



THE INKERMAN GROUP



King Solomon's Mines – The Continuing Search

The perils of foreign investment in Africa

Executive Summary

- Africa has vast potential for foreign investment, yet relatively few companies choose to invest in what they consider to be an overly risky environment.
- This assessment may have merit, as the latter half of 2008 and early 2009 saw coup d'états in four African countries, events that only serve to further destabilise and jeopardise investment opportunities in those nations that suffer them.
- These coups, to which Africa seems particularly prone, occur for a number of reasons that include African martial culture, economic factors and poor governance.
- Poor governance not only increases instability, it has other adverse effects for business operations and investment. This includes the decay and neglect of vital infrastructure and increased corruption and bureaucracy that makes conducting business needlessly expensive and inefficient.
- There are solutions to this governmental malaise, including greater efforts to promote constitution-building and a reassessment of Africa's aid dependency culture. Only when these issues are addressed will foreign investment thrive on the continent.

Africa has much to offer in terms of investment opportunities in a wide range of spheres, from the vast natural resources that litter the land to the untapped potential of over a billion people. But taking advantage of this potential is often problematic due to the unique socio-political challenges at work in even the most successful African nations. These challenges include endemic corruption, government ineptitude and operational insecurity. With the coup d'état phenomenon that blighted Africa for much of its post-colonial history seemingly resurgent, with four coups in eighteen months in Mauritania, Guinea-Bissau, Burkina Faso and Madagascar, it is important to understand what factors underlie this unfortunate stalwart of the African political system. And more importantly, to consider means to minimise the risks to investment and business caused by this instability, so that the full potential of Africa can be realised.

Into Africa

"With my own eyes have I seen the countless diamonds stored in Solomon's treasure chamber behind the White Death; but through the treachery of Gagool the witch-finder I could bring nought away, scarcely my life..." - José da Silvestra

In the classic tale of Allain Quatermain, and his quest into the mysterious dark heart of Africa in pursuit of the untold treasures of King Solomon's Mines, the adventurers are confronted by numerous challenges that threaten an end to their expedition, and often their very lives. The story has a number of parallels with modern Africa, which remains a largely unspoilt continent of vast mineral resources, energy production potential and fertile agricultural land. Now, as then, the industrial powers of the world vie for access to the untapped potential of the continent, courting the powerful, often to the detriment of the weak, in order to turn a profit. In 1885, the year Quatermain embarked on his expedition, the modus operandi was for foreign powers to occupy and control the local population by force of arms, with the objective of creating a stable environment in which to extract Africa's bounty. The colonial age in Africa ended in the middle of the Twentieth Century, sometimes peacefully, sometimes violently, and its legacy has endured for good and for ill. The continent remains mired in political unrest, military conflict and civil strife. Few countries have been immune to these three afflictions, with the result that the potential for Africa's vast wealth has been squandered, mismanaged and ignored, all to the detriment of the people. The largely stable operating

environment provided by colonialism is a memory for most African nations, and Foreign Direct Investment (FDI) in Africa is, with a few exceptions, a risky endeavour. The modern "countless diamonds" of Africa include oil in Nigeria, tin in Democratic Republic of the Congo (DRC) and land in Sudan, Egypt and Madagascar. But the treachery of Gagool endures, in the form of corruption, conflict and poor governance, all seeking to betray the wellbeing of the myriad African peoples and deny them the benefits of foreign investment.

A United Nations report at the end of May 2009 indicated that Africa's growth rate is expected to slow to a twenty year low of 2% in 2009, due to a slump in export demand and falling commodity prices. The current financial crisis is making business more difficult in almost every area of the world, but despite an independent banking sector that largely escaped exposure to the root causes of the crisis, Africa is having an especially rough ride. It is at times such as these that the financiers responsible for FDI are especially cautious about where to invest, and the recent series of coup d'états in Africa have done little to boost investor confidence. China, which has enjoyed rampant economic expansion in Africa in recent years due to its indifference to the questionable governance that repelled more timid Western investors, has begun backing away from some of its more aggressive plans, and started seeking the economic and political stability that Western companies have long demanded. While China's thirst for commodities has not slowed, state-owned companies are looking to invest in more stable countries like Zambia and Botswana, and to suspend multi-billion dollar

investments in more 'high-risk' places such as Sudan and coup hit Guinea. "The Chinese have changed their strategy... they are not going to inject US\$5 billion into an unstable country in an uncertain market climate" said a senior economist in Guinea's Ministry of Finance. But why does Africa remain so uniquely unstable, seemingly unable to take advantage of its vast natural bounty by attracting foreign investment due to the often insurmountable risks involved?

Coup d'états – Africa's curse?

"Slowly the sun sank, then suddenly darkness rushed down on the land like a tangible thing. There was no breathing-space between the day and night, no soft transformation scene, for in these latitudes twilight does not exist. The change from day to night is as quick and as absolute as the change from life to death." – Allain Quatermain

Africa is not renowned for smooth transitions of power, and successful democratic transfers of government remain a relative rarity on the continent. From 1956 to 2001, thirty African nations experienced eighty successful coups. Some 89% of the African coup attempts during this period targeted military regimes that had themselves staged successful earlier coups, highlighting the spiral of instability that military takeovers tend to instigate.

The military has traditionally occupied an uncomfortable position in African society, attempting to make the difficult transition from instrument of colonial control to defender of newly established independence. During the colonial era, soldiers were viewed with fear and distrust by local politicians and people, seen as agents of imperial rule tasked with suppressing dissent and protecting the property of their colonial overlords. This division was reinforced by a colonial policy of recruitment from the 'martial races', tribes or peoples who were seen to be naturally 'superior' and adept at combat and thus recruited to form the armies, creating a tribal imbalance in society that continues to endure in many countries. This view that the military did not participate in the independence

movement meant that following independence, the ruling African politicians preferred to continue to staff the military with European expatriate officers, to the detriment and discontent of the native soldiery. Ghana boasted the most educated population in Africa at independence in 1957, yet Africans made up only 10% of its officer cadre. DRC had 24,000 men under arms when it threw off Belgian rule, but there was not a single Congolese officer in the entire force. This inequality and failure to 'Africanise' the military hierarchy, that was so successfully employed in the civilian administration, was a potent factor in inciting mutiny and was remembered by career soldiers as they climbed the ranks.

National politicians faced the task of building their new nations, and one of the major priorities was transforming the military from colonial armies into institutions with a more national outlook. The military struggled to cast off its colonial dogma, and while it embarked on a battle for national identity and acceptance, the civilian politicians were often busy being seduced by the trappings of power, becoming corrupt and decadent, eschewing the progress that the people had been promised in favour of nepotism and experimentation with radical socialist ideologies. Economic mismanagement and incompetence led to inflation, unemployment and rising crime rates. In what was to become an unwelcome norm for Africa, the people suffered while the politicians got richer. The majority of coups which occurred from the 1950s onwards stemmed from the military deeming it a national and patriotic obligation to save the country from collapse and restore prestige. The programme of nationalisation embarked upon after independence was perhaps overly successful, with the military coming to view itself as the embodiment of freedom and protector of the nation rather than a servant of the civilian government and people. But despite these lofty goals and selfless rhetoric, the majority of military regimes turned out to be more oppressive and corrupt than the civilian governments they overthrew. Because the conditions

necessary for a coup could be found in most African countries, once they began they 'snowballed' across the region, engulfing the newly independent nations of the continent. By 1975 approximately half of the continent's states were led by military or civilian-military governments. Coups came to be regarded as the natural state of affairs in Africa, an impression that has only recently begun to be dispelled; it should be considered that Nigeria, the most populous country in Africa and a major oil exporter, only made the transition from military rule to democracy in 1999.

Coup again?

Several common factors can be identified that contribute towards the possibility of an African coup. Prolonged economic downturns typically lead to the failure of the political leadership due to aid dependency, ineffectual policies and corruption. Common measures to tackle inflation include price control, increased taxes and devaluation, often leading to unrest among the population and occasional outrage. Accordingly, if the government fails to act it is condemned by the people for ineptitude, and if it does act it is condemned by the people for imposing short term hardships in an attempt to avert a long-term crisis. This scenario is familiar to most politicians, African and European, who dread the polling consequences of unpopular but necessary measures. However, despite record unpopularity, UK Prime Minister Gordon Brown is unlikely to have considered the possibility of being deposed by the Chief of the General Staff, Sir Richard Dannett, however tempting the proposition may be to the electorate. In Africa, military intervention is an accepted danger to failing governments that is likely to weigh significantly on the minds of many African leaders. Indeed, in March 2009 African leaders warned the G20 that parts of the continent could be plunged back into conflict if they did not receive assistance to help recover from the effects of the global economic downturn. Countries such as Ethiopia and Liberia that have experienced recent conflict could find their stability threatened by "total chaos and

violence", according to Ethiopian Prime Minister Meles Zenawi. The exact nature of this chaos and violence was not specified, but it is likely that Meles had one eye on the military as a potential threat to his increasingly authoritarian regime. The President of Liberia, Ellen Johnson-Sirleaf, called for the richer countries of the world to continue to fund the poorer ones through the financial crisis, suggesting that there was a need to "sustain the gains made by African people over the years with such sacrifice".

Economic woes are powerful contributors to the likelihood of a coup, due to the level of popular unrest generated which in turn allows the military to claim an obligation to save the country, but there have also been regular incidents of politically motivated coups. Political infighting, whereby leaders are unable to resolve their problems in the interests of the nation, such as that seen recently in Kenya in early 2009, have led to military coups, as has ineffectual governance or scandals involving corruption and maladministration. These factors all increase public disillusionment and have traditionally given easy passage to military usurpers, but there is also the significant influence of personal power plays by individuals - coups are not always couched in terms of national interest. Military takeovers can be prompted by personal ambition, attempts to regain lost prestige or to pre-empt an impending military reshuffle. Unlike broader social factors that cause public unrest, these causes mainly occur behind closed doors and are often difficult to predict. Conversely, they are easier to mitigate through effective governance and constitutional safeguards that firmly define the power relationship between civilian government and the military.

A firm hand on the tiller?

If civilian governments in Africa truly are corrupt and inefficient, as can currently be seen in an array of countries including Kenya, DRC, Sudan and Nigeria, the question must be begged as to whether a military government is necessarily a bad thing. As mentioned

above, the colonial powers employed the military as a model of often brutal efficiency to ensure a stable working environment for commerce and industry. Unfortunately, the militaries of Africa have come to exist as a separate branch of power, parallel to government rather than subservient to it. This has rendered their power structures as vulnerable to corruption and abuse of power as their civilian counterparts, except that this is arguably more dangerous due to the indoctrinated sense of national righteousness that has been stamped onto the military, without even the pretence of being accountable to the people.

An analysis of African military rule reveals that military leaders have often failed to stem the incompetence, corruption and inefficiency that cost their civilian predecessors their power. Indeed, it is arguable that soldiers have been more prone to openly engaging in self-enrichment activities such as embezzling, smuggling and tax evasion through intimidation backed by the threat of lethal violence. The most prominent example of this tendency was the regime of Idi Amin in Uganda, who expelled the Asian community in 1972 and redistributed their businesses amongst his allies. Most of these businesses went bankrupt within two years due to mismanagement and neglect. By the time Milton Obote returned to power in 1980, Uganda was mired in complete economic decay, and the rule of law had become a mockery as the military killed or 'disappeared' thousands of people. The situation in Uganda was merely one of the more extreme examples of what was occurring across the continent, with the African public quickly realising that coups were not the solution to any of their problems.

Yet coups continue to occur in Africa, with a frequency that led the UN Security Council and the African Union (AU) to express concern in May 2009 as to the impact this instability is having on the welfare and development of those countries affected, with the latter going so far as to state that "the resurgence of the phenomenon of coup d'état, constitutes a

threat to peace and security on the continent..." West Africa saw three military coups in less than eighteen months in early 2009, with the President of Mauritania, Chiekh Abdullahi, toppled in November 2008 following his dismissal of a group of high ranking generals. The death of former President Lansana Conte in Guinea, himself a former military man, prompted a military coup in that country, as did the killing of President Joao Bernardo Vieira in Burkina Faso.

Madagascar

On 17 March 2009, Madagascan President Marc Ravalomanana announced that he was stepping down, forced from power by his bitter rival Andry Rajoelina, who had installed himself in the presidential palace earlier in the day after receiving the backing of the army. Rajoelina's usurpation of power in defiance of the Madagascan constitution was condemned as a coup d'état by the EU, US and AU. Madagascar, a desperately poor island nation, had arguably started to reverse its poor economic fortunes, with a new generation of business orientated leaders instigating free-market reforms that succeeded in attracting foreign investors. But the authoritarian tendencies of Ravalomanana had come under increased criticism from his opponents, with a popular movement led by Rajoelina, the mayor of Antananarivo, often leading to violent scenes of opposition to the president on the streets of the capital. International donors to the impoverished African island reacted to the coup by cutting back their contributions, with the US cutting all non-humanitarian aid to the country, and Norway cancelling the US\$14 million it gives annually. In a country where as much as 70% of government spending comes from foreign donors and different aid organisations, this risks causing major social and economic problems. These would add to the political problems that analysts suggest Rajoelina already faces, with a large middle-class movement showing their displeasure over the undemocratic way in which they claim he seized power. Added to this continuing civil

unrest, is uncertainty as to how united the military is in its support of President Rajoelina. This all combines to give negative signals to foreign investors, and the behaviour of the new regime has done little to assuage fears in terms of its policies and respect for existing contracts. The most notable immediate fallout of the coup was the sudden cancellation of a huge corn planting project headed by Daewoo Logistics. The South Korean shipping company had sought to develop an area half the size of Belgium for ninety-nine years in return for investment in infrastructure and labour. The company said that it stood to lose millions of US dollars after Rajoelina rejected the project as "unconstitutional". Analysts suggest that Rajoelina has also started to undo the free-market reforms of the past decade, with reports that he is reviewing contracts with private companies, employing the security forces to intimidate judges and other government officials suspected of being loyal to Ravalomanana, and planning to significantly increase taxes to pay for programmes that his government is ill-equipped to deliver. Thus, Madagascar appears to be a typical example of an African coup, with instability rife in a country where the government is denouncing actions as unconstitutional, while its own constitutional legitimacy is in question, all under the watchful eyes of a military that has already proven that it can act as kingmaker. Although this forms a bleak example of the risk that foreign investors face in many countries in Africa, the reaction to the coup by the African Union and Madagascar's regional neighbours gives cause for hope.

Your coup isn't welcome here

As has been seen, times of economic uncertainty tend to breed coups in Africa, a fact that was acknowledged by Meles in his appeal to the G20. However, a strong constitutional framework and respect for law, order and democracy can act as an effective bulwark against the sudden night of a coup. It is likely that Meles was so keen to strengthen his foreign aid crutch precisely because his government has been actively eroding this

bulwark, cracking down on free expression and imprisoning political opponents. Once captured from the inside, a fortress is easy to hold against outside opposition. Similarly, a government which has mechanisms in place to subdue and suppress dissent is easier to usurp and hold from within than one which holds the rule of law and separation of powers as sacrosanct. Those vulnerabilities that allowed the corrupt system to be taken over remain to be exploited again in a spiral of insecurity. There is evidence that Africans have begun to realise this, and it is notable that the African Union swiftly condemned the coups in Mauritania, Madagascar and Guinea-Bissau; demanded the immediate "restoration of the legitimate, constitutional and democratic institutions" of the three countries; and suspended their membership. This is a clear and encouraging movement towards establishing constitutional government as the only acceptable route to power. Accordingly, regimes that come to power constitutionally can be assured of enjoying legitimacy, security and the support of their regional and continental neighbours to drive forward their agenda. The continuing crisis in Madagascar can be seen as a result of this lack of acceptability, with intense international pressure on President Rajoelina to call elections. The process of constitution-building is also aimed at transforming the state internally, in order to make its different components more active in decision making to better enable it to deal with modern social, economic and political problems. This, in tune with placing the military and security forces firmly under the control of civilian authorities and tasking them with a responsibility to obey political decisions and uphold the constitution, reduces the risk that sidelined factions will court the military to ferment a coup. It can be argued that many countries in Africa are going through the process of decoupling the concept of *legitimacy* from *sovereignty*, and instead tying it to *electoral legitimacy* enshrined in a constitution. This has two important consequences for the future of stability on the continent; firstly, that the military establishment moves away from viewing itself as the sovereign

embodiment of nationhood, and towards the accepted Western model of servant of the parliament of the people; and secondly, that the AU has rejected the excuse of inaction in the face of national sovereignty, and adopted a proactive strategy of immediately making it clear that unconstitutional regimes are unacceptable to their fellow states. While this movement is a promising development for mitigating many of the risks posed to investment in Africa, it is intricately tied to the necessity of remedying several other adverse factors that frustrate and jeopardise business.

Governance and Infrastructure

"We had nothing to guide ourselves by except the distant mountains and old José da Silvestre's chart, which, considering that it was drawn by a dying and half-distraught man on a fragment of linen three centuries ago, was not a very satisfactory sort of thing to work with. Still, our sole hope of success depended upon it, such as it was." – Allain Quatermain

As with all rigid frameworks, constitutions can be subject to abuse and misinterpretation, and both the word and the spirit of the law need to be continuously exposed to the harsh light of public scrutiny. Unfortunately, poor governance is rife across Africa, with corruption and graft continuing to go unchecked. Governance encompasses a number of factors, including government accountability and corruption relating to the management of public funds; openness and transparency; the effective and fair application of the law; the quality of elections and public participation and human rights considerations relating to the behaviour of enforcement agencies. Most African states typically fail some or all of these requirements, and for each criterion there are numerous glaring examples of this failure. Prominent examples of poor governance can be seen in Nigeria, where financial mismanagement and human rights abuses by the security forces are rife in the south of the country. In Kenya, judicial corruption is endemic, and a recent UN report accused the government of overseeing thousands of extra-judicial killings perpetrated by the police

under the cover of the post-election violence in early 2008. At its worst, poor governance can lead to situations such as that in Zimbabwe, where a formerly prosperous country has been shattered by the ruinously self-serving and brutal policies of a post-independence "liberation" movement. This has created an operating environment of such insecurity that even the senior ranks of the army are afraid that they will be shot by disgruntled subordinates. Zimbabwe is a land of significant mineral wealth, but the current risk level hugely outweighs the benefits of attempting to exploit them. An extreme and somewhat unique example is Somalia, a stateless society in which governance has completely collapsed and the major industry is piracy. However, it is useful to distinguish between those countries that have been torn apart by conflict or insurgency due to crises of governance, such as Sudan or DRC – and to instead focus on those countries with investment potential that are hampered by less dramatic examples of poor governance.

The development of infrastructure in most African countries is hampered by incompetent or corrupt governments pursuing incoherent policies, by a lack of available funds, and a lack of political commitment to overcome socio-political obstacles relating to land occupancy and ownership. Living in the developed world, it is easy to overlook the vital nature of infrastructure. A train being five minutes late is a cause of irritation, and it is taken for granted when travelling internally that there will be electricity and running water at your destination. Yet much of Africa remains in the dark ages when it comes to the development of infrastructure that is so vital for economic growth, especially in the manufacturing, agricultural and service sectors. There are varying levels of deficiencies, decay and neglect in all African countries, from South Africa to Somalia. Politicians tend to focus on short term development programmes that win votes, while the expensive, long term programmes that most infrastructure development requires are shunned. The results are readily apparent, with serious power shortages in

South Africa, Nigeria, Ghana, Tanzania, Kenya and numerous other countries. Some commentators have attributed this to the obsession of many African governments with hydro-electrical power, ignoring other energy sources such as solar power and wind. This focus on hydro-electricity has two notable effects: firstly, damming projects can divert the courses of rivers that flow through several countries, rivers which carry Africa's most vital resource – water. This risks causing drought and flooding, and risks future conflict over the right for access to water supplies. Secondly, dwindling rainfall on the continent has limited the ability of the dams to generate the power required to support the economy. Despite African countries enjoying sunshine for 80-90% of the year, government solutions to the black-outs and brown-outs are to increase the rate of dam construction rather than invest in alternatives such as solar power. The result is a shortage of cheap electricity that is delivered over aging and unreliable power lines, causing factories to close down and repelling new investment. Not all governments are blind to this fact, with South Africa signing an agreement with France in early 2009 to secure its expertise in constructing a new nuclear power station. However, South Africa is the leading economy in Africa, and other, poorer, nations could neither afford nor guarantee the safety of constructing a nuclear power station.

If commerce is the lifeblood of a nation, then the roads, railways and waterways are its arteries. Yet most of Africa remains all but impassable during the rainy season, as the unpaved roads that make up most of the road network turn into a potholed quagmire. In Tanzania, east to west road travel is practically impassable, limited as it is to dirty tracks. In cities such as Nairobi and Dar es Salaam, goods and passengers often sit in traffic jams for hours due to a lack of traffic management such as parking lanes and ring roads to take traffic away from the central business district. One of the most prized colonial legacies left by imperialism are the railways, which in countries such as India continue to operate to this day. In Africa,

years of neglect and underfunding have left the rail network in an often ruinous state, further complicated by the erosion caused by the extreme climate. Mozambique has three separate rail networks, none of which connect to each other, and huge countries such as Chad, Niger and Central African Republic have no railway lines at all. Those rail systems that are operational are often slow, dangerous and overcrowded. The lack of seaports and airports capable of handling large bulk freight craft also serves to increase the price of transporting goods, meaning even if a business is able to transport its goods from its factory for export, it then has to pay higher prices than its competitors based in countries in Latin America and the Far East.

What is to be done?

It is clear that in order to encourage foreign investment there needs to be greater financial and political commitment to developing infrastructure across Africa. Yet it often appears as if African administrations are more content to wait for foreign donors to step in to do the work for them. An example of this was an announcement by the UK in February 2009 that it had made a US\$1 billion agreement with eight African countries and the World Bank to reconstruct 5,280 miles (8,500 kilometres) of roads and the rejuvenation of 373 miles of railways. The project has some impressive aspirations, intending to boost trade in the region by hundreds of millions of dollars each year by solving many of the problems outlined above, including speeding up the crossing of border controls, which often takes days. The programme of transport redevelopment in Zambia, Zimbabwe, Botswana, Malawi, Tanzania, South Africa, Mozambique and DRC comes as a response to fears regarding the scale of Chinese influence on the continent. But while plans such as this are to be welcomed, they are largely a cure for the symptoms rather than the disease that makes investment in Africa perilous, and some analysts argue that they in fact make the situation worse. Without good governance, the money allocated to such projects will

continue to be siphoned off to prop up the corrupt and inefficient regimes that caused the original infrastructure to fall into decay and disrepair. Many analysts have suggested that aid to Africa does more harm than good, creating conditions of aid dependency that stifle innovation and perpetuate insecurity by providing incentives for corrupt officials to attempt to cling to power and continue to enrich themselves. This, as outlined above, creates the ideal breeding ground for popular discontent and internal power struggles that can lead to coups. While few would argue that there is often a moral imperative for humanitarian aid to be provided in situations of severe crisis, the vast sums provided by government to government aid and aid from international institutions have arguably made growth slower and the poor poorer.

Consider the example of a small African company manufacturing water purification technology, employing ten people who in turn support 150 direct and indirect dependents. This is an example of the kind of industry that should be encouraged on the continent, yet such small companies are routinely put out of business by one off aid donations flooding the market with free or incredibly low price goods. Once this one off donation has been used, the demand for the product remains with no one to fill it, and 160 additional people are forced to rely on handouts. Since 1950 at least US\$1 trillion of development-related aid has been transferred from rich countries to Africa, yet the real per-capita income today is lower than it was in the 1970s, with more than 50% of the population, over 350 million people, living on less than a dollar a day. This figure has almost doubled in two decades, leading to the increased risk of grass-roots conflict and government instability.

The African Union has estimated that corruption is costing the continent US\$150 billion a year, as international donors are often seemingly content with merely assuaging their guilty consciences, ignoring the fact that their aid money is fuelling graft. This is not a new problem. In 1978 the IMF

representative to DRC warned that there was “no (repeat, no) prospect” for the country’s creditors to get their money back due to endemic corruption. Regardless, the IMF then gave DRC its largest ever loan. President Mobutu Sese Seko, the President of DRC from 1965 to 1997 was reputed to have stolen approximately US\$5 billion during his term of office. Little has changed, with the former President of Malawi, Bakili Muluzi, accused in April 2009 of embezzling US\$12 million in aid money. Aid appears to be unable to support the tenets of good governance outlined above, as a constant stream of no-strings-attached ‘free’ money is an ideal way of keeping an inefficient, inept or simply bad government in power. A government funded by aid does not have to worry about raising tax revenue to support its military, and does not have to take account of disgruntled citizens. With this in mind, it is no surprise that over 70% of public funds across Africa are provided by foreign aid. The creation of constitutional regimes that foster stability and security for investment is hampered by this aid dependency culture. The bedrock of government, the civil service, is universally prone to bureaucratic inefficiency, but the aid culture contributes towards self-serving cronyism, bribery and corruption that makes doing business in many African countries wholly undesirable. In Cameroon, for example, it takes around 426 days to perform the fifteen procedures necessary to obtain a business license. Africa has the dubious accolade of having five of the worst ten countries in the world for the time taken to register a new business. In terms of stability, when the reins of power come attached to an almost guaranteed raft of aid money, it is a powerful motivator for regime change. It is interesting to note that the recent coup hosts of Mauritania, Burkino Faso, Guinea-Bissau and Madagascar all remain reliant on foreign aid. Constitutional good governance can only result from financial self-sufficiency, and imposing democracy sweetened with aid payments does little to promote the stability essential for foreign investment to thrive.

The Continuing Search

“Out of the dark we came, into the dark we go. Like a storm-driven bird at night we fly out of the Nowhere; for a moment our wings are seen in the light of the fire, and, lo! we are gone again into the Nowhere.” – Umbopa

Upon finding the treasure trove of gold and diamonds hidden deep within the mountain, Quatermain's party is sealed inside by an act of treachery that also claims the life of Foulata, a beautiful native woman. After spending several days waiting for death, the explorers uncover a passage out of the cave, and escape to freedom with their pockets full of enough wealth to live lives of luxury. Those businesses that are willing to take the risk of investing in Africa can often reap substantial rewards, but have to face the ever present danger of corruption, conflict and instability. Unscrupulous investment and poor governance dooms the development and wellbeing of those people forced to live under it, and jeopardises sustainable investment. Without a constitutional framework that is supported by principles of good governance, democracy and respect for law and order, instability in the form of coup d'états and conflict will endure in those African countries for which it has become an unfortunate norm. It remains to be seen whether the resurgence of the coup phenomenon in Africa will continue into the second half of 2009, or whether the continent can avert a return to its bloody past by reforming its institutions and adopting principles conducive to retaining legitimate authority, even in times of economic crisis. For this reform to work, stricter conditions should be placed on financial aid to make it more difficult to divert funds away from their intended projects, and for there to be harsher consequences for graft. In some cases financial aid should be scaled back or eliminated to cut aid dependency and force regimes to address those issues responsible for destabilising governments and making investment in Africa so perilous.

PREVIEW OF INKERMAN MONITOR JULY 2009

In the past decade Latin America has been the scene of a political transformation, as a wave of socialist governments have swept into power in the so-called “pink tide”. This revolution has obvious and very startling implications for both the political and economic dealings of these countries. Governments, such as that of Venezuela's Hugo Chavez, have pursued policies towards foreign companies which are of grave concern to anyone considering investing in the region. However, only the ill-informed would broadly classify the region's left, and its policies, as a homogenous bloc. The July 2009 Inkerman Monitor will seek to analyse the policies being pursued by the various governments and the implications this has for organisations operating in the region.

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