

OVERALL APPROACH AND DATABASE STRUCTURE

Overall Approach

Investment climate is a broad concept, not univocally defined in the literature. Indeed, this term is used to describe the large set of enabling factors, ranging from the features of the regulatory business environment to much broader framework conditions - such as the quality of governance and institutions, macroeconomic policies, physical and financial infrastructures, education system - which impact on the private sector's decision to invest. The complexity of the investment climate and the existence of various opinions about its main components pose inherent difficulties in attempts to measure it. On the positive side, over the last decade, a variety of indicators have been created by a number of institutions, adopting different approaches to measuring and analyzing the investment climate and some of its main components. Therefore, through the combined and cautious utilization of this set of indicators it is possible to achieve a fairly comprehensive understanding of the investment climate and to perform useful cross-country comparison.

In practice, the identification of indicators was based on **five main criteria**, namely:

- the availability of indicators for the largest possible number of countries across the ECOWAS region;
- the limited cost of retrieving/developing the indicators and/or the underlying information/data;
- the level of accuracy and reliability of the data;
- the ability to track changes over time (for instance, as a result of changes in policy or other conditions);
- the usefulness of indicators for international benchmarking.

In assessing the merits of the indicators an additional element taken into account was the **usefulness of indicators from the perspective of private operators**. Indeed, while some overall indicators related to governance or economic performance (e.g. the 'business sophistication' or 'rule of law' indicators developed by some international bodies or think tanks) are highly significant from an analytical viewpoint, they have limited significance for business people, who tend to focus on more basic aspects (e.g. the cost of shipping a container to/from a major seaport or the number of interruptions in power supply per month).

Structure of the Database

The database includes a total of **126 indicators**. They are subdivided into **4 headings** and **20 subheadings**, each dealing with a specific aspect or investment climate 'dimension'. A summary presentation of the database structure is provided below.

Heading	Sub Headings	Number of Indicators
Key Data	Geography and GDP	6
	Economic Structure	4

	External Sector	5
	Other Economic Indicators	5
Overall Ratings and Rankings	Country Ratings/Rankings	14
	Country Risk Indicators	5
	Obstacles to Business Activity	15
Dimensions of Investment Climate	Security and crime	5
	Rule of law and corruption	6
	Regulatory environment – Domestic	5
	Regulatory environment – External trade	4
	Taxation	6
	Financial System	6
	Human capital and labor regulations	6
	Infrastructure	10
Cost of Production Factors	Investment policy	6
	Labor costs	3
	Cost of utilities	5
	Other operating costs	4
	Real estate and financing costs	6

In practice, indicators included in the first heading, **Key Data**, are intended to provide a snap shot of the each ECOWAS country, with the inclusion of selected basic indicators on the size of the economy, its degree of openness, its ability to attract FDI, etc. The second heading, **Rankings and Ratings**, includes a set a of country risk and of overall investment climate indicators, summarizing how international bodies and foreign investors perceive ECOWAS countries. These are complemented by information on the relative severity of obstacles to business activity perceived by local operators. The third heading, **Dimensions of the Investment Climate**, includes indicators related to a series of specific themes (e.g. corruption, access to electricity and telecoms, etc.) that contribute to define the investment climate. Finally, the fourth heading, **Cost of Production Costs**, deals with operational aspects of more direct interest to operators, such as the cost of labor, the cost of transport, etc.

Technical Aspects

The following technical aspects are worth highlighting:

- The database uses **2005 as the starting year**. In the case of a few indicators, only older data were available for certain countries. These older data were included as if they were referred to 2005;
- Indicators typically take a **numerical value**, be it an absolute number, a ranking, or a percentage. In a few cases (e.g. country ratings), a letter based system is used (e.g. AAA, AA+, etc.);

- Information on indicators is mostly taken from a variety of **secondary sources**. The features of these sources are illustrated in a separate section (Sources). However, as suggested by the ECOWAS Commission, the database also includes some indicators for which information is to be provided by **investment promotion agencies or other relevant bodies from the various ECOWAS Member States**. This refers to (i) some qualitative indicators related to investment policy and (ii) indicators on the cost of production factors.