US$735 (2002), respectively, based on the World Bank's assessment in the years 2002 to 2004 and the classification used in the corresponding fiscal years. Income data were collected for 132 developing countries. From this list, 65 countries were selected for further review (of these, 50 countries were already classified as LDCs in 2006 and 15 low-income countries were not previously included in the LDC list)[4]. In 2021, 46 countries are classified as least developed countries[6].

At the global level, in the current context of globalization, improving the attractiveness of the economy and mobilizing foreign direct investment (FDI) is one of the essential elements of the strategy for growth and integration into the international economic game[7].

The LDCs, including Burundi, are making great efforts to attract FDI. They have put in place investment codes attractive to FDI and free zones to attract the maximum FDI. These measures aim at provoking a strong increase in the flow of FDI into the country. However, the level of foreign direct investment inflows remains low and the level of poverty is becoming increasingly high.

The problem of this study is to know: why the low level of FDI despite the incentives taken by LDCs in the light of investment codes?

The interest of the study is to propose other indicators that could attract foreign investors to come and invest in LDCs and the means that could allow LDCs to progress toward developed countries.

2. Materials and Methods

The study uses a desk research approach. It critically analyzes and synthesizes data and information gathered from published reports and statements on good governance and foreign direct investment attraction as well as governance indicators. As an evidence-based study, the legal and regulatory frameworks that LDCs have adopted in the areas of anti-corruption and good governance, FDI attraction, and sustainable development were examined. The study compared data from developed, developing, and least developed countries and the recommendations made depending on the results obtained during the research. For data processing, we used Microsoft Word, Microsoft Excel, and SPSS. We used Zotero tool referencing throughout this research.

3. Results of the study

The Committee for Development Policy (CDP) reviews the economic and social conditions of all low-income countries every three years and makes recommendations to the Economic and Social Council on which countries should be added to or removed from the list[8, p. 9].

Since 1971, the review of the list of LDCs has been as follows
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According to Ekodo, R., Ndam, M., and Ousmanou, K, "the results obtained from the period 1996 to 2018 show that FDI combined with the control of corruption, although having a positive sign, has no effect on economic growth in the CEMAC zone. The study took the example of six (6) developing countries, three (3) of which are on the list of LDCs. Given these results, World Bank statistics show that between 2006 and 2018, inward FDI rose from US$59.0 million to US$765.1 million in Cameroon; from US$1,487.6 million to US$4,113.1 million in Congo; from US$267.8 million to US$845.7 million in Gabon; from US$469.5 million to US$395.8 million in Equatorial Guinea; from US$34 million to US$17.94 million in the Central African Republic; and from US$278.4 million to US$662.2 million in Chad[9].

However, despite this sharp increase in the flow of inward FDI into the CEMAC zone, the same statistics show that the economic growth rates, i.e., the production of wealth in these countries, have not followed the same trend. Over the same period, the economic growth rate fell from 3.40% to 4.06% in Cameroon; from 6.20% to 1.02% in Congo; from -2.80% to 0.83% in Gabon; from 7.70% to -6.12% in Equatorial Guinea; from 4.70% to 3.78% in the Central African Republic (CAR) and from 0.60% to 2.64% in Chad.
4. Discussions

Most LDCs have pursued economic reform programs by sharply reducing or eliminating tariffs and other trade barriers and by pursuing liberal investment policies, but these reform efforts have not yielded the desired results[10]. They have been hampered by the small number of investors and the rudimentary nature of capital markets, coupled with low levels of domestic savings and a lack of foreign investment. Investment by foreign firms provides an interesting range of new skills that, over time, generate the gradual integration of certain sectors of economic activity in LDCs into the international economy[11].

The achievement of the sustainable development goals (SDGs) and the fight against poverty depends in particular on the fight against corruption, an indicator of good governance, in each country[10].

According to Mohamed Ed-Dib & Yassine Aichi, the fight against corruption is a convincing sign of good governance. Corruption is often seen as an abuse of public office for personal gain[12]. Corruption can be initiated by public officials or users of public services. It is most easily carried out when the public official concerned has discretionary power in the provision of the public service for which he or she is responsible[13], [14].

The absence of a merit-based promotion system within the civil service, poor salaries, and bureaucratic slowness will inevitably lead to corruption and, if not effectively addressed, can significantly undermine a country’s efforts to establish good governance and significantly reduce the resources available for poverty reduction[15]. It is worth mentioning that LDCs need to make economic activities free and transparent, which would certainly lead to the attraction of FDI[16].

The quality of institutions also attracts foreign investors. According to MUJAHID et al, "this variable concerns several aspects such as corruption, bureaucracy, political stability and the legal and judicial framework[17]. Thus, the decision to locate FDI can be influenced by the differences in the levels of institutional quality existing between the countries of establishment[18].
According to the Tunisian study, the contribution of foreign establishments to economic growth has led the Tunisian government to place the attraction of foreign direct investment among the country's economic priorities through measures aimed at combating corruption and other forms of rent-seeking that increase costs and distort policies, and at strengthening the credibility of public power to reassure companies and the private sector that they are not being misled
to reassure businesses and encourage them to invest[19].

According to a survey conducted by the World Bank among 600 national companies and 56 potential European investors to determine the constraints to the arrival of foreign investors in Algeria, the results show that foreign firms often cite administrative barriers as one of the main obstacles to doing business in Algeria, of which corruption is not spared.

In addition to other factors such as financial instability, infrastructure, and bureaucracy that have an impact on the attraction of external investment, the case of Brazil has shown that corruption levels influence the decision to invest in a host country. According to Obad J. & Outseki J., in the period from 2010 to 2014, Brazil was among the 10 countries that had received more FDI at the global level, and in first position among Latin American countries. But the FDI flows had decreased since 2011 and corruption was one of the factors that promoted the reduction of the investment flow in this period[20].

About Shang Jin Wei, "for every 1% increase in the tax rate of foreign investment, such investment will decrease by about 3.3%, and for every 1 point increase in the corruption perception index, the contribution of foreign direct investment will decrease by about 11%. Shang Jin Wei also proved that the unpredictability of corruption is another factor in reducing foreign direct investment and that higher levels of corruption are like unpredictable random taxes[14].

Amina Badreddine and Rachid Benamirouche also confirm that corruption is due to the low salaries distributed by the administrations encouraging civil servants to constitute another source of income and outline how it presents itself in some African countries. Algeria comes in the 88th position out of 175 countries with a score of 3.6. According to the 2015 ranking of the "Global Corruption Report", out of 175 countries, Algeria and Morocco come in 88th position with a score of 3.6 after the United Arab Emirates (23rd, score 7), Jordan (45th, score of 5.3), Bahrain (50th, score 5.1), Kuwait (55th, score 4.9), Oman (60th, score 4.5), Tunisia (76th, score 3.8)[21].

In Burundi, measures to fight corruption are a reality. These include the dismissal of some 40 judges from the courts in August 2022 and the removal of senior officials and civil servants. Corruption is a scourge that hinders the development of the country and handicaps the attraction of FDI. It is fought not only in developed countries but also in the least developed countries.

According to Kofi A. Annan, the Secretary General of the United Nations, "corruption is an insidious evil whose effects are as multiple as they are deleterious. It is present in many countries, large and small, rich and poor, but it is most destructive in developing countries. The poor suffer the most because where it is rampant, resources that should be spent on development are diverted, governments
have less capacity to deliver basic services, inequality and injustice increase, and foreign investors and donors are discouraged. Corruption is a major cause of poor economic performance; it is also a major obstacle to development and poverty alleviation[22].

At the level of the Council of the European Union, a convention on the fight against corruption involving officials of the European communities or member states of the European Union and its protocol of 26 September 1996 on the protection of the financial interests of the European communities were established on 26 May 1997. The African Union was quick to take action against corruption by requiring all public officials or designated officials to declare their assets upon taking office, as well as during and at the end of their term[23]. This same concern has been echoed in the African Charter on Public Service and Administrative Values and Principles, in force since 23 July 2016. The study recommends that fiscal incentives offered to foreign investors should be accompanied by other good governance and anti-corruption policies. Fair enforcement of legal rules and regular monitoring of the declarations of assets of public officials without any distinctions are inevitable to achieve the desired sustainable development.

Conclusion

At the end of this study, it should be noted that good governance is a foundation for attracting foreign direct investment, a factor in sustainable development. Good governance is understood in different ways by the authors. The article cannot address all of its indicators, hence the fight against corruption was chosen as the most important element. The study showed that countries and international communities are committed to fighting this scourge. Nevertheless, it was noted that the majority of LDCs are limited in their letters. However, according to Christophe EBERHARD, If activism at the legal and institutional level is essential, stopping at declarations of rights without questioning their applicability and the conditions of their implementation is only half the battle[24], [25]. Among the LDCs, today, 33 countries out of 46 are from the African continent and zero corruption remains a long way to go. By ratifying regional and international legal instruments, these countries have made commitments to prevent and fight corruption in public services. In the provisions of the African Charter on the Values and Principles of Public Service and Administration and the African Union Convention to Combat Corruption and Related Offenses in the Public Service, it is stipulated that all public officials or those appointed to the position declare their assets upon taking office, as well as during and at the end of their term. But who does? This lightness in the application of the law influences the decisions of foreign investors to come and invest.
References


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Received: January 15, 2023; Published: February 6, 2023