

The indigenisation as a construct economics essay

[Economics](#)



1. 0Introduction This chapter shows the background of the indigenisation and economic Empowerment initiative in Zimbabwe. The chapter also show the statement of the problem indicating that since the Indigenous and Economic Empowerment initiative was implemented Foreign Direct Investments in Zimbabwe were also affected. The period post 2008 in Zimbabwe became the indigenisation era requiring all foreign owned companies with a capitalisation above US\$500 000 to cede 51% of their shareholding to indigenous Zimbabweans. Since the Indigenisation and Economic Empowerment initiative was implemented most of the foreign investors shun Zimbabwe and chose other countries in the region. Muzondo and Mpanju (2012) showed that FDI in Zimbabwe have remained suppressed and far below those of its once economically weaker and smaller neighbours such as Botswana, Mozambique, Namibia and Zambia. The Indigenous and Economic Empowerment Act (2008), defines indigenisation as the deliberate involvement of indigenous Zimbabweans in the economic activities of the country to which hitherto they had no access so as to ensure the equitable ownership of the nation's resources. The Act also defines an indigenous Zimbabwean as any person who before April 1980 was disadvantaged by unfair discrimination on the grounds of his or her race and any descendant of such a person. The research therefore aims to prove if implementation of the Indigenisation and Economic Empowerment initiative really affected the flow of FDI in Zimbabwe. The chapter to achieve this proposes a hypothesis to be tested. The chapter also gives what the research seeks to achieve, objectives of the study are outlined. The chapter also shows the significance of the study to various groups including the government, the academia and the researcher. In doing this the chapter shows the gaps that it seeks to fill.

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Focus of the chapter is also on the delimitation of the study in terms of the physical, time and literature. Limitations or challenges that the researcher confronts during the study are also outlined and explained. The chapter also focuses on the facts that were to be assumed and finally the summary is given. The next chapter reviews literature related to indigenisation from different sources.

Background of the Study

Indigenisation according to the Indigenisation and Economic Empowerment Act of Zimbabwe means the deliberate involvement of indigenous Zimbabweans in the economic activities of the country to which hitherto they had no access to so as to ensure the equitable ownership of the nation's resources. An indigenous Zimbabwean is also defined in the act as, ' any person who before the 18th of April 1980 was disadvantaged by unfair discrimination on the grounds of his or her race and any descendant of such a person. The colonial government in Zimbabwe adopted discriminatory policies which were race based and this resulted in unfair ownership of the country's resources. The policies were mainly in favour of the white minority who were then found dominating in the mainstream economy and excluded black Zimbabweans to participate in the mainstream economy and as a result they were found marginalised. Laws such as the land apportionment act, land husbandry act of 1951, Unlawful Organisation Act of 1959 restricted Zimbabweans from participating in meaningful economic activities. Against this background the post colonial government became active in recognising indigenous Zimbabweans. However since independence the government of Zimbabwe has tried to rectify the colonial injustices by passing several laws.

The emergence of empowerment pressure groups gave the government the impetus to speed up the process of empowering black Zimbabweans. The pressure exerted by pressure groups along with the realisation of the importance of national resources and therefore the need to empower the once disadvantaged Zimbabweans is what led to the crafting of the indigenisation and economic empowerment act of 2007. In 1990 the indigenous business development centre (IBDC) was formed to press for more black participation in the control of the Zimbabwean economy. Various groups lobbying for increased participation of blacks in the economy such as women in Business, Zimbabwe farmers union, Zimbabwe transport organisation and Affirmative Action Group were also formed. The call for indigenisation in Zimbabwe also gathered momentum after the introduction of the Economic Structural adjustment programme (ESAP) in 1991. The introduction of ESAP took place within the context of an ailing economy characterised by among other things a high and rapidly growing rate of unemployment and poverty. This provided an ideological justification for the government to promote small scale private enterprise as a vehicle for employment creation (Maphosa 1998). In the year 2000 the government embarked on the controversial land reform as a result of a huge outcry from landless blacks. This was done after the Lancaster house constitution and land acquisition efforts all failed to bring lasting solutions to the problem of land. In 2007 the government passed the Indigenisation and Economic Empowerment Act to ensure that majority ownership in foreign owned enterprises is controlled by indigenous black Zimbabweans. Statutory instruments therefore brought the law into effect in February 2010 and in effect gave all businesses worth more than US\$500 000 owned by foreigners

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five years to ensure that at least 51% of their shares be ceded to indigenous people. Hawkins (2011) said that while the mining sector was the biggest target of indigenisation however all foreign owned companies with assets more than US\$500 000 are within the frame, included also are foreign banks such as Standard Chartered, Barclays and South Africa's Stanbic and manufacturers such as Cargill, BAT and Nestle. This has however resulted in the decline in the flow of FDI into the country compared to other countries in the SADC region. The government in March 2011 published new regulations under the indigenisation and economic empowerment act which required foreign owned mining companies with an asset value above US\$1 to be ceded to indigenous Zimbabweans. Under the previous regulations companies with a net asset value less than US\$500 000 were exempted from this requirement and this new regulation has further ramifications on the inflow of FDI. Patel (2012) said that the publication of the new mining regulations resulted in much consternation in the mining industry in Zimbabwe. Some mining companies such as Anglo American, Metallon Gold, Mwana Africa, Rio Tinto and Mimoso however agreed to comply. The indigenisation and economic empowerment initiative seeks to involve the majority indigenous Zimbabweans in the mainstream economy. In trying to achieve this, the government has among other strategies prescribed for direct equity participation by the communities within which businesses are exploiting natural resources on commercial basis through Community Share Ownership Schemes (CSOTs). The major objective of the indigenisation and economic empowerment initiative is to create black entrepreneurs who benefit from the country's resources such as minerals. The implementation of the indigenisation and economic empowerment initiative has however

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seen the flow of FDI being affected. The purpose of this study is therefore is therefore to prove quantitatively whether Indigenisation and Economic Empowerment initiative really affects the flow of FDI into Zimbabwe.

Statement of the problem

The country risk associated with Zimbabwe gave the researcher keen interest to examine this critical issue. Since the Indigenisation and Economic Empowerment Act was enacted there are contradicting views as to its impact on the flow of FDI into Zimbabwe. The researcher therefore questions the impact of the Indigenisation Act on FDI inflow.

Statement of Hypothesis

Null hypothesis H₀: Indigenisation has no effect on FDI

Alternative hypothesis H₁: Indigenisation affects FDI

Research Objectives

This research aims to achieve the following objectives: To establish the relationship between indigenisation and foreign direct investment To compare the results of Indigenisation and Economic Empowerment initiatives in Zimbabwe and empowerment initiatives in other countries To recommend effective ways to implement the indigenisation and economic empowerment policy by the Zimbabwean government To highlight other factors that affect FDI besides indigenisation and economic empowerment initiatives

Significance of the Study

Researches on FDI have once been conducted but none of them have been attached to FDI in relation to indigenisation for example Yasmin et. al (2003) focused on factors affecting FDI but they never mention indigenisation and <https://assignbuster.com/the-indigenisation-as-a-construct-economics-essay/>

economic empowerment. So by researching on the impacts of indigenisation on FDI it becomes a new area of study thus establishing the relationship between FDI and indigenisation. In addition a few researches have been undertaken on indigenisation in Zimbabwe since it is a recent phenomenon. The indigenisation policy was first implemented in Zimbabwe after the year 2008 when the Indigenisation and Economic Empowerment Act (IEE) was passed. Researches on the impacts of indigenisation on FDI have not been undertaken in Zimbabwe before so this research will contribute new knowledge by showing the correlation between indigenisation and FDI. The difference between this research and previous researches is that it is quantitative in nature showing the relationship between indigenisation and FDI. The study proves quantitatively the impact of the IEE initiative on FDI in Zimbabwe using empirical evidence on what happened to FDI since the policy was implemented. Statistics will be collected to show the flow of FDI before and after indigenisation in Zimbabwe. A hypothesis will be tested to prove wrong or correct whether the implementation of indigenisation and economic empowerment initiative affected FDI. Previous researches have focused on the impact of other factors on FDI without mentioning the impact of indigenisation on FDI. Muzondo and Mpanju (2012) have cited factors such as return on investment, political stability, adequate and strong legal protection, market potential of a country, country's infrastructure, human skills, competitive edge, location advantage, government policies and guard against infringements. This study will therefore be important in looking at the impact of Indigenisation and Economic Empowerment initiative on the flow of FDI in Zimbabwe. The other significant contribution of this study is that it looks at the impact of the IEE policy on FDI with specific reference to

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Zimbabwe. The study will also focus on FDI in Africa particularly Zimbabwe and the impact indigenisation and economic empowerment initiative have. Studies conducted by Yasmin et. al (2003) were mainly focused on factors affecting FDI in developing countries mainly those in Latin America and Caribbean. This study will be significant in that it will look at the impacts of indigenisation and economic empowerment on FDI in developing countries in Africa, the main focus being on Zimbabwe. This study is also is intended to benefit policy formulators and implementers by providing recommendations which will be useful if they are taken. Recommendations are also given as to how other countries such as Malaysia have implemented similar policies which registered successes. This research will therefore help the responsible policy formulators and implementers to take similar routes to help improve Zimbabwe's FDIs. The recommendations provided if taken and auctioned will help to address the flaws or shortcomings of the IEE initiative and therefore benefit organisations in industry and commerce. The study will also be of benefit to other students who would like to undertake researches on indigenisation. This study will therefore form the foundation of other preceding researches of a similar nature. Table 0.: Showing Previous researches, Results, Methodology and Gap

Researcher	Area	Results	Methodology	Gap
Muzondo and Mpanju (2010)	Other factors affecting FDI	Low level of Intellectual property Rights results in declining FDI.	Quantitative	Indigenisation and its relationship to FDI not shown.
Yasmin, et. al (2003)	Analysis of factors affecting FDI in developing countries.	(Latin America and the Carribeans)Prevalence or high rates of corruption, political instability, tax evasion, trade restriction reduce the flow of FDI. Highly urbanised states receive better FDI.	Scientific	

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Test Quantitative methods. Hypothesis testing where FDI was the dependent variable. Zimbabwe not part of the developing countries studied. No mention has been done of indigenisation in Africa and Zimbabwe in particular. Dirk Willem TeVelde (2001) Policies towards FDI in developing countries, emerging best practises and outstanding issues. Focus on industrial and macro-economic policies Political and Economic policies have much influence on FDI Qualitative Indigenisation and economic empowerment policy not mentioned. Jadhav (2011) Effects of NEP on foreign capital Share of FDI increased by 24.5 Billion after 18 years. Qualitative Effect of IEE initiative on foreign capital not studied Moreira (2009) The determinants of FDI. Investment climate in Africa Even countries without natural resources attract FDI Qualitative Natural resources like minerals not considered as a factor but in Zimbabwe the focus is on such resources

Source: Various journals

1.6 Delimitation of the Study

The study is conducted for the period from 2008 when the IEE Act was passed in parliament to April 2013 when the research project is supposed to be completed. Literature to build the project is obtained from textbooks, electronic journals, Newspapers, government publications, the IEE Act and the internet. The study will focus on the impact of the IEE Act on FDI in Zimbabwe. The major focus of the study will be on mining companies operating in Midlands province. The study will mainly focus on platinum and diamond mines. The study subjects to be focused on will be mainly managerial staff at mines, ZIA CEO, representatives of beneficiaries from

indigenisation, District Heads for the Ministry of Youth Development
Indigenisation and Economic Empowerment.

Limitations

Obtaining funding for the project was one of the major limitations of the study. The research involved a lot of travelling to various organisations in various places and therefore it was costly to the researcher. Company managers and other people whom the researcher was targeting cited busy schedules and some failed to respond to the questionnaires that were handed to them. To overcome this, the researcher persuaded respondents to answer questionnaires during the time which they felt convenient to them. Some of the respondents attached this research to politics and as a result they were not willing to help at all. The indigenisation and economic empowerment initiative was viewed to have some political connotations and as a result some of the respondents were afraid to give information and the researcher was directed to company headquarters. There is also a lot of controversy among different sources as to the inflow of FDI into Zimbabwe where some were indicating an increase and some indicated a decline. The literature for this research was not easily accessible in the texts specifically for that which relate to Zimbabwe in particular. The researcher however used the internet, newspapers and discussions with knowledgeable people on the indigenisation policy. In spite of these limitations, the researcher believes the necessary steps were taken to produce independent and reliable findings which have the potential to contribute to the implementation of the indigenisation and economic empowerment initiative and therefore improve the inflow of FDI.

Research Assumptions

In carrying out this research, the following assumptions are considered to be correct: It is assumed that all respondents are faithful and give information to the best of their knowledge. All records, Literature, Annual reports, financial statement and indigenisation plans are correct. All statements supplied or obtained give the correct state of the organisation with regards to matters of indigenisation are assumed to reflect fair values. The other assumption is that every subject decides independently on all action being taken. Respondents in this case are assumed that all the decisions they make are not influenced by anyone, the expectations values or the norms of their organisations. The study also assumes that decline in the flow of FDI in Zimbabwe is a result of the implementation of the indigenization and economic empowerment initiative. This study therefore assumes that the decrease in FDI after 2008 is a result of the implementation of the IEE policy. It is also assumed that respondents give true information that is accurate

Chapter Summary

The chapter has shown the historical background of indigenisation and economic empowerment initiative. The statement of the problem has shown the problem that need to be solved. The chapter has also proposed a hypothesis to be tested followed by an outline of the objectives that the research seeks to achieve. The significance of the study is also given showing the gap that this research seeks to fill and therefore highlight its importance to various groups. The chapter has also focused on the parameters within which the study was centred on including the time frame, geography and literature. The chapter finally focused on the factors that

were militating against the researcher carrying out the research. Facts are to be assumed true are also given in this chapter. The next chapter reviews literature related to indigenisation from different sources.

CHAPTER 2: LITERATURE REVIEW

LITERATURE REVIEW

Introduction

This chapter looks at indigenisation which is an economic empowerment strategy to redress the economic imbalances created in most cases by the former colonisers. The indigenisation initiative aims to eliminate the use of race as an economic function and targets are normally set to transfer majority share ownership in foreign owned businesses into the hands of indigenous people who are the majority. The chapter also looks at indigenisation in other countries and Zimbabwe as well. Indigenisation initiatives in other countries are compared to Zimbabwe's Indigenisation and Economic Empowerment policy and significant flaws, strengths, costs and benefits are highlighted. Other factors affecting FDI besides indigenisation are also reviewed. The chapter also looks at how voluntary acquisition and legislation were used in other countries as well as in Zimbabwe to achieve the objectives of indigenisation. The final part of this chapter looks at whether the objectives of indigenisation and economic empowerment were met in countries where the initiative was implemented and then its consequences.

Indigenisation as a construct

Indigenisation is a concept that has been implemented in many countries around the world. The concept is given varying names in different countries but the objectives are the same. In Malaysia it is called New Economic Policy, Black Economic Empowerment in South Africa and Indigenisation and Economic Empowerment in Zimbabwe. Indigenisation in most cases is practised to redress the wrongs of the past through empowering indigenous people who were once oppressed, alienated and disadvantaged by colonial regimes through increasing their participation in the mainstream economy. In most cases economic empowerment initiatives are implemented after independence. Maphosa (1999) said that the advent of political independence in Africa has given impetus to calls for economic indigenisation. Zimbabwe like other countries such as Malaysia, Nigeria, and South Africa implemented Indigenisation and empowerment initiative. Indigenisation and Economic Empowerment initiative is therefore a mirror image of other empowerment programmes implemented in other countries around the world.

United States

In the early 1970s shortly after civil rights movement, there was a conscious decision by the United States government to create a class of black capitalists. The US government was proactive in trying to create equal opportunities for blacks in employment education, housing and business. " To facilitate black business development special government structures were set up for the delivery of loans, grants and technical assistances to black entrepreneurs. Government procurement special preferences were granted

to black owned businesses" (Hauki 2001: 18). This shows that indigenisation is a policy that has been implemented by countries around the world even those that are economically advanced. Zimbabwe's empowerment drive however is different from that of United States in that it mainly focuses on business ownership than employment, education and housing. The majority of young Zimbabweans are not employed and the largest population has no proper housing but the government's empowerment initiative does not focus on these.

Malaysia

Given its political and colonial history, Malaysia's New Economic Policy is one of the relevant examples of Zimbabwe's Indigenisation and Economic Empowerment initiative. The Malaysians were colonised by Britain and were disadvantaged by unfair policies. After 10 years of attaining independence Malaysia was having a problem of inequalities between the racial groups which was the result of past injustices (Mandla 2006). The Malaysian government in response embarked on the NEP to arrest the inequalities between the Bumiputeras and the Chinese. Zimbabwe in the same vein after independence embarked on several indigenisation initiatives the most notable being the land reform programme of the year 2000 and the current Indigenisation and Economic Empowerment policy. " The focus of the NEP was to create competent, capable and strong Malay entrepreneurs" (Abdullah 2001: 2). The IEE initiative like the NEP is also focused on creating black business entrepreneurs who are purely black Zimbabweans. Hauki (2001) said that, " the critic against the NEP is that the Malays elites benefited disproportionately and the Chinese and the Indians, the more

successful ethnic minorities felt that the playing field was stacked unreasonably against them". The same critic can also be levelled against Zimbabwe's IEE initiative in that only the elite and those politically connected are benefiting at the expense of other racial groups like whites, Indians and other poor black people, women and the youth.

Indigenisation in South Africa

In Southern Africa, South Africa is one of the countries that made attempt to redress economic imbalances through indigenisation. The Black Economic Empowerment Act of 2003 was put in place in South Africa to address wrongs of the past particularly those perpetuated by the deliberate marginalisation of black South Africans under the apartheid regime by bringing previously disadvantaged people into active economic participation. The South African government defines BEE as an integrated and coherent socio economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people who manage, own and control the country's economy as well as significant decreases in income inequalities (Makwiramiti 2011) said that, BEE and affirmative action laws brought in after apartheid as the star policies of the ruling ANC have failed. Instead of redistributing wealth and positions to the black majority BEE resulted in a few individuals benefiting leaving the leadership of most big companies in white hands. Mandla (2006) said that the black masses who were intended to be beneficiaries have hardly gained. South Africa despite BEE still remains one of the most unequal countries. The gulf between the rich and the poor has widened, the richest who are 4% of South Africans, a quarter of whom are

blacks who earn more than US\$80 000 a year 100 times what most of the compatriots live on. Among the 295 companies listed on the Johannesburg Stock Exchange blacks account for 4% of CEOs, 2% of chief financial officers and 15% of other senior posts (Makwiramiti 2011). Berman (2012) the head of South African Institute of race relations argues that BEE has so far been implemented but has actually harmed blacks by discouraging self reliance and an entrepreneurial spirit.

Indigenisation in Nigeria

Uche (2011) said that the idea of indigenisation of foreign businesses in Nigeria dates back to 1946 when the colonial government established the Nigeria local development Board with the main function of granting loans to Nigerian owned enterprises. In 1956, a national committee on the Nigerianisation of business enterprises was set up. When the civil war ended in 1970, the Nigerian government opted for more extreme policy of indigenising foreign capital. Foreign businesses were left with the option of either to be loyal, exit or voice. They were faced with forced indigenisation of at least some of their capital, such businesses could either accept the terms of indigenisation or move their investments elsewhere or protest and try to influence the provisions of the decree (Uche 2001: 6). Indigenisation in Zimbabwe like in Nigeria started well as a win- win situation where the government could purchase land from white commercial farmers but at last it was forced takeover. Initially indigenisation was not forced, it was a willing buyer willing seller principle where only those farmers who felt that they want dispose their farms could do so. The government of Zimbabwe in this

initial phase failed to achieve the objectives of indigenisation and therefore adopted forced takeover at last.

Indigenisation in Zimbabwe

After Zimbabwe attained its independence in 1980 the economy remained under the ownership and control of the British. The government therefore had the challenge of redressing these economic inequalities between the British and Zimbabweans. Zimbabweans who formed the majority of the country's population were disadvantaged by the colonial policies which mainly favoured the British. These policies provided the white minority with opportunities to enter into the mainstream economy. Zimbabweans were not given such opportunities and as such they were excluded from the mainstream of the economy. This resulted in huge disparities between the British and Zimbabweans in areas such as education, employment and entrepreneurship. Black Zimbabweans soon after independence made attempts to reduce inequalities in the ownership of resources. The initial attempts were to reduce inequalities in land ownership where the country after independence inherited the tenure systems (Zimbabwe Institute 1995). In the 1980s again several attempts to indigenise were made as evidenced by the announcement by Banana who declared that only indigenous people could join the civil service and all non indigenous people who remain were no longer considered for promotions. Insurance companies also were put under pressure to localise their operations. Chiwawa (1994) said that demand for the indigenisation of the economy have become a dominant theme in economic and political debates in Zimbabwe but more so in the 1990s. Developments such as the formation of the indigenous business

development centre (IBDC) in 1990, the parliamentary select committee on indigenisation and the cabinet appointed task force on indigenisation attempt to rectify the almony of the concentration of economic wealth and control in a small section of the society (Chiwawa 1994). This serves to indicate that indigenisation in Zimbabwe is an initiative that started since independence. Chiwawa (1994) also indicated that a joint workshop between the Institute of Development Studies (IDS) of the University of Zimbabwe and the Organisation for Social Science Research in Eastern and Southern Africa (OSSREA) based in Addis Ababa, Ethiopia was conducted from 18 to 19 August 1994. The theme of the workshop was, " Indigenisation of the Zimbabwe economy, problems and prospects". The conducting of such workshops also serve to indicate that indigenisation and economic empowerment has been an issue in the minds of black Zimbabweans since 1980 when the country gained independence. So the recent indigenisation initiative is a brainchild of the past attempts that failed to satisfy the majority of black Zimbabweans. Chiwawa (1994) also said that the opening of indigenisation under ESAP included possibilities for small scale and medium scale enterprises being subcontracted by large scale enterprises, privatisation of parastatals with the indigenous people taking up shares in those that were viable. Saunders (2010) said that the need for sustained black empowerment was recognised by the Chamber of Mines (the main representative body for mine owners) in the 1990s. Examples of empowerment initiatives were in place by the 1990s include Mutumwa Mawere's deal as an indigenous mining magnate who became the controlling shareholder in Shabanie Mashaba asbestos Mines in 1998. The government's response in support of Mawere's overtaking of Shabani Mashaba Mines is a <https://assignbuster.com/the-indigenisation-as-a-construct-economics-essay/>

clear indication that the current indigenisation and economic empowerment initiative being implemented in Zimbabwe is a build up from past attempts which failed to achieve broad based economic empowerment. Maravi (2007) also said that early targets of renewed indigenisation efforts in the 2000s included gold, nickel and platinum projects of Anglo American, Implats' platinum operations and Metallon Gold's five gold mines. Each of these South African-rooted mining houses faced demands to take on substantial local partners but with little effect. In the year 2007 US food manufacturer H J Heinz sold its 49% stake in Zimbabwe's Olivine industries in a move described as " government takeover". The Cotton Company (Cottco) a listed company on the stock exchange also bought the Heinz stake of \$6. 8 million. The government holds a 23% indirect stake in Cottco through the national social security authority (Hawkins 2007). This is one of the early indigenisation attempts in the manufacturing industry. Twenty years after independence the Zimbabwean government made another attempt to redress economic inequalities between the British and Zimbabweans. The land reform was rolled out in 2000 as the other programme to transfer control and ownership of resources from the minority whites to the majority blacks. The land reform was undertaken in a phase that is termed the third chimurenga or ' Hondo yeminda' in the indigenous language. The main objective as claimed was to redress the land imbalances and therefore empowering indigenous people who are often referred to as " sons of the soil" or ' vana vevhu'. After the land reform the economy suffered and many people were left jobless and the problems persist up to this day. Members from the political front however despite these problems claim the land reform as a resounding success and felt that empowerment should not end

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with this land reform programme and therefore embarked on the other initiative, the Indigenisation and Economic Empowerment programme. The Indigenisation and Economic Empowerment programme was rolled out after the guiding Act was passed in parliament in 2007 and then signed into law in 2008. The purpose of programme is to ensure that major shareholding in industry and commerce are owned by indigenous people. The indigenisation model compel all foreign owned companies with a capitalization above US\$500 000 to cede 51% of their shareholding to indigenous Zimbabweans. In this new ownership structure a foreign owned company operating in Zimbabwe would be limited to 49% share ownership. In the mining fraternity following the enactment of the Indigenisation and Economic Empowerment Act, protracted negotiations between the government and mining companies took place to ensure compliance with the new law. Big mining companies such as Unki, Zimplats and Mimosa have since complied with the indigenisation regulations (zim. gov. zw, 2012). The Indigenisation and Economic Empowerment Act (chapter 14: 33) and the supporting statutory instrument regulations related to notices clearly spell out that the programme is meant to benefit ordinary Zimbabweans who were previously disadvantaged by the settler regime. The regulations state that the primary groups meant to benefit are ordinary communities encompassing ordinary men and women, youth, disabled, orphans, the elderly, employees and management.

Why indigenisation efforts fail

There are a number of factors militating against the success of economic empowerment initiatives. These factors are common throughout the world

and in most countries which have advanced to implement the policy. Lack of risk taking behaviour by the indigenous people has been commonly cited as one of the reasons why empowerment initiatives fail. A passive beneficiary mentality which is risk averse has been advanced as one of the reason for the failure of the NEP in Malaysia (Mandla 2006). The same behaviour is also rampant among Zimbabwean beneficiaries of the land reform. There is a dependence syndrome, people have a " government must" syndrome where they rely on it for agricultural inputs year after year. As a result of this negative behaviour the land reform has not produced any meaningful output since 2000. Scandals such as the recent NIEEBgate's impact on the successful implementation of indigenous initiatives should not be underestimated. The Daily News on 24 February 2013 has reported that the mining giant ZIMPLATS is struggling to contain reports that it together with NIEEB has fraudulently undervalued the company' worth. It is also revealed in another report by the Zimbabwe mail on February 24 that the value of the company's machinery and equipment has been valued at US\$ 2. 7 billion while resources underground have been pegged at the same value. In another note the company that was tasked to conduct advisory services, Brainworks was awarded the tender without going through the tender board. In addition the company was supposed to be paid by the government for the service. This serves to indicate that that the government is cheated in most of these indigenisation deals and therefore render them to fail. In Zimbabwe post independence state intervention has been confined to parastatals and loss making enterprises and Africanisation of black advancement has not meant black ownership and controls of the economy (Newsday 12 November 2012). The reversal of liberation movement gains and socialist aspirations in <https://assignbuster.com/the-indigenisation-as-a-construct-economics-essay/>

the post independence period. This was done mainly through the policy of reconciliation, constitutional elimination of discrimination on the basis of colour, race, etc and the economic structural adjustment programme. White colonial authorities had created institutional frameworks to assist small entrepreneurs and actually intervened to create white wealth in the colonial period, the post independence state has not matched what the colonial past did. The state via ESAP was already moving away from interventionist strategies, thus the plight of black businesses in the 1990s shows that the state has failed to assist black entrepreneurs. Maravi (2007) said that affirmative action calls were being entrusted to the state and not the affirmative action groups. The reason put forward was that these groups could not spearhead the indigenisation discourse since they have no Afrocentric vision on how to accumulate but only focus on money markets and management. The inherited colonial infrastructure remains unchanged and therefore indigenisation is a means for the rich to get richer and for the confinement of the black majority to the marginal areas of the economy. Lack of government policy statements on indigenisation. Little have been done on indigenisation in collaboration with the ministry of finance which has placed a capital budget under itself and an operational budget under the National Economic planning Commission.

The essence of Indigenisation and Economic Empowerment initiatives

The need for Economic Empowerment programmes in African countries stems from the historical marginalization and exclusion of Africans in the mainstream economy emanating from the colonial era. The colonial historical

context of the countries in Southern Africa witnessed a period of protracted economic development and created a human capital that is largely unskilled, uninformed and restricted from meaningful participation in the economy.

The essence of indigenisation is therefore to empower these previously disadvantaged groups and expose them to become agents of economic change while facilitating their escape from abject poverty (Makwiramiti 2011). In Zimbabwe however, the recent indigenisation and economic empowerment initiative is quite different from that of other countries like South Africa and Malaysia in that it does not include other important aspect of economic empowerment such as capacity building. The main theme around the IEE initiative of Zimbabwe is to increase black participation and ownership of businesses and not skills development as a result it will not be full empowerment since some of these people who overtake foreign businesses lack the basic skills of running businesses. Empowerment initiatives are also important in ensuring that indigenous people gain access and total control of their resources. Empowerment activists in Zimbabwe for example say that the recent policy on indigenisation of the mining sector is a welcome development as this helps to restore total control of the mineral resources to the local majority. Other local indigenisation activists such as Chanaiwa says that the policy of indigenisation will ensure that externalisation of funds is reduced as Zimbabweans will use the money for national development programmes. In most cases foreign companies would bank offshore so the implementation of indigenisation and economic empowerment is essential as Zimbabweans will now be able to use their money to develop the country. Indigenisation initiatives are also crucial in ensuring that more indigenous businesses are created through strategic

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partnerships between indigenous people and foreign investors wishing to explore new opportunities. It is also believed that substantial businesses and opportunities will be created when the procurement side of empowerment is fully exploited. Equity participation becomes synonymous with indigenisation and empowerment. Although equity participation is an important component of the indigenisation programme, it is not the only way of ensuring achievement of the programme's objectives. Museyamwa (2012) said that empowerment is good for businesses as it facilitates growth resulting in more profits for entrepreneurs. Indigenisation and economic empowerment initiatives are also crucial in that they result in the creation of local businesses which promote domestic investment. Domestic investment is less risk than foreign investments in that foreigners can sabotage the nation as such the majority will end up deprived of goods and services. This is evident in Zimbabwe where some foreign owned businesses closed shop resulting in turmoil as people lost jobs, goods and services and this is unlikely when a business is indigenously owned. The origin, imperative and the need of having empowerment policies within Africa, particularly Southern Africa is based on the reality that an economy can flourish if it can meet the needs of its citizens and their enterprises in a sustainable and developmental manner (Makwiramiti 2011). As such economic empowerment can play a pivotal role in human and economic development only if the political, economic, social and legal systems build on the full potential of all persons and communities across the length and breadth of the country. Empowerment therefore helps to spread the benefits of economic growth to the majority making economic growth premised on inclusion sustainable. The majority of these previously disadvantaged groups however does not comprise of people who are

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interested in owning shares in companies but those who seek jobs, improving skills, starting and running their own businesses and simply living a better life. In Zimbabwe for instance, the fact that under the empowerment policy no new mining licences will be granted to foreigners means that local people in the mining sector will be able to bargain competitively with foreigners. A mining claim will enable the local people to bargain with investors because most of the people do not have money, so this is empowerment at its best.

The legislative approach " vs" compulsory acquisition to Indigenisation

Viitanen and Kakulu (2009) defined compulsory acquisition or purchase as the process by which local and national governments obtain land and premises for development purposes when they consider this to be in the best interest of the community. The process of valuation for compulsory acquisition of landed property is governed by legislative statutes that vary from one country to another. The term has a number of variants some of which are compulsory purchase, expropriation, land-take or eminent domain. In all cases the owners or occupiers are denied their property rights for overriding public interest, public purpose or public benefit and are entitled to full, just, fair, equitable and adequate compensation. Compulsory purchase is an important tool in land acquisition although in many countries land acquisition can often be arranged through other means such as by voluntary agreements. Early 2000 indigenisation initiatives were more of compulsory acquisition (jambanja). The land reform of the year 2000 was undertaken without legislation guiding it but it was done in a haphazard, emotional and

radical manner in which war veterans were leading the takeover. Viitanen and Kakulu (2009) Plimmer (2007) quoted who said that the powers of compulsory acquisition have been neglected in countries such as England and Wales and buying by agreement is used. The criticism levelled against the adoption of this system is that there is some level of skills shortage and it is highly technical. In countries such as Turkey the voluntary acquisition method has been adopted to acquire land. Viitanen and Kakulu (2009) said that although the mechanism does not purport to ensure that all parties involved will always be completely satisfied, it does offer a significant improvement on the issue of fairness and justice toward simple-rank landowners. The guiding principles of indigenisation were passed in parliament in 2008, the indigenisation and economic empowerment act. Under the IEEA all foreign owned companies with a minimum capitalisation of US\$500 000 are supposed to cede 51% of their shareholding to local indigenous Zimbabweans. Matyszak (2011) said that the indigenisation legislation does not enforce the stated 51% objective. Matunhu (2012) in the same vein said that there are no provisions criminalising a failure to implement an indigenisation plan. This shows that there are no legal instruments which compel the transfer of 51% Of the shares in a foreign owned business to indigenous Zimbabweans. Mashiri (2010) said that what has been dubbed legitimized looting in the guise of indigenisation and the racist and seizures could be argued as having got unintended result in achieving more inequalities and investor boycott. In the same notion, indigenisation and economic empowerment is seen as a deliberate retaliatory response to the EU travel ban on ZANUPF top officials. With this in mind the approach to indigenisation is more of forced takeover than a win-

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win scenario. Masunungure and Koga (2012) also suggested that the Minister ought to make law by way of publication of regulations in the Government Gazette rather than by way of an advertisement in the Financial Gazette. However the intention of the minister is nonetheless to set out the position he wished to see enforced. The enforcement is not to be, and cannot be, by legal means. Thus, the advertisement ominously concludes with the following: The Government of Zimbabwe, through the Ministry of Youth Development, Indigenisation and Economic Empowerment, enjoins all Zimbabwean citizens, top management, middle management, technical support staff and the general workforce of the companies involved that they are now expected to defend the Zimbabwean 51% equity stake and also to uphold and execute the national interest in respect of the administration, trade and any other business transactions so as to ensure total indigenous economic empowerment. This therefore implies that the takeover of land and foreign owned businesses does not follow legislative route but the wish of those in power. Matyszak (2012) supported the fact that business takeover in Zimbabwe does not take the legislative route by saying that the minister's utterances are little less than a not-so-subtle incitement to engage in the sort of intimidation and violence which characterised the invasion of land in Zimbabwe from 2000 onwards, known colloquially as 'jambanja'. The advertisement seeks to allow and encourage those engaging in the jambanja of companies to claim, however erroneously, the protection of "the law" as set out by the Minister. The effect on mining concerns can only be, as was undoubtedly intended, highly intimidatory. Since the publication of this advertisement officials from the Ministry have specifically, directly and blatantly threatened businesses with jambanja unless their demands are

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met. One such demand is that each mine hands over a cash payment as "seed capital" to a Community Share Ownership Trust. Zimbabwean law defines extortion as being committed by any person who intentionally and successfully (Matyszak 2012).

How politics affects empowerment initiatives

Political factors according to Torii (1997) have a larger impact than economic factors in the formulation and implementation of economic empowerment policies. In Malaysia for example political factors had more effect in the implementation of the NEP and they restricted the full play of economic rationality as well as market mechanism and equal opportunity principles in favour of Malays. Politics is taking the leading role in the implementation of economic empowerment initiatives in most countries. In South Africa like in Malaysia where empowerment initiatives were implemented it has been reported in all cases that those people who are connected to the politicians are the ones who benefit. The Indigenisation act of Zimbabwe for example defines an indigenous person as one who before April 1980 has been discriminated on the basis of race. The person who falls within this category is one who is supposed to be the beneficiary. This definition is discriminatory because it excludes white Zimbabweans who were born in Zimbabwe and as a result suffered the hardships of the liberation struggle and yet includes black Zimbabweans some of whom were out to learn during the war and were never disadvantaged. The answer as to who qualifies to benefit from indigenisation and Economic Empowerment in Zimbabwe lies in political decisions. When the law was to be equally applied in this case the white person also qualify to benefit from indigenisation, however this excludes

white Zimbabweans. Matyszak (2011) said that all Zimbabwean whites and foreigners regardless of their background and benefits from past privilege owe an indeterminate and indefinite debt to black Zimbabweans simply on account of their race or alien status. The definition of "indigenous" as applied to indigenisation therefore is not inclusive, it is discriminatory as whites are excluded though they are of Zimbabweans. Matyszak (2011) also said that the definition of indigenous in the regulations differ markedly from the commonly understood or dictionary definition of the term. This implies that the meaning of an indigenous person in Zimbabwe is politically determined. National Empowerment programme of Malaysia included even the non Malays and this makes it quite different from Zimbabwe's indigenisation and economic empowerment policy. The application of the law is selective and it is politics which is playing the leading role in deciding who is indigenous and who is non-indigenous. When one has no political history that can be traced to be pro ruling party he or she is bound not to benefit from the empowerment initiatives. Masunungure and Koga (2012) said that, "Empowerment is therefore viewed by post-colonial governments as a policy imperative in order to remedy historically rooted injustice that created racially based social and economic inequalities" The most accurate term to give effect to the stated intention of the act in the definition of indigenous is "non-white" (Matyszak 2011). (Mashiri 2007) also said that political considerations will determine who is and who is not deemed to be non white for the purpose of being considered indigenous as defined by the act. (Matyszak 2011) also said that it is clear that although the legislation has considered indigenisation as a restoration of sovereignty and ownership to Zimbabweans the definition of indigenous makes it clear that the law would

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be more correctly described as black economic empowerment legislation. The term broad based economic empowerment should therefore be replaced by black economic empowerment because white Zimbabweans are excluded. (Matyszak 2011) said that the drafters of the laws may have felt it impolitic to title the legislation as black economic empowerment some 30 years after independence even though this would have more accurately reflected its substance. The indigenisation and economic empowerment initiative is used in Zimbabwe as a political campaign tool than an economic instrument is meant to create self sufficient entrepreneurs. Although this initiative is a result of two political parties, ZANUPF and two MDC formations there is conflict on the policy implementation. Matyszak (2012) has shown that the Zimbabwean president's party has presented then economic empowerment of Zimbabweans as its key policy component and the main theme around which it intends to campaign for the next elections. Robertson (2010) declared that the empowerment initiative will achieve disempowerment by taking business away from people who do not support the government and giving power to those who do. The ministry rejects away indigenous plans establishing a community share ownership trust without its approval. This accord with the prognosis made elsewhere regardless of the legislation, acceptance of indigenisation plans will depend upon ministerial approval of who is to benefit. Masunungure and Koga (2012) asserts that for ZANUPF empowerment is best achieved through compulsory takeover of foreign owned businesses in order to benefit the indigenous blacks. In pursuit of this, the then ZANUPF dominated parliament passed the indigenisation and economic empowerment act in October 2007 which the president assented to in march 2008 just before the elections that year. FAO <https://assignbuster.com/the-indigenisation-as-a-construct-economics-essay/>

(2009) defined compulsory acquisition as the power of the government to acquire private rights in land without the willing consent of its owner or occupant in order to benefit the society. In Zimbabwe indigenisation of foreign owned businesses followed the compulsory acquisition or takeover route since the year 2000 when the government embarks on the land reform where white commercial farmers were forced off the land. This form of takeover is also happening in other sectors of the economy notably mining, banking and manufacturing. Mining companies for example are forced to cede 51% of their shareholding to indigenous people black Zimbabweans. Indigenous people are granted the permission to own shares in a company even if money has not been paid for the shares. Mining companies for example are forced to cede 10% of the 51% to employee and community ownership trust where employees and local people will pay for the shares through dividends over a period of time. This means that indigenous people are overtaking companies for free since dividends are paid out by the same company. Matyszak (2012) asserts that the proclaimed objective of the Community Share Ownership Trusts (CSOT) is that the communities in the district of a mining operation reap some benefits from the exploitation of the natural resources in the area they inhabit. These CSOTs have steering committees that are chaired by the minister of youth development indigenisation and economic empowerment. The operational framework for the CSOTs stipulate that there will be one trust per district and has specified signatories to accounts of each trust. Matyszak (2012) said that the proposed composition of the board of trustees and signatories of the trust accounts would ensure that the CSOTs and finances thereof will be firmly in the hands of individuals aligned to ZANUPF. This means that indigenisation in

Zimbabwe does not take the legislative route but rather it is based on the decision of politicians particularly the discretion of the ministry of youth development indigenisation and economic empowerment. In the same vein Matyszak (2011) indicated that the ministry rejects any indigenous plan establishing a CSOT without its approval and this accord with the prognosis made elsewhere that regardless of the legislation, acceptance of indigenisation plans will depend largely upon ministerial approval of who is to benefit. The indigenisation regulations also give the minister power to decide whether to approve or reject an indigenisation plan to attach conditions to such a plan. This arrangement leaves the possibility of plans being accepted or rejected on the basis of " who" rather than " what" is proposed in the indigenisation plan. Rejection may be based upon the extent to which the terms of indigenisation are beneficial to the person identified as a partner rather than whether they meet the criteria set out in the act. By placing the procedure in the hands of the minister rather than the board and by giving the minister such a broad discretion, the legislation thus appears purposely designed to allow the minister the possibility of compelling against the threat of rejection of an indigenisation plan, the inclusion of selected individuals identified by the minister in indigenisation and the inclusion of such persons only on terms which the minister deems sufficiently beneficial (Matyszak 2011). This means that the government, the minister or politically connected individuals are not left out in the indigenisation process and as such it is a highly selective and discriminatory initiative mostly in favour of these people with a strong history aligned to the ruling party and even the minister. This then leads to the conclusion that indigenisation is an initiative that was designed to create conducive conditions for the politically

connected people to make an illegal loot by yet protected by the law. The power of the government is often necessary for social and economic development and the protection of the natural environment Food and Agriculture Organisation (2009). This is true in the case of Unki mining company which out of the Community Share Ownership Trust (CSOT) funds have build a school in the Tongogara area near Shurugwi. This shows that the power of the government is crucial in facilitating social and economic development in areas where resources are extracted. In Zimbabwe however this power tends to be abused and will be in favour of those people who are identified as loyal to the minister or the ruling party. FAO (2009) asserts that compulsory acquisition requires finding the balance between the public need for land or resources and the provision of tenure security and the protection of private property rights on the other hand. The indigenisation and economic empowerment legal framework in Zimbabwe however does not respect the protection of private property and thus negatively affect FDI. Seyoum (1996) cited by Muzondo and Mpanju (2012) said that the level of intellectual property rights protection is a strong inward investment and that IPRS have a greater impact on inward investment than many economic variables. Maskus (2000) in Muzondo and Mpanju (2012) also said that emerging economies recovering from crisis could generate sizeable FDI if they could adopt development policies that favour adequate IPRs protection and stablise their macro environments. In Zimbabwe since the era of the land reform in 2000 to the current indigenisation empowerment era, FDI inflows have been on a continuous decline. Muzondo and Mpanju (2012) indicated that in Zimbabwe FDI fell from an all time high of US\$444. 3 million in 1998 to US\$3. 8 million in 2001. " The country's FDI inflows have remained <https://assignbuster.com/the-indigenisation-as-a-construct-economics-essay/>

suppressed and far below those of its once economically weaker and smaller neighbours such as Botswana, Mozambique, Namibia and Zambia. For almost 10 years before the inauguration of the coalition government in February 2009, Zimbabwe's economy was in perpetual decline due to political and economic crisis. Consequently the country lost its competitiveness as an FDI destination". This therefore indicates that compulsory acquisition by the government has devastating consequences on FDI and the performance of the economy. FAO (2009) also asserts that compulsory acquisition is inherently disruptive. Even when compensation is generous and procedures are generally fair and efficient, the displacement of people from established homes, businesses and communities will still entail significant human costs and where the process is designed or implemented poorly the economic, social and political costs may be enormous.

What is Foreign Direct Investment?

FDI is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy into an enterprise in an economy other than that of a foreign direct investor (OECD 1996). FDI implies that the investor exerts a significant influence on the management of one enterprise resident in the other economy (UNCTAD 2007)Zhang and Zhang (2007) concluded that during the procedure of economic globalization and integration, emerging economies have been spectacular targets for foreign direct investment because of their potential business opportunities. Multinational corporations making less profit in developed countries nowadays turn to developing countries to pursue broader markets and higher performance. FDI differs radically from equity

investment. Foreign investment can come into and leave the host country very quickly depending on the market fluctuations without leaving any lasting benefits behind (Lipsey 2002). FDI on the other hand is a set of economic activities or operations carried out in a host country by firms controlled or partly controlled by firms in some other country. These activities are for example production, employment, sales, the purchase and use of intermediate goods and fixed capital and the carrying out of research (Lipsey 2002)

Impact of FDI on host country

The role of FDI as identified by Musila (2006) in the development of host countries is controversial. FDI can be a major stimulus to economic growth as it can provide capital, technical and marketing knowhow needed for growth. On the other hand FDI can also undermine the very process of development by causing adverse effects on employment, income distribution, BOP and national sovereignty.

Positive impacts of FDI on host country

FDI can be a powerful channel for the transmission of technology in developing countries by financing new investments, communicating information about technology to domestic affiliates of foreign firms and by facilitating the diffusion of technology to local firms (World Bank Report 2008). There is also a positive link between FDI inflow and GDP growth rate, higher GDP is related to FDI inflow in both developed and developing countries (Veloso 2008). There is also domestic employment through job creation, wage levels, income distribution and skills transfer (Mirza and Yoo 2003). These direct effects are complemented by indirect spillover effects.

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Indirect effects take place through movement of trained labour from foreign firms to domestic companies through an increase in the employment of subcontractors. FDI also promote growth of host country exports and linkages to the outside world. In this aspect, the major role of FDI is the transformation of host economies from being exporters of raw materials to exporters of finished goods and high technology manufactured goods.

Negative impacts of FDI on host country

Although FDI is beneficial to the development process it is worth to note its negative ramifications. These drawbacks according to the OECD report (2003) include a deterioration of the BOP as profits are repatriated, social disruption as a consequence of accelerated commercialization in less developed countries and the effects of competition in national markets. Other studies conducted by Lahiri (2008) reflect that tax competition to attract FDI can lead to reduced tax revenue and thus public good provision. Competition for FDI can lead to environmental degradation and the creation of a pollution haven (Lahiri 2008). There is also an interaction between FDI and the environment. FDI can create irreversible environmental damage when investment takes place at a scale and pace where it overwhelms host country regulatory capacity.

The impact of economic empowerment initiative on FDI

Since the enactment of the indigenisation and economic empowerment act and its implementation FDI inflow in Zimbabwe has been not uniform and at times increasing at a decreasing rate. A comparison of Zimbabwe and other Southern African countries which have a poor resource base compared to Zimbabwe indicate that the trend is downward moving. Although other

factors are contributing to the poor performance of the country in terms of FDI, the impact of indigenisation and economic empowerment has profound implications. Table 2.: Annual FDI of selected Southern African states in Billions of US Dollars from 1995 to

Country	1995	1998	2001	2004	2007	2009
Zimbabwe	0, 1170	444	30, 003	80, 008	70, 068	90, 060
Angola	0, 472	472	21, 114	21, 145	1, 449	893
Botswana	0, 070	413	0, 095	318, 022	136, 390	975, 647
Malawi	0, 005	643	0, 121	040, 019	300, 107	712, 092
Mozambique	0, 045	0, 212	70, 255	416, 244	704, 427	431, 881
Namibia	0, 153	015, 096	232, 036	138, 088	204, 169	928, 490
South Africa	1, 248	0, 550	397, 270	701	422, 737	5, 628
Zambia	0, 097	0, 198	071	690, 363	441, 324	0, 699

Source: Muzondo and Mpanju (2012)

Zimbabwe had the lowest FDI inflows in 2007 compared to other southern African countries. Given the fact that Zimbabwe started to advance indigenisation and economic empowerment policy it can be argued that this led to the further decline in the inflow of FDI. FDI inflow into Zimbabwe was US\$ 0. 0689 billion in 2007 and then US\$ 0. 060 billion in 2009 indicating a decline at a time when other countries such as Angola, Mozambique and Namibia saw significant rises. Although other Southern African countries also such as South Africa and Zambia saw a decline the magnitude of the decrease was not the same as that of Zimbabwe. Figure 2.: Comparisons on the flow of FDI in selected African Countries in (US\$Billion)

Source: UNCTAD (2011)

Zimbabwe has the lowest FDI compared to other countries in the region since 2007. The Zimbabwean government in 2007 promulgated the indigenisation and economic empowerment bill that was passed into law in 2008 and this saw it lagging behind other weaker African countries that have a low natural resource base such as Malawi, Mozambique and Zambia.

Principles guiding compulsory acquisition

Viitnen and Kakulu (2009) assert that the basic principles and processes in compulsory purchase and compensation are perceived to be quite similar even though the practice may vary in different nations or regions. However compulsory acquisition and compensation problems are associated with the level of national and regional development of a particular country. The principles on compulsory acquisition may therefore include the protection of due and fair procedure. Rules that place reasonable constraints on the power of the government to compulsory acquire land strengthen the confidence of people in the justice system, empower people to protect land rights and increase the perception of tenure security. Rules should provide for appropriate advance consultation, participatory planning and accessible mechanisms for appeals and should limit the discretion of officials (FAO 2009). Good governance is also crucial to successful compulsory acquisition. Agencies that compulsorily acquire land should be accountable for the good faith implementation of the legislation. Laws that are not observed by local officials undermine the legitimacy of compulsory acquisition. Good governance reduces the abuse of power and opportunities for corruption. In Zimbabwe however the principles of utmost good faith (corporate

governance) are not respected. It is also important to consider that there is equivalent compensation. FAO (2009) advises that claimants should be paid compensation which is not more or less than the loss resulting from the compulsory acquisition of their land or property. Laws should ensure that affected owners and occupants receive equivalent compensation whether in money or alternatives. Regulations should set out clear and consistent valuation for achieving this.

Problems arising when compulsory acquisition is not done well

There are a number of problems that arise when compulsory acquisition is not done well and some of them include the following Reduced tenure security. Policies that strengthen land rights of individuals and communities may be eroded through compulsory acquisition. In Zimbabwe out of compulsory acquisition, land rights were violated and as a result land was taken away from those who formerly own it without compensation. Reduced investment in the economy. Insecure tenure with the threat of the arbitrary loss of land and associated income, discourage domestic and foreign investment. Weakened land markets. Threats to tenure security discourage land transactions, reduce the acceptability of land as collateral, discourage people from maintaining their property and depress land values.

Opportunities created for corruption and the abuse of power. The lack of protection and transparency can result in injustices which anger citizens and undermine the legitimacy of the government. Delayed projects. Appeals against unfair procedures may hold up the acquisition of land or property and thus block projects and increase costs. Zimplats in Zimbabwe as a result

of the indigenisation and economic empowerment policy in which the government used the compulsory acquisition route to businesses takeover has suspended its development projects worth approximately US\$200 million. In adequate compensation paid to owners and occupants. Financial awards may be inadequate to allow people to enjoy that they are not compensated for the loss of cultural, religious or emotional aspects of the land.

Other factors affecting FDI

Although economic empowerment policies affect the flow of FDI there are however other factors that also contribute to the poor inflow or loss of FDI in developing countries. Hailu (2010) said that the country specific (host country) determinant factors of FDI addresses natural resources availability, political stability, infrastructure development, labour market conditions, market accession, intellectual property rights protection, corruption, exchange rate and violation of exchange rates, interest rate regulatory framework of the country on repatriation of capital and remittance of profit as main factors affecting FDI inflow.