British Private Investment in East Africa

by D. J. Morgan

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Report of a Survey and a Conference

by D. J. MORGAN

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Preface and Acknowledgements

I wish to acknowledge the close and fruitful collaboration with Sir Walter Coutts, who for twelve months worked from the Dulverton Trust Research Office in part association with ODI. Without his collaboration neither survey nor Conference would have been held. I should also like to acknowledge gratefully the ready and valuable collaboration of several officials of the FBI, which has since become the Confederation of British Industry. None of these is in any way responsible for the final text of this pamphlet but such merits as it has are very largely due to them.

The project was part of the work being done by ODI on the contribution of the private sector to developing economies. If this pamphlet helps to improve knowledge of that contribution and to make the contribution more readily accepted in both developed and developing countries, it will have amply served its purpose.

D. J. MORGAN
July 1965.

1—Introductory

(i) The Problem

Overseas investment by private individuals and firms has become a matter of controversy. This has arisen in large measure because many have blamed export of capital from the United Kingdom and the United States for the strains on sterling and the dollar which periodically arise. Here, however, concern is not with overseas investment as a whole but only with that part of private investment which has been flowing to developing countries. Nor is it with the question whether overseas investment 'pays' the exporting country but rather with the obstacles in developing countries to an increased flow of private capital.

Since 1958 British private investment overseas has been around £300m. per annum. Of this total, investment in developing countries, both sterling and non-sterling, has dropped relatively to investment in advanced economies. Thus, in the White Paper *Aid to Developing Countries* (Cmnd. 2147 of September 1963, para. 18) it is said that for 1962-63 'something like £150m. a year' was invested in developing, mainly Commonwealth, countries. For 1963-64 the total appears to have been no more than £90m., including direct, portfolio, miscellaneous and oil, the last accounting for something between one-third and one-half of the total.

This reduced flow to developing, mainly Commonwealth, countries took place before the intention was announced on 8 December 1964, to introduce a Corporation Tax in the 1965 Finance Act. It took place, too, during the currency of various taxation arrangements intended to assist the flow of capital to developing as against developed countries. The main arrangements helping in this direction were twofold. First, companies with a large proportion of profits earned through overseas subsidiaries have been able to set off tax paid overseas against income tax and profits tax here. This helped to avoid a disincentive which would otherwise have led to avoidance of developing countries which imposed higher tax rates in favour of those developed and developing countries which imposed lower tax rates. Secondly, the Finance Act, 1957, introduced a scheme giving certain relief from income tax and profits tax in the United Kingdom to Overseas Trade Corporations (OTCs). Broadly speaking, an OTC was not chargeable to profits tax on its trading income but remained chargeable to income tax on dividends and other distributions made out of exempt trading income and so withdrawn from the sphere of trade. The term covered both trading companies managed and controlled in the United Kingdom and therefore resident here for tax purposes although trading operations were wholly carried out overseas and also United Kingdom companies which did not themselves trade but which were parent companies of trading OTCs. Certain types of business were not permitted to enjoy the concession: these included banking, hire-purchase finance, shipping, insurance and air transport.

It would appear from the drop in investment in developing countries during the currency of these two arrangements—and when the arrangements were generally expected to continue indefinitely—that tax matters have not provided considerable disincentives to investment in developing countries. What, then, was the nature of the obstacles to investment in developing countries and what could interested parties do to remove or offset them?

(ii) The Enquiry

These questions were being asked in a piece-meal way both by ODI and by the Dulverton Trust Research Office. Towards the end of 1964 it was decided to combine the efforts in order to make a more systematic enquiry. A memorandum and questionnaire were drafted and discussed with others; then the FBI agreed to send it to all firms on its East Africa list. East Africa was selected as the area for the survey for three main reasons. Enquiries had already suggested that there was the greatest reluctance to invest in Africa. The statistics of United Kingdom private direct investment, 1959-64, bore this out as is shown in the following table. So attention had come to be focussed there.

United Kingdom Private Direct Investment in Developing Countries

£m

Area	*1959*	*1960*	*1961*	*1962*	*1963*	*1964 (Estimated)*
All developing countries ...	79·4	90·8	93·1	66·3	53·5	40
Sterling Africa	29·1	30·0	33·4	8·8	2·5	—9
India	12·7	13·5	14·0	14·1	14·4	17
Malaysia	6·5	9·5	7·7	7·3	3·5	4
Other sterling area countries	10·8	16·5	14·1	16·7	12·8	10
Latin America	12·0	14·6	21·5	13·9	15·7	13
Other non-sterling countries	8·3	6·7	2·3	5·4	4·3	5

(Excluding oil) (—signifies disinvestment)

Should the enquiry attempt to deal with the whole of developing Africa or part? Excluding the Republic of South Africa, which is not a developing economy in the present sense of that word, and the former French colonies, with which British business does not have substantial links, the choice became that of East, Central or West Africa, or two or all three of these areas. Two considerations led to the choice of East Africa. The first was that it seemed likely that attitudes towards the areas differed sufficiently to make an attempt at a global assessment somewhat hazardous. A regional enquiry was, therefore, more likely to be fruitful. As reluctance to invest seemed, for the time being at any rate, to be greatest for East Africa, that area was selected. Moreover, this reduced the survey to manageable size.

If each British firm involved in Africa as investor or substantial trader were to be given an opportunity to make its attitude known about 5,000 copies of the questionnaire would be required. Of this total, West Africa accounted for some 1,300 and East Africa for 1,500. On 4 January, 1965, a memorandum and questionnaire were sent to each of the 1,494 firms on the East Africa list of the FBI. There was a 26 per cent response. The memorandum and questionnaire are reproduced in full in the following chapter. The replies were analysed by topics and by the type of firm involved. A report was prepared which is also reproduced in full in the next chapter.

(iii) The Conference

The upshot of the enquiry was such that the FBI, the Dulverton Trust and the ODI felt it would be useful to discuss the findings in a one-day conference. The Conference was held in London on 22 June 1965. It was arranged in three sessions with a chairman in turn from each of the sponsoring bodies: Sir Nutcombe Hume, KBE, MC (Chairman, Charterhouse Investment Trust Ltd.) representing the FBI; Lord Sinclair of Cleeve, KCB, KBE (President, Imperial Tobacco Co. Ltd.) representing the Dulverton Trust; and Mr. F. Seebohm (Chairman, Barclays Bank DCO) representing the ODI. The six topics treated in the report were discussed in turn after brief introductions by representatives of the businesses which participated.

The Conference was fortunate in having, besides a large representation of business and of the sponsoring bodies, participants from the Bank of England; the Commonwealth Relations Office; the Ministry of Overseas Development;

the Commonwealth Development Corporation; the Commonwealth Development Finance Company; and the East Africa Association. The Conference benefitted from the attendance of representatives of the High Commission of Tanzania and of the High Commissioner of Uganda. Dr. Julius Kiano, Minister for Commerce and Industry, Kenya, spoke at luncheon. His address is reproduced in Chapter III.

2—The Memorandum, Questionnaire and Report

(i) The Memorandum

(a) The Facts

Private investment constitutes a substantial addition to the flow of financial resources available to developing countries. In the form of direct investment by businesses it takes with it administrative, technical and managerial skills necessary to begin or expand economic enterprises. These in turn provide training and experience for local personnel. In general, enough official aid is already flowing to Africa. The problem is to provide the complementary private finance.

In 1962-63 approximately £150m. was invested by United Kingdom firms and nationals in developing countries. This sum nearly equalled that provided by the United Kingdom in the various forms of official aid. But since 1959 the general trend has been downward and in 1963-64 the figure was only £90m. Similarly, the total of private direct investment and other lending by members of the Development Assistance Committee (DAC)* fell from \$2,396·6m. in 1961 to \$1,839·2m. in 1962 and \$1,846·7m. in 1963.

Over the past few years just under half of total direct investment from DAC countries as a whole went to Latin American countries and the Caribbean. About one-third went to Africa. Developing countries in Asia and Europe received much smaller amounts. The USA continued to account for a large part of the flow to Latin America although there has been a substantial investment there by Italy also. Britain, the USA and Japan have contributed in Asia, while for Africa the major sources have been France and the USA. In 1963, investment in petroleum and other extractive industries constituted well over half of total direct investment, with manufacturing accounting for much of the remainder.

While the total invested in East Africa has dropped, the need for private capital has increased. Thus the Development Plan, 1964-1970, of Kenya says: 'To achieve a growth rate approaching 6 per cent and a reasonable increase in per capita

* Belgium, Canada, Denmark, France, Germany, Italy, Netherlands, Norway, Portugal, United Kingdom and U.S.A.

income, steps must be taken to stimulate a level of gross private investment in the region of £35m. per year'. The Tanganyika Five-Year Plan, 1964-69, says: '£116m. has to be found from the private sector if the Plan is to be achieved'.

British direct investment in East Africa has varied thus from 1959 to 1963 (in £m):

To	*1959*	*1960*	*1961*	*1962*	*1963*
Rhodesia and Nyasaland	13·5	12·8	15·0	6·4	—2·6
Kenya	1·2	2·6	1·9	0·9	—0·8
Uganda	—0·1	0·0	0·0	0·2	—0·2
Total, above three	14·6	15·4	16·9	7·5	—3·6
Total to all developing countries	**79·4**	**90·8**	**93·1**	**66·3**	**53·5**

(To 1962 excluding oil and insurance; 1963 excluding oil; — signifies disinvestment.)

(b) Is East Africa a Growth Area?

Company directors might wonder whether they should invest abroad at all if they are not, for better or worse, involved already. When they come to decide to invest abroad there is the practical consideration whether they should put more money into country X or to spread the risks. Countries receiving aid are likely to get the infra-structure, training facilities, etc., for development and so become growth areas. Ideally, private investment should take an interest, especially as all developing countries are trying to encourage private participation in one way or another. Businessmen, however, tend to think of Europe and North America as the better investment fields—despite the absence of aid flow, difficult balance of payment positions and the need (often) to pay a dollar premium as well. Clearly, if quick returns are wanted, investment must go mainly to advanced economies. But as between developing countries, why should the USA have a greater interest in Africa than Britain, which was for some 70 years in control of much of it? Does the business community not think Africa is a growth area? Have they had enough basic information to enable them to answer this question? According to the reports by missions of the World Bank, growth rates in recent years in Tanganyika, Kenya and Uganda were respectively over 5 per cent, 4-5 per cent and 3 per cent. If the various Development Plans were broken down so as to reveal private sector projects, would medium-size businesses be willing to invest? Would they wish to have feasibility studies done, either by the governments or privately, before they would seriously consider investing? If not, what is the reason for deciding against an investment in East Africa? Is it political?

(c) **Political Risks**

Taking the developing world as a whole, the African continent is probably regarded as the least politically stable area. Is this the main reason why British investors leave Africa to American and French investors? Unlike other risks—such as multiple exchange rates and inflation (which have long been part of the Latin American scene)—political risks are outside the usual realm of business. If the political risk is the deciding factor, what kind of conditions can be created to spread the risk? Would it help if a convention for the protection of foreign investors, stating the prerequisites for attracting and retaining private capital, were agreed with developing countries? The OECD has drafted a possible Convention on these lines. Would a centre for conciliation and arbitration on investment disputes, as proposed by the World Bank, be more highly regarded?* Would a multilateral investment insurance scheme be better?

(d) **Are Profit Margins High Enough?**

It is understood that some companies take the view that if profit margins were somewhat, not substantially, higher than in Europe and North America, they would invest in Africa despite the political risks. If this be so, why is there lack of this profit incentive?

(e) **Are Joint Ventures Desirable?**

Is a new pattern of investment wanted whereby expatriate firms supply the know-how and part of the capital, while the rest of the capital is provided locally? It is accepted that there are two problems. First, local capital in sufficient quantities is often not available, and intermediaries might be required to fill the gap. CDC and CDFC have put money into several Development Corporations. Secondly, the problem of control remains. Opinions appear to differ on this. Some companies seem anxious to retain at least 51 per cent of the equity, but

* The Convention on the Settlement of Investment Disputes between State and Nationals of Other States was submitted to Governments on March 18, 1965. By the end of July there were seven signatories. The Convention will enter into force upon the deposit of the twentieth instrument of ratification. (See Cmnd. 2745 of August 1965.)

at least one operates on the principle of accepting only minority holdings in developing economies. Would private companies look more kindly on investment in Africa if the local governments subscribed part of the capital? Does this extend to taking a minority shareholding while supplying the management?

(f) Do Tax and Other Concessions Matter?

The governments in East Africa offer inducements to encourage private industry. Tax concessions, depreciation allowances, the granting of monopoly rights in approved cases and tariff protection are available. Which of these, if any, are regarded as strong inducements to investment? Are the tax concessions given by overseas countries frustrated by British tax policy? If so, what concessions by Britain are required?

(ii) The Questionnaire

1. Name and address of firm replying.
2. Is your firm already involved in East Africa? Yes/No. If involved state whether
   (a) before 1945. Territories

   (b) since 1945. Territories

   If established before 1945, state whether expansion has been undertaken since then and in which territories.
3. Does your firm regard East Africa as a growth area?
4. Has your firm enough basic data to answer Question 3?
5. If the Development Plans of the various territories were broken down so as to reveal private sector projects, would medium-sized businesses invest in them?
6. Would they first wish to have feasibility studies undertaken? Yes/No.
7. If so, would they prefer to have these done (a) by governments or (b) privately?
8. Is the reluctance to invest due to political risk?
9. If the political risk is the deciding factor, what kind of conditions can be created to spread the risk?
10. Would a convention for the protection of foreign investors be favoured?
11. Would a centre for conciliation and arbitration on investment disputes be given weight in making investment decisions?
12. Would a multilateral investment insurance be preferred?
13. Would your business wish to be associated with some system of guarantees?

14. Should the government of the country concerned be involved in any, or all, of the proposals of Questions 10-12?
15. If it were possible to see a higher return on capital than that available in Europe and America, would the politically unstable conditions matter?
16. What sort of percentage return would be required?
17. How long would your firm be willing to wait to get its return?
18. Are joint ventures desirable?
19. Have you had experience of joint ventures and, if so, what is your opinion of them?
20. Should they be with (i) local investors, (ii) Development Corporations or (iii) the local government, or alternatively, two or all three of these?
21. Would your firm expect to retain at least 51 per cent of the equity?
22. Would your firm expect to participate in the investment for a limited period or for good?
23. Do tax and other concessions significantly affect investment decisions?
24. What types of concessions are preferred?
25. Are the tax concessions given by East African territories frustrated by United Kingdom tax policy?
26. If so, what allowances by the United Kingdom are required?
27. What other concessions should the United Kingdom give to those willing to invest in East Africa?
28. Are there any other factors not covered by these questions which make investment in East Africa unattractive? If so, what are the factors and can anything be done to deal with them?

(iii) The Report

Division by Topics

The memorandum circulated took six broad issues, namely —Is East Africa a growth area? Political risks. Are profit margins high enough? Are joint ventures desirable? Do tax and other concessions matter? and What other factors matter? It is intended to summarise the main findings for the six groups under these six headings:—

Answers might be grouped as follows:—

Topic 1: Is East Africa a growth area? Questions 3-7.

Topic 2: Political risks and how to cope. Questions 8-14.

Topic 3: Are profit margins high enough? Questions 15-17.
Topic 4: Are joint ventures desirable? Questions 18-22.
Topic 5: Do tax and other concessions matter? Questions 23-27.
Topic 6: Other factors and their treatment. Question 28.

Division by Nature of the Firms

Firms providing full, or fairly full, answers (96 replies) are most usefully discussed in the following groups:—

(a) Public companies not so far investors in East Africa (27 replies);
(b) Public companies which invested before 1945 (14 replies);
(c) Public companies which invested after 1945 (23 replies);
(d) Private companies which have not invested (27 replies);
(e) Private companies which have invested (3 replies);
(f) Unknown companies (2 replies).

In addition, 254 firms answered only a few questions or replied briefly by letter. These replies can be grouped into seven categories. They are given on page 40 of this report.

General Conclusions by Topics

Topic 1: Is East Africa a growth area?

Summing up, the general upshot is that:—

(1) East Africa was regarded as a growth area for particular products or in the longer run;
(2) sufficient data was usually in hand to answer that question at least for the firm's own products;
(3) a further break-down of development plans would encourage medium-sized firms to invest only in relatively few cases;
(4) feasibility surveys would be normally required before deciding to invest and these would usually be undertaken privately.

Topic 2: Political risks and how to cope

Summing up, the general upshot is that:

(1) reluctance to invest is due mainly to political risk;
(2) several thought that the investment climate would improve only after several years of satisfactory political and commercial relations;
(3) doubts were expressed by many as to the usefulness of a Convention or a Centre, especially the latter;

(4) many felt an investment insurance, if not too expensive, would be the most useful means of countering the risks;
(5) provided the cost was not too high, many would wish to be associated with the system of guarantees;
(6) most expected local governments to be involved in the system of guarantees.

Topic 3: Are profit margins high enough?

Summing up, the general upshot is that:

(1) political instability mattered even if returns were higher than in developed economies;
(2) the very high returns necessary to compensate for political risks were unlikely to be earned and, even if available, would exacerbate feelings against expatriate capital and enterprise;
(3) generally returns of over 20 per cent were required, usually on the basis of an investment maturing in less than three years.

Topic 4: Are joint ventures desirable?

Summing up, the general upshot is that:

(1) opinions on joint ventures were mixed, rather more in favour than against;
(2) those with experience felt they could work out with the right set of partners and a common interest;
(3) local investors, development corporations and local governments were favoured as partners in that order of preference;
(4) most firms expected to hold and retain working control and wished to hold the investment permanently.

Topic 5: Do tax and other concessions matter?

Summing up, the general upshot is that:

(1) rather more than half the firms replying said that tax and other concessions did significantly influence investment decisions;
(2) the most popular kind of concessions mentioned were tax holidays, duty-free importation of plant and machinery, temporary local monopoly rights and freedom to repatriate capital and income;
(3) most did not find that overseas concessions are frustrated by the UK tax authorities but feared that the proposed corporation tax would penalise overseas income;

(4) several favoured the negotiation of double taxation agreements by the UK;

(5) other concessions sought included investment guarantees, OTC status for both operating subsidiaries and companies resident in East Africa.

Topic 6: Other factors and their treatment

Summing up, the general upshot is that:

(1) the minority which replied tended to give political and economic factors roughly equal weight.

(2) among the points stressed were:

  (a) the need to recreate a climate for investment through improvements in the economic and political position of East Africa,

  (b) the absorptive capacity of the East African market for many products is relatively small and unless the common market is expected to continue most manufacturing units will be uneconomic,

  (c) the difficulty of providing skilled and experienced staff, expatriate or local, and the consequent need to make expatriates feel welcome and to expand educational and training facilities for Africans.

  (d) the chronic shortage of foreign exchange must be eased if investment is to expand.

Analysis of replies by topics

Topic 1: Is East Africa a growth area?

Firms in Group (a) felt that there are some doubts about East Africa as a growth area and that studies would have to be put in hand before many would invest. While local governments could do something to provide data and surveys, firms would invest usually only after thorough private investigation. On the whole, dissection of development plans would not greatly contribute to this.

Firms in Group (b) said that East Africa is in the long run a growth area and felt confident that they could come to this decision themselves, as a result of their long association with the area. It was not obvious that further analysis of development plans would throw up useful projects but earlier attention to what was practicable might be helpful. The majority would want feasibility studies undertaken, private surveys being most sought.

Firms in Group (c) felt the same as those in Group (b) about East Africa as a growth area and felt they had enough data to answer. While greater detail was generally to be welcomed in development plans, a greater break-down was unlikely to have significant results in inducing investment which would not otherwise come. The need for feasibility studies was accepted, usually privately undertaken.

Firms in Group (d) were on the whole doubtful of East Africa as a growth area except for specific products or in the longer run. Most thought they had data to decide at least for their own products on the growth potential. Only two of the 27 thought a break-down of development plans would bear fruit; others were doubtful whether medium-sized firms would be interested, some saying that patents, know-how and skill were more important. Most would want feasibility studies undertaken, the majority favouring private studies.

Firms in Group (e) thought with some reservation that East Africa is a growth area and felt they had enough data to decide. The firms doubted whether a break-down of development plans would help, one firm saying that Africa was not for medium-sized firms. This firm was not interested in surveys but the other two firms were and preferred them to be done privately.

Firms in Group (f) conflicted in their views of East Africa as a growth area, the one thinking it might be but did not have enough data to be sure, and the other, with sufficient data, thinking it was not. They differed too on the usefulness of breaking down development plans and of feasibility surveys.

Topic 2: Political risks and how to cope

Firms in Group (a), with two exceptions, stated that reluctance to invest was due either wholly or partly to political risk. Many thought that confidence could grow only if political and commercial relations are satisfactory for long enough but some thought that other devices could contribute. Just over half favoured a Convention, but others were doubtful and a few were against it. Not many felt a Centre for Conciliation and Arbitration would be useful. But over a half said an investment insurance scheme was desirable if not too expensive. Most were prepared to be associated with some system of guarantees and thought the government of the country concerned should be involved.

Firms in Group (b), again with two exceptions, agreed that the political risk was an important consideration, directly and indirectly. Many suggestions were made as to how this might be overcome: a customs union, investment guarantees, sound financial policies, tax holidays, code of behaviour by local governments respecting foreign capital and staff, local participation, freedom to repatriate funds. Doubts were expressed on the usefulness of a Convention and little enthusiasm was expressed for a Centre for Conciliation but most believed that a multilateral insurance scheme would be advantageous, though one feared it would encourage expropriation. Several firms said they would wish to be associated with an insurance scheme if it were not too costly. Only one firm wished to exclude the host country wherever possible.

Firms in Group (c) generally agreed that in one way or another reluctance to invest was due mainly to political risks. But apart from this there were limitations due to market size and short-term growth prospects. Most thought that political stability was an indispensable condition for an improvement of the investment climate and some doubted whether anything else would significantly help. Several asked for guarantees by the UK or DAC against political risks but one firm thought this might encourage expropriation. More than half favoured a Convention but few thought a Centre for Conciliation would be useful. Not many thought a multilateral investment insurance would be useful; and they considered it would be too expensive anyway. Most were prepared to be associated with a system of guarantees and felt, some strongly, that local governments should be involved at the early stages.

Firms in Group (d), with only two exceptions, said that reluctance to invest was due to political risk or it was principally or partly so. Several thought political stability was paramount. About half favoured both a Convention and a Centre. The majority wished to be associated with a system of guarantees and welcomed the association of local governments in the proposals.

Firms in Group (e) differed sharply. While two said that the reluctance to invest was mainly the political risk, the third said it was in fact government interference. While one firm asked for safeguards in the form of a Convention, a Centre and multilateral investment insurance, with all of which it wished both itself and local governments to be associated, neither of the other two firms agreed. One said the requirement was mature government and protections, the other did not regard a Convention as relevant. It favoured the other two proposals although it was not sure whether it or local governments should be directly involved in them.

Firms in Group (f) again differed. Political risks are largely responsible for reluctance to invest in the view of the first firm but fear of nationalisation or inadequacy of return are given equal weight by the other. The first favours a Convention and a Centre but not multilateral investment insurance but the other is sceptical of the first two and fears that investment insurance would be too costly.

Topic 3: Are profit margins high enough?

Firms in Group (a) felt that political stability was essential and high returns to attract foreign investment would neither be a satisfactory substitute nor was it considered desirable that foreign investment should be bribed by means of a high return on capital. The main interest, therefore, was greater political security along with freedom to repatriate capital and income. The question of the percentage return expected depended on the nature of the investment. Answers varied from just higher than those expected in Europe to returns of over 20 per cent. Few were prepared to wait as long as five years for the full return and none for longer.

Firms in Group (b) were divided in their views. Nearly one-half said that political instability mattered even if the return was higher while nearly as many said that returns would have to be considerably higher to offset the political risk. A few firms mentioned 20 per cent but others were unable to give a differential rate of return. Most expected a full return in two to three years, only two being prepared to wait for five years.

Firms in Group (c) said, with one exception, that a higher return would not compensate for politically unstable conditions. A few felt that the return could not be high enough to justify the risk of loss of capital, time and manpower. A wide difference in expected rates of return was shown, 20 to 25 per cent being usual. A few firms were prepared to wait up to five years for a full return and one or two for longer, but most felt that only short period investments were justifiable to their shareholders.

Firms in Group (d) thought, with four exceptions that, the unstable conditions mattered even if returns were higher than in Europe. Only two firms were prepared to wait as long as five years and some said that under present conditions they expected returns within a year. Expected returns varied from

10 per cent over other overseas investment income to returns of 35 per cent. Some of the smaller firms would be unable even so to accept the risks.

Firms in Group (e) differed from one another. On the one side two felt that sufficiently high returns would offset the political risk while on the other the third firm stated: 'We think in Africa generally there is a big growth potentiality. More important than a higher return is that this growth should be safeguarded and stabilised by a more commercial attitude by government'. This firm wanted a 15 per cent return in three to four years. The others wanted 20 per cent in two to three years and five to six years respectively.

Firms in Group (f) agreed that if a higher return was received political instability would matter less. One required more than 15 per cent after two years, the other 20 to 25 per cent after two to three years.

Topic 4: Are joint ventures desirable?

Firms in Group (a): less than half thought that joint ventures were desirable but many of the rest lacked knowledge or experience on which to base an answer. They tended to favour as partners local investors, development corporations and local governments in that order. Most expected to retain voting control and also to invest permanently.

Firms in Group (b): more than half replied in favour of joint ventures. Some thought they were useful where concessions were wanted or where partners had strong interests in common. Most had experience and found that such ventures could work out, particularly where each partner was satisfied with the profitability of the venture. Several preferred as partners local investors, and if it did not require executive responsibility, the local development corporation. Almost all firms wanted control and wished to invest for good.

Firms in Group (c): nearly all felt that on occasions joint ventures might be useful—because of local knowledge and finance, as a hedge or otherwise. Most had experience and were satisfied. While some were happy to join with any local partners, others specified one or other though only one excluded local governments. Less than half wanted complete control, the others being prepared to consider minority holding control. Nearly all expected to invest for good but a few would like to sell out to local investors.

Firms in Group (d): less than half were in favour of joint ventures and less than half had experience of them. With the right partners it was admitted they could be satisfactory and at least in theory it was desirable to work them but many had not found them satisfactory and wished to avoid them in future. Again, firms were divided on the choice of partner. Several would be happy with any, others preferred local investors if available. Nearly half wanted control, many of the rest not answering. A third of the firms hoped to stay permanently but nearly as many had a wait-and-see attitude.

Firms in Group (f) differed except for thinking joint ventures are desirable. One had successful experience, the others no experience. One preferred established local investors or expatriates as partners, the others had no strong preference. One preferred to have complete control, the others did not mind having a minority interest. One wished to stay while the project was profitable, the others permanently.

Topic 5: Do tax and other concessions matter?

Firms in Group (a): over half agreed that tax and other concessions significantly affected investment decisions. Some others felt that help in earning profits was more important than providing concessions which could be enjoyed only when profits emerged. Almost every kind of tax concession was mentioned by one firm or another. Tax holidays were suggested by many as were duty-free import of plant and materials, a temporary local monopoly and freedom of movement of funds. Most did not know whether existing concessions were frustrated by the UK and did not seek concessions from the UK. But a few suggested dropping the corporation tax, investment guarantees, double tax agreements and a travel subsidy so that small and medium-sized firms might explore the area.

Firms in Group (b) said, with two exceptions, that tax and other concessions of significant size did not affect investment decisions. No firm found that existing concessions were unduly frustrated by UK tax policy but some said that the proposed corporation tax would do so and others thought that double tax agreements should be made with developing countries giving tax concessions. While one firm wanted companies resident in East Africa brought within the OTC framework and another wanted operating subsidiaries of UK parent companies to be brought within that system, a third saw no reason to provide concessions specially for East Africa.

Firms in Group (c) said, with three exceptions, that tax and other concessions could influence investment decisions, often rather marginally. The most sought-after concessions were tax holidays, duty-free importation of equipment and materials and tariff protection. Several feared that the proposed corporation tax would penalise overseas investment, and suggested the negotiation by the UK of double taxation agreements to provide full relief for overseas taxation.

Firms in Group (d) were divided on the relevance of tax concessions to investment decisions. Only half said they counted seriously. One firm said that the firm 'would invest where prospects are brighter, e.g. Latin America'. Tax holidays monopoly rights and freedom to repatriate capital and income were the most sought concessions. Only two said concessions were being frustrated by UK tax policy. A variety of possible UK tax concessions were mentioned.

Firms in Group (e) were divided in their views. On the significance of tax and other concessions, the three firms rang all the changes: Yes, No and Doubtful. Similarly, on what types were preferred: None, Don't Know and freedom of movement of funds plus tariff concessions. On frustration: No, Don't Know and 'There is no profit presently from tax concessions given by Africa because we have to pay the rest in the UK.'

Firms in Group (f) agreed that tax and other concessions did significantly affect investment decisions. They favoured import-duty concessions for plant and equipment and early tax relief. Only one answered the question on frustration which it said took place. It suggested complementary tax reliefs should be given by the UK.

Topic 6: Other factors and their treatment

Firms in Group (a): only a minority answered this question. All except one stated the need to recreate a climate for investment through improvements in the economic and political position of East Africa. Other points made by some of these firms included:

(i) the need to raise the prospective return on investment through the erection of a suitable infra-structure.

(ii) the East African market would not be attractive if divided—a common market is essential, and

(iii) that investment is not possible until expatriate staff is assured of better treatment.

Firms in Group (b) put stress on the following points:

(i) unless expatriates are reasonably happy they will be unwilling to remain for any length of time in developing countries and unless firms can invest with confidence for a reasonable length of time, they will not commit themselves to training schemes for nationals of the countries concerned.

(ii) absorptive capacity of the East African market for many products is relatively small and unless the common market is expected to continue most manufacturing units will be uneconomic.

(iii) Africanization at the current pace reduces the standard of administration and unless citizens of Asian origin can be employed as part of the process of East Africanization, the shortage of local management and technical personnel will hold up economic development.

(iv) while the attitude towards and concessions for foreign investment in East Africa are regarded as encouraging, progress will be slow until there is more confidence in political stability and the balance of payments position is eased.

Firms in Group (c) were divided in their views. While some felt that the need for political stability was paramount, others put the continuance of the common market as the first essential. Among several other points made by one firm or another was the difficulty of providing skilled and experienced staff, expatriate or local, and the consequent need for more educational and training facilities for Africans.

Firms in Group (d): less than a half answered Question 28. There was no general concensus in the answers made. Points made in one or other answer included: the chronic foreign exchange problem was as off-putting as political stability and a tendency to corruption, there was lack of 'drive' in East Africa and the problem of staffing with either expatriates or local staff.

Firms in Group (e) provided three interesting answers as follows:

(i) The main deterrent to investment is the political uncertainty of the area. This uncertainty also makes it difficult to recruit the necessary managerial staff from the UK.

(ii) Possibly Nigeria is a comparable market to East Africa with more potential, since it is nearer to acceptable maturity.

(iii) We see in Africa generally, and not in East Africa specially, a territory with a big future for expansion. With a certain amount of free trade and the possibility of free movement, combined with a co-operative movement in Africa, a big growth could be achieved. The present method whereby the big business is done by the various Boards and only the small trade is handled by investors, is not bringing any great benefit to the country or to the investors.

Firms in Group (f): neither answered Question 28.

Analysis of replies by type of firm

(*a*) *Public companies not investors in East Africa* (27 replies)

Topic 1

Sixteen regarded East Africa as a growth area some adding 'when politically stable' or 'probably'. Six did not think so, as far as their products were concerned anyway. Three did not answer and two were doubtful. Thirteen were confident that they had enough basic data to answer the question on growth, four felt some doubt and the other nine did not have enough data. One did not answer.

Question 5 brought a very assorted batch of replies. Three said Yes and seven said No. Others answered 'Probably', 'Yes for medium-size firms', 'Depends on type of business', 'Depends on political stability and commercial opportunity', 'Yes if security assured', 'Unlikely', 'Possibly a sales and service organisation' or 'Don't know'. Three said No to Question 6 and two did not reply. The rest said Yes. The same two and one other did not reply to Question 7. Fifteen answered 'Privately'. Three answered 'Both privately and by governments'. Three said 'By governments'. One 'By the United Kingdom Government'.

The broad impression here is that there are some doubts about East Africa being a growth area and studies would have to be put in hand before many would invest. While local governments could do something to provide data and surveys, firms would invest usually only after thorough private investigation. On the whole, dissection of development plans would not greatly contribute to this.

Topic 2

Fourteen stated that reluctance to invest was due to political risk and 11 others said that this was partly the case, the other cause being the unsuitability of the market for producing and selling their products at a profit. Two said it was not relevant to their decision not to invest. Many of the firms felt that confidence could come only with several years of satisfactory political and commercial relations and there is no short-cut. Others felt that investment guarantees would help providing there was a quick return on the investment and both capital and income could be repatriated. Fifteen favoured a Convention for the protection of foreign investors. Two were against a Convention, and one felt such a Convention would probably have harmful results. Others were not convinced of its usefulness but did not feel it would be harmful. Seven favoured—some in a qualified way—a centre for conciliation and arbitration on investment disputes. Some said it depended on whether it had sanctions and where it was set up. Eight were not in favour of a centre. Seventeen thought an investment insurance scheme was desirable providing it was not too expensive to run. A few of these did not mind whether the scheme was bilateral or multilateral. One felt investment guarantees and a convention on property rights should go along with multilateral investment insurance. Only four opposed the suggestion. With four exceptions, the firms were ready with varying degrees of confidence, to take part in some system of guarantees. Nineteen thought that the government of the country concerned should be involved, one firm restricting this to investment insurance and one agreeing providing the United Kingdom Government was a party. Two firms thought that the stability of the local government was essential and one firm thought that final protection would have to derive from elsewhere than the recipient country.

Topic 3

Fifteen answered Yes to the question whether the politically unstable conditions would matter if it were possible to see a higher return on capital than that available in Europe and America. Only one felt that the conditions would not matter if the return was sufficiently high. Some said that political stability was essential since high returns to attract foreign investment would not be a satisfactory substitute. Nor was it considered desirable that foreign investment should be bribed by means of a very high return on capital, as in the long run this tends to result in the feeling that the local people are being exploited. This, it is said, is the source of much of the ill feeling felt in some developing countries against expatriate businesses. One firm felt that high rates would not attract much more capital in the absence of political stability. While somewhat higher returns would be expected than those received at home to cover risks to staff, less efficient working in the promotion period, etc., the main interest was greater political security along with freedom to repatriate both capital and income. Clearly, the answer to the other two questions depends on the nature of the investment. Several firms made that point. Others varied between a return just higher than that received at home to returns of over 20 per cent. Few thought of waiting for as long as five years to get the return, none for longer. Two to three years was normal, three firms answered in terms of Discounted Cash Flow, seeking a return of at least 9 per cent in the United Kingdom before allowing for exceptional risk factors. Inclusion of the latter might bring the actual rate up to 25 per cent.

Topic 4

Eleven thought joint ventures were desirable and seven did not. The rest either did not know or said it depended on circumstances. One felt it desirable providing control remained here while one felt it was the answer to growing nationalism and the consequent wish to share risks. Experience was no less variable. Only six have had satisfactory experience while eight others stated conditions for successful joint ventures. These conditions included one partner having local knowledge, one partner needing to dominate, prior agreement to control and break-up arrangements and not taking former competitors into partnership. In their answers to the question as to who should be taken as partners, the majority thought local investors, Development Corporations and local governments in that order. One preferred, because they were in a heavy industry, to have the local government involved rather than either of the other two. One firm suggested a fourth alternative, namely an established trading organisation with London equity. Seventeen answered Yes to the question on retaining voting control. One pointed out that control may be in the hands of those with 40 per cent. Only two said No. Twenty expected to invest permanently and the rest said it depended on circumstances but they would like to be able to sell out.

Topic 5

Seventeen firms said that tax and other concessions significantly affect investment decisions. Four others qualified their answer by saying that help in earning profits was more important than providing concessions when profits emerged. Five said that they had no significant effect. A variety of answers were given to the type of concessions preferred, varying from a simple 'Don't know' to a list of six kinds—a tax holiday that might be extended after the initial period, provision for carrying losses over an extended period, provision of buildings as in development areas at home, initial subsidies for basic services, adequate housing and social services and loan capital on favourable terms. The majority mentioned one or two of these, especially tax holidays. But tariff concessions on imported plant and raw materials and protection of the local market for an initial period were mentioned by several as was freedom to sell shares and remit funds. One firm asked for the same freedom to move funds and staff as is found in Europe. Most firms did not know whether the tax concessions given by East African territories are frustrated by UK tax policy or not. Three said that the answer will depend on the terms of the corporation tax. Thirteen firms did not seek any UK concessions, one asked for none and one other felt that concessions should come from the East African side. Other suggestions were: dropping the corporation tax, providing UK aid for the provision of loan capital, guaranteeing investors as is done by the US and Germany, signing a convention for protection of foreign investors and negotiating double taxation agreements so that concessions might be received. One firm suggested a travel subsidy if medium and small sized firms are to invest in East Africa.

Topic 6

Only eight firms answered this question. All except one referred to the need to recreate a climate for investment through improvements in the economic and political position of East Africa. One also suggested the need to raise the prospective return on investment through the erection of a suitable infra-structure. Two felt that investment was not possible until expatriate staff is assured of better treatment. One felt that the shortage of technical and administrative staff in the UK seriously handicaps direct investment in East Africa. One thought that the trade unions and state trading practices would have to be curtailed before private investment would be interested. One other thought the East African market would not be attractive if divided; a common market is essential. A large firm said that while it was not likely to invest in the very near future in East Africa, the region was being watched so that the company could take an interest when conditions appeared appropriate.

(b) *Public companies which invested before 1945* (14 replies)

Topic 1

Nine replied Yes to the question asking whether East Africa is regarded as a growth area. The other five qualified their Yes by adding, in three cases, 'in the long run', in one case 'in a small way' and in the fifth case 'but present instability will inhibit growth'.

Twelve answered Yes to the question on data, one did not answer and one asked for better official data. Answers concerning the break-down of development plans were more varied. Four did not know; three answered Yes; five thought it would help consideration; one said that East Africa needed to be treated as one market in order to make manufacturing economic; one thought that it would be more useful still if the plans drawn up could be seen to be practicable. Eleven wanted feasibility studies undertaken, one would not, one did not answer, one said either privately or by the World Bank, one preferred a government survey and one said it did not matter providing the survey was sound.

Topic 2

With two exceptions—one not replying and one saying it was financial risk—all agreed that the political risk was an important consideration both directly and indirectly. As one reply added, the smallness of the market and the shortage of skilled workers were also important. Suggestions varied as to how this might be dealt with. One firm suggested a customs union, investment guarantees and sound financial policies. Another sought tariff protection, a quick turnover of capital and a tax holiday. Others suggested a code of behaviour to foreign capital and staff, local participation in the investment or freedom to repatriate funds. One firm argued that one should either receive high rewards or invest elsewhere.

Only one reply did not favour a Convention but three wondered whether it would be practicable. One in favour added that 'It should, however, be noted that the OECD Draft Convention on the Protection of Foreign Property is limited to a re-statement of the recognised rules of international law in this field'. Little enthusiasm is expressed for a centre for conciliation and arbitration on investment disputes. As one reply said, the creation of the Centre will be a factor in making investment decisions only in circumstances where the particular foreign investor enters contractual relationships with a state, or state agency, and where the latter is prepared to consent to the jurisdiction of the Centre. One firm said that if such a Centre was necessary, why invest at all. But nine firms thought that the setting up of a multilateral insurance scheme would certainly be of advantage to investors. Only one was against and one other did not know. One firm was in favour providing it did not encourage expropriation. Answers were less firm on the question of being associated with a system of guarantees, several saying it would depend on the cost. While five firms recognised it was impossible to have the Convention or the Centre without the participation of the country concerned, it was agreed that it would be technically possible to set up a multilateral investment insurance scheme without direct participation of governments of host countries. However, the OECD scheme envisages the direct participation of such countries and is intended to be limited to the insurance of investment specifically approved by such countries. Only one firm was anxious to avoid involvement of the host country wherever possible.

Topic 3

Six said the political instability mattered even if the return was higher. Five said that returns would have to be considerably higher to offset the political risk. One said it depended on the spread of investment wanted, another that a higher return was essential where fixed investment was high. One said the matter needed very careful balancing of risks against return for each case. Some firms were unable to state a differential in percentage terms but five mentioned 20 per cent. One was anxious to write off its capital investment quickly. Most expected a full return after two to three years, only two would wait five years.

Topic 4

Nine replied in favour of joint ventures. Two said it depended on the circumstances of the case. One felt that a joint venture might be necessary for political reasons as otherwise it would not be possible to get essential concessions. One thought it was useful only where the partners had strong common interests. One said it could not usefully apply to their business and would be likely to fail if attempted. Most had experience and found that such ventures could work out, especially where each partner was satisfied with the profitability of the venture. Some would prefer to be on their own, other things being equal. As far as partners go, often there is no choice. Some would not mind who else was involved. But several preferred local investors and, particularly if it did not require executive responsibility, the local Development Corporation. If at all possible, all firms except three would like to have control, one firm specifying at least technical and managerial control. All firms would normally invest for good.

Topic 5

All firms except two said that tax and other concessions affected investment decisions if they were of a significant size. Of the two exceptions, one held that temporary concessions could not be a major factor in investment decisions and the other, while agreeing that they had some relevance, thought that a stable government with a friendly attitude towards foreign investors was the essential requirement. Five firms preferred investment allowances either as the sole concession (in two cases) or along with a tax holiday and protection for the new business. Two firms asked for the entry of plant and machinery duty-free and for reduced duties on raw materials. One asked for a development grant and another for concessions which gave a 'permanent benefit'. No firm found that existing concessions were unduly frustrated by UK tax policy at the present time but six qualified their answer by saying that the proposed corporation tax threatens to do so. It was felt that companies should not be penalised tax-wise for investing abroad although only three suggested more favourable treatment of overseas than of home investments one seeking special concessions, two suggesting that where the definition of income is more favourable than that of the UK, e.g. if initial allowances are given, it should be accepted for U.K. tax purposes also). Seven suggested that where host countries give tax holidays an agreement to recognise them for UK tax, as has been done with Pakistan through the Double Taxation Agreement, should be made. One firm wanted companies resident in East Africa to be brought within the OTC framework and another wanted an extension, with or without time limit, of the OTC regulations to include overseas operating subsidiaries of the UK operating parent company. One suggested tax concessions on plant and equipment exported to set up a business overseas, and two others thought that investigation and establishment expenses should be allowed against UK tax. One reply pointed out that no special concessions for investment in East Africa were permissible under the rules of GATT and another saw no reason to provide any.

Topic 6

This group consists of those with longest experience in East Africa and several had long experience in other parts of the world as well. This gives particular weight to the replies already discussed. Question 28 was intended to give firms the opportunity to make whatever points they felt of special importance. This group puts stress on the following:

(i) new businesses need management from the UK and training facilities for operatives. Unless expatriates are reasonably happy they will be unwilling to help and unless firms can invest with confidence for a fair period of time they will not commit themselves to training schemes;

(ii) absorptive capacity of the East African market for many products is relatively small and unless the common market is expected to continue most manufacturing units will be uneconomic;

(iii) Africanization at the present pace reduces the standard of administration and unless citizens of Asian origin can be employed as part of the process of East Africanization, the shortage of local management and technical personnel will hold up economic development;

(iv) while the attitude towards and concessions for foreign investment in East Africa are regarded as encouraging, progress will be slow until there is more confidence in political stability and the balance of payments position is eased.

Other suggestions included: prospects of state trading in certain spheres are disincentives to investment; ECGD should be extended to cover the non-business risks in foreign investment; freedom of movement of funds should be guaranteed; UK taxation should give concessions for overseas investments; the UK should send more advisers abroad under its aid programme as trade tends to follow and go to the country from which the advisers come.

(*c*) *Public companies who have become investors since 1945* (23 replies)

Topic 1

With one exception, all firms thought, or at least hoped, that East Africa is a growth area, although four added 'in the long run' and three said 'only if politically stable'. One added maintenance of the common market to political stability as conditions for growth. Another felt it was of low investment priority even so. With two exceptions, all felt with varying degrees of confidence that they possessed enough data to answer this question. While it was on the whole felt that the more detail available on development plans the better, few felt that this in itself would contribute much to investment except here and there. One view was that often the plan was less interesting than in the implications that they carry of increased restriction on imports to protect local industry. Three firms said they would not be in a position to consider further investment for several years. Except for two firms, all took the need for a feasibility study for granted. Fifteen preferred to have this done privately, some because they felt that governments were unlikely to be able to. One preferred a government survey if it was sound. Four suggested both although one of these thought that a government survey might not be detailed enough.

Topic 2

Fourteen replied Yes to the question whether reluctance to invest was due to political risk. One did not reply. The rest said it was partly so and of these, three added qualifictaions. One said the reluctance was also the lack of short-term prospects, another that farmers consider the political risk high but the business community does not while the third said the primary reason was in their case the size of the market and the ability to supply the market from outside.

Most firms thought that political stability for a few years would improve the investment climate better than in any other way, some doubted there was another way. One felt that well-publicised goodwill and financial assistance from non-Communist governments would be of enormous significance. Six asked for guarantees against political risks by the UK or DAC although one doubted the usefulness of this as it might lead local governments to expropriate more quickly than otherwise and felt that businesses must take the responsibility for investment risks, investing where they are not too great. One suggested that 100 per cent subsidiary of a British firm should be insurable under ECGD against political and transfer of funds risks. Thirteen favoured a Convention and four others agreed if it were a practical proposition. One was against, another doubtful, a third thought there was little point as one could invest elsewhere while a fourth thought it was likely to be window-dressing. Fourteen were either doubtful or against having a centre for conciliation and arbitration. Only three favoured it, the rest did not answer. Seven preferred a multilateral investment insurance, six were doubtful, one thought it was unnecessary for large firms and too costly for small, another thought that if conditions were favourable for investment, it would be unnceessary. The rest were either against or did not reply. Twelve were doubtful, one said only if the UK or DAC were parties, one said it depended on expense and another thought it might be brought under ECGD. Of the rest two were against and three did not reply. Seven felt—some strongly—that local governments should be involved in the earlier proposals; one thought an insurance scheme might encourage local governments to break their word as 'private investors are all insured'; one felt that it would take time for confidence to be restored and these proposals would not contribute to this process.

Topic 3

With one exception, all replied that a higher return would not compensate for politically unstable conditions. One said the conditions overrule the likely return, another that a higher return would help only in marginal cases. Three said that the return could not be high enough to justify the risk of loss of capital, time and manpower. The one exception answered 'We invested just for this reason'. Where rates of return were relevant, estimates varied from 'over 10 per cent' in one case to 'over 50 per cent' in another, 20 to 25 per cent being usual. A few firms would not wait up to five years but most felt that only short period investments were justifiable to their shareholders. One was prepared to invest for 10 to 15 years before getting their capital back if the investment was profitable meantime. Another said that investment in tropical agriculture took several years.

Topic 4

All except three felt that sometimes joint ventures might be useful. Some saw their usefulness in terms of local knowledge and finance, others as a hedge against some risks. Of the three not in favour, one thought that in the initial stages undivided control was essential while another was doubtful of the value of joint ventures at any stage. The third had neither knowledge nor opinion. Most had experience and were satisfied. Several said that joint ventures could be satisfactory if carefully organised and were useful where local knowledge was required or local participation was politically advisable. One firm thought they were highly expedient but not as satisfactory as a wholly owned subsidiary. While six would be happy with any or all of the three partners mentioned, four preferred private investors but five recognised that these might not be available and suggested Development Corporations as alternative. Only one opted for Development Corporations in preference to the others and only one said 'not with governments'. Ten expected to hold not less than 51 per cent of the equity but the rest were prepared to consider less in certain circumstances, e.g. knowing the local investors well, although normally they would expect to retain control. Similarly, nearly all expected to invest for good but two said they would like to be able to sell out to local investors, one wished to stay as long as the investment was profitable and one expected to be able to stay for only a limited period because of political risks.

Topic 5

With three exceptions all firms stated that tax and other concessions could influence investment decisions although several thought the effect was usually rather marginal. One dissentient said they did not unless local tax rates are punitive while another held that a guarantee against political risk was the only meaningful arrangement. The third said that an investment should be viable without concessions. The most sought-after concessions were tax-holidays during the early years, duty-free importation of equipment and materials and tariff protection for the products of the new concern. Other concessions mentioned were: guarantees against discriminatory taxation, investment allowances, low rents and freedom to repatriate profits and capital. While firms did not suffer frustration of concessions by UK tax policy, several feared that under the new corporation tax they would be penalised on overseas income. Several suggested that a double tax agreement should provide full relief for overseas tax. While some firms stated there was no case for UK concessions confined to East Africa, others proposed: help from ECGD or the government to provide competitive credit terms, tax-free salaries for UK technical staffs on short period assignments abroad, interest-free loans and duty-free imports into the UK for part-processed materials. One firm said that the new export rebates are of substantial value.

Topic 6

The need for political stability was said by several to be the over-riding factor. Others felt that the continuance of the common market was of supreme importance. Several mentioned staffing problems, both expatriate and local, and suggested more education and training for Africans. One said the latter was the only way in which the activities of Communist countries could be countered. Other points made included the need: for investment guarantees, to secure local agreement to expatriate staffing, and to arrange transferability of saving, insurance and pension rights. One firm said that the withdrawal of Europeans had reduced spending power and so limited the attractiveness of East Africa. Another felt that investment in East Africa was more speculative than the likely returns warranted. Lack of development of supporting industries was given in one case as reason for not investing further.

(*d*) *Private companies not investors in East Africa* (27 replies)

Topic 1

Eleven firms thought of East Africa as a growth area, nine were doubtful or did not know, three did not think so, and the others gave qualified answers: 'for tea growing', 'not at present', 'not as presently run', and 'in the long run'. Eleven did not feel they had enough basic data to decide, nine did, while the rest thought they did for their own product. Only two thought that a break-down of Development Plans would definitely be useful, five did not think so, four did not know and the rest were either doubtful whether such a break-down would interest medium-sized firms or felt that patents, know-how and skill were more important aspects. Twenty-one said they would wish to have feasibility studies undertaken, three did not and the others did not know or did not answer. Sixteen wanted these done privately, one adding 'with government assistance'. Four said by governments, one answered 'either' and one replied 'both'.

Topic 2

Fourteen answered Yes to the question whether reluctance to invest was due to political risk, ten others said it was principally or partly so. Of the two who did not think so, one said that the local market was too small and the other that the present standard of living was not high enough to warrant investment. One did not reply. Ten did not know or did not answer the question on means of spreading the risk. Several others said that a country cannot command support unless it has a settled government and generally acceptable policies, i.e. political stability is paramount. More detailed proposals included: freedom to repatriate funds, agreement on the employment of expatriates and multilateral investment insurance, thirteen favoured a Convention for the protection of foreign investors and two others said they would be in favour of an effective Convention. Three were against, one saying he did not favour anything like the Association for the Protection of Foreign Bondholders, three were doubtful, one did not know and four did not reply. Replies on the Centre for Conciliation followed the same pattern. One firm said it would be given small weight and three others saying they agreed only if the Centre had enough teeth. Fourteen favoured a multilateral investment insurance, one thought it would be useful in the absence of investment guarantees, one thought it would only suit large businesses, three were doubtful and four were against. Seventeen wished to be associated with a system of guarantees, one saying this had helped the trade of Western Germany. Only three were not in favour, the remainder being either doubtful or not answering. Nineteen welcomed the participation of the local governments in these proposals, one felt it was not necessary, one was doubtful and one said it was first necessary to have confidence in the governments concerned. Only one was against, the rest not answering.

Topic 3

Only four did not think the politically unstable conditions would matter if the return on capital was higher than in developed countries. As one of the others said, no firm would want to invest in these territories unless the return was sufficiently high to give not only a return on the investment but also an adequate return for accepting the high political risk. Even so, only two firms were prepared to wait as long as five years and some said that under present conditions they expected returns within a year. The expected returns varied from 10 per cent over other overseas investment income to returns of 35 per cent. As some replied, the return and period depended on growth prospects. Some of the smaller firms did not think they could accept the risks.

Topic 4

Eleven thought joint ventures desirable, two said it depended on the other partner, one said it was so in theory but rarely in practice, one thought it useful for a limited period in the early stages, one said it was only useful as a means of spreading political risk. Six did not think such ventures desirable, one thought it was too early to introduce them into developing countries. Four had no opinion. Eleven had experience of them, not always in Africa. The consensus was that with the right partners they could be satisfactory and the participation of local interests was usually desirable. However, some firms found them unsatisfactory and would prefer to avoid them. Ten had no experience of such ventures.

Seven firms preferred participation with local investors if available. One specified local investors or other UK companies. Seven would be happy with any—or all—of the three mentioned. One preferred to join with a Development Corporation and another suggested this as an alternative to local investors. Ten did not answer. While twelve wanted to retain at least 51 per cent of the equity, seven did not. One of the rest said they would want 50 per cent as a minimum and another said it depended on circumstances. Nine felt that they would expect to stay for good but seven did not, saying, for example, 'as long as possible if politically stable and commercially profitable', 'depending on experience' or 'limited period preferred'. One wanted over 50 per cent of the equity for a limited period and would be happy with less thereafter.

Topic 5

Fourteen firms said that tax and other concessions did significantly affect investment decisions and eight did not. One of the affirmatives added that such concessions became more valuable as tax rates rose. Another firm did not think concessions were of much value whereas a low rate of tax, particularly a continuing low rate, was. One reply to the group of questions 23-27 was that the firm 'would invest where prospects are brighter, e.g. Latin America'. Tax holidays, monopoly (or limited competition) rights and freedom to repatriate profits and capital were the most frequently sought concessions. A few suggested free import of equipment and materials. One asked for freedom from non-resident tax and another for a double tax agreement. Only two said that concessions are being frustrated by UK tax policy. Nine answered the question on other UK concessions, making the following points: equipment and materials exported to set up a subsidiary should be free of tax, cheap loan capital should be available for such investment, ECGD is adequate for its task, a write-off of capital expenditure should be permitted over the first two years and profits should be taxed only when returned to the UK, capital losses should be chargeable to revenue tax and the tax system must permit a net return commensurate with the risk to come to investors.

Topic 6

Twelve answered the final question. One said it was chiefly political uncertainty which discouraged investment but another said that apart from the underlying political instability and a tendency to corruption, the chronic shortage of foreign exchange in the new African states was off-putting. A few said either that the market size was too small or that the standard of living was too low for them to consider investing. One thought there is a marked lack of 'drive' in East Africa. Three mentioned the lack of suitable technical and managerial skills in Africa, particularly as the employment of Asians is not easy, and the difficulty and cost of getting suitable expatriate personnel to go at the present time.

(*e*) *Private companies who are investors in East Africa* (3 replies)

Topic 1

With reservation on the part of one firm, all thought East Africa was a growth area and felt that they had enough data to decide. Two would want feasibility studies made and preferred them to be done privately but both doubted whether a breakdown of development plans would help. The third firm said that Africa was not for medium-sized concerns and was therefore not interested in feasibility studies.

Topic 2

While two said that the reluctance to invest was mainly due to the political risk, the third said it was in fact government interference. While one firm asked for safeguards in the form of a Convention for the protection of foreign investors, a centre for conciliation and multilateral investment insurance, with all of which it wished both itself and the local governments to be associated, neither of the other two firms agreed. One said the requirement was mature government and protection, the other did not think a Convention relevant to the problem but favoured a centre for arbitration and multilateral investment insurance, although it was not sure whether it or local governments should be directly involved in these.

Topic 3

The three firms varied in their answers on this topic. One said Yes on the questions whether a relatively higher return would offset the political instability and another said it depended how much higher the rate of return was. The third answered, 'We think in Africa generally there is a big growth potentiality. More important than a higher return is that this growth should be safeguarded and stabilised by a more commercial attitude by government''. While this firm suggested a return of 15 per cent, the other two put 20 per cent. On the time they were prepared to wait for a full return, the firm quoted thought 3-4 years and the others 5-6 years and 2-3 years.

Topic 4

All three said joint ventures were desirable but one added that they were not necessary. Two had no experience of them but the third had participated in one such venture which had been successful. One firm preferred to join forces with established local investors or with expatriates. The others thought that two or all three of those mentioned would be acceptable partners. Two did not think retention of at least 51 per cent of the equity was necessary but the third said it would prefer to have control. Two said they would like to stay for good and the other, 'as long as the project was viable.'.

Topic 5

On the significance of tax and other concessions, the three answers rang all the changes: Yes, No and Doubtful. Similarly, on what types are preferred: None, Don't know and freedom of movement of profits and capital plus tariff concessions. Again on frustration: No, Don't know and 'There is no profit presently from tax concessions given by Africa because we have to pay the rest in the UK'. No opinions were expressed on questions 26 and 27.

Topic 6

Three interesting answers were provided on this point. They were:

(i) The main deterrent to investment is the political uncertainty of the area. This uncertainty also makes it difficult to recruit the necessary managerial staff from the UK.

(ii) Possibly Nigeria is a comparable market with more potential, being nearer to acceptable maturity.

(iii) We see in Africa generally, and not in East Africa specially, a territory with a big future for expansion. With a certain amount of free trade and the possibility of free movement, combined with a co-operative movement in Africa, a big growth could be achieved. The present method whereby the big business is done by the various Boards and only the small trade is handled by investors, is not bringing any great benefit to the country or to the investors.

(*f*) *Two unidentified companies*

These were the only two replies which did not answer Question 1 and so could not be grouped elsewhere. One is not involved, the other was involved before 1945 and has expanded in all relevant territories since 1945. The first might be called firm X and the other firm Y.

Firm X believes East Africa is a growth area but is not sure it has enough basic data to make a firm reply. It believes a break-down of development plans would add to the likelihood of medium-sized businesses' investment. It would like to have feasibility studies privately undertaken and feels reluctance to invest is largely due to political instability. It favours a Convention on foreign property rights and a centre for arbitration but not multilateral investment insurance and would wish itself and local governments to be involved in whatever system of guarantees was involved. It feels that a higher return would help but not completely offset political stability, suggesting 20-25 per cent over a 2-3 year period. Its experience of joint ventures comes from outside Africa and is satisfactory. It prefers to join with local investors, retaining control and staying permanently. Tax and other concessions are said to have significant effects, tax holidays and import duty concessions on equipment and materials being preferred. As tax concessions are frustrated in the absence of double taxation agreements, the latter are recommended.

Firm Y, with sufficient data, does not rate East African growth prospects very high and would not think that the suggested break-down of development plans would help much at the present time, although this is not solely because of political risks. Fear of nationalisation and inadequacy of returns are given equal weight. So the firm is sceptical of the value of a Convention or an arbitration centre and fears that it is felt that local governments should be associated. It does not favour joint ventures, saying that in its experience they tend to 'go in favour of the nationals'. If it invested it would expect to retain control and stay indefinitely.

Replies of firms providing limited answers

Firms in this group—responsible for 254 replies in total—were not interested in investment in the foreseeable future in East Africa for one or more of a number of reasons. In all, seven categories might be distinguished:

(1) Political uncertainty (11 replies)

Some wrote of the 'complete political instability', others of the 'discouragement by the present rulers' of skilled expatriate supervisors, while the rest stressed equally 'lack of potential and political risk'.

(2) Not interested in investing in East Africa (93 replies)

A fairly typical reply is that 'the firm does not have any investment in the countries concerned and does not envisage making any investment in those countries'. Many of the firms either do not invest abroad or had never considered East Africa as a possible field and so felt unable to make any useful contribution to the questionnaire. One firm admitted that the export of their particular product had dwindled to practically nothing because other British firms had established factories producing the same product in East Africa. They were, therefore, 'not interested in investing in East Africa'.

(3) Type of product not suited for manufacture in East Africa (22 replies)

Several firms produced sophisticated equipment for which the East African market is extremely limited. Some specially stressed the need for highly skilled operatives who required a long training period and were not available in East Africa. A few mentioned the absence of necessary raw materials in commercial quantities. One firm, despite the fact that it produced sophisticated capital equipment, nevertheless regarded East Africa as a growth area and felt that future expansion should be coupled to aid programmes and credit facilities for which British Industry will need strong support from Government.

(4) Not interested in investing in any capital project in East Africa but interested in exporting on an agency basis or otherwise (71 replies)

Some would be prepared to negotiate arrangements whereby their products were made on a royalty basis but would not be prepared to make any contribution in the way of fixed capital. While in the long run East Africa was regarded by many firms as a growth area, their present sales were still so small that the question of investment had not arisen.

(5) No funds for investment (12 replies)

These replies were mainly from small private firms unable to consider overseas investment. Two of the firms had overseas investments outside East Africa and were unable to consider further investment.

(6) East Africa not regarded as growth area for the firms' products (29 replies)

These firms did not find that their trade was growing fast enough to suggest an investment in the foreseeable future irrespective of the political risks involved or the lack of requisite skilled labour. One firm felt that in the long term East Africa must be considered to have good development potential which cannot be entirely met on an export basis so long as local governments give encouragement and protection to the growth of local industries. Conversely, another firm in the same group said 'even under the most stable conditions East Africa would have been a very long way down the list of countries in which we would be interested for overseas investments'. And again another felt that 'there is little prospect of East Africa developing industrially to the point where local manufacture would be remotely justifiable in the present generation'.

(7) Other views (12 replies)

Some firms, while not wishing to invest, have helped with information and guidance concerning the formation of local factories. Others felt that the area was not suitable for private investment or expatriate management and any help given should be in the form of tied loans. One felt the biggest uncertainty was not so much the political problem as that of commercial morality, East Africa being compared unfavourably with Malaysia. A few thought it would be unwise to invest when the threat of expropriation was so real and it does not appear that any real protection is possible. Some firms reported that their business in East Africa had sadly declined since the 'wind of change' started to blow in Africa and felt that political hazards in all the newly emergent African states far outweigh all other considerations.

Other replies

Forty-six firms were unable to answer the questionnaire because they were subsidiaries of either British of Overseas companies and therefore not involved directly in investment planning.

3—The Conference

(i) Session I

Topics 1 and 2 (Is East Africa a Growth Area? and Political risks and how to cope) were discussed together. The importance of the continuance of the East African common market was strongly emphasised and the desirability of widening it to include Zambia and other adjacent territories was stated. A breakdown of the common market, as we feared from recent developments in the area, notably the imposition of exchange control by Tanzania, would render both some existing and some potential industries uneconomic owing to the relative smallness of local markets in the three territories. Growth prospects would be brighter, it was said, if there were confidence in the continuance of the common market and means of communications within and between the three territories were improved.

The greater part of the discussion concentrated on political questions and protection for investment, including forms of insurance and guarantees. The success of the American insurance scheme was stressed; so was the reluctance of the British government to operate a similar bilateral scheme. It was recognised that a guarantee scheme and an arbitration scheme were fairly far advanced on an international basis. It was also noted that the government of Tanzania has, since 1963, given a form of guarantee to private investors for approved projects. This entitles investors to protection from competition and guarantees freedom to repatriate capital in the event of nationalisation. This, however, is somewhat different from the sort of guarantee discussed by the Conference through which the investors' own governments provide cover against loss due to action by the recipient country. Unless all investments were required to pay a premium it was felt that cover for investment in developing countries where risks were high would result in prohibitively high premia. It was therefore suggested that developed countries should bring such a guarantee within the scope of their aid programmes. This was justified on the ground that unless developing countries managed to attract private capital on a sufficient scale they would require larger allocations of aid. Not only would this press on the budgets of developed countries but also developing countries would have smaller private sectors in spite of their wish to retain mixed public-private economies. This proposal received support. At the same time it was also argued that the most useful form of aid was the provision of people with know-how and experience.

The Conference was clearly sceptical of the growth and stability of the area being discussed. As the answers to the questionnaire showed, by and large British industry lacks confidence in the political stability of the region. After a wait-and-see period the jolt came with the wave of disturbances in the area which were triggered off by the revolution in Zanzibar. However, recent visitors to East Africa stressed the stability of the governments of Uganda and Kenya. They were more hesitant over Tanzania, largely because of doubts over Zanzibar's attitude towards private investment. The recent taking-over of a further batch of minor industries by the government of Zanzibar indicates that the political threat to private investment remains. Yet Zanzibar is the exception in the area. Uganda and Kenya have adopted realistic attitudes, enjoy political stability and are receiving reasonable prices for their primary products. Their economies should expand at a satisfactory rate if they attract sufficient aid and private capital and both common services and the common market arrangements continue to operate.

Earlier hopes of political federation in East Africa have faded. Now the hope is that the Kampala Agreement will be effective. By this Agreement of May, 1964, the three countries agreed to allocate certain industries. Thus Kenya, which was attracting the bulk of new industries, was allocated incandescent filament electric lamps; Uganda was to manufacture all bicycle parts and nitrogenous fertilisers while Tanzania received aluminium manufactures, wireless sets and components and motor vehicle tyres and tubes as her allocation. For 'non-allocated' products the Agreement provides for the application of quotas where there is existing productive capacity available or of 'suspended quotas' until productive capacity is sufficiently developed. The purpose of the Agreement was to correct the imbalance of trade between Kenya on the one hand and Uganda and Tanzania on the other. Decisions under the Agreement are enforced under the Industrial Licensing Acts.

In addition to the Kampala Agreement, the Common Services Organization continues to operate. This controls railways and harbours, posts and telecommunications, income tax and customs and excise projects. It thus provides the broad framework for economic integration. Influences making for integration have, however, been weakened by the decision to replace a common currency by three separate currencies and three central banks and by the imposition of currency control by Tanzania as from July 11, 1965. While the new regulations apply much the same pattern as the present restrictions on remittances to the non-Sterling Area, no restriction on the flow of money within Tanazania, Kenya and Uganda is expected. However, in order to improve the balance of trade with Kenya, the Government of Tanzania has imposed import restrictions on a number of items, ranging from foodstuffs to clothing, originating from and outside Kenya and Uganda. The Conference expressed its hope that the three economies would not continue to move away from each other and from a common market as there are tremendous advantages to be gained in dealing with the area as a whole. A possible break-up of the area into three parts would seriously discourage medium and long-term investment.*

Another important obstacle to any substantial increase in private capital investment in developing countries generally, and East Africa perhaps in particular, was felt by the Conference, as mentioned earlier, to be the lack of facilities for insurance against political risk. The United States, Germany and Japan operate bilateral insurance schemes to cover their private investors. The United States scheme has operated since 1948. To June 30, 1965, the cumulative total amount of investment guarantees amounted to $2,260m. Meanwhile, British investors are, it was stated, at a disadvantage. A multilateral insurance scheme, such as that put forward by OECD, was regarded as preferable in principle to a bilateral scheme because the joint participation and responsibility which it involves inevitably instils a sense of partnership between the capital exporting and the recipient countries. It also tends to deter recipient countries from creating conditions under which they would have to pay up under the guarantee. However,

* Arthur Hazlewood argues that 'Until now the operation of the common market has not been a predominant cause of unequal rates of development between the East African countries, because the common market has not been a predominantly important determinant of development in East Africa.' But 'if the common market survives it is likely to become an important influence in development in the future, and the rate of development would be adversely affected by its dissolution.' He adds: 'It would be a pity if the common market disappeared because of a mistaken impression of its importance in the past, just at a time when it could become of importance and at a time when its disequalizing potentialities have been recognized and the Kampala Agreement has provided a basis for measures to counteract them.' (See 'East African Break Up', *Venture*, June 1965.)

unless there is an early decision to launch such a guarantee, the Conference felt that the British Government should reconsider its attitude towards a bilateral guarantee. Meanwhile, nationals of other countries are establishing themselves in East Africa where recent visitors found substantial goodwill towards Britain. How far, in fact, is the greater interest of American, German and Japanese firms due to their governments' bilateral schemes and how far is the noticeable reluctance of British industry due to the lack of similar cover? The Conference felt that this subject merited early and thorough study by the British Government.

(ii) Session II

Topic 3 (Are profit margins high enough?) was discussed first. While discussions during Session I tended to re-affirm and elaborate the summing up given in the report on the questionnaires, speakers on Topic 3 were critical of the third conclusion from the questionnaires, namely 'generally returns of over 20 per cent were required, usually on the basis of an investment maturing in less than 3 years'. A distinction was made between those firms already involved as investors and those whose decisions to invest in East Africa, or elsewhere, have still to be made. For existing investors the inducement of a high percentage return on capital may not be as important as it is to the other group. The potential new investors would not be expected as a general rule to finance new investment in East Africa unless profit expectations were at least as satisfactory as could reasonably be expected elsewhere. At the same time, an investor is unlikely to think only of immediate returns; he will also think of the growth potential of his business. Returns in the first five years might well be modest if they were thereafter expected to grow steadily. To expand, business profits would have to be sufficient to plough back capital as the London market could not be counted on for further funds. Even so, it was strongly stated that investors should not require political stability plus high returns over a short period. This was held to be an unreasonable demand on young economies and one certain to antagonise local interests. It was thought to be reasonable for investors to assume that state trading corporations would not compete with local factories providing these were operated with reasonable efficiency. It was also felt that factories set up to produce locally should be protected against very cheap imports in the promotion period. It was clear from the questionnaires and discussion that the main requirement was political stability and the higher profit margins which may be available are not a sufficient inducement. Indeed, it was said that many manufacturers deferred setting up factories overseas until they were about to lose a market in a territory and then they were prepared to manufacture locally at increased cost and a lower profit margin than they did at home.

The three East African territories are encouraging investment by various measures. Thus, in 1964 the Government of Uganda passed an Investment Act to protect foreign investors and an Industrial Charter setting out the ways that the Government will help the investor to expand his business. Various concessions are extended: by reduction of duty or of tax, by building roads for industries (e.g. in Jinja) and providing electric power. Uganda gives special rates for electricity and special rates for railway transport. Under the Industrial Licensing Acts, once an industry is approved in one territory it is difficult to set up the same industry in one of the other two territories. The Conference felt that East African governments have gone as far as such governments could reasonably be expected to go to encourage foreign investment by giving concessions and protection.

Topic 4 (Are joint ventures desirable?) led to a discussion which centred around three points. First, the nature of the political risks, which had claimed so much attention hitherto, were spelt out in reply to the East African participants. They were fourfold: (i) risk of expropriation of assets, (ii) risk of balance of payments difficulties limiting necessary imports and the transfer of dividends, (iii) risk of nationalisation without full compensation, and (iv) risk of deportation of personnel at very short notice. It was agreed that none of these risks is special to East Africa and indeed exist in developed as well as developing countries. Repercussions may on occasion be out of all proportion to the harm done. Indeed, some speakers held that British investors have put the political risks in East Africa much too high.

Secondly, the interest of East African governments in encouraging joint ventures, either in the shape of an association with the local government or with local investors, was elaborated. The first of these had been appropriate to some Commonwealth Development Corporation projects in particular while the other was appropriate where local investors were able and willing to take up some share in the equity. At the same time, it was not suggested that such associations were conditions for government approval or co-operation. Shortage of local capital for investment available locally was such that foreign firms able and willing to finance their whole investment without local participation would continue to be welcomed. However, it is true that while the governments are keen to attract foreign capital, they do want some stake in industries. The common form is a tripartite one. In some cases this is between the local government with an indirect interest, CDC and a commercial firm. In each territory, there are development finance companies set up jointly by the local government, the CDC and the West German Development Company, each with one-third of the share capital. If British industry were less reluctant to participate in projects, it was said that much more could be done under the existing arrangements.

Finally, it was said that there are many British companies operating in East Africa with on-the-spot management of experience and some companies outside East Africa who would like to enter. It was felt that these companies could be put in touch with one another through the local development corporations who are particularly keen on this function. British banks in the area are also anxious to provide information to intending investors. Even so, it was doubted by some speakers whether ready and capable partners, not only able to provide ability but also prepared to participate in the financial risk, existed on a sufficient scale to enable medium-sized businesses to enter the area. This was felt by some to be possibly the biggest obstacle, second only to the political risk, against such firms taking an interest in the area.*

The Session ended with the obvious, though crucial, point that the best way of ensuring stable conditions in East Africa is for the governments to give, as far as it lies within their power, their co-operation and help to the investor; and the more investors there are, the sooner will be realised the stable conditions and economic development which all hope to see.

(iii) Speech by the Minister for Commerce and Industry of Kenya

Dr. Julius Kiano, Minister for Commerce and Industry of Kenya, addressed the Conference after luncheon. He spoke as follows:

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* The old trading companies have often acted as a kind of sparking plug in the motor of African industrialization by proposing partnerships with local and expatriate manufacturing companies who lacked either commercial techniques or knowledge of local markets.

I am very happy indeed that this Conference has been organised to discuss investment possibilities and prospects in East Africa. I am particularly grateful that the range of topics is comprehensive enough to examine both the political and purely economic considerations. I have noted your reference to profit margins, joint ventures, tax concessions and even political risks connected with investment prospects. In the very few minutes available to me, I will try to make brief comments on these varied topics covered in the Conference.

This morning you discussed East Africa as a unit. I would like to stress that the leaders of East Africa, and particularly Government Ministers responsible for the economic growth and Pan-African aspirations of our respective countries, continue to be dedicated to the maintenance and development of East Africa as one common market. The recent decision by the Republic of Tanzania to have her own currency has, of course, led to the eventual break up of the East African common currency. This need not lead to the break up of the East African common market. It would have been much better if we maintained the common currency, but now that this has failed we are busy looking for other means of sustaining the common market.

I want to make it clear the desire to maintain the common market does not mean the inability of my country or my neighbours in East Africa to stand on their own feet economically speaking. We are able and prepared to push ahead with our plans for rapid economic growth even if the common market fails, but it is my deep-seated conviction, based on ample evidence, that the rate of economic growth for Kenya, Uganda and Tanzania would be greatly accelerated if we continued to operate as a common market.

I might suggest at this juncture that a major factor that would strengthen the common market now that the common currency is going out would be a common external tariff for Kenya, Tanzania and Uganda. A common external tariff would have three advantages. First, it would ensure that East African manufactured items would receive common protection, vis-a-vis foreign items, throughout East Africa whether they are manufactured in Nairobi, Kampala or Dar-es-Salaam. Secondly, a common external tariff would mean that neither Tanzania nor Uganda or even Kenya would tend to prefer items from abroad when such items are available at home. There has been a tendency of late by some people to consider trade balances favouring Kenya within the East African common market to be a worse situation than trade imbalance favouring foreign countries. Such tendencies would be contrary to the theory and practice of a common market. The third advantage arising from a common external tariff would be the growth and strengthening of economic institutions and Government mechanisms for the whole of the East African area, leading more and more towards the economic integration of the East African region. This is in keeping with the ideals of Pan Africanism in the economic field. At present we have a customs union for East Africa but the tariffs we charge for foreign items may differ from territory to territory.

We therefore do not have a joint approach regarding our treatment of foreign goods, vis-à-vis our own locally manufactured goods and the common external tariff would tend to correct this situation.

I notice that this morning you discussed also the question of political risks and how to cope with them. I would only like to add the following. East Africa now enjoys some of the most stable Governments in the whole continent. It is not mere self praise if I say that the Governments led by Mzee Jomo Kenyatta in Kenya, Dr. Obote in Uganda and Dr. Nyerere in Tanzania have all the backing of the masses of the people. There are, therefore, no more political risks in East Africa than there are here in Britain but let me add this. Failure to invest effectively in the developing countries is in itself a major contribution towards political instability. Some experts on the problems of developing countries keep on stating that there must be political stability before adequate investment can be attracted from overseas sources. I am a great believer in political stability myself. My leader, Mzee Kenyatta has brought about profound confidence and tremendous stability in Kenya through his magnificent leadership, but the industrialised countries with capital to export should not all the time wait for political stability before investing. As a matter of fact investment itself is a great factor in creating stability. An impoverished country with a lot of unemployed people is not likely to be very stable.

By investing, therefore providing employment opportunities for the hungry people and consequent revenue to the Government for more and more welfare services, it is bound to intensify conditions of stability.

May I now refer briefly to one or two others matters related to investment in East Africa. We recently introduced some currency exchange control and I would hate to see this important measure misrepresented in this country. The facts are that residents of East Africa should contribute as much as possible towards our economic development. We believe that in addition to foreign investment we must accumulate and mobilise local funds for investment within our country.

Our new exchange control is mainly to prevent the permanent residents in Kenya, Uganda and Tanzania from transferring their savings and their profits overseas instead of ploughing such money back into economy. The foreign investor will be able to transfer to his own home the money he makes in our country although even he should reinvest in our country as much of his profits as he can possibly spare.

The other point I wanted to mention here is our readiness for joint ventures between our people or our respective Governments on the one hand and the foreign investor on the other. We have no hard and fast rule about this except that we encourage such ventures wherever possible. In Kenya we have a Development Finance Company which goes into joint ventures with private investors. This company consists of investment by the Kenya Government, the Commonwealth Development Corporation and the German Development Agency who together put up about a million and half pounds. Our neighbours in Tanzania and Uganda have also their mechanism for joint ventures between their Government agencies and foreign investors.

To conclude, therefore, let me summarise as follows. First, the Kenya Government and the Governments of our two neighbours have decided to continue the East African common market and are seeking ways and means of strengthening that market now that we shall have different currencies. I have argued that a common external tariff would contribute greatly to the strengthening of the common market. Secondly, I have pointed out that East Africa has some of the most stable Governments throughout the continent of Africa, but I have added that investors would greatly contribute to political stability if they stopped playing about shyly about developing countries and came out boldly to help build up the economies of these countries. To keep on blaming the developing countries for political instability without extensively helping the nation builders to set up prosperous economies is to be selfish and short-sighted. Lastly I have referred to the readiness to encourage more and more investment from overseas and even go for joint ventures where necessary. Our assurances to investors are backed up by specific legislation and fully supported by our past performance. I look forward to welcoming in Kenya investment from your various companies.

The Conference warmly welcomed Dr. Kiano's remarks and assurances. It was also interested in the undertakings enacted in December 1964 in the Foreign Investments Protection Act by the Government of Kenya. Undertakings include the following:

'A foreign national who proposes to invest foreign assets in Kenya may apply to the Minister for a certificate that the enterprise in which the assets are proposed to be invested is an approved enterprise for the purposes of this Act.

The Minister shall consider every application made under subsection (1) [above] of this section and in any case in which he is satisfied that the enterprise would further the economic development of, or would be of benefit to, Kenya, he may in his discretion issue a certificate to the applicant.

Foreign nationals who have already invested foreign assets in Kenya shall be entitled to the grant of a certificate on application provided that a certificate may be withheld if the Minister is not satisfied that the enterprise is of benefit to Kenya.

Notwithstanding the provisions of any other law for the time being in force, the holder of a certificate may, in respect of the approved enterprise to which such certificate relates, transfer out of Kenya in the approved foreign currency and at the prevailing rate of exchange—

(a) the profits, after taxation, of his investment of foreign assets;

(b) the approved proportion of the net proceeds of sale of all or any part of the approved enterprise, either in liquidation or as a going concern; and

(c) the principal and interest of any loan specified in the certificate.

No approved enterprise or any property belonging thereto shall be compulsorily taken possession of, and no interest in or right over such enterprise or property shall be compulsorily acquired, except in accordance with the provisions concerning compulsory taking of possession and acquisition and the payment of full and prompt payment of compensation contained in section 19 of the Constitution of Kenya and reproduced in the Schedule to this Act.'

(iv) Session III

Topic 5 (Do tax and other concessions matter?) was discussed on the basis that the Conference would confine itself to the overseas angle rather than to the 260 or so clauses of the Finance Act. It was noted that, as the debates on the Finance Bill and the earlier report of the Richardson committee showed, British businessmen do not take sufficient account of tax in making investment decisions. Whereas the Americans are said to take tax rates and concessions fully into account from the outset, British businessmen tend to think about tax after the real decisions on investment have been made. However, at present frustration does arise from United Kingdom tax policy as, in the absence of special arrangements, concessions abroad are offset by greater taxation by the Treasury here. A new situation arises with the introduction of the Corporation Tax coupled with the separate tax on shareholders, whereby tax rates abroad in excess of the rate of Corporation Tax here will have to be borne by the company concerned. There is, therefore, a very strong case for the East African Governments to negotiate some protection for investors in their territories with the British Treasury under Section 17 of the 1961 Finance Act. Meanwhile it was difficult for the Conference to see how the British Government reconciles its many encouraging statements in relation to the Commonwealth and its development with this new taxation arrangement. It was also argued that income and profits tax rates abroad were in any case an unsatisfactory measure of local taxation as indirect taxation tended to be heavier there than here. The question was raised whether profits made overseas without the use of British public services should be taxable here anyway. What is the justification for this? While the Government was unlikely to change its general policy on overseas taxation, the Conference felt it might be persuaded within the limits of the existing balance of payments situation, to provide further concessions for developing countries.

The East African Governments already provide, as noted earlier, a number of concessions though they have rejected the usual method of giving tax holidays for newcomers on the ground that the expansion of existing businesses is no less desirable. As the Government of Kenya says in its *Development Plan* 1964-1970 (p. 39):

> It is Government policy to offer inducements, equally available to both new and existing firms, to encourage private industry to play its full role in the development of Kenya. The rate of tax on company income is 37.5 per cent, considerably lower than rates charged in many other countries. In addition, an investment allowance of 20 per cent of the costs of new industrial buildings, machinery and fixed equipment is available both to new investors and to existing firms. Taken together with the usual depreciation allowances, an industrialist can write off 120 per cent of his investment against taxable income over a period of years. In addition to tax incentives, refunds of customs duties are available to companies utilising imported raw materials in the manufacturing process. . . . Two forms of protection are available to new industry. First, the three East African countries have maintained a common system of industrial licensing with the object of preventing disorderly development and uneconomic competition in scheduled industries. The legislation also provides for the granting of monopoly rights, although these are granted only if there is exceptional justification. Second, tariff protection is available against imported articles, the protective rate varying according to the circumstances of each case. . . . In special cases the Government may initiate feasibility surveys designed to attract investors.

It was felt that protective tariffs should be used with extreme caution as they tend to encourage large increases in labour rates and so make industrial development more difficult. Used with due caution such tariffs could help to promote small industries.

Topic 6 (Other factors and their treatment) was clearly the residual legatee. The Conference had been encouraged by Dr. Kiano's address. It appeared that, irrespective of difficulties that may be experienced on the political side, there would still be a broad area of agreement between the three territories in their approach to attracting investment.

Discussion centred on three points: transport, manpower and small scale industry. Communications were said to be in need of improvement in the area. Thus while Uganda is well situated to export to the Sudan and Congo, politics permitting, freight rates are heavy for imports and exports which have to travel some 800 miles to Mombasa. Communications are in need of improvement, too, between Kenya and Tanzania. It was good to hear that the World Bank has agreed to authorise a £13.5m loan to East African Railways and Harbours to construct a line from Kenya on the Nairobi-Mombasa line to Moshi in Northern Tanzania and for a railway through the Kilombero Valley of Tanzania to Makumbako and, later, to Mbeya.*

As many companies answered in the questionnaire, the acute shortage of trained personnel in East Africa has caused a number of them to hesitate before establishing manufacturing operations there. The three Governments are fully aware of the problem and are taking steps to overcome it as quickly as they can. But for some years yet business here will have to provide its senior management from this country and provide local facilities for training executives and skilled operators. Many firms have found that with full employment in this country it is increasingly difficult to attract the right type of men in the required number to serve overseas, especially in developing countries. It was suggested therefore that life should not be made too difficult for expatriate staff. Yet in Tanzania, for example, company pension arrangements were not allowed for tax relief unless invested in the country. Expatriates who would retire to Britain in due course, wished therefore to be posted elsewhere.

It was recognised that the pressure for Africanisation is such that survival involves fairly rapid promotion of Africans in industry and commerce. It was realised that local governments have to balance the demands of their electorate for immediate Africanisation against the desire to attract investment, including essential technical and managerial staff, from overseas.

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* Under an agreement signed in Nairobi on August 4, 1965, the British Government is to lend up to £3.15m to the East African Common Services Authority for the purchase of 44 British diesel electric locomotives for the East African Railways and Harbours Administration. The loan is made under Section 3 of the Export Guarantees Act, 1949, and will be for 20 years including a grace period of 5 years.

Attempts have been made to explain their policy on Africanising their economies but little of this appears to have percolated abroad. A statement issued by the Government of Tanzania—and not available at the Conference—is reproduced as an appendix. It will be noted that specific reference is made to 'members of the local Asian community' in the provision of management and local finance.

Meanwhile, as some answers to the questionnaire stated, established Indian management in East Africa was more of a target than expatriate management. The problem of training African staff is one which businesses must face. A valuable contribution is made by the scheme organised by the FBI which offers practical training in engineering with British industrial firms and nationalised industries. The recent extension of this scheme was warmly welcomed in East Africa. Even so, acute difficulties are experienced in the higher echelons of management where there is a tremendous shortage. For this reason developing countries should not be too harsh on the expatriate.

Finally, the Conference turned briefly to the need to encourage small-scale industry in the area. On the one hand, it was felt that grandiose schemes were often inappropriate to the requirements of the region while on the other hand facilities were insufficiently available for the promotion of such industry. In the opinion of some speakers both development corporations and finance companies have given the impression to small operators that they were not interested in small-scale businesses. If this impression was misleading, it should be corrected as companies should be helped to start in a small way whenever this could be expected to be successful. The Conference felt that there should be a growth of small-scale industry in Africa and an appropriate organisation should look into ways and means of fostering it.

4—General Conclusions

The Conference was not intended to form the nucleus of a pressure group but rather to result in greater awareness of some of the issues and problems involved in development in East Africa on the one hand and the provision of capital and expertise to the area on the other. Like other developing countries, the three territories of East Africa are anxious to raise living standards sharply over the next decade or two. Today the per capita income averages about £28 p.a. Their development plans aim at realising an average per capita income of between £40 and £50 by 1980. This is, admittedly, an ambitious target which leaves no doubt that the three governments themselves believe in economic growth in their territories. On the whole, both in the answers to the questionnaires and in the Conference, this assumption was accepted. British industry was most fearful of political risks in the area. The two representatives from East Africa and, even more, Dr. Kiano did much to dispel these fears in so far as they were based on lack of, or incomplete, knowledge, which was, in fact, largely the case. It does prompt the suggestion that the climate for investment could be significantly improved if the three East African governments could be persuaded to make information on its policy towards private investment and the employment of expatriates more readily available. Those with capital will tend to go where they feel conditions are best; it is unfortunate if East Africa is avoided because its light is hidden under a bushel. The three governments should state their case more fully and more often.

The statement on 'Africanising the Economy' issued by the Government of Tanzania on March 13, 1965, is given as an appendix. This is just one example of what should be better known outside East Africa. Another example is the Sessional Paper entitled 'African Socialisation and its Application to Planning in Kenya', which received the unanimous support of the cabinet of Kenya. It is now available as a booklet. It makes a serious attempt to define African socialism in order to produce a realistic and consistent policy for economic development in Kenya out of the sometimes contradictory pressures to which the Government has been subjected since its independence. It is recognised that nationalisation is not always appropriate 'since it does not always lead to additional resources for the economy as a whole.' On Africanisation it says that 'Foreign enterprises will be informed that the aim of the Government is Africanisation of the economy. and declares that 'In planning Africanisation schemes, the overwhelming need for higher rates of growth will be kept in mind . . . providing Africans mainly with new assets instead of mere transfers.' When the authors of this Paper, come to spell out the detailed application of the policy outlined, it would be useful to Kenya if potential foreign investors were informed. As the Conference amply showed, there is considerable scope for greatly enlarged East African information service.

Another suggestion arising from the Conference was that the East African governments should initiate talks with the United Kingdom Treasury whereby tax concessions and rebates given by them would not be offset by higher taxation. This, it is true, is a general problem facing developing countries which provide concessions available to British investors. But the corporation tax has increased the need for such initiative as it limits the set-off to the current rate of East African tax which might be increased in the future. Tax concessions can, as matters stand at present, only be preserved, instead of offset, as the result of bilateral agreements with the United Kingdom under section 17 of the Finance Act of 1961. This section enables such tax-sparing concessions to be written into a double taxation agreement. New agreements have been negotiated by Britain with a few countries, including Pakistan, Malta and Israel. The governments of East Africa should follow suit. If a successful initiative was taken, it would naturally be hoped that British businessmen would adopt the American habit of taking tax concessions into account before allocating their investment funds.

Certain lines of enquiry were suggested. One concerned the ways and means likely to promote faster growth of African entrepreneurship and management. Another was the methods of fostering African small-scale industry whose quickened growth the Conference felt was of crucial importance over the next decade or two. A third was the effectiveness of investment guarantees, as given by the United States, German and Japanese governments, in increasing the willingness of their businessmen to participate in projects, with CDC and others, in East Africa. Finally, if a multilateral scheme does not soon materialise, it was suggested that the British government should consider how a guarantee scheme might be brought within the scope of development assistance.

So much for suggestions arising from the Conference. Certain conclusions emerge from the whole enquiry. An insistent one is that British industry needs prodding because, although there is a wide field in which private enterprise could act, it is unlikely to do so unless forced by competition. Lack of market and fear of nationalisation are the standard reasons for not investing but once the threat of competition is strong enough, British interests move in. Again, many of those already deeply involved are prepared to go ahead and expand, the political climate notwithstanding. Clearly, British industry has, at the moment, a choice of investing in known safe markets where the trend is upwards, or alternatively, of investing in Africa, which is a conscious speculative act—either because the market is too small or because of unstable conditions. Meanwhile, firms are happy to invest in India, Pakistan and Latin America, as the statistics show. There seems, therefore, to be a dilemma because, if growth continues, the market in Africa in a decade or two will be considerable and if British industry is unwilling to invest now they are likely to find it difficult to do so later on. Meanwhile goodwill towards Britain will tend to disappear and, with it, Britain is likely to lose much of her political influence. Materially and ideologically, it would be a great mistake to allow this to happen. The object of the enquiry has, therefore, been to establish the attitudes in both Britain and East Africa towards greater private investment and to discover what safeguards can be provided or conditions met in order to induce British industry to act. For private investment is not, like aid, a government-to-government matter. Governments can, it is true, help or hinder the flow. But, having done what they can, the rest must be left to industry. British private investment in East Africa, as elsewhere, is then a problem of industry. The finding of the present survey and Conference should assist British industry to tackle the problem in East Africa. Will it accept the challenge and make an adequate response?

Appendix

Statement issued by the Government of the United Republic of Tanzania on the 13 March 1965

AFRICANISING THE ECONOMY

The Government has sent to Chambers of Commerce, Co-operatives and other Commercial Organisations throughout the country, copies of the following statement explaining its policy on Africanising the economy of Tanzania.

> 'Government's determination to Africanize the economy of Tanzania is well known, but it seems to give rise to a certain amount of misunderstanding on all sides. The result is a waste of our resources and a reluctance to pursue vigorously the steps necessary to develop our country. Government wishes to eliminate this uncertainty and to make clear the principles which will be followed by the nation and which will, we hope, receive full support from the industrial and business circles in Tanzania.
>
> 'There can be no compromise on our national aim to get real control of the Tanzanian economy by the people of this country. The virtual monopoly of business and commerce which is now held by foreign firms and minority communities within Tanzania must be broken. It must be broken, not by destroying what exists but by the policies adopted in our expansion. These must be such that we gradually extend the collectively-owned sector of the economy and thus ensure both growth itself and the capability of our economy to serve the national interests at all times. We must secure this public ownership and partnership of public and private capital through the use of the National Development Corporation, the Mwananchi Development Corporation, the Workers' Investment Corporation, and Intrata; and through the Co-operatives such as the KNCU, the VFCU, the BNCU, the RNCU, Ngomat and Cosata, etc. These bodies are our prime instruments for socialisation and Africanization.
>
> 'This does not imply any opposition to private enterprise either local or foreign. In the Development Plan private enterprise has a large part to play, and it is not necessary that every investment in which private capital

is involved should be a joint State/private undertaking. The investment guarantees and the other safeguards for private investment in Tanzania remain a valid and important element among our weapons for economic advance. But they must not be looked upon as our only weapons. Nor must they be looked upon as forces hostile to our general aims. We hope private investment will increase, but in any case public investment must also be expanded, and expanded more rapidly than has been happening in recent years—although that pace should not be underestimated.

'Our ability to own publicly, or to share ownership is, however, a different thing from our ability to manage industrial and commercial undertakings. African managerial and entrepreneurial skill is virtually non-existent. This can be explained historically and is nothing to be ashamed of. But it must be taken into account in determining the strategy of our advance, and it means that we must adopt a deliberate policy of:

(i) training African managers and entrepreneurs;
(ii) using existing non-African managers and entrepreneurs.

What our nation must quite deliberately avoid is the attempt to Africanize management with untrained people. This would be as disastrous to the economy of the country as the Africanization of hospitals with witch-doctors would be to the health of the nation.

'The fantastic success of the VFCU has, to a large extent, been due to a deliberate application of the policy which must now be applied by us all. They have been quite relentless in their policy of owning the ginning industry, but they have also deliberately employed non-African technical and managerial skill, to run the ginneries.

'There are two bottle-necks which have been holding up our efforts to expand our economy rapidly and they apply particularly to the public and joint public-and-private sectors. They are firstly, shortage of manpower skills and experience, and secondly, local finance to cover the local costs of a productive investment or a commercial undertaking.

'Both these factors of production are, however, available in Tanzania to a larger extent than is being exploited in the public sector. The Asian Community in particular has a wealth of experience and some capital which is being grossly under used. TANU, the Government, the parastatal organisations, and the Co-operatives should now quite deliberately take advantage of this existing local managerial and technical know-how, and this local finance. It is somewhat absurd to spend large sums of public money sending Government Ministers abroad in search of finance and of managerial and technical skill, while we leave such finance and managerial skill here untapped, or treat it as if it is unwanted.

'The deliberate pursuance of this policy will enable us to use possible overseas assistance which is now not taken up. Often we get offers of credit facilities in the form of machinery and other capital goods for particular industries; or lack of local finance for local costs and the lack of managerial and technical know-how frequently make it difficult or impossible for us to make use of such offers. If we use the resources which are available in Tanzania there is no need for us to lose these opportunities. The National Development Corporation, the Co-operatives and all other parastatal organisations should therefore accept such credit facilities and should then call upon local people—including members of the local Asian community—to provide management, and, where it is possible and appropriate, the local finance for the necessary local costs. In this way Tanzania will secure an increasing amount of public ownership and thus of Africanization in our economy at the same time as economic expansion continues.

'The necessity to spell out this policy arises out of our past history. Pre-independence events have caused the people of Tanzania to look with some suspicion at non-African and particuarly Asian participation in the various spheres of our national life. But we are at war and we are in a hurry.

'Because we are at war we need to use all the resources we have and we need to incorporate the efforts of all of our citizens and even the people who are residing in our country. Because we are in a hurry we must grow up quickly. We cannot afford to take 21 years to outgrow some of the fears, the suspicions and prejudices of a bygone period. We are forging a new Nation. We need new attitudes. We like to think that we are revolutionary; we must begin by being revolutionary in changing our own attitudes. We would only have ourselves to blame if clinging to those fears and suspicions were to stunt our national growth. Finance and know-how in the world is not unlimited. We can hardly deserve assistance in either from outside Tanzania if we fail to make deliberate and scientific use of that which is available within Tanzania.

'More than 11 years ago when President Nyerere was a temporary nominated Member of the Legislative Council, he used a story told by a Negro leader to emphasise the importance of using local resources to the full. A ship at sea had run out of fresh water. After days of agonizing thirst it sighted another ship on the horizon. The captain sent out an SOS message for water, "We are dying of thirst, please send us some water". The reply came from the other ship, "Throw your buckets where you are". The reply came for the second time, "Throw your buckets where you are". After exchanging these messages three times the needy ship decided to lower their buckets. They drew fresh water. They were at the point where the Amazon river was entering the sea.

'We must emphasise this need to throw our buckets where we are in our search for men and money in our war against poverty.'

A. Quick & Co. (Printers) Ltd., Oxford Road, Clacton-on-Sea

An ODI Publication

Aid to Education: An Anglo-American Appraisal

Report of a Ditchley Foundation Conference (26–29 March, 1965)

This Report calls on Britain and the United States to plan their overseas educational aid on the assumption that developing countries will need such assistance for a long time ahead. It is suggested that cadres of educational experts should be created on a permanent footing and that supernumerary posts should be established in government departments, universities and other institutions from which specialists could be seconded for overseas assignments as required. In this way, a permanent supply of experts would be available and the present system, described by the Report as 'inadequate', of dealing with requests on an *ad hoc* basis would be largely superseded.

The Conference was attended by prominent members of British and American universities, representatives of foundations and trusts on both sides of the Atlantic, and by leading figures from the Agency for International Development and the Ministry of Overseas Development. The Conference Chairman was Sir Roger Stevens, at present Vice-Chancellor of the University of Leeds, and formerly of the Foreign Office.

It was suggested at the Conference that existing forms of co-operation, like the Teachers for East Africa Scheme and programmes of joint support for overseas universities, should be extended and supplemented by new schemes. Specific areas for future co-operative activity should include curriculum development and textbooks; English-language teaching; application of modern techniques like educational television and programmed learning; educational research; teacher training; experiments in comprehensive secondary school education; and work on methods of reducing educational costs. As developing countries were hardly in a position to meet the cost of pilot projects and experiments, these should be financed as far as possible by aid donors.

The experts present at the Conference considered that closer consultation and collaboration between Britain and the United States in educational aid could lead to the avoidance of duplication and waste in aid programmes. Far from representing in any sense a 'ganging-up' of the two Atlantic countries, an Anglo-American co-operative approach offered the possibility to developing countries of selecting the best feature from the experience of each.

Britain is currently spending about £16m a year in educational aid and the United States about £60m. There are some 10,000 students, many of them private, from developing countries at British universities and 53,000 at United States universities. The figure for Britain represents a much higher proportion of total university places than does the American figure however, and there are a further 40,000 overseas students in Britain studying in technical colleges, teacher training colleges, etc.

The Report is published by the Overseas Development Institute in association with the Ditchley Foundation, and is available, price 3s. 6d., from ODI Publications, 98 Kingston Road, Merton Park, London S.W.19.

An ODI Publication

Investment and Development

During recent months British investment overseas has been a subject of great controversy.

In 1962/3 British private investors put £150m into developing countries – as much as the Government's aid programme.

Though the total has declined since then (the preliminary figure for 1963/4 was £65m but later figures raise it to nearer £90m), private investment remains of very great importance to the poor countries' development programmes.

Like Government aid however, private investment raises many problems. On the one hand developing countries fear exploitation or neo-colonialism; they may try to prevent the repatriation of profits because of their shortage of foreign exchange or they may threaten nationalisation. Private investors on the other hand, may think the risks are too great – it may be easier, safer and probably more profitable, to invest at home or in another industrialised country.

Private investment is a valuable aid to development, but private investors cannot be compelled to invest in certain areas, nor can developing countries be compelled to allow external investors to come in. The choice is theirs. That is why, as Sir Leslie Rowan writes in his Introduction 'We do no good to ourselves or to the cause of economic development if we do not have a frank duologue on the problems raised by private foreign investment in developing countries, for it is only thus that the understanding can arise on which partnerships must be based. . . .'

Investment and Development

Because of the topical importance of this subject, the ODI is issuing four articles on the role of private investment in developing countries by: J. H. Loudon (Managing Director, Shell Petroleum Co. Ltd.), Sir Jock Campbell (Chairman, Booker Bros. McConnell Ltd.), Arthur Gaitskell (Board of Commonwealth Development Corporation), and William Clark (Director, ODI). The articles have previously appeared separately in different publications; they are brought together in this pamphlet with an Introduction by Sir Leslie Rowan (Managing Director, Vickers Ltd. and Chairman, ODI) in order to promote public discussion both in Britain and in developing countries.

Investment and Development is available (7s. 6d. post free) from:

ODI Publications,
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