Folia Oeconomica
Acta Universitatis Lodziensis
ISSN 0208-6018 e-ISSN 2353-7663

https://www.czasopisma.uni.lodz.pl/foe/
2(363) 2023
DOI: https://doi.org/10.18778/0208-6018.363.03

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A Foreign Investment Destination Risk Framework: Evaluating the Southern African Development Community Member States

Abstract: Potential investment risks need to be understood by an investor organisation, which implies that a host country's environment plays a significant role in attracting foreign investment. This paper's purpose was to propose a foreign investment risk conceptual framework to serve as a basis for evaluating the Southern African Development Community (SADC) Member States' investment risk/attractiveness. Firstly, the most appropriate foreign investment risk indicators from the literature were identified to develop a foreign investment risk framework. Ten recent peer-reviewed studies were used to identify the factors which drive investment risk in emerging markets. We developed a conceptual framework including 16 investment risk indicators grouped into four sections: (i) the business environment, (ii) related taxes on business operations, (iii) the economic environment, and (iv) the human and social environments. Secondly, a comparative analysis of the 16 SADC countries was performed, enabling the ranking of the countries in quadrants of investment risk/attractiveness. Data were downloaded from theGlobalEconomy.com

(2022) website for six years, from 2015 to 2020. The literature suggests many investment risk indicators which are grouped differently by researchers to form a conceptual framework to evaluate investment risk. This study's contribution is that the most popular/prevalent risk indicators were identified to develop the new proposed framework. Furthermore, evaluating the SADC region may also serve as an example of investment risk/attractiveness assessment of emerging markets or least-developed countries. The practical implication of this paper is that the proposed framework enables transferability since potential investors may connect the fundamentals of this study with their own investigation.

Keywords: business environment, economic environment, foreign investment, human and social environment, risk indicators, Southern African Development Community Member States, tax

JEL: E22, F18, F21

1. Introduction

This paper proposes a foreign investment destination risk framework based on the example of the Southern African Development Community (SADC) region. Organisations considering investments should follow a scientific decision-making approach to reduce investment risk (Wang, Tong, Wang, 2020). Therefore, potential investment risks need to be understood by an investor organisation, which implies that a host country's environment plays a significant role in attracting foreign direct investment (FDI) (King, Loncan, Khan, 2021).

Capital expenditure in new markets can strengthen an organisation's competitive advantage (Abdulwase et al., 2020). To attain organisational growth and sustainability in such an environment, identifying, evaluating, and considering investment risks in foreign markets have become important (Osano, 2019). Organisational growth strategies are typically subject to some level of risk. Therefore, in risk mitigation, organisations should thoroughly analyse their targeted investment markets and familiarise themselves with the associated risks (Doole, Lowe, 2008; Absanto, Nnko, 2013). It is important to note that organisations often have limited resources to waste on unwarranted risks; hence, the importance of careful planning before attempting entry into a new market. When entering new foreign markets, a market development strategy is typically followed. This strategy should have a balanced risk profile, namely, the risk level which is considered acceptable and the anticipated reward which is seen as satisfactory.

In an African context, Coulibaly (2017) surmises that its economies consist of small(er) domestic markets characterised by limited economic diversification and poor connectivity with neighbouring countries. This study selected the 16 Member States from the SADC region of Africa to be evaluated as a foreign investment destination. The SADC represents the southern area of Sub-Sahara Africa, a region with the potential to yield inclusive growth. This growth, however, remains 'insufficient to reduce extreme poverty and boost shared prosperity in the medium to long term' (World Bank, 2023). The SADC is a community whose goal is to enhance the quality of life of its people by achieving economic development, growth, peace, and security (SADC, 2022). Pretorius et al. (2021) state that the SADC region depends on foreign investment. Its vulnerability, however, lies in the need to compete with higher-income destinations. Therefore, internationalisation is significant to this region, as it requires international cooperation, including FDI.

Since the SADC region needs investment, it must be attractive to potential investors, which may be enabled by lower investment risk. Many studies support this statement; for example, the following studies all have in common a central theme that, on the one hand, the SADC region depends on investment and, on the other hand, it needs to become more attractive to investors. [Note that from the investors' point of view, the level of investment risk is equivalent to the level of attractiveness of investing in a given host country.] This is reflected by studies such as Chamisa (2020), who found that corruption in the SADC region harms FDI. Konstantinus et al. (2019) urge improving the regional freight transport inflow system to make the SADC more competitive. Adika's (2022) study implies that the SADC needs international cooperation and deeper regional trade integration to become more attractive. Ngeendepi and Phiri (2021) investigated the SADC region's vulnerability by focussing on the crowding-in/out effect of FDI and government expenditure on the SADC members' private domestic investment. In conclusion, studying the SADC region may also serve as an example of emerging markets or least-developed countries.

To investigate the potential risk in investment in the SADC's Member States, the indicators that may influence such investment decisions are at the core of this paper. Consequently, these indicators represent the factors that may be significant for investors to consider. However, a problem arises when deciding which indicators to include in such an analysis. To illustrate:

– theGlobalEconomy.com (2022) has a database set of more than 200 countries with over 300 indicators, including classifications such as economic growth, labour market, international trade and investment, governance, and business environment.
– The World Bank (2022) has data on 266 countries within 85 databases, including the World Development Indicators with 1,445 indicators and the health nutrition and population statistics with 441 indicators.

– The International Monetary Fund (2022) has various data sources such as government finance statistics, financial sector statistics, national accounts, and price statistics, each including various sub-databases and indicators.

Hence, the paper's purpose was to develop a foreign investment risk conceptual framework to serve as a basis for evaluating the SADC region Member States' investment risk/attractiveness. In attaining the above, the first objective was to identify the most appropriate foreign investment risk indicators from the literature and develop a foreign investment risk framework. Ten recent peer-reviewed studies were used to identify the factors which drive investment risk in emerging markets. The second objective was to perform a comparative analysis of the 16 SADC countries in the context of the selected investment indicators, enabling the ranking of the countries in quadrants of investment risk/attractiveness. Data were downloaded from theGlobalEconomy.com (2022) website for all the SADC countries for the 16 identified foreign investment risk indicators for six years, from 2015 to 2020. The value of the paper is threefold; firstly, it proposes a foreign investment risk framework that can be applied in the SADC region but is also applicable to other emerging economies. Secondly, from an investors' point of view, investment risk in the individual SADC Member States is compared to enhance investment decision-making. Thirdly, this analysis also provides a benchmark for other countries to find their position regarding their own attractiveness to foreign investors.

The rest of the paper is organised as follows: The next section contextualises the SADC by providing some background information concerning its Member States. This is followed by the Literature review, which considers related research on identifying risk indicators and proposes a conceptual framework of selected risk indicators to evaluate the SADC countries. The section after that elucidates the materials and data analysis and is followed by the Results section, which presents the indicator score and relative rank before the Conclusions, which provide some concluding comments.

2. Background: Contextualising the SADC

The SADC consists of 16 Southern African countries (in alphabetic order), namely, Angola, Botswana, the Comoros, the Democratic Republic of the Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Swaziland (Eswatini), Tanzania, Zambia, and Zimbabwe (SADC, 2022; theGlobalEconomy.com, 2022).

Figure 1 shows that the SADC countries are located in the southern end of Africa, including four Indian Ocean islands.

Figure 1. Member States of the SADC region
Source: SADC, 2022

Studies such as Konstantinus et al. (2019), Chamisa (2020), Ngeendepi and Phiri (2021), Pretorius et al. (2021), and Adika (2022) all emphasise to some extent the SADC region's vulnerability as an investment destination. Some selected indicators are provided in Table 1 below to gain some perspective on the relativity within the SADC region.

Table 1. Contextualising SADC (2020 data)

Country	Land area (sq. km)	Population (Mil.)	Unemployment (%)	GDP (USD bil.)	Mobile phones (/100)	Happiness (0–10)
Angola	1 246 700[2]	32.87[4]	8.33[8]	58.38[3]	44.56[13]	None
Botswana	566 730[9]	2.35[11]	24.93[13]	15.06[7]	162.4[2]	3.4713
Comoros	1 861[15]	0.87[15]	9.22[9]	1.24[15]	54.37[10]	4.29[7]
DRC	2 267 050[1]	89.56[1]	5.27[4]	48.72[4]	45.55[12]	5.34[2]
Eswatini	17 200[13]	1.16[14]	25.51[14]	3.97[13]	None	4.31[6]
Lesotho	30 360[12]	2.14[12]	24.56[12]	1.88[14]	72.94[9]	3.51[12]

Country	Land area (sq. km)	Population (Mil.)	Unemployment (%)	GDP (USD bil.)	Mobile phones (/100)	Happiness (0–10)
Madagascar	581 800(8)	27.69(6)	2.47(1)	13.06(9)	None	4.21(8)
Malawi	94 280(11)	19.13(7)	6.7(6)	12.18(10)	52.3(11)	3.6(11)
Mauritius	2 030(14)	1.27(13)	7.41(7)	10.92(11)	150.41(4)	6.05(1)
Mozambique	786 380(6)	31.26(5)	3.81(3)	14.02(8)	None	4.79(4)
Namibia	823 290(5)	2.54(10)	21.45(11)	10.62(12)	102.1(6)	4.57(5)
Seychelles	460(16)	0.1(16)	None	1.06(16)	186.58(1)	None
South Africa	1 213 090(3)	59.31(3)	29.22(15)	335.44(1)	161.8(3)	4.96(3)
Tanzania	885 800(4)	59.73(2)	2.53(2)	62.41(2)	85.75(8)	3.62(10)
Zambia	743 390(7)	18.38(8)	12.85(10)	18.11(5)	103.92(5)	4.07(9)
Zimbabwe	386 850(10)	14.86(9)	5.35(5)	18.05(6)	88.76(7)	3.15(14)
SADC	602 954	22.70	12.64	39.07	100.88	4.28

Note: (1) to (16) = ranking order.

Source: theGlobalEconomy.com, 2022

The table above contextualises the SADC countries' land area (square kilometres), the population in millions, the unemployment rate as a percentage, the gross domestic product (GDP) in USD billion, the number of mobile phones per 100 people, and the happiness index with 0 (unhappy) and 10 (happy). For benchmark purposes, the average of all the countries (SADC) is exhibited in the bottom row.

3. Literature review

3.1. Foreign investment risk indicators

Foreign investment mainly consists of FDI and foreign portfolio investment (FPI). FDI is the net investment inflow to acquire a lasting management interest of at least ten per cent of the voting stock in a foreign organisation. In contrast, FPI is a transaction in equity and debt securities (World Bank, 2022). Risk indicators such as control of corruption, regulatory quality, and GDP-based factors can be used as indicators that may influence the level of FDI (Nnadi, Soobaroyen, 2015; Ross et al., 2019) or the level of FPI (Gossel, Beard, 2019; Omotoso, Schutte, Oberholzer, 2022). Since researchers typically use similar indicators to judge risks in FDI as well as FPI, both are considered relevant to this analysis. Furthermore, in this context, the issue of capital flight (CF) is also relevant. It

is a phenomenon characterised by large outflows of assets and capital from a country experienced due to some adverse events (CFI, 2022). Therefore, this analysis considers FDI, FPI, and CF variables that may reflect foreign investment risk indicators.

Among the ten selected studies, except for Mameche and Masood (2021), who investigated the Gulf Cooperation Council (GCC), all investigated African countries. Only those selected studies of emerging countries were used due to the fact that the importance of factors differs among countries. For example, factors such as control of corruption, the rule of law, and political stability are much more of an issue in sub-Saharan Africa (SSA) countries than in the world's developed economies. Hence the selected indicators should provide an applicable foundation to investigate foreign investment risk in an emerging economy context.

Quantitative research concerning foreign investment mainly uses multiple regression analysis to study how an indicator change may lead to a change in either FDI, FPI or CF. However, recent studies have a narrower focus. For example, in Table 2, Nnadi and Soobaroyen (2015), Mameche and Masood (2021), Omotoso, Schutte, and Oberholzer (2022), and Simbi, Arendse, and Khumalo (2023) all investigated the association between the adoption of International Financial Reporting Standards (IFRS) and the level of either FDI or FPI. They all hypothesised that companies' financial statements would become more credible, reliable, transparent, and comparable when a country adopts the IFRS, which will encourage foreign investments. In those studies, as indicated in Table 2, foreign investment (FDI or FPI) is the dependent variable which may change if there is a change in the exploratory (primary) independent variable, which is a country's IFRS status (i.e., to adopt or not to adopt IFRS).

Table 2. Dependent and independent variables from selected studies

	Study										
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	
Dependent variable	**FDI**	**FDI**	**FDI**	**FDI**	**FDI**	**FPI**	**FPI**	**FPI**	**CF**		
Independent variables											
Control of corruption	x		**X**		x	x	**X**	x	x	x	8
GDP or MCAP	x	x			x	x	x	x		x	7
Regulation	x		**X**			x	**X**		x	x	6
Trade openness	x			x	x	x		x		x	6
Rule of law	x		**X**				**X**	x	x		5
GDP growth			x			x		x	x	x	5
Inflation rate	x		x			x		x		x	5
Exchange rate				x	x	x	x	x		x	5
Government efficiency					x		**X**	x	x		4

	Study										
	1	2	3	4	5	6	7	8	9	10	
Dependent variable	**FDI**	**FDI**	**FDI**	**FDI**	**FDI**	**FPI**	**FPI**	**FPI**	**CF**		
Political stability			**X**				**X**	x	x		4
GDP/capita	x	x	x				x				4
Interest rate	x	**X**				x				x	4
IFRS adopted	**X**				**X**	**X**		**X**			4
Voice & accountability			**X**				**X**		x		3
Human capital	x	x		x							3
Infrastructure	x	x			x						3
Natural resources			x	x					x		3
Tax						x				x	2
Financial development		**X**		**X**							2
Legal system	x										1
Financial openness							x				1
Gov. external debt							x				1
Capital control index							x				1
Historical								x			1
Change in debt: GDP									x		1

Source: 1 – Nnadi, Soobaroyen, 2015; 2 – Nkoa, 2018; 3 – Ross et al., 2019; 4 – Asamoah, Alagidede, Adu, 2022; 5 – Mameche, Masood, 2021; 6 – Omotoso, Schutte, Oberholzer, 2022; 7 – Gossel, Beard, 2019; 8 – Simbi, Arendse, Khumalo, 2023; 9 – Ndikumana, Sarr, 2019; 10 – Oberholzer et al., 2022

To enhance the level of causality between the dependent and independent variables, additional independent variables were included to serve as control (mediator/intervention) factors since it is also hypothesised that a change therein may lead to a change in the dependent variable.

Table 2 provides a summary of both the dependent and independent variables used in these studies. Hence, a distinction is made between the exploratory independent variables (indicated with an uppercase 'X') and the independent control variables (indicated with a lowercase 'x').

As indicated above, 25 independent variables were used (as exploratory and/or control), clustered into eight groups based on popularity. Also note that the control variables may be seen as generic, since researchers expect that they might influence foreign investment, irrespective of the exploratory independent variable. The exploratory variables may sometimes be less important since they are only relevant to their specific study.

Except for the above-presented IFRS studies, the remaining studies are Gossel and Beard (2019), who studied the association between FPI and governance/institutional indicators in six regression models. They also included six control variables in each

model that might influence FPI. Similarly, Ross et al. (2019) investigated the association between FDI and, except for one, the same main independent variables were used as in Gossel and Beard (2019). They used a single regression model including five governance/institutional indicators. They also added four additional control variables. Nkoa (2018) studied the association between FDI and, alternatively, financial development indicators in six regression models. He included four control variables in each model that might influence FDI. Asamoah, Alagidede, and Adu (2022) developed six regression models to study the association between FDI and exchange rate uncertainty, and also asked whether financial development matters in such an association. Each of the six models uses a different financial development indicator, and all the models use four additional control variables.

Ndikumana and Sarr's (2019) study used capital flight as the dependent variable and FDI as the exploratory independent variable (not shown in Table 2). The study by Oberholzer et al. (2022) used two data envelopment analysis models. The variables indicated in Table 2 were used as input variables to determine how efficiently they raise FDI and FPI.

The analysis in Table 2 shows 25 (grouped into eight parts) investment risk indicators, with 13 used four or more times and 12 used less than four times. In conjunction with data availability, this analysis was proper to decide which indicators should be selected for further analysis. The following section deals with this selection process.

3.2. Conceptual framework of selected risk indicators

Reaching the first objective requires developing a foreign investment destination risk framework. Based on the literature in the above section, a conceptual framework of four groups was proposed, presenting the most appropriate/popular foreign investment risk indicators for emerging economies. The groups are: (i) the general business environment, (ii) related taxes on business operations, (iii) the general economic environment, and (iv) the human and social environments, which are arguably very critical aspects to consider in this context. The evaluation of the selected studies was considered in the context of the mentioned general characteristics The evaluation revealed the following:

– **Business environment:** When considering the widespread occurrence of fraud and corruption in Africa, indicators related to this aspect are expected to be used often. The most utilised variable is control of corruption. Together with five other frequently used indicators, namely, regulation, the rule of law, government efficiency, political stability, and voice and accountability, it speaks to the regulatory

environment. These variables were counted in at least four studies and were selected for further analysis. Considering the above indicators, the business environment may specify *how relatively safe it is to invest in each country*.

– **Tax on businesses:** As an investment indicator, this represents the tax rate on commercial profits and the number of taxes (tax types) a business entity may be required to pay. This indicator could have been included in the classification above. However, since this analysis aims to identify potential market areas, the separate handling hereof may be relevant in this context. Hence, for purposes of this analysis, two indices were included: the corporate tax rate and the number of taxes paid by businesses. Tax as an investment indicator may specify *how attractive ruling governments are trying to make their countries to be invested in*.
– **Economic environment:** The size of an economy (GDP) or market (market capitalisation) is a significant risk indicator for many foreign investors. Seven of the studies considered in this analysis included at least one. Related hereto, other popular indicators of the *economic environment* include trade openness, economic growth, inflation, exchange rate, and interest rate. However, only the first three were considered for further analysis since the latter indicators' data are incomplete in various databases. This analysis included the following six indices: economic growth, GDP, inflation, trade openness, capital investment, and FDI. The economic environment may specify *whether there is an opportunity for investors to make some money*.
– **Human and social environment:** Even though lower on the popularity ladder, social upliftment issues are essential in Africa. Hence, indicators such as the Human Development Index (HDI) and GDP per capita were included in the analysis. This environment may specify the *wellness of potential commercial stakeholders' life and leisure* experiences.

Furthermore, even though IFRS adoption was also a popular indicator, there was no need to explore IFRS as a variable further since it is known that most of the SADC countries have adopted IFRS. Lesotho and Madagascar require IFRS only for some listed companies, and IFRS is not permitted in the Seychelles, the DRC, and the Comoros (Omotoso, 2019).

Finally, infrastructure and natural resources were also perceived as important indicators. However, the utilised databases currently lack proper indices concerning those aspects. Management consideration could be part of a more operational-level consideration of opportunities and threats. Therefore, apart from IFRS adoption, exchange rate, and interest rate (as justified earlier), all the *popular* and most of the *less-popular* indicators per Table 3 were selected for further analysis.

Table 3 provides the measurement and direction of the relationship between foreign investment and risk indicators. For example, the expectation is that a higher business environment indicator score in a country may lead to higher foreign investment and *vice*

versa. This is also the case with most economic, human, and social environmental scores that may be positively related to foreign investment. A country's tax rate, number of taxes, and inflation rate are regarded to be negatively related to foreign investment.

Table 3. Selected investment risk indicators

Investment risk indicators	Measurement	Abbreviation	Direction
Business Environment			
Rule of law index	–2.5 weak; 2.5 strong	ROL	+
Government effectiveness index	–2.5 weak; 2.5 strong	GE	+
Control of corruption	–2.5 weak; 2.5 strong	CC	+
Regulatory quality index	–2.5 weak; 2.5 strong	REG	+
Voice and accountability index	–2.5 weak; 2.5 strong	VOI	+
Political stability index	–2.5 weak; 2.5 strong	POL	+
Tax on businesses			
Tax rate	Rate on profit	TAX	–
Number of taxes paid by businesses		NTAX	–
Economic Environment			
Economic growth	Rate of change in GDP	EG	+
GDP	Billions of USD	GDP	+
Capital investment	Billions of USD	CI	+
Inflation	Rate of CPI	INF	–
Trade openness	Exports + imports as a percentage of GDP	TOP	+
FDI	Billions of USD	FDI	+
Human & Social Environment			
GDP per capita	Constant 2010 USD	G/cap	+
Human development index	0–1	HD	+

Source: theGlobalEconomy.com, 2022

4. Materials and data analysis

This exploratory investigation in developing and applying a foreign risk investment framework is the product of the positivist research paradigm. The positivist paradigm involves a process that explores cause-and-effect relationships (Kivunja, Kuyini, 2017; Davies, Fisher, 2018). The study seeks to understand the effect of the four proposed environments on foreign investment risk.

The data for the 16 SADC countries were extracted through acquired membership in theGlobalEconomy.com, which presents more than 300 indicators selected from the World Bank, the International Monetary Fund, the United Nations, and the World Economic Forum. Relevant SADC-related data, including the 16 identified foreign investment risk indicators, were downloaded from there, as presented in Table 3. To ensure that outliers, COVID–19 abnormalities, and incomplete data bias were reasonably excluded, annual data were gathered for six years, from 2015 to 2020.

The median value was then used to aggregate each country's 16 risk indicators into a single number. The median is preferred over the mean value as it is less sensitive to outliers. For each indicator, the average score was calculated to represent the entire SADC. This is helpful because countries can be benchmarked against each other.

The above-mentioned continuous data were further processed to rank the 16 SADC countries in order of their investment risk per the four indicator groups: the business environment, tax on businesses, the economic environment, and the human and social environment. Finally, all the 16 risk indicators, each with an equal weight, were merged to determine an overall country ranking.

5. Results

Section 5 addresses the second objective. First, a comparative analysis of the 16 SADC countries was performed in section 5.1 in the context of the selected investment indicators. Subsequently, this analysis enabled ranking the countries in quadrants of investment risk/attractiveness in section 5.2.

5.1. Investment risk indicator scores per country

5.1.1. Business environment

The first analysis was to compare the relative business environment risk within the SADC. The indicator scores are represented by the median of six annual values, 2015 to 2020. The mean for each indicator of the 16 countries was calculated to obtain an average SADC score in the bottom row. The last column represents the average of the six business en-vironment risk indicators.

Table 4. Investment risk indicators: Business environment

Country	Investment risk indicator (–2.5 Weak; 2.5 Strong)						
	ROL	GE	CC	REG	VOI	POL	Avg.
Angola	– 1.07*	– 1.05*	– 1.27*	– 0.91	– 1.01*	– 0.37*	– 0.94*
Botswana	0.51	0.43	0.77	0.45	0.45	1.03	0.60
Comoros	– 1.06*	– 1.58*	– 0.77*	– 1.08	– 0.42*	– 0.19*	– 0.85*
DRC	– 1.73*	– 1.63*	– 1.46*	– 1.47	– 1.36*	– 2.13*	– 1.63*
Eswatini	– 0.35	– 0.63*	– 0.42*	– 0.57	– 1.38*	– 0.32*	– 0.61*
Lesotho	– 0.31	– 0.84*	– 0.04	– 0.45	0.00	– 0.28*	– 0.32
Madagascar	– 0.84*	– 1.15*	– 0.99*	– 0.73	– 0.33*	– 0.38*	– 0.73*
Malawi	– 0.35	– 0.73*	– 0.75*	– 0.74	– 0.03	– 0.25*	– 0.47*
Mauritius	0.77	0.90	0.28	1.03	0.79	0.93	0.78
Mozambique	– 1.02*	– 0.84*	– 0.80*	– 0.71	– 0.46*	– 0.88*	– 0.78*
Namibia	0.29	0.14	0.33	– 0.12	0.56	0.67	0.31
Seychelles	0.19	0.46	0.83	– 0.16	0.19	0.71	0.37
South Africa	– 0.06	0.31	0.05	0.21	0.65	– 0.24*	0.15
Tanzania	– 0.50*	– 0.69*	– 0.45*	– 0.60	– 0.34*	– 0.43*	– 0.50*
Zambia	– 0.34	– 0.65*	– 0.59*	– 0.48	– 0.32*	0.12	– 0.38
Zimbabwe	– 1.30*	– 1.19*	– 1.26*	– 1.53	– 1.17*	– 0.72*	– 1.19*
SADC	– 0.45	– 0.55	– 0.41	– 0.49	– 0.26	– 0.17	– 0.39

Note: * Countries' risk indicators that are below the SADC average.

Source: own elaboration and analysis based on data from theGlobalEconomy.com, 2022

Table 4 is interpreted as follows:

– The rule of law index (ROL): Nine countries scored above and eight below the SADC average, respectively. The top four countries with the lowest investment risk are those that obtained positive scores, Mauritius (0.77), Botswana (0.51), Namibia (0.29), and the Seychelles (0.19). The worst four countries are the DRC (–1.73), Zimbabwe (–1.30), Angola (–1.07), and the Comoros (–1.06).
– Government efficiency index (GE). Five countries obtained positive scores, the only ones above the SADC average. Eleven countries scored below the SADC average. The top countries with the lowest risk are Mauritius (0.90), the Seychelles (0.46), Botswana (0.43), South Africa (0.31), and Namibia (0.14). The worst countries are the DRC (–1.63), the Comoros (–1.58), Zimbabwe (–1.19), and Madagascar (–1.15).
– Control of corruption (CC): This risk indicator was specified in Table 2 as the most popular. The best-performing countries are the Seychelles (0.83), Botswana (0.77), Namibia (0.33), Mauritius (0.28), and South Africa (0.05). The worst countries are the DRC (–1.46), Angola (–1.27), Zimbabwe (–1.26), and Madagascar (–0.99).

- Regularity quality index (REG): Seven countries scored above the SADC average, of which only Mauritius (1.03), Botswana (0.45), and South Africa (0.21) are positive. The worst countries are Zimbabwe (–1.53), the DRC (–1.47), the Comoros (–1.08), and Angola (–0.91).
- Voice and accountability index (VOI): The best-performing countries are Mauritius (0.79), South Africa (0.65), Namibia (0.56), and Botswana (0.45). The worst countries are Eswatini (–1.38), the DRC (–1.36), Zimbabwe (–1.17), and Angola (–1.01).
- Political stability index (POL): Five countries scored above the SADC average, and they are all positive, namely Botswana (1.03), Mauritius (0.93), the Seychelles (0.71), Namibia (0.67), and Zambia (0.12). The worst country by far is the DRC (–2.13). Mozambique, Zimbabwe, and Tanzania follow this with scores of –0.88, –0.72, and –0.43, respectively.
- Average (Avg.): This overall score for the business environment shows that eight and nine countries are above and below the SADC average, respectively. Only five countries have positive scores, namely Mauritius (0.78), Botswana (0.60), the Seychelles (0.37), Namibia (0.31), and South Africa (0.15). The worst four countries are the DRC (–1.63), Zimbabwe (–1.19), Angola (–0.94), and the Comoros (–0.85).

5.1.2. Tax on businesses

Table 5 exhibits the countries' taxes and the average for all the SADC countries. The second column included the Comoros, with an outlier tax rate of 216.5%. The reasons for this extremely high and above 100% rate are unclear. Therefore, the Comoros' tax rate was excluded from calculating the SADC average.

Table 5 is interpreted as follows:

- Tax rate as a percentage of commercial profits: The average tax rate for the SADC is 31.9%. Countries with the lowest tax rates are Lesotho (13.6%), Zambia (15.6%), Namibia (20.7%), and Mauritius (21.9%). Countries with the highest tax rates, except for the Comoros, are the DRC (54.6%), Angola (49.1%), and Tanzania (43.9%).
- The number of taxes paid by businesses: South Africa (7), Mauritius (8), and Zambia (11) have by far fewer types of taxes than the rest of the countries. Countries with the highest number of taxes are Tanzania (59), the DRC (52), and Zimbabwe (51).

Table 5. Investment risk indicators: Tax

Country	TAX rate (%)	Number of taxes (Number)
Angola	49.1*	31
Botswana	25.1	34*
Comoros	216.5*	33*
DRC	54.6*	52*

Country	TAX rate (%)	Number of taxes (Number)
Eswatini	35.2*	33*
Lesotho	13.6	32*
Madagascar	38.1*	23
Malawi	34.5*	35*
Mauritius	21.9	8
Mozambique	36.1*	37*
Namibia	20.7	27
Seychelles	30.1	29
South Africa	28.9	7
Tanzania	43.9*	59*
Zambia	15.6	11
Zimbabwe	31.6	51*
SADC	31.9**	31.4

Note: * Countries' risk indicators below the SADC average; ** The Comoros is excluded.

Source: own elaboration and analysis based on data from theGlobalEconomy.com, 2022

Economic environment

Table 6 shows the six investment risk indicators under the economic environment. Note that there are some missing data for some of the countries' indicators. Those countries were excluded from calculating the SADC average. The monetary indicators, GDP, CI, and FDI, valued at USD, are very diverse, making comparing countries difficult. In other words, the SADC averages are probably not a fair measurement of all the data since this diversity causes a substantial standard deviation around the average. Therefore, using the SADC mean values to evaluate the countries was senseless. Nevertheless, those three indicators tell us something about the size of the countries' economies or sections.

Table 6 is interpreted as follows:

– Economic growth: The rate of change of real GDP (EG): Like all other data, the EG represents the median value of six previous years, 2015 to 2020. Perhaps, future expected growth would have been a more valuable indicator. Nevertheless, Tanzania (5.98%) and the DRC (4.06%) grew well in the past few years. Angola (–1.31), Lesotho (–0.80), and Namibia (–0.43) had negative growth rates.

Table 6. Investment risk indicators: Economic environment

Country	Investment risk indicator					
	EG (%)	GDP (Bil. USD)	CI (Bil. USD)	INF (%)	TOP (%)	FDI (Bil. USD)
Angola	– 1.31*	101.24	24.60	19.6*	64*	– 4.10
Botswana	3.49	15.59	4.29	3.0	86	0.26
Comoros	2.54	1.14	0.14	None	39*	None
DRC	4.06	42.59	9.65	None	63*	1.17
Eswatini	2.13*	4.23	0.54	5.0	87	0.03
Lesotho	– 0.80*	2.34	0.61	4.9	143	0.04
Madagascar	3.56	13.12	2.23	6.7*	62*	0.47
Malawi	3.40	9.41	None	12.0*	None	None
Mauritius	3.66	12.75	2.31	2.0	96	0.38
Mozambique	3.59	14.44	6.58	3.8	106	2.68
Namibia	– 0.43*	11.92	2.17	4.0	83	0.28
Seychelles	3.17	1.48	0.53	3.3	177	0.12
South Africa	0.91*	364.08	62.76	4.5	54*	2.22
Tanzania	5.98	55.16	20.01	4.4	33*	0.97
Zambia	3.21	22.28	9.13	9.7*	74*	0.66
Zimbabwe	1.27*	18.70	1.73	5.8?	60*	0.34
SADC	2.40	20.40**	9.82***	6.3***	82***	0.39***

Note: * Countries' risk indicators below the SADC average; ** South Africa (outlier) is excluded; *** Excluded the countries without data.

Source: own elaboration and analysis based on data from theGlobalEconomy.com, 2022

- Gross domestic product (GDP): South Africa and Angola have by far the largest economies, 364.08 and 101.24 billion USD, respectively. Tanzania and the DRC (55.16 and 42.59 billion USD, respectively) are also relatively large. The two island countries, the Comoros and the Seychelles, have relatively small economies, 1.14 and 1.48 billion USD, respectively.
- Capital investment (CI): As in the case of the four larger economies (GDPs) mentioned above, South Africa, Angola, Tanzania, and the DRC attract the highest capital investments, 62.76, 24.60, 20.01, and 9.65 billion USD, respectively. The Comoros, the Seychelles, and Lesotho attract minimal capital investments, 0.14, 0.53, and 0.61 billion USD, respectively.
- Inflation rate: percentage change of the CPI: Most countries' inflation rates are well controlled. Angola (19.6%), Malawi (12.0%), and Zambia (9.7%) have the highest inflation rate. With a median value of 5.8%, Zimbabwe's CPI is misleading. The complete data

set shows that Zimbabwe reported negative CPIs of –2.4 and –1.5 for 2015 and 2016, respectively. Those figures are contrasted with the extremely high rates reported for 2019 and 2020, 255% and 557%, respectively.

– Trade openness: Exports plus imports as a percentage of GDP (TOP): the Seychelles (177%), Lesotho (143%), and Mozambique (106%) are the most open economies. Tanzania (33%) and the Comoros (39%) are the least open countries.
– Foreign direct investment (FDI): The countries with larger land sizes, Mozambique, South Africa, and the DRC, attract the most FDI, 2.68, 2.22 and 1.17 billion USD, respectively. Eswatini and Lesotho (0.03 and 0.04 billion USD, respectively) have relatively low FDIs, and Angola reported a negative value of –4.10 billion USD, implying that the outflows were greater than the inflows.

5.1.3. Human and social environment

Table 7 presents the investment risk indicators for the human and social environment.

Table 7. Investment risk indicators: Human and social environment

Country	Investment risk indicator	
	GDP/capita USD	HDI 0–1
Angola	7,122	0.57*
Botswana	15,801	0.73
Comoros	3,011*	0.54*
DRC	1,074*	0.46*
Eswatini	8,406	0.61
Lesotho	2,641*	0.52*
Madagascar	1,575*	0.52*
Malawi	1,484*	0.48*
Mauritius	21,031	0.79
Mozambique	1,278*	0.44*
Namibia	10,129	0.64
Seychelles	26,853	0.80
South Africa	13,868	0.70
Tanzania	2,560*	0.53*
Zambia	3,469*	0.59
Zimbabwe	3,693*	0.56*
SADC	5,437**	0.59

Note: * Countries' risk indicators below the SADC average; ** The Seychelles and Mauritius (outliers) are excluded.

Source: own elaboration and analysis based on data from theGlobalEconomy.com, 2022

Although the data are well spread, the GDP/capita of the Seychelles and Mauritius were excluded from the SADC average calculation. Those two amounts are well above the rest.

- GDP per capita: Seven countries are well above the SADC average. The Seychelles, Mauritius, and Botswana's people are the wealthiest. People in the DRC, Mozambique, Malawi, and Madagascar are the poorest.
- Human development index (HDI): the Seychelles (0.80), Botswana (0.73), and South Africa (0.70) have the highest scores and can be distinct from the rest. No country reported extremely low scores.

5.2. Ranking of risk indicator scores per country

As shown in Table 4 to Table 7, the data were used to rank the countries' performance in four quadrants to provide more perspective on the above-presented comparisons. Data were aggregated for each of the four risk groups.

Note that data were adjusted by calculating the inverse scores for the three indicators negatively related to foreign investment, tax, the number of taxes, and inflation.

Table 8 shows the ranking order of the 16 countries; for example, the second column shows the business environment's ranking. The average of the six indicators in that group (ROL, GE, CC, REG, VOI, and POL) was calculated per country. Those average values were then ranked in numerical order. Columns 3, 4 and 5 show the ranking of the other three risk indicator groups. Column 6 represents the overall aggregated ranking for all the 16 indicators in Table 3.

The ranking of each group in Table 8 should be carefully considered. There is a relationship between the business environment group's ranking and the countries' land- and economic sizes. In this group, the top eight 'safest' countries, except for South Africa in the fifth place, are all low-populated and small in economic size (GDP), as shown in Table 1. Except for South Africa, the six largest populated countries are all on the bottom side of the business environment.

Table 8. Ranking of countries per risk group and overall

Rank	Business	Tax	Economic	Human	Overall
1	Mauritius	Zambia	DRC	Seychelles	Mauritius
2	Botswana	Mauritius	Mauritius	Mauritius	South Africa
3	Seychelles	South Africa	Mozambique	Botswana	Botswana
4	Namibia	Namibia	South Africa	South Africa	Seychelles
5	South Africa	Lesotho	Zambia	Namibia	Namibia

Rank	Business	Tax	Economic	Human	Overall
6	Lesotho	Seychelles	Botswana	Swaziland	Zambia
7	Zambia	Botswana	Tanzania	Angola	Lesotho
8	Malawi	Madagascar	Madagascar	Zambia	Tanzania
9	Swaziland	Swaziland	Seychelles	Zimbabwe	Swaziland
10	Tanzania	Angola	Namibia	Comoros	Mozambique
11	Madagascar	Malawi	Lesotho	Tanzania	Madagascar
12	Comoros	Zimbabwe	Angola	Lesotho	Malawi
13	Mozambique	Mozambique	Zimbabwe	Madagascar	Angola
14	Angola	Comoros	Swaziland	Malawi	Zimbabwe
15	Zimbabwe	Tanzania	Malawi	DRC	DRC
16	DRC	DRC	Comoros	Mozambique	Comoros

Source: own elaboration and analysis based on data from theGlobalEconomy.com, 2022

Regarding taxes, the top eight countries are the same as the top eight business environment countries, except for Malawi, which Madagascar replaces at number 8. Notably, countries at the bottom eight of this group, such as the DRC, Tanzania, Mozambique, Zimbabwe, and Angola, are relatively large in terms of land size and economic size (GDP) according to Table 1. Land size and economic size may correlate with the availability of natural resources. Ruling governments in those countries may argue that the natural resources belong to them. The people of that country and businesses wanting to exploit those resources have to give something (tax) in return.

Three of the six indicators in the economic environment are related to the size of the economy, i.e., GDP, CI, and FDI. Except for Mauritius, ranked 2nd, all the top eight countries in this group are also in the top eight regarding land size (Table 1). It may be assumed that larger country sizes correlate with the availability of natural resources, which allows a country (and investors) to earn money from those resources. Notably, the first-ranked DRC (the largest land size and fourth-highest GDP in Table 1) is the worst rated in business and taxes and the second worst in human and social environments.

As in the case of the business environment, the human and social environment is also highly associated with population size. Except for South Africa, the top six countries in this group, the Seychelles, Mauritius, Botswana, Namibia, and Eswatini, are all in the bottom half of Table 1's population comparison.

Column 6 is an aggregated score for all the 16 investment risk indicators. Note that the ranking may be skewed and misleading since each of the 16 indicators is equally weighted. Under the top four countries are two small island countries, Mauritius and the Seychelles, which are probably too remote to establish an African footprint. Botswana (3rd) is probably a good investment opportunity and is easily reachable from

South Africa. The second quadrant's countries can also be considered, namely Namibia (5th), Zambia (6th), and Tanzania (8th). Lesotho (7th) and Eswatini (9th) may also be con-sidered, but due to their small land, population and economic sizes, commercial activities in those countries can easily be only an extension of South African operations.

Countries in the fourth quadrant, except the Comoros, namely the DRC, Zimbabwe, and Angola, have a larger land size and larger economies, however, according to the selected investment risk indicators are probably a no-go zone.

6. Conclusions

The paper's purpose was to develop a foreign investment risk framework to serve as a basis for evaluating the SADC region countries' investment risk/attractiveness. The first objective was to select appropriate foreign investment risk indicators that are sensible and relevant in the African (emerging markets) context. In conjunction with data availability, ten recent emerging economy studies were selected to identify relevant and sensible foreign investment risk indicators. Sixteen indicators were carefully selected to develop a conceptual framework for foreign investment destination risk. They are grouped into four sections: the business environment, which may specify how safe it is relatively to invest in each country; tax on businesses, which may specify how attractive ruling governments try to make their countries to be invested in; the economic environment, which may specify whether there is an opportunity for investors to make some money; and the human and social environment, which may specify the wellness of potential commercial stakeholders' life and leisure experience.

The second objective was to perform a comparative analysis of the 16 SADC countries in the context of the selected investment indicators, enabling the ranking of the countries in quadrants of investment risk/attractiveness. The analysis indicated some consistencies; for example, Mauritius, South Africa, Botswana, the Seychelles, and Zambia are in the top half of all four risk groups. There are also some inconsistencies; for example, the DRC and Mozambique, considered high-risk countries in three groups, were also the best (first and third) regarding the economic environment.

Based on the above-presented findings, this study concludes that the two remote Indian Ocean countries, Mauritius (1st) and the Seychelles (4th), are characterised by relatively low investment risk and provide excellent investment opportunities. On the African continent, investment opportunities can be considered in the following countries, in the sequence of their relative risk ranking: Botswana (3rd), Namibia (5th), Zambia (6th), Lesotho (7th), and Tanzania (8th). Countries lying in the third risk quadrant, Eswatini (9th), Mozambique (10th), Madagascar (11th), and Malawi (12th), should be carefully considered as investment destinations. Countries in the fourth risk

quadrant Angola (3th), Zimbabwe (14th), the DRC (15th), and the Comoros (16th) should be avoided. Unless the economic environment is regarded as much more important than the other three risk groups, countries such as the DRC and Mozambique could be considered; however, some unique challenges will be part of the basket.

The paper's contribution is that it adds value by proposing a framework to evaluate the risk of investing in foreign emerging economies, which is applied to the example of evaluating the SADC region. The literature suggests many investment risk indicators which are grouped in various ways by researchers to form a conceptual framework to evaluate investment risk/attractiveness of a host country. This study's contribution is that the most prevalent risk indicators were identified to develop the new proposed framework. Furthermore, the foreign investment risk framework developed to evaluate the SADC region may also serve as an example of investment risk/attractiveness assessment of emerging markets or least-developed countries.

The practical implication of this paper is that it provides transferability where potential investors may connect the fundamentals of this study with their own investigation. Therefore, organisations attempting to enter a foreign emerging market may apply the proposed conceptual framework to guide their investment decisions. Alternatively, economic policymakers may use this concept to support potential investment organisations and provide them with the necessary information to make sound foreign investment decisions. Policymakers in host countries may also use the concept to benchmark their investment attractiveness by determining the risk of investing in their countries.

The study's limitations are associated with the fact that this was only an exploratory study, and the conclusions were based only on evidence from analysed secondary selected quantitative data. Secondly, a unique number of risk variables were used in previous related studies, and the analysis thereof was performed according to the researchers' judgement. Thirdly, no qualitative data were considered. Future studies may address these limitations.

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Ramy oceny ryzyka inwestycji zagranicznych w krajach członkowskich Wspólnoty Rozwoju Afryki Południowej

Streszczenie: Potencjalne ryzyko inwestycyjne musi być rozumiane przez organizację inwestorską, co oznacza, że środowisko kraju przyjmującego odgrywa znaczącą rolę w przyciąganiu inwestycji zagranicznych. Celem artykułu było zaproponowanie ram koncepcyjnych ryzyka inwestycji zagranicznych, które posłużyłyby za podstawę do oceny ryzyka/atrakcyjności inwestycyjnej krajów członkowskich Wspólnoty Rozwoju Afryki Południowej (WRAP). Po pierwsze, na podstawie przeglądu literatury zidentyfikowano najbardziej odpowiednie wskaźniki ryzyka inwestycji zagranicznych do opracowania ram ryzyka inwestycji zagranicznych. W celu zidentyfikowania czynników wpływających na ryzyko inwestycyjne na rynkach wschodzących wykorzystano 10 najnowszych recenzowanych publikacji naukowych. Opracowano ramy koncepcyjne obejmujące 16 wskaźników ryzyka inwestycyjnego, pogrupowanych w cztery sekcje: (1) środowisko biznesowe, (2) podatki od działalności gospodarczej, (3) środowisko gospodarcze oraz (4) środowisko społeczne. Po drugie, przeprowadzono analizę porównawczą 16 krajów Wspólnoty, umożliwiającą uszeregowanie tych krajów w kwadrantach ryzyka/atrakcyjności. Dane obejmujące sześć lat, od 2015 do 2020 roku, zostały

pobrane ze strony theGlobalEconomy.com. Literatura przedmiotu sugeruje wiele wskaźników ryzyka inwestycyjnego, które są różnie grupowane przez badaczy w celu stworzenia ram koncepcyjnych do oceny ryzyka inwestycyjnego. Wkład tego artykułu polega na tym, że zidentyfikowano w nim najpopularniejsze i najbardziej rozpowszechnione wskaźniki ryzyka w celu opracowania nowo proponowanych ram. Ponadto ocena regionu Wspólnoty Rozwoju Afryki Południowej może również służyć za przykład oceny ryzyka i atrakcyjności inwestycyjnej rynków wschodzących lub krajów najsłabiej rozwiniętych. Praktyczną implikacją tego artykułu jest to, iż proponowane ramy pozwalają na zastosowanie tego sposobu oceny przez potencjalnych inwestorów, którzy mogą połączyć podstawy przedstawionego badania z własnymi studiami.

Słowa kluczowe: środowisko biznesowe, środowisko gospodarcze, inwestycje zagraniczne, środowisko społeczne, wskaźniki ryzyka, Wspólnota Rozwoju Afryki Południowej, podatek

JEL: E22, F18, F21

Received: 2023-02-03; revised: 2023-05-17. Accepted: 2023-10-11