Unblocking Foreign Private Investment Inflow Blockade to ECOWAS: Proposal for Establishment of ECOWAS Investment Guarantee Agency -EIGA and International Private Investment Guarantee Facility –IPIGAF

By

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Technical Paper Prepared for Presentation at the European Commission BizClim and ACP Business Climate organised "Trade and Investment in the ECOWAS – Economic Community of the West Africa States Conference" June 4-5, 2009- Brussels, Belgium

- **Disclaimer:** The view expressed in this paper is entirely that of the author and does not necessarily represent that of CADOC and University of Huddersfield

Note: The author thank World Bank Group- Multilateral Investment Guarantee Agency, MIGA for prompt response at providing part of data used in preparing this paper.

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Unblocking Foreign Private Investment Inflow Blockade to ECOWAS: Proposal for Establishment of ECOWAS Investment Guarantee Agency -EIGA and International Private Investment Guarantee Facility –IPIGAF

"Formal financial integration at the level of the Regional Economic Communities-RECs would allow small African economies to increase links with rest of the world. The strengthening of African financial markets through integration with world financial markets would also lead to the promotion and strengthening of trade and investment "

United Nations Economic Commission for Africa, (2008)

Introduction

The recession 2008-2009 challenge the investment assumptions held up by investors on regional risk and safety of investment around the world. The recent housing bubbles busting and Banking crisis with the economic consequence effects felt across the globe point to the fact that every country , every region, every market sector is vulnerable if Economic Growth Risk is not strategically managed (see Egbeleke, 2009 in press). Although there is global recession, this does not mean that there is no more investible funds in the global financial system as money that flow out of the housing market of advance economies is currently seeking project and trade to finance around the world. The assertion that there are international funds seeking project and trade to finance is confirmed by the current Ghana Cocobod -US$1 billion pre –export financing by a syndicate of 23 international banks to support the 2008-2009 cocoa harvest. However, it would suffice to point out that though Ghana Cocobod is a Government or public establishment, it is run as an autonomous private entity. Also it has took Cocobod 16 years to build the international trade financing relationship that made 23 syndicate of international banks to raise and guarantee the current US$1 billion investment for Cocobod trading operations (www.tradefinancemagazine.com). Then, the questions are why can we have more of such foreign investment inflow to ECOWAS – Economic Community of the West Africa States? Again, does it have to take so long years for ECOWAS regional businesses to attract such large scale foreign investment? And, is there any thing ECOWAS can do collectively or differently to facilitate the inflow of large scale investment into the region?

This paper argues that there are blockade to inflow of foreign private investment to ECOWAS and the reality is that foreign investment "trickling down and not flowing" in comparison to what other part of developing world are attracting. It further argue that the major barrier to the inflow of foreign private investments to ECOWAS is "Investment Guarantee", despite many trade and investment conferences, summits, shows and missions that have been undertaken to drive investments flow. And for the barrier to the inflow of foreign private investment to ECOWAS to be remove; ECOWAS Commission and ECOWAS Bank for Investment and Development need to establish financial infrastructure to provide mechanism for institutional investment guarantee within ECOWAS. This regional investment guarantee institution would back up ECOWAS small national financial systems. The investment institutional mechanism would provide platform for international financial leverage and focus on meeting investment and allied services needs and requirements of both local and international funds seekers and fund providers for project and trade finance in the ECOWAS. Based on evidences from different theoretical research and practical experiences pointing to same direction on the impact of investment insurance or guarantee at driving the inflow of credit to country or region where it exist ECOWAS Investment Guarantee Agency-EIGA is propose to fill the gap and International Private Investment Guarantee Facility is propose to provide investment insurance or guarantee mechanisms with international leverage and safety opportunity. This paper proceed to answer the earlier questions raised base on scholastic views expressed in literatures and analysis of data published in reports and un published data collected by organisations. These provide the premises for discussion of effects financial investment guarantee institutional mechanism has on inflow of foreign private investment.

ECOWAS Financial System Smallness and Foreign Investment Guarantee

The fact remains that efficient functioning of the financial system contribute to economic growth. However, achieving an efficient and secured financial market environment requires financial infrastructure found on legal rules and practice. The financial infrastructure should be capable of producing timely and accurate information, support regulatory and supervisory arrangements. This helps to ensure constructive incentives for financial market participation. Body of cross –countries research strongly suggested that improvement in financial arrangements precede and contribute to economic performance as it improves access to finance to individual firms in a country or region. Finance cannot be effective without credit, credit means leverage, and leverage means the risk of failure. The risk component of finance arises because of the leap in the dark that many financial transactions involve (World Bank, 2001). Likewise, scholars have argued that investment is irreversible once made in to an economy system as it form part of the growth process. It is efficient to treat investment as sunk in relation to return on investment pure uncertainty and even when investors are allowed a return on their invested capital, the *ex ante* risk they took when investing is seldom compensated. Pure uncertainty harms output or economic growth of country or region; it raises country or regional investment hurdle rates, and raises country or regional entry and exit thresholds of investors (Williamson, 2000). The reality of what Williamson views on the effect of investment pure uncertainty is very visible with ECOWAS economy. ECOWAS estimated annual per capital income is US$1.3 per day, 13 of 15 of the member countries are categorised as least develop countries -LDCs and vast investment opportunities from infrastructure- energy, telecom, transport; infrastructure – utilities; industries; agric-business to services – financial , utilities , maintenances, et.c not exploited (Afolabi, 2006). The truth is that local and foreign private investor is very much aware of these huge potentials and very much interested to diversify their investment portfolio. This is evidence in their enthusiastic participation in developing countries trade and investments events. However, appearance at the trade and investment events is not always the reality when it comes to cross-border financing as the factor of high operating risk profile of developing countries financial environment kick –in at investment decision making process (World Bank, 2001). The problem of risky nature of business environment is compounded by inadequate protection for foreign funds providers or investors in case of default or bridge of contracts (World Bank 2001). Hanson, Honohan and Majnoni (2003) pointed out that where there is inadequate or insufficient investment guarantee mechanism in place, there is no enthusiasm to invest. The consequence of lack of enthusiasm to invest due inadequate investment guarantee increases the risk of lack of free cash flow available within the economy to business to adequately finance their strategic investments (Williamson, 2000).

The problem of inadequate cross- border investment guarantee has prevented ECOWAS to adequately benefits from internationalisation of financial system and explosion international bank and equity investment created as there are few exporters of credits countries in comparison to countries in need of credits (Hanson et al, 2003). So, the implication is that

foreign investment flows to countries or region with adequate protection for investors or funds provider against commercial and non –commercial risk. ECOWAS funds seekers main available option for project and trade finance is the local banks.
Undoubtedly, local banks cannot meet the finance demands of the economy in terms of taking advantage of investment opportunities that are available from SME's to large scale infrastructure projects and commodity exporting and importing. The reason is that national financial systems are small and fragile. The fragility of the local banks is reflected in the premium interest rate charges for credits and request for tangible assets (e.g real estate) to guarantee credits advances in the economy (World Bank, 2001). The smallness characteristics of ECOWAS national financial system is reflected in their financial institutions risk adverse operations and underdeveloped debt and security market (Hanson et al, 2003; World Bank, 2001). This constitute a big problem for both foreign funds provider and local funds seekers as studies has shown that high domestic investment signals high profitability and a conducive domestic business climate and this has been found to stimulate foreign investment (UNECA, 2006). Before moving to see what numbers are saying concerning smallness of ECOWAS financial system in relation to their incapacitation to provide adequate domestic and foreign investment guarantee. It would suffice to report a case as an example of the investment guarantee problem faced by typical investment promoter and foreign investor in ECOWAS region.

There was a case of foreign investor based in London acceptance to finance a multimillion Naira project in Nigeria. The financier requested the local project investment promoter to produce a local Bank Guarantee and commitment of local Bank receiving the international transferred funds from Europe to project monitoring. But the local Bank in turn requested from the project investment promoter real estate properties in Nigeria worth amount of foreign investment to be guarantee. The bank argument is that because of large scale of the project finance and in the case of projects failure, the bank would be bankrupt through claim payment to foreign investor. The local fund seeker cannot meet the Guarantee requirement of the local bank that is ready to accept local real estates as collateral which are not acceptable to foreign financier and did not meet the Guarantee requirement of the foreign investor. The large scale infrastructure project concept with high return on investment that would have boosted Nigeria and ECOWAS regional economy by its contribution to poverty reduction in terms of jobs creations for poor local people and trade was never implemented.

Anonymous Bank Manager

The current guarantee mechanism tied to tangible assets would continue to be in operation in ECOWAS countries. World Bank (2001), expressed that fianacial system in developing counties are small and small financial systems under perform providing fewer service at higher unit cost. And unless the problem of financial investment guarantee is resolved by establishing institutional mechanism, foreign private investment would find it hard to flow to ECOWAS.

Let go to what the statistics are for ECOWAS financial system starting with Hanson, Honohan and Majnoni (2003) produced ranking of 108 developing economies national financial systems. They used measures as total banking deposit of less than US$1 Billion and up to US$10 Billion, number of banks, average bank deposit and stock market capitalisation to indicate the smallness of developing countries financial system.

It worth mentioning that in the course of the study we found out that ECOWAS statistics are always merge together in Africa, sub Sarah Africa and developing countries statistics. This prevent analyst to clearly see the true and big picture of issues facing the ECOWAS. For the purpose of getting clarity and visibility of the extent which ECOWAS Financial development impact on investment guarantee and domestic business environment, we would attempt to extract out the numbers that directly impact ECOWAS from published and unpublished statistics collected for presentation analysis in this paper.
To get the ranking of the ECOWAS financial system for year 2000 , we sift through Hanson, Honohan and Majnoni Table 1.1 on indicator of financial sector size showing how countries stands against earlier listed measures.

Table 1 Ranking of ECOWAS Financial Sector Size out of 108 Developing Countries for year 2000

COUNTRY	RANKING (OUT OF108)	DEPOSIT (US$ Millions)	No Of Banks	Av Bank Size (US$ Millions)	Stock Market Capitalisation US$ millions 1999
Benin	80	371	5	74	--
Burkinafaso	83	345	7	49	--
Cape Verde	84	289		--	--
Cote D'Ivoire	58	1441	14	103	1514
Gambia	101	97	6	16	-
Ghana	78	507	16	32	916
Guinea	98	154	6	26	--
Guinea Bissau	107	30	--	--	--
Liberia	--	-	-	-	-
Mali	81	368	41		-
Niger	100	100	8	12	-
Nigeria	34	6785	51	133	2940
Senegal	69	870	10	87	-
Sierra Leone	--	-	-	-	-
Togo	89	210	6	35	

------: Data not available

Source: Author's compilation of ranking table base on ECOWAS National Unit list of member countries; Hanson, Honohan and Majnoni (2003)Table 1.1 on indicator of financial sector size of developing countries data sourced from Bank for International Settlement , International Banking Statistics ; International Monetary Fund, International Financial Statistics ; International Federation of Stock Exchange .

Table 1 above reveals the smallness characteristics of ECOWAS financial system in comparison to the rest of developing countries in terms of fragility and incapacitation to finance or guarantee large scale project and trading activities as of year 2000.
Against understanding that years has pass by since 2002, we proceed to the recently publish World Economic Forum Financial Development report (2008) that comprehensively analysed financial systems and capital markets in relation to economic growth in developing and developed countries of the world using more indicators than financial sector size for which table 1 above is based. The breath of measurement covers over 120 variables used for the national financial systems analysis. These measurement variables captured index ranging

from collective strength of financial intermediaries that include banks, investment banks, and insurance companies to equity, bond and derivatives markets. The index analysis was translated into rank scores and used to produce the ranking of 52 national financial systems of the world. World Economic Forum (2008) emphasis the uniqueness of the index as it includes the degree to which businesses feels they can access capital- a measure they argued does not always correspond to the total size and depth of financial assets or deposit of countries financial sectors .Base on the described index of measurement, the below national financial development 2008 ranking table was produced by World Economic Forum.

Table 2 Financial Development Index 2008 Rankings

Country/Economy	Rank	Score (1–7)
United States	1	5.85
United Kingdom	2	5.83
Germany	3	5.28
Japan	4	5.28
Canada	5	5.26
France	6	5.25
Switzerland	7	5.23
Hong Kong SAR	8	5.23
Netherlands	9	5.22
Singapore	10	5.15
Australia	11	4.98
Spain	12	4.90
Sweden	13	4.75
Ireland	14	4.72
Norway	15	4.66
United Arab Emirates	16	4.61
Belgium	17	4.56
Austria	18	4.55
Korea, Rep.	19	4.55
Malaysia	20	4.48
Finland	21	4.45
Italy	22	4.38
Israel	23	4.14
China	24	4.09
South Africa	25	4.00
Kuwait	26	3.90

Country/Economy	Rank	Score (1–7)
Saudi Arabia	27	3.90
Bahrain	28	3.89
Thailand	29	3.82
Chile	30	3.79
India	31	3.63
Panama	32	3.61
Hungary	33	3.53
Pakistan	34	3.46
Czech Republic	35	3.43
Russian Federation	36	3.40
Egypt	37	3.32
Indonesia	38	3.31
Turkey	39	3.30
Brazil	40	3.28
Poland	41	3.27
Slovak Republic	42	3.25
Mexico	43	3.21
Colombia	44	3.21
Kazakhstan	45	3.13
Peru	46	3.06
Argentina	47	3.04
Philippines	48	3.03
Vietnam	49	3.03
Nigeria	50	2.76
Ukraine	51	2.73
Venezuela	52	2.71

Source: World Economic Forum, Financial Development Report (2008).

Table 2 point out that whatever progress ECOWAS made from year 2002 till 2008 in their financial sector, this progress has not impacted the economic growth of these countries significantly. The only ECOWAS country that was rank is Nigeria as number 50 out of 52 financial system of the world. The remaining 14 ECOWAS national financial system did not make the benchmark ranking scores. Furthermore, the World Economic Forum espressed that the objective of creating this national financial system ranking tool is for countries to benchmark themselves and to aid establishment of priorities for financial system improvement (World Economic Forum, 2008). In light of the introduction of business competitiveness index into measurement of financial system performance, it is worth while to see how competitive ECOWAS business environment is -in comparison to the rest of Africa. Table 3 on 2007 ranking of top 10 African business competitiveness countries below provide an insight.

Table 3 Africa Competitiveness Report Top Ten

Rank	Country	Score
1	Tunisia	4.72
2	South Africa	4.42
3	Mauritius	4.22
4	Egypt	4.09
5	Morocco	4.02
6	Libya	4
7	Algeria	3.98
8	Botswana	3.83
9	Namibia	3.76
10	Kenya	3.61

Source: World Economic Forum, World Bank and African Development Bank-Africa Competitiveness Report 2007

Table 3 above confirm the validity of non -ranking of 14 ECOWAS Countries out of the 52 rank national financial systems in the financial development report 2008. The striking revelation is the absent of Nigeria in top 10 of Africa business competitiveness ranking. Further, analyst expressed that Nigeria's financial institution rating may be worrisome as the reforms that includes increased capitalisation, banking sector regulations and raising the foundational capital requirement of banks to 25 billion naira by Central Bank of Nigeria has strengthen the capital base of the nation banking sector but has not contribute to growth levels in the country. Analyst then view that the ranking shows that the country's financial sector which is the biggest in ECOWAS region is still ailing. The reasons are in terms of business competitiveness variable index measurement, businesses feel that access to capital is a big problem in Nigeria and high cost of doing business driven by problems of inadequate physical infrastructure and social economic factors (www.Businessdayonline.com). Also, none of the remaining 14 ECOWAS countries made the top 10 Africa businesses competitiveness report- 2007 because of lack of access to finance, problems of infrastructure and institutions (World Economic Forum; World Bank; and Africa Development Bank, 2007).

The strings of evidences presented above confirmed the smallness and underperformance of ECOWAS region financial system. The smallness in terms of size inhibit banks and other financial intermediaries in the region to promote financial investment for large scale development infrastructural projects and international trade operations or guarantee large scale foreign financial investment. Also , because of banks fragility in terms of operating capital base the financial institutions are struggling to meet the financial investment and guarantee need of domestic funds seekers. Therefore, one major problem creating barrier to access to finance both at domestic and foreign front is the problem of financial investment guarantee.

This problem exposes the link between financial infrastructures that guarantee investment and capital flow that is required to break the barrier to access to financing for economic growth (World Bank, 2001).

Why AIG and Not Lehman Brothers? Situation Analysis of Investment Guarantee in ECOWAS

The question why did the United State Government bail out AIG from going Bankrupt and did not save Lehman Brothers from Bankruptcy were asked by the public. As both AIG-(American International Group) and Lehman Brothers were caught up in the subprime lending crisis and both record massive financial loss that should lead to bankruptcy of both financial institutions. For this paper to reinforce argument in support of the role financial risk protection institutions play within national and international financial systems in driven flow of capital and investment, the question "Why AIG and Not Lehman Brothers" was ask again. This would aid brief comparative exposition of economy functionality of both institutions as it informed strategic judgment executed by the Federal Reserve.

AIG and Lehman Brothers Functionality in Financial System

AIG is an international insurance and financial services organisation with operations in approximately 130 countries and jurisdiction. AIG business products are Insurance, annuities and mutual funds. The business insurance products cover every aspect of commercial and non –commercial risk at global level (see AIG.com, 2009). However, the company was massively exposed to credit default swaps and suffered from liquidity crisis when its credit ratings were downgraded below "AA" levels in September 2008. The United States Federal Reserve Bank step in to rescue the insurer by providing AIG with US$182.5 billion credit facility to enable the company to meet increased collateral obligations (Bloomberg.com, 2008).

Comparatively, Lehman Brothers Holdings Inc was a global financial services firm trading in investment and private banking and equity products until September 2008 when the company was bankrupt due to record unprecedented loss as result of massive exposure to subprime mortgage crisis despite holding over US$600 billion in assets. Against the understanding of the difference between AIG and Lehman Brothers in terms of business line functionality in the economy , we proceed to the United Stated Federal Reserve Chairman Ben Bernanke remarked that explained government decision to bail out AIG and not to bail out Lehman Brothers .

From his prepared remarks for economic address of October 15, 2008:

*A public-sector solution for Lehman proved infeasible, as the firm could not post **sufficient collateral** to provide reasonable assurance that a loan from the Federal Reserve would be repaid, and the Treasury did not have the authority to absorb billions of dollars of expected losses to facilitate Lehman's acquisition by another firm. Consequently, little could be done except to attempt to ameliorate the effects of Lehman's failure on the financial system.*

In the case of AIG, the Federal Reserve and the Treasury judged that a disorderly failure would have severely threatened global financial stability and the performance of the U.S. economy. ***We also judged that emergency Federal Reserve credit to AIG would be adequately secured by AIG's assets.*** *To protect U.S. taxpayers and to mitigate the possibility that lending to AIG would encourage inappropriate risk-taking by financial firms in the future, the Federal Reserve ensured that the terms of the credit extended to AIG imposed significant costs and constraints on the firm's owners, managers, and creditors.*

Ben Bernanke, (www.usnews,com)

The above remarks reinforce the important role insurance institutions plays in the financial system and that it takes longer time scale to build a viable and credible insurance institution in comparison to investment or private banking set ups. Critical analysis of Ben Bernanke remarks reveals that apart from economic functionality, the ability to provide guarantee or collateral was a major determinant for the flow of Federal Reserve Credit to AIG and not to Lehman Brothers. However, analysts viewed that if AIG is such an important Global economic structure then why is the only bailout money coming form the United States? (usnews.com, 2008)

Investment Guarantee Institution Operation in ECOWAS

There is no specialised regional investment guarantee or insurance institution operating in the ECOWAS at present (see www.ecowas.int) as most guarantee or insurance functions is undertaken at ECOWAS national level by the small local financial institutions with strict guidance from ECOWAS member countries Central Bank. However, the World Bank group Multilateral Investment Guarantee Agency-MIGA based in Washington, D.C is currently the only specialised investment guarantee or insurance agency servicing ECOWAS foreign investors protection needs. Before progressing to analysing the performance of ECOWAS with MIGA provision of investment guarantee in the region, a brief review of historical background and highlighting of guarantee or insurance product offered by MIGA to foreign investors would suffice.

The Establishment of MIGA: Process Lessons for ECOWAS Commission

The idea of establishing a multilateral investment guarantee agency emerged in the 1950s at the level of International Bank of Reconstruction and Development. The idea was produced in to a paper entitled "Main Features of a Proposed Multilateral Investment Guarantee Agency". The paper was based on the concept of providing foreign investors with financial guarantees against non-commercial risks in developing countries as a means of improving the investment climate and stimulating investment flows to world's poorest economies.
This proposal, with modifications following discussions with the Executive Directors, was subsequently embodied in a "Draft Outline of the Convention Establishing the Multilateral Investment Guarantee Agency," which was circulated in October 1984. On the basis of that document, consultations were held with member governments of the Bank. These consultations resulted in a revised draft of the Convention which was circulated to the member governments in March 1985. Between June and September 1985, the Executive Directors, assisted by experts from member governments, convened in a Committee of the Whole to discuss the draft Convention. In September 1985, the Executive Directors finalized the draft Convention and recommended to the Board of Governors that it adopt a resolution opening the Convention for signature

Excerpt from: www.miga.org

The key process lesson are: (1) there was a paper proposing the establishment of MIGA; (2) consultation on the proposal was held; (3) there was a committee set up for the establishment of MIGA; and lastly (4) it took one year from 1984 when the paper was circulated to 1985 to establish MIGA with a global mandate. Further, MIGA has risen to market leader when it comes to assessing and managing political risks, meeting the needs for its creation to improve investment climate by issue "**political risk insurance**" for foreign investments in developing countries and complimenting national and regional established official schemes providing guarantees against non-commercial risks where it exist (www.miga.org). Since , there is no regional insurance or guarantee mechanism for both non- commercial and commercial risk in place at the level of ECOWAS as earlier mention for MIGA to compliment , we would proceed to see how far has MIGA gone in driving inflow of investment to ECOWAS.

Table 4 present MIGA activities since operations commences in 1988 till 2009 for ECOWAS region. The gross total of investment guarantee contract issued for ECOWAS foreign Investors total US$919,688,914. According to MIGA statistics, the agency has written US$ 2.5 billion contracts in Africa and US$ 20 billion worth of investment guarantee contract globally. Interpreting in statistical percentage simply tell that out of Africa share of investment inflow facilitated through MIGA investment guarantee product ECOWAS region attracted 36%. However, when put into global perspective of investment inflow MIGA has facilitated, ECOWAS has attracted
4.5%. It worthwhile to mention that contract mainly covers capital investment from political risk which is driven by inventor's perception of state of governance in the location of investment.

Table 4 MIGA Guarantee Contracts Value (US$) in ECOWAS for Year 1993-2009

Year of Issue	Max_Gross of Guarantee US$
1993	9,850,000
1996	43,160,000
1997	8,348,759
1998	2,400,000
1999	34,373,281
2001	47,419,974
2002	111,182,000
2003	139,140,000
2004	11,400,000
2005	241,313,270
2006	150,257,981
2007	75,621,599
2008	33,228,624
2009	11,993,428
Grand Total	919,688,914

Source: Author Analysis of MIGA Data on Africa foreign Investment Guarantee contracts 1993-2009

Furthermore, political risk is secondary when it comes to private investors making decisions about capital investment as the core or primary determinant is the commercial risk factor prevailing in the location of investment. The fact is that those foreign investors that approach MIGA for capital investment political risk would have already put in place commercial risk protection. So , when put into perspectives of investment opportunity misses ECOWAS without MIGA would have loss 4.5% of US$20 billion worth of capital investment in additions to volume of private foreign investment in US$ billions missed because of commercial risk factors as confirmed by case example earlier reported in this paper. Another important fact to note is that investors are very much aware of diverse potential on investment opportunities available in the ECOWAS economy sectors and sub-sectors as presented by Table 5 below

Table 5 MIGA Guarantee Contracts Value (US$) in ECOWAS by Sector and Sub-Sector

Sector	Sub-sector	Max_Gross(US$)
Agribusiness	**Agribusiness**	**15,768,733**
Financial	**General Banking**	**4,873,282**
Infrastructure	**Telecommunication**	**197,656,000**
Infrastructure	**Power**	**19,540,000**
Infrastructure	**Telecommunication**	**11,400,000**
Infrastructure	**Electric, Gas & Sanitary Services**	**15,735,430**
Infrastructure	**Telecommunication**	**232,691,155**
Manufacturing	**Manufacturing**	**140,277,039**
Mining	**Mining**	**55,410,000**
Oil and Gas	**Oil and Gas**	**75,000,000**
Services	**Services**	**143,216,625**
Tourism	**Tourism**	**8120651.287**

Source: Author Analysis of MIGA Data on Africa foreign Investment Guarantee contracts 1993-2009

Table 6 MIGA Guarantee Contracts Value (US$) in ECOWAS by Investor Country and Sector

Investor Country	Sector	Max_Gross (US$)
Belgium	Agribusiness	3,100,000
Belgium	Manufacturing	20,000,000
Bermuda	Oil and Gas	75,000,000
British Virgin Islands	Infrastructure	3,401,000
Cayman Islands	Manufacturing	20,000,000
Cyprus	Manufacturing	189,232
Arab Republic of Egypt	Services	18,000,000
France	Manufacturing	60,771,020
France	Agribusiness	7,419,974
France	Financial	4,873,283
India	Manufacturing	5,600,000
Israel	Infrastructure	3,383,530
Italy	Infrastructure	15,735,430
Lebanon	Manufacturing	13,443,287
Luxembourg	Mining	9,850,000

Investor Country	Sector	Max_Gross (US$)
Luxembourg	Agribusiness	2,183,096
Luxembourg	Infrastructure	103,655,000
Malaysia	Manufacturing	6,300,000
Mali	Tourism	4,994,651
Mauritius	Infrastructure	55,000,000
Mauritius	Manufacturing	1,215,000
Portugal	Mining	2,400,000
Senegal	Infrastructure	124,907,625
South Africa	Mining	43,160,000
South Africa	Infrastructure	21,400,000
Sweden	Infrastructure	130,000,000
Switzerland	Agribusiness	3,065,663
Switzerland	Tourism	3,126,000
Switzerland	Services	126,408,288
United Kingdom	Infrastructure	19,540,000
United Kingdom	Manufacturing	12,758,500
United Kingdom	Services	5,000,000

Source: Author Analysis of MIGA Data on Africa foreign Investment Guarantee contracts 1993-2009

Again it could be deduce from Table 6 above that European countries dominate the list of investor countries interested in ECOWAS investments opportunities. The major revelation is that Africa and ECOWAS countries investors are interested in taking advantage of high return on investment opportunities in ECOPWAS economy. For an investor from Mali to approach MIGA for non –commercial risk protection for capital investment of under US$5Million spread across years speaks about ECOWAS entrepreneur's passion ECOWAS investment. It is lack of guarantee mechanism that is standing in the way of ECOWAS business little capital investment from flowing across the region.

Table 7 MIGA Guarantee Contracts Value (US$) in ECOWAS by Host Country

Host Country	Max_Gross(US$)
Benin	9545802.26
Burkina Faso	47,257,108
Cape Verde	2,400,000
Cote d'Ivoire	16,373,281
Ghana	213,023,282
Guinea	107,760,279
Guinea-Bissau	26,541,585
Mali	82,760,000
Nigeria	368,859,019
Senegal	28,150,055
Sierra Leone	9,598,530
Togo	7,419,974
Grand Total	919,688,914

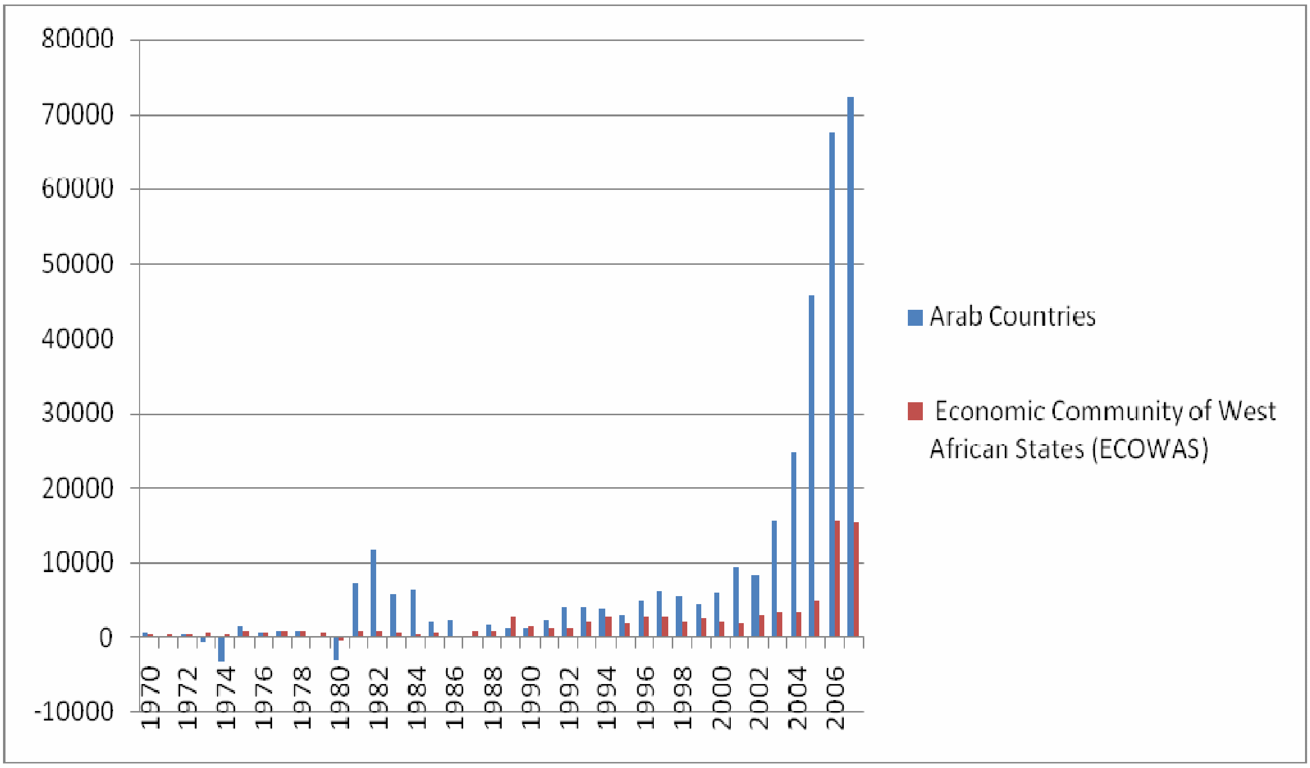
Source: Author Analysis of MIGA Data on Africa foreign Investment Guarantee contracts 1993-2009

Lastly on assessment of MIGA performance in ECOWAS, MIGA has facilitated foreign investment inflow into 13 ECOWAS countries with exception of Gambia and Liberia according to Table 7 above. These shows investment opportunities are available in every country waiting investable funds. Due to time constraints MIGA could not be contacted for insight to why the agency has not issues any investment contract in the two exception countries?

FDI and Investment Guarantee Institutional Mechanism: Comparative Review of InterArab Investment Guarantee Corporation- DHAMAN, Izvozno-kreditna agencija Bosne i Hercegovine – IGA and ECOWAS

The Arab regional countries realised the potential to have in place an established investment guarantee mechanism to position member countries for foreign direct investment inflow and competitiveness in terms of trade dated back to 1974. The Arab Investment & Export Credit Guarantee Corporation (DHAMAN) an autonomous Arab regional organization was established in 1974. The regional investment organisation is a joint-Arab agency encompassing all Arab countries and a number of Arab financial institutions. Dhaman's Dhaman as it's known main seat is in the State of Kuwait with paid-up capital of approximately USD 198 million. And because the 1952 ideas about establishing global investment guarantee agency discussed at the level of World Bank was not actioned until 1985, Dhaman became the first international corporation specializing in guaranteeing foreign capital investment against commercial and non- commercial risks in Arab countries (www.iaigc.net).The below graphical illustration present how InterArab Investment Guarantee Corporation perform in driving inflow of foreign investment into the Arab region in comparison to ECOWAS where there is no such investment guarantee mechanism in place.

Comparative Analysis of FDI Inflows between Arab Region and ECOWAS -US$ million 1970-2007



Source: UNCTAD Statistics and InterArab Investment Guarantee Corporation Statistics 2008

The graphical illustration shows that FDI inflow into Arab region is all time high than the inflow to ECOWAS. The difference became clear and visible from the late year 1990's as the region was better prepared to attract foreign investment flows created by globalisation of financial system while the ECOWAS missed out because there no guarantee mechanism.

Another recent example of a national response to remove the credit insurance and guarantee barrier to foreign investment flow is the establishment of IGA. IGA is a national investment guarantee agency for Bosnia and Herzegovina started operation in 1996 as Leverage Insurance Facility for Trade project scheme run by BiH Minstry for the implementation World Bank project in BiH . The LIFT project was to re-establish production activities in private and industrial sector by providing non-commercial risk insurance to foreign companies and financial institutions which had trade exposures in BiH. Under the LIFT project agreement between BiH Government and World Bank, IGA issued more than EUR 25, 000, 000.00 worth of guarantee. After successful implementation of LIFT and facilitation of other export related projects, there was emphasis on the need for existence of state governed export credit agency in Bosnia and Herzegovina. In 2004, Parliament of BiH brought into Law creating Export Credit Agency- an institutional frame for continuance existence of IGA' as state institution work with core capital of 26 million EUR to concentrate on development and offering of export and domestic credit insurance products for BiH exporters(www.igabih.com). The implication is that developing countries are realising the need for trade and project finance investment guarantee mechanism to drive export to boost national income and inflow for FDI. So, if IGA was established by law in 2004, it is not too late for ECOWAS to establish such a mechanism. However, the quicker ECOWAS commission and EBID responded the better for the region. This takes role of investment guarantee mechanism can play in financial scam prevention and reduction, the issue this paper must make reference to complete discussion on barriers to inflow of investment into ECOWAS.

The Role of Investment Guarantee Agency in Financial Investment Scam Reduction

The fact remains that there are well established financial investment scam institution operating with global financial system. The scammers are very sophisticated in the sense that some are even registered with financial regulation authorities of their based country. They are all over the world and not only in developing countries. The most disturbing of it all is that while the developing scammers use investors and lenders understanding of the dynamic investment climate, need for investment portfolio diversification and the potential benefits and high return on investment of investing in emerging markets and developing counties as bait to promote fake and fraudulent projects to developed countries genuine private investors. Likewise the developed countries scammers use lack or inadequate guarantee mechanism as bait for developing countries genuine project investment fund seekers. The consequence of fake or fraudulent projects propositions has made some private foreign investors to black list some developing countries that includes ECOWAS member countries and consequently blocking the flow of private investment in that regard. Instances of fake projects or fraudulent investment proposition are widely publicised creating a negative perception of investment potentials in developing countries including the ECOWAS. The rarely publicised is the scammer perpetuated from developed countries against developing countries genuine funds seekers. Based on experience of a fund seeker sourcing international project finance for a large scale development project sited in ECOWAS Region, The fund seeker contacted some registered brokers based in developed countries with the propositions and see below paragraphs on investment guarantee requirement as scam bait from the letter of intent issued by broker to the ECOWAS fund seeker.

The developed country scammer international brokerage company wrote:

"*We have discussed your application with Westerly Limited (hereinafter referred to as "Westerly"), a Hong Kong based Mortgage Bank which in association with The Westerly Mortgage Trust, an International Trust ("the Trust"), is interested to provide this sum on the following terms and conditions:*

1 ***Security for the advance*** *will be a first charge over the project together with a Cash Deposit (hereinafter referred to as "the Deposit") in the sum of US$10 million to be in place for the first three years of the loan term of 15 years or such other loan term as shall be mutually acceptable to Westerly and the borrower.*

Where you provide the Deposit
This will require in Year 1 US$10 million together with a Commitment Fee of US$100,000, to be deposited into a nominated international bank (hereinafter referred to as "the Deposit Account"). Following receipt and verification of the Deposit a minimum period of 16 weeks should be allowed for the loan closing. At that point, Westerly's bankers will confirm on a bank to bank basis, the funds available for closing.

Where we arrange the Deposit via a Facilitator
The cost of the Deposit is 25% per annum which will require a down payment of 4%, i.e., US$400,000 plus a Commitment Fee of US$100,000. The balance of the Deposit cost, US$2,100,000, will be deducted from the loan. Once Westerly has accepted the application subject to the Deposit, you will be directed to wire US$400,000 (for the Escrow Company) plus US$100,000 (for Scammer company), into a nominated international bank. The related Deposit documentation includes an Escrow Agreement as issued by an Escrow Company. Upon receipt and verification of the Deposit the Escrow Company will release the payment to the Facilitator. Clearance of the Deposit will satisfy the Trust's requirements to enable the funding to commence upon execution of the usual loan documentation. A minimum period of 16 weeks should be allowed for the loan closing. At that point, Westerly's bankers will confirm on a bank to bank basis, the funds available for closing".

Excerpt for scammer letter to anonymous fund seeker

The point is that such large scale development project funding proposal would not get to the scammer company in the first instance, if there is agency providing international trade and project credit services. Again ECOWAS projects opportunities would not be used as scam bait, if there is agency providing trade and project clearance services in the region.

The summary fact from data analysis and reviews shows that absence of regional investment guarantee or insurance institution inhibit or barricade the inflow of private foreign investment to ECOWAS. The consequence of very low volume of investment inflow as a result of continue existence of inadequate foreign and domestics investment insurance and guarantee institutional mechanism. This implies that ECOWAS countries would continue to face perennial shortage of resources to finance public and private trade and projects investment. This financial limitation in turn constrains member countries ability to accelerate growth due to the chronic financial resource gap arising from macroeconomic variables imbalances (UNECA, 2006). However, before we proceed to present the proposal on ECOWAS Investment Guarantee Agency, it would be good to see what theoretical solutions scholars and practitioners has earlier proposed for developing countries as this would help in shaping the key features of the propose Agency.

Theoretical Solutions to Problems of Investment Guarantee in ECOWAS

Financial globalisation has increase the potential for obtaining growth and other benefits from finance. This benefit relates to expansion of international debt and equity flows, including foreign direct investments. However, these international flows of equity capital and investment have been uneven with least and developing countries losing out from the benefits (World Bank, 2001). The reasons why region like ECOWAS is losing out from attracting the equity and investment flows are (1) smallness of the financial system (2) the absence of collateral and practical legal enforcement mechanism (3) fixed costs for information acquisition, monitoring, collection and enforcement. All these reasons increase investor's perception of commercial and non-commercial risk in the region negatively. And investors are less enthusiastic to move capital to country or region where there is inadequate legal protection to cover their capital investment , even with the promise or potential of high return on investment (World Bank, 2001; Hanson et al, 2003). Studies show that developing countries has been substituting with informal alternative to circumvent this basic formal financing requirement to create informal financing mechanism that is keeping the economy moving (World Bank, 2001).The point is that the economy is not growing proving right the theoretical views that informal finance hardly provides a perfect substitute for well – functioning formal finance mechanism ability to mobilise funds on a large scale and pool risks over extensive areas (World Bank , 2001). For international credit to flow to developing counties that includes ECOWAS the below Table 8 present the key theoretical solution discussed in literatures.

Table 8 Factors Blocking and Unblocking Private Investment Inflow to Developing Countries

	Factor causing investment inflow blockade	***Factor to facilitate investment inflow***
1	*Small financial system*	*Integration in to world financial system or through ownership and portfolio link Outsourcing of financial services abroad Development of e-finance (World Bank, 2001)*
2	*Absence of investment risk protection Institutional mechanism*	*Risk sharing and risk diversification through formal financial integration at Regional Economic Communities level(UNECA, 2008);Cooperative arrangements with neighbouring countries to create regional Insurance mechanism (World Bank, 2001) International insurance or reinsurance contracts to hedge internationally against national risks (Hanson et al, 2003)*
3	*Cost of investment information acquisition and concealment of investment related information*	*Improve financial information infrastructure (World Bank, 2001)*
4	*Development infrastructural crisis and Institutional deficiency*	*International partnership with Africa countries to improve access to finance, build Infrastructure and strengthen institutions (World Economic Forum, World Bank and Africa Development Bank, 2007)*

Source: Authors analysis of published documents by UNECA, World Bank, African competitive report 2007- joint publication of World Economic Forum, World Bank and Africa Development Bank; Hanson, Honohan and Majnoni, 2003.

The Need for ECOWAS Investment Guarantee Agency -EIGA

The recent case of AIG versus Lehman Brothers review earlier in this paper where Lehman Bothers was refused credit facility because of lack of security to guarantee the bail out credit fully demonstrate the power of credit insurance or guarantee in driving the flow of financial investment . If credit would not flow into operational base of Lehman Brothers despite its long history, skilled and large number of workforce, primary dealership in the U.S Treasury security market and global goodwill, then attracting volume of financial investment flow ECOWAS countries require to turn around their economy would remain difficult in the absence Investment insurance and Guarantee institutional mechanism.
Again, World Bank saw "investment guarantee" as a barrier to flow of FDI to poor countries and establish MIGA to meet the need from political risk perspective; Arab countries saw the need for protecting foreign investors against commercial and non –commercial capital investment risk and establish DHAMAN to drive the flow of investment; the Government Bosnia and Herzegovina establish by law IGA to continue to drive inflow of trade credit in to the country by issuing of credit insurance and guarantee to investor and exporters; therefore , there is need to establish ECOWAS Investment Guarantee Agency to action solution number 2 in table 8 above to drive the inflow of private foreign investment into ECOWAS.

Propose ECOWAS Investment Guarantee Agency -EIGA Key Features

The Propose investment EIGA is to focus in driving the inflow and cross countries flow of private foreign investment in ECOWAS region. The agency would achieved by providing "One Stop shopping and Everything under One Roof" investments services to ECOWAS investment promoters and providers. Some of the products and services the agency is expected to offer are listed below:

- Capital investment guarantee for Commercial and Non-Commercial risks
- Credit and trade insurance
- International investment and trade information and advisory services
- Project clearance and due diligence services
- Project and fund monitoring services
- Commercial law services
- International financial brokerage services
- Independent financial Brokers registration and accreditation
- Syndication facilitation services

Propose ECOWAS Investment Guarantee Agency –The Next Step

The ECOWAS Commission and ECOWAS Bank for Investment and Development need to put together a steering committee to work on the following points:

Status, Establishment and Purpose

Shareholders and capitalisation (total on private or public –private principles)

Operations and partnership with such as MIGA, AIG, AFC, IFC, ECOWAS Central Banks, commercial and investment banks in ECOWAS and Abroad

Against the understanding of enormous responsible awaiting the propose ECOWAS Investment Agency when it is establish, the capital base might put limit to its ability to meet the expected demands for credits insurance and capital investments .Also, the propose agency capital base could constraint portfolio link and outsourcing from other private insurance companies. To get around the problem of capital base that restricted activities of local banks in the market of trade and project guarantee. Hanson, Honohan and Majnoni (2003) idea on internationalisation of insurance to hedge against national risk is action by proposing International Private Investment Guarantee Facility –IPIGAF.

The need for International Private Investment Guarantee Facility –IPIGAF

The view of many including the author is that sub –Saharan need "more trade and not more aid". Trade put the private sector at the driven seat for economic growth and development. The activities of private sector in the economy create jobs and with jobs availability to poor people, poverty stands no survival chance. The power of trade flow is demonstrated with current Recession 2008-2009. The poverty reduction impact of US$ 1 billion foreign trade finance on the Ghana cocoa industry and poor cocoa farming family can not be overemphasised. For more high volume private investments to flow into developing countries especially ECOWAS for financing trade and project activities, a better international insurance or guarantee mechanism to protect foreign investors against national driven commercial and non-commercial risks is needed. The proposal that could be adapted for international insurance mechanism is the International Finance Facility proposal presented by the UK Prime Minister, Gordon Brown at the 2003 Annual World Conference on Development Economics held in Paris. The IFF proposal was developed by HM Treasury and the Department for International Development (DFID). The IFF was designed to front load up to US$50 billion a year as aid to help meet the Millennium Development Goals. The funds raising operating principles of IFF was accepted to international development communities and its capability to deliver US$50 billion payback by donor annual countries contributions was not question. However, there was lack of commitment from donor's countries to add another grant raising and coordination mechanism to international aid finance systems in place. Also, analysts are critical of the aid recipient's countries ability to absorb such large amount of financial aid inflows when put into perspective the prevailing governance and corruption problems in these countries (http://www.hm-treasury.gov.uk/IFF). Therefore, the operating principle of IFF is borrowed for the creation of the propose International Private Investment Guarantee Facility –IPIGAF aimed at achieving financial system global compact.

IPIGAF is simply risk protection facility for insurers and bankers institutions. This system is currently missing from global private financial system. So, when Government bail out AIG the largest insurer in the world from bankruptcy, the public are critical of government actions and some analyst branded the government action as "End of Capitalism". The question is where does "Insurer of Last Resort" go for help when in financial or liquidity crisis? We proceed to highlight the key features of the propose IPIGAF (see the chart overview below).

Key Features

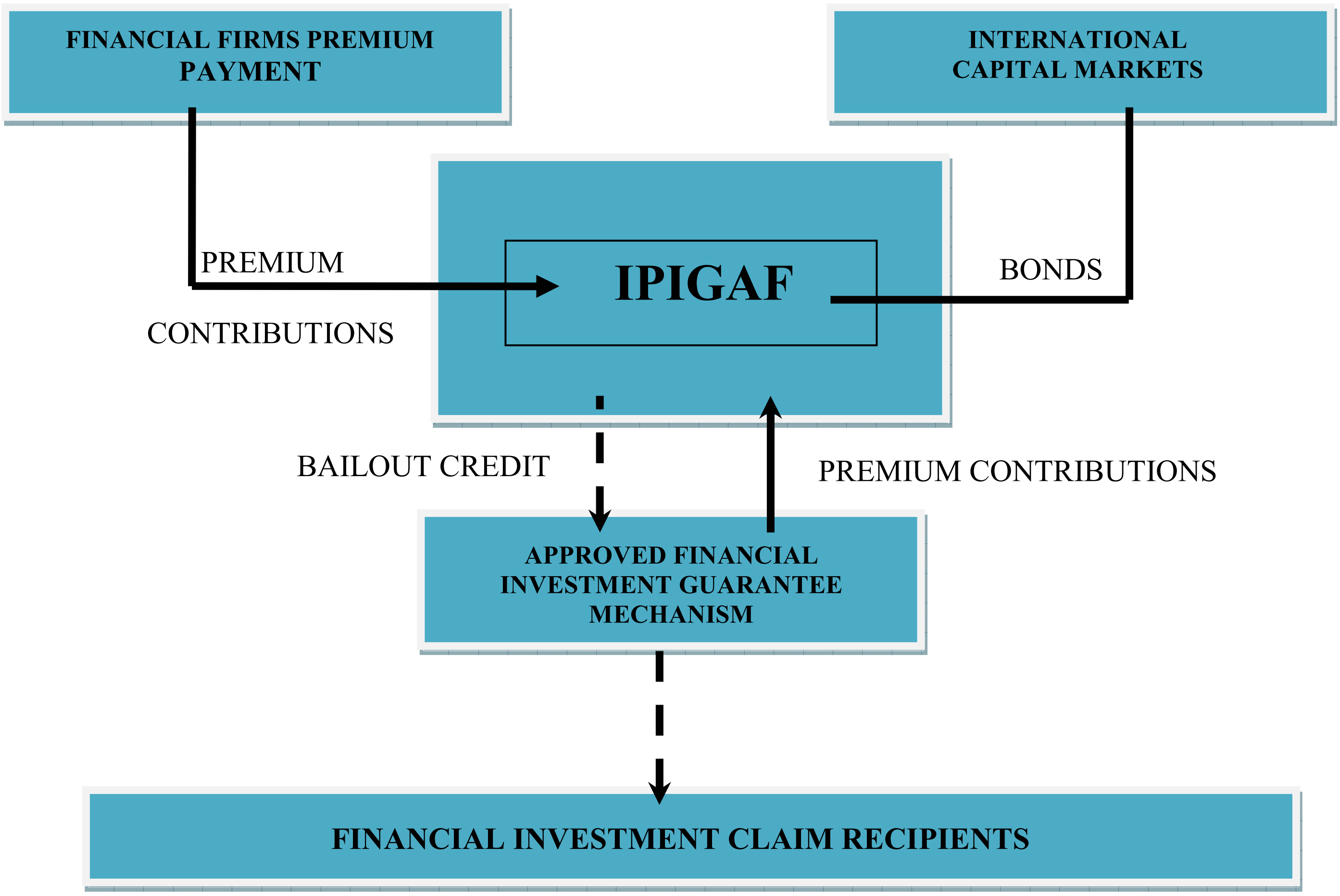
- IPIGAF would facilitate investment portfolio linkage and diversification by encouraging investors to invest in region of the world with high investment risk profile
- IPIGAF would provide a formal organised platform for partnership and risk sharing
- IPIGAF "Financial Storage" base is to be build gradually by premium payments of members
- IPIGAF would "Upload" funds from its financial storage to support approved investment guarantee mechanisms in case of investment failure or financial crisis to meet their financial obligations or claim payments
- IPIGAF would "Frontload" funds from the international capital market to augment the available funds in its financial storage to support approved investment guarantee mechanisms in a case of unprecedented and colossal investment losses

The operational guiding principles are listed below:

IPIGAF Operational Guiding Principles

- International investment guarantee quota system
- Financial risk taken peer review system
- Financial system risk monitoring reporting
- Financial crisis warning system

Chart Overview of International Private Investment Guarantee Facility –IPIGAF



Source: Adapted from HM Treasury and Department for International Development (DFID) Proposal on International Finance Facility –IFF (2003)

Propose International Private Investment Guarantee Facility –The Next Step

IPIGAF is a private partnership initiative and with high European investor's interest in diversification of investment portfolio into region class as risky, Then European Commission Bizclim programme and ACP are suggested to lead the organisation of activates programme that would lead to IPIGAF establishment. They would need to put together a steering committee to work on the following points:

- Drafting of IPIGAF Convention documents
- Engagement with HM Treasury and DFID to gather inputs for drafting of IPGAF Convention document
- Organising IPIGAF Convention
- Convening International Financial Firms stakeholders for IPIGAF Convention

Lastly , the establishment of IPIGAF would prevent such concern raise about judging AIG to have global importance and all bail out money coming from United States as the global financial system would have been global compacted,

Conclusion

Analogically, the role of project and trade finance in ensuring efficient functioning of economy system is synonymous to the role of blood and Water in ensuring efficient functioning of human being body system. Infrastructure project finance investment is similar to blood and trade finance investment is similar Water in human body system. It is blood donation that is requested and blood donors are not to provide blood Giving Set. The blood Giving set is used to pass the donor blood into the blood recipient body system. In the same manner insurance or guarantee mechanism allows for foreign private investment inflow into economy with investment opportunities. The insufficient inflow of financial investments into the economy system simply creates a state of poverty. The proposals as contain in this on ECOWAS Investment Guarantee Agency and International Private Investment Guarantee Facility is commended to the Trade and Investment Conference and to the International Development and Finance community.

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