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TOWARDS ECONOMIC GROWTH AND DEVELOPMENT: The Role of Development Finance Institutions in Fostering Foreign Direct Investment in Sub-Saharan Africa

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TOWARDS ECONOMIC GROWTH AND DEVELOPMENT: THE ROLE OF DEVELOPMENT FINANCE INSTIUTIONS IN FOSTERING FOREIGN DIRECT INVESTMENT IN SUB-SAHARAN AFRICA

by

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ABSTRACT

This dissertation contributes to the debate on economic development in developing countries through the analyses of four related strands of literature – the FDI and growth literature, the literature on finance and development, the DFI and growth literature, aid, institutions and economic development. The present research seeks to contribute to the debate on the effect of DFIs on FDI and consequently on economic development in developing economies to bridge the existing funding gap and thus ensure these economies achieve the global shared vision of sustainable development of the United Nations 2030 agenda. We acknowledge that development is triggered by economic growth and growth is most effectively generated by investment. Thus, FDI is an important source of financing for developing countries given its potential to boost economic growth through spillovers in technology and productivity. We also acknowledge that FDI in developing countries lags due to several issues including weak institutions. In this sense, DFIs are key in helping developing countries attract more FDI through the private sector to invest in infrastructure and agricultural projects, aiming at achieving sustainability. However, we don't know how DFIs impact FDI in developing countries and the role of institutions in the overall economic development panorama. This dissertation adds to the literature by providing quantitative evidence that FDI increase economic growth in developing countries and quantitative evidence that DFIs increase FDI, economic growth and consequently promote development.

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DEDICATION

This work is dedicated to my husband, Ilidio Cagiza and our children: Allyza, Allana and Allora Cagiza. My husband's strong belief in my potential remains a source of my strength. Memories of our conversations on the value of education continued to give me the energy and strength to carry on during the PhD journey and through life's most challenging moments. To our daughters, their smiles and hugs kept me warm and gave me the confidence to keep pushing and make them proud.

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LIST OF ABBREVIATIONS

AGRI	Agribusiness Projects
BRICS	Brazil, Russia, India, China, and South America
BMW	Bayerische Motoren Werke AG
CSR	Corporate Social Responsibility
COVID-19	Coronavirus Disease of 2019
DI	Domestic Investment
DFI	Development Finance Institutions
Ep	Export Promotion
ECOSOC	Economic and Social Council of the United Nations
ECM	Error Correction Model
EIB	European Investment Bank
EDU	Literacy Rate for Each Country
FDI	Foreign Direct Investment
GCF	Gross Capital Formation
GDP	Gross Domestic Product
GMM	Generalized Method of Moments
GFCF	Gross Fixed Capital Formation
G8	Group of Eight
HC	Human Capital
IS	Import Substitution
INFL	Inflation

INFRA	Infrastructure Projects
IND	Industrial Projects
IMF	International Monetary Fund
Law	Rule of Law
MNCs	Multinational Corporations
OECD	Organization for Economic Cooperation and Development
ODA	Official Development Assistance
OLI	Ownership, Location and Internationalization
OLS	Ordinary Least Squares
P	Probability
Pol	Political Stability
PhD	Doctor of Philosophy
QoI	Quality of Institutions
R&D	Research & Development
SEM	Simultaneous Equation Model
STATA	Software for Statistics and Data Science
SADC	Southern African Development Community
SSA	Sub-Saharan Africa
SDGs	Sustainable Development Goals
TNCs	Transnational Corporations
TRD	Trade Volume

UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USA	United States of America
U.S.	United States
VIF	Variance Inflation Factor Test
Wi-Fi	Wireless Fidelity

CHAPTER I - INTODUCTION

The role of finance in the overall economic growth process has long been recognized by the literature on economic development (Schumpter, 1934). Since Schumpeter (1911), scholars have been studying the impact of the financial sector in the process of economic growth and development. Although both the channels through which the sector impacts growth and development and the direction of causality have not been fully settled in the literature, many scholars support the argument according to which, the finance sector has the potential to maximize economic growth. This support ranges from cross-country studies (King and Levine, 1993; Levine and Zervos, 1998), industry level analysis (Rajan and Zingales, 1998), time-series studies (Rousseau and Wachtel, 2000), and panel data analysis (Apergis, Filippidis, and Economidou, 2007) just to name a few.

Over the course of evolution in the literature on economic development, several variables were singled out as essential to the process of economic development. Earlier, and based on the works of Domar (1947), Solow (1956), (Harrod (1939), and Swan (1956), the affiliated process of investment, saving, and capital accumulation were identified as the most important. For instance, regarding capital accumulation, the Solow-Swan model, maintains that economic growth is driven by exogenous technological progress and capital amassing (Solow and Swan, 1956). In this sense, to understand the wealth and poverty of nations, it is important to analyze their technological differences and ability to accumulate capital (Abdulai, 2007; Solow, 1956; Solow and Swan, 1956).

As far as investments, the classic Chenery-Strout theory argues that economic growth in developing countries for example can be tremendously accelerated through the implementation of considerable foreign assistance, and that the factors, which inhibit

growth, can be overcome to a great extent via the provision of foreign resources. Generally denominated the gap-theory approach to development, this approach devotes closer attention to the difference (gap) between the quantities of resources necessary, and those supplied to, a developing economy, and it argues that economic development will advance as the gap is closed (Chenery and Strout, 1966).

This approach to economic development has been criticized and challenged from several perspectives. On one hand, some scholars reject the view that either investments or savings ratios are independent determinants of economic growth, arguing that other factors such as efficiency and productivity are rather the elemental determinants of economic development (Hwang, 2009; Lee, 1997; Matthew and Adegboye, 2014). On the other hand, scholars contend that this approach concentrates heavily on static elements ignoring the dynamic nature of the overall economic growth process; particularly given that economic growth requires more than just the right ratio between investment and income (Nabudere, 2001; Sanford, 1975; Todaro and Smith, 2017).

Contemporary empirical studies in the finance-growth literature have devoted closer attention to the financial development policy issues, such as the sources of financial development (Asfaw and Mbeche, 2006; Acemoglu et al, 2005; Abdulai, 2007; Adams et al, 2015; Beck, 2011). Aside from the traditional mechanisms that affect financial development including capital account openness (Chinn and Ito, 2002), openness to trade (Do and Levchenko, 2004), political decisions (Rajan and Zingales, 2003) and macroeconomic factors (Boyd, Levine and Smith, 2001), there has been a growing focus on the institutional variables. For instance, a country's political and economic institutions, shaped by a country's legal origin (La Porta et al, 1997; La Porta

et al, 1998) or by a country's initial resources (Acemoglu et al, 2001), impacts both private credit and creditor rights, and the extent of creditor rights protection has a significant impact on the development of the financial sector.

Furthermore, the pursuit to understand why some countries develop and others don't, has led contemporary scholars to delve into new approaches and models to development; many of them illustrating the importance of institutions for finance and the overall economic development panorama. For example, Acemoglu et al. (2005) and Acemoglu and Robinson (2008) present three possible explanations: the first view advocates that geography matters for economic development in the sense that, some countries have better climates and geographical conditions which creates an environment conducive of agricultural and economic activities. A second view is that differences in levels of economic development are a direct consequence of differences in the culture of the norms, conventions, and agent countries develop to govern their social life and work (Acemoglu et al, 2005; Acemoglu and Robinson, 2008; Barro, 1996). Finally, there is the institutional view, which argues that differences in levels of economic development can be best attributed to differences in the institutions that different countries develop over the course of their history (Acemoglu and Robinson, 2008; Acemoglu et al, 2001; North, 1990; North and Thomas, 1973; Williamson, 1985).

For example, according to Acemoglu and Robinson (2012), those countries that inherit or develop effective economic institutions, particularly those that promote strong property rights, tend to prosper while those whose institutions are defective tend to suffer. The new institutional economics framework of a country regulates the degree to which it's citizens will seek wealth-creating activities (Acemoglu and Robinson, 2012). Yet,

history shows that efficient institutions have been the exception and not the rule. In the nineteenth century for instance, few countries achieved sustained economic growth. the United States, Japan, and Britain, are some examples (Aron, 2000; Asfaw et al, 2006; Asefa, 2003, Barro, 1996). Recently, the so called "Asian tigers"—Singapore, South Korea, Hong, Kong and Taiwan—have grown affluently (Cheung et al, 2012; Matthew and Adegboye, 2014; Michalopoulos and Papaioannou, 2013).

Nevertheless, according to scholars, a country can achieve sustained economic growth and then lose impetus, reversing into stagnation or complete decline. Argentina is most probably the classic example that it is hard to achieve economic growth and easy to forfeit. In this context, development finance institutions (DFI) play an important role in the process to achieve economic development, particularly in developing countries. One of the rationales the involvement of DFI's in this process stems from their objective to act as a catalyst, providing risk mitigation and helping companies implement investment plans that they would otherwise abandon given the risky nature of markets in developing countries (Massa, 2011; Te Velde, 2011; Rorvik, 2011). DFIs provide two types of confirmation on their catalytic effects: leverage rations, and depictions of where their presence may have been catalytic (i.e.: how much the private sector or other DFI input has invested alongside) (Rorvik, 2011).

The theoretical literature on financial intermediation has focused on two dimensions: on one hand, why do financial institutions and markets exist? On the other hand, what is their effect on economic growth? At the center of the existence of financial markets and institutions are market frictions. These frictions, such as asymmetric information resulting in risks and agency problems can be alleviated by markets and

financial institutions (Sanford, 1975; Rodrik, 2007; Nabudere, 2001; Lee, 1997; Henisz, 2000; Gomanee et al, 2005).

Building on the works of Stiglitz and Weiss (1983) on the importance of agency problems, scholars have shown how markets and financial institutions have the potential to help economize on monitoring and screening costs of many individual lenders and offer risk diversification across different projects (Gomanee et al, 2005; Bruinshoofd, 2016; Bodomo, 2017). For example, by pooling savings across a vast number of savers with differently timed liquidity needs, financial institutions have the potential to help overcome liquidity risks and eventually provide investors with a significant return on investments (Beck, 2011). Furthermore, more liquid financial markets tend to increase incentives for investors to gain control over their savings, since they are able to access them immediately, while simultaneously earning higher returns (Beck, 2011; Barro, 1996; Asfaw and Mbeche, 2006; Aron, 2000; Wanjuu and Le Roux, 2017).

The endogenous emergence of markets and financial institutions does not in itself imply a positive effect on economic growth. A vast theoretical literature, however, has investigated many channels through which financial systems can help increase economic growth rates, both through higher productivity as well as through improved capital accumulation (Sachs and Warner, 1997; Ndikumana, 2006; Nega and Schneider, 2011). First, financial institutions such as development financial banks and local coalitions of investors, have the potential to allow exploiting economies of scale (Henisz, 2000; Wanjuu and Le Roux, 2017; Matthew and Adegboye, 2014).

Second, and as mentioned before, by economizing on monitoring and screening costs and thus allowing more investment projects to be financed, institutions and markets

can ultimately have a positive effect on resource allocation and investment (Bodomo, 2017; Brautigam and Knack, 2004; Carlin and Soskice, 2005; Beck, 2011). Third, scholars contend that, aggregate risk that cannot be diversified at a specific point in time, can be diversified by long-term financial intermediaries (Allen and Gale, 1997; Carlin and Soskice, 2005).

Theoretically, DFIs have the comparative advantages required to implement projects by supporting the private sector, thus contributing significantly to the growth process (Massa, 2011; Brautigam, and Knack, 2004) by strengthening local initiatives, particularly those aimed at raising revenue and job creation. Indeed, successful projects could yield an important development impact, given the overwhelming needs in developing countries (Brautigam and Knack, 2004; Bigg, 2002; Brautigam, 2011).

Unfortunately, the record of DFIs as promoters of economic growth has been less than satisfactory especially in African countries. For example, SSA, for the most part, has been unable to match global rates of economic growth, and is commonly viewed as lacking economic diversification, disadvantaged by deteriorating terms of trade, and low levels of FDI (Brautigam, 2011; Bodomo, 2017; Aghion, Howitt, and Mayer-Foulkes, 2005; Beck, 2011).

Despite the fact that FDI in developing countries in general grew during the first half of the 1990s, Africa only attracted l.6% of private capital flows (UNDP, 2017). Moreover, while other regions of the world have experienced sustained positive growth rates, SSA has been left behind, with some countries in the region registering negative growth rates over the last decade as well as growing inequality within their borders (UNDP, 2017). In this regard, scholars argue that while domestic resources are required

to tackle the existing funding gap in many sectors including agriculture and infrastructure, foreign intervention is essential to accelerate economic growth (Bodomo, 2017; Cheung, 2012; Gomanee et al, 2005). It is also argued that private sector financing has the potential to achieve more impact as a development tool than aid (Hwang, 2009; Matthew and Adegboye, 2014; Nsouli, 2000).

In this context, development finance arises as an important tool to help bridge the existing funding gap for financing the United Nations Sustainable Development Goals (SDGs), demands an estimated $2.5 trillion a year of more investment to achieve these goals by 2030 (UNCTAD, 2018). In Africa alone, the average annual funding gap accounts for $1.3 trillion and studies maintain that if action is not taken towards attracting more FDI, investment in infrastructure and agriculture, countries in Africa will experience further increase of the gap, which makes it challenging to realize the agenda 2030 for sustainable development (UNCTAD, 2018). In general, the funding or savings gap is defined as the difference between the capital formation and the savings of given sectors over a given period, and measures the demand for external investment (Nabudere, 2001; Shiraz et al, 2009). The interpretation of this measure is straightforward; for a given level of capital formation, capital that a given sector is not able generate internally, it has to raise from other sectors either in the form of loans from the financial sector, aid, and/or the rest of the world (Rorvik, 2011; Maurice, 2009; Nsouli, 2000).

According to the UNCTD (2017), filling the existing funding gap requires considerable increases in domestic revenues as well as tremendous contributions from cross-border inflows, including FDI. The current debate on African economic development has focused on the role of external resource inflows and their potential

contribution to accelerating economic growth and progress towards reaching sustainable economic development in Africa (Brautigam and Knack, 2004; Stelios and Papaioanno, 2013; Shantayanan et al, 2004; Hwang, 2009; Nabudere, 2001; Gareth, 2010).

Recent evidence from UNCTAD (2018) indicates that FDI to African countries has been on the rise. Nevertheless, it is not significant enough to fill the funding gap needed to achieve the SDGs of the 2030 agenda. This owes to the following constraints: commercial and political risks, irregular economic growth and unsustainable patterns of consumption and production, rising inequality as well as high debt levels, weak institutions, and misaligned regulations and incentives (UNCTAD, 2017; Mebratie and Bedi, 2013; Ndikumana, 2006; Sachs et al, 2004).

Therefore, multilateral, and bilateral development financial institutions such as the World Bank represent important vehicles that SSA can use to attract FDI (UNCTAD, 2000; Ndikumana, 2006) by finding investors willing to invest in the region. This could be done after they have developed projects or when opportunities arise in sectors such as infrastructure and agriculture in the region (Ndikumana, 2006; Nsouli, 2000; Nega and Schneider, 2011; Berlot and Weigel, 1992).

For example, agriculture is the principal source of livelihood in Africa, particularly in rural areas. Roughly 70% of the population in the continent is directly employed in the sector, and it accounts for nearly 30% of the region's gross domestic product (GDP) (UNCTAD, 2018; Taiwo and Olayemi, 2015; Todaro and Smith, 2017). Therefore, an increase in agricultural productivity has the potential to have a direct effet on economic growth with strong impact on poverty reduction (Todaro and Smith, 2017). Furthermore, agricultural productivity growth resulting from increased investments (both

domestic and foreign), when coupled with input and output market development, can set the stage for the same structural transformation of agrarian economies that has tremendously served other developing regions, such as the Southeast Asia (Xiao and Xiaming, 2005; Todaro and Smith, 2017; Taiwo and Olayemi, 2015; OECD, 2016).

One of the arguments that the present research makes as far as the existing funding gap in Africa, is that it underscores the role of the private sector, and the subsequent need for DFIs support to these investments. To that end, DFIs have the potential to bring additionality to the agribusiness sector- Additionality, in this context represents the specific features that these institutions bring to private sector projects that commercial banks for example are unable or unwilling to provide (Nega and Schneider,2011; Lemma, 2015).

Overall, the present study argues that, in order to bridge the existing funding gap, the constraints to the supply of and demand for, funding should be removed. Thus, to the extent that closing the funding gap remains a desirable target, it also prompts the question on how to accelerate and ensure that funding is implemented in sectors where it might not otherwise.

A somewhat separate but related discussion in this sense is the debate on whether aid is good or bad since that's another way DFIs get involved in the growth-development scenario. On one hand, the theoretical relationship between foreign aid and economic growth can be best explained through the lens of the neoclassical growth model of Solow (1956). According to the author, once foreign aid is received by a given country, it inevitably adds to their existing capital stock. If aid flows are successful, then higher capital enhancing would lead to higher economic growth. Nevertheless, with diminishing

returns to capital, the growth impact of foreign aid is only temporary unless it brings positive change to the total factor productivity growth (Solow, 1956). Early studies in the 1950s, influenced by the success of the so called "Marshall Plan", was encouraging with regards to the effect of aid on economic growth (Asfaw and Mbeche, 2006).

In this context, following the Harrod-Domar model- which underlines the need of foreign aid to fill in the savings gap of developing countries - Chenery and Bruno (1962) and Chenery and Strout (1966) introduced the so called "two-gap" model by adding the foreign exchange gap. Given that many developing countries lack the required foreign exchange reserves to import capital goods for investment purposes, foreign aid has the potential to help fill in this gap. A third gap was introduced at a later stage by Bacha (1990) and Taylor (1990), who also support the "two-gap" model. In a nutshell, all of the gap models discussed above focus on the importance of foreign aid in expanding savings, domestic revenue and foreign exchange, which in turn leads to higher investment rates and consequently higher economic growth.

However, some scholars such as Friedman (1958) and Bauer (1971), have strongly expressed their concernment regarding the positive impact of aid on economic growth. According to the authors, aid is a tool that only helps elites in recipient countries while at the same time it withholds resources and corrodes civil society. More recently, in "The end of Poverty" Sachs (2005) lay down his arguments for aid's the impact of aid on economic growth. According to the author, extreme poor countries are in a poverty trap whereby they are "too poor to save and thereby accumulate the capital per person" required to move themselves out of poverty (Sachs, 2005).

The demand for investment in human capital and infrastructure to foster economic growth is central to Sachs' argument in favor of aid effectiveness. At the country level, the author maintains that economic growth will not be fully realized without investments in infrastructure and in theory, aid can fill that financing gap (Sachs, 2005). Sachs' arguments were not without its challengers.

One of the most heated debates in this context is that with Easterly (2006). According to Easterly (2006) there is no empirical evidence that supports the Sachs' poverty trap claim. Easterly analysis shows that from 1950-2001, "the poorest fifth of countries increased their per capita income growth by a factor 2.25, whereas the richest four-fifths increased by a factor of 2.47" (Easterly, 2006).

In general, the author rejected the "poverty trap" claim due to lack of evidence that countries that were initially poor are at an economic growth disadvantage once good government is controlled for. Therefore, the author claims that aid is ineffective because it exacerbates the issues of poor governance and corruption (Easterly, 2006).

While many studies found a positive impact of aid (Jones and Tarp, 2016; Burnside and Dollar, 2000; Dalgaard et al, 2004), empirical evidence also shows that aid can have either a negative, an insignificant, or no impact at all on economic growth (Maren,1997; Boone, 1996; Rajan and Subramanian, 2008; Mavrotas, 2009). Considering the mixed results, there is a growing body of empirical studies in the literature that devoted closer attention to the impact of sector-targeted aid on financial development (Maruta, 2018), economic growth (Asiedu and Nandwa, 2007), and on sectoral outcomes (Mishra and Newhouse, 2009).

These empirical analyses found that when grouping different types of aid into one, it prevents the analysis from displaying the individual impact of the different types of aid on economic growth (Addison and Tarp, 2015).

Thus, it can be concluded that the relationship between economic growth and aid, is not straightforward. A clear example showcased in several studies in the literature is the case of African countries and the SSA region in particular; where scholars often find a strong relationship between deteriorations in governance practices and foreign aid (Shirazi et al, 2009; Bigg, 2002; Brautigam, 2011; Easterly et al, 2004; Doucouliagos and Paldam, 2009). An example is aid that comes from China, scholars argue that despite the fact that aid from China helped to foster economic growth of several countries in the SSA region (Cheung et al, 2012), it has also been linked to interference in national sovereignty issues of those countries and exploitation of natural resources (Bodomo, 2017; Kimura et al, 2012; Dalgaard et al, 2004; Mavrotas, 2009). The present dissertation argues that foreign aid has the great potential to be effective in helping African countries and the SSA region, in particular, to fill in the existing funding gap to achieve the SDGs of the 2030 agenda. Yet, the full potential of aid cannot be fully realized unless the bulk of factors that hinder its effective utilization including poor management and coordination of funds, are properly addressed.

Against this backdrop, the present dissertation addresses four fields of the literature that are interconnected: the FDI and growth literature, the literature on finance and development, the DFI and growth literature, aid, institutions, and economic development. It is important to mention that in addressing FDI, institutions, economic growth and development in developing countries rich in resources, the issue of the

resource curse cannot be overlooked. According to Siegle (2008), the resource curse is defined as phenomenon where natural resource endowed countries experience more unfavorable economic and political results than otherwise. Rodrik (1999) and Pritchett (2000) reinforce this idea by stating that weak institutional hinders long-term economic growth goals due to high levels of corruption, which in turn creates an acute cycle of inequality among populations. On the same token, Sala-i-Martin and Subramanian (2003) highlight the importance of institutional quality in the quest to curb the issue of the resource curse.

The main research question of the present study is: Do DFIs increase FDI in SSA countries and consequently economic growth? The remaining questions (subsidiary) are: Does FDI cause growth? What are the benefits of FDI for SSA countries? What are the main challenges that DFIs face when operating in SSA? And finally, what are the minimum requirements for the success of DFIs in increasing FDI and consequently economic growth and development in SSA? The research seeks to contribute to the debate on the impact of DFIs, on FDI and consequently on economic development in developing economies to bridge the existing funding gap and thus ensure these economies achieve the global shared vision of sustainable development of the United Nations 2030 agenda. The activity of DFIs in which the research focuses is the commitment of multilateral banks (in SSA countries) in the agriculture and infrastructure sectors combined.

Problem Statement

According to the UNCTAD, Africa needs to fill an annual funding gap of roughly US$64 billion to attain the SDGs of the 2030 agenda. This amount alone accounts for

approximately 12 percent of continent's GDP (UNCTAD, 2017). The classical school of economic thought maintains that investment creation depends on the ability of countries to save. In general, economic theory has devoted great attention in exploring whether or not a correlation between savings and growth exists. For example, proponents of the classical school of thought argue that an increase in savings increases investment, given that both the interest rate and economic growth are inevitable. Although the relationship has been established, the direction of causality -which is not obvious- is still a reason of debate among scholars (Najarzadeh et al., 2014). Recently, studies have shown a positive correlation between savings through private investment, economic growth, and savings (Najarzadeh et al., 2014).

Among other factors, the SSA region is characterized by a considerable funding gap which inhibits its ability to save. A direct consequence of this is the increasingly need to attract more financing. Yet, aid has been declining over the years in the region; also, it has not been satisfactory (Shabbir et al, 2016; Shirazi et al, 2009). Scholars argue that FDI has the potential to help developing countries to access more financing which in turn would help to cover the funding gap and ultimately curb aid dependency. Nevertheless, it is imperative to understand in depth the determining factors that attract and drive away FDI in the region (Shabbir et al, 2016). In this context, scholars have been paying closer attention to the impact of institutions or lack of institutions in fostering or driving away FDI. Although the existing literature is voluminous in studies that address the relationship between institutions, FDI and economic growth, studies that address the relationship between DFIs and FDI in SSA are non-existent. Considering the need for financing and closing the funding gap in the region, that should not be the reality in terms

of available literature. That is also the case when taking into account the importance of FDI for the prospects of achieving economic growth and development in light of the SDGs of the 2030 agenda. These factors warrant for the development of models that account for DFIs when investigating the determining factors of FDI in the region.

Corruption is a menace that undermines FDI inflows and consequently economic growth prospects. Both corruption and the political landscape of a given countries are pointed- by the World Investment Report from the UNCTAD- as factors that impact country's ability to attract FDI (UNCTAD, 2018).

Unfortunately, no institutionally focused research has been done to measure the impact of these factors on DFIs in the SSA region. Much research has been conducted on the traditional factors that affect FDI, such as macroeconomic stability, trade openness, human capital, economic infrastructure, tax breaks and market size.

Even though there are considerable empirical studies on the determining factors of FDI such as human capital, market size, and infrastructure; few studies have focused on exploring and measuring these determinants accounting for the institutional quality of countries in the region. Given this backdrop, it is important that more research is conducted to explore the role of institutional quality of the host countries in attracting FDI, as well as the role that DFIs play in assisting countries in this quest.

The institutional environment of a given country matters because it either fosters or inhibits the ability to conduct businesses in an appropriate manner. From determining how players interact as far as authority and the decision-making process, to ensuring that players can voice their opinions, as well as been held accountable, institutions are present to set the right tone. A strong institutional environment is characterized by clarity

regarding the roles of each player, it provides the necessary and sufficient mechanisms that reduce uncertainty, and it promotes efficiency which consequently contributes to economic growth. That is to avoid uncertainty which undermines the ability to make accurate predictions. In the particular case of attracting or repelling FDI, if uncertainty is present, it will most likely discourage FDI inflow into a given country. Therefore, differences in institutional quality levels can be seen as yet another factor to account for when it comes to understanding discrepancies in patterns of FDI across regions. DFIs such as the World Bank are important in this sense because they can help SSA countries attract more FDI inflows by assisting them in undertaking much needed institutional reforms.

Contribution of the Study

The present research examined the relationship between FDI and economic growth, and the nexus DFIs- FDI in the SSA region. The study contributes to the literature on the latter area which is not voluminous. There two main reasons for the focus on Africa and the SSA region: Firstly, the inconclusive character of the debate on the nexus between FDI and economic growth which suggests that the effect tend to differ based on geography. This is in line with the findings by Xiao et al (2005), Ujjaini et al (2014), and Taiwo et al (2015) who found that the impact of FDI on economic growth differs based on the region. Second, countries in the SSA region have unique characteristics worth capturing for the purposes of comparing with other regions of the world, particularly from a policy implication perspective. The research seeks to contribute to the debate on the impact of DFIs, on FDI and consequently on economic development in developing economies to bridge the existing funding gap and thus ensure

these economies achieve the global shared vision of sustainable development of the United Nations 2030 agenda.

Finally, the study provides a contribution to a better understanding of the impact of DFIs on economic growth, the implications of weak institutional quality on FDI flows on the prospects to achieve sustainable economic development in an environment characterized by dysfunctional institutions such as the SSA region.

Objectives of the Study

The first objective of the present study was to investigate the relationship that exists between FDI, institutions, and economic growth in order to provide a deeper understanding of the effect of FDI on economic growth and consequently on sustainable development in developing countries. From a conceptual standpoint, this research is based on the new institutional framework.

The study explored further the determining factors of FDI devoting particular attention to the role of DFIs in fostering FDI in the SSA region. This particular region of the world presented an interesting context for the study given the fact that the literature on the impact of DFIs into Africa, and in the region is not voluminous. Further, the existing literature on FDI in developing countries often show that the determining factors of FDI to Africa and SSA are somewhat different than elsewhere; not to mention the fact that the continent as such is often perceived as possessing different structural components that the rest of the world. The present study is important from a policy implications perspective and because it connects with SDGs of the 2030 agenda of the United Nations. The relationship between FDI and economic growth, as well as the relationship between

DFIs and FDIs -accounting for the effect on economic growth- was further accomplished through the following:

i. Examining current trends in FDI in the world and in the SSA region.
ii. Examining institutional quality in determining FDI inflows in SSA.
iii. Accounting for the impact of DFIs when estimating the panel model.
iv. Empirically examining the relationship between FDI, economic growth, institutions and DFIs, and the effect on growth.
vi. Providing sound policy implications for SSA countries based on the results of the estimation of the models.

Layout of the Study

The research investigates the relationship between DFIs and FDI in five Sub-Saharan Africa (SSA) countries during the period 1990-2018. This dissertation is also a contribution to the African development debate in the sense that my main argument is that DFIs have the potential to increase the amount of FDI inflow in the region given that these institutions have several properties that make them able to influence and initiate investors. The rationale is as follows: Development is triggered by economic growth, economic growth is most effectively generated by investment (i.e.: private sector, agriculture, infrastructure, etc.) and DFI can act as catalysts to attract FDI into these sectors. The promotion of the aforementioned sectors makes the achievement of economic development more likely to occur. The research is arranged as follows: In chapter 2 the dissertation answers the question, does FDI cause growth? The chapter also discusses the effect of FDI in bridging the financial gap in Africa in order to achieve the SDG goals of the 2030 agenda of the United Nations. Chapter 3 is devoted to the analysis

of the role DFI in increasing FDI and growth in the SSA region and a discussion of the effectiveness of aid is also introduced. In chapter 4, the research devotes attention to the case study of Angola in a qualitative approach to investigate the effect of DFIs on FDI and consequently on economic growth and development. Conclusions and policy implications are addressed in chapter 5.

CHAPTER II – ASSESSING THE LITERATURE ON FDI, INSTITUTIONAL QUALITY, ECONOMIC GROWTH, AND DEVELOPMENT

General Background and Theories of FDI

FDI is a direct investment into business or production in an economy by a foreign company or individual, either by buying expanding operations of an existing business in the host country or by buying a company in the host country (Maurice, 2009), and it has become a foundation for both companies and governments with particular emphasis in developing countries. In fact, by acquiring a controlling interest in foreign equity, companies can quickly acquire new technologies and products, as well as sell their existing goods and services to new and broad markets. Thus, by encouraging FDI, governments can create jobs, improve economic growth, reduce poverty levels and enhance development (Keeley and Matsumoto, 2018).

On that note, FDI, having for example the potential to promote technological development and trade, represents an important vehicle for policy makers to spur the economy in the host country to move towards the condition of sustainable prosperity for the overall population. Further, Kenneth (1993) notes that with FDI international companies invest in the host country and they impact is twofold; shape existing industries (since they enhance competition among domestic industries, boost government tax revenue and create new jobs), or create new industries- in this particular case there is an increasing possibility of the host country being transformed into the so called a "pollution haven" as discussed by Blaine (2008)- which according to scholars works contrary to the principle of sustainable prosperity. Weigel et al (1997), argue that the

promotion of FDI should be done through policy advice and approaching environment policies appropriately because, most developing countries unfinished reform agenda in terms of economic policy tends to prevent FDI from affecting positively their economies. Ujjaini (2014) also reinforces this argument by calling attention to the significant implications of FDI for socio-economic matters such as environmental pollution and child labor. As posited by scholars, FDI has the potential to contribute to the economic growth and consequently economic development of the host country in several ways. For instance, FDI has the potential to increase both the domestic capital and market efficiency of host countries by transferring managerial skills, best practices, as well as transfer of new technology (Kindlerberger, 1969; Ludo et al, 2011). Nevertheless, FDI has also costs whose impact is greatly determined by the host country's particular conditions in general and policies more specifically (Alfaro, 2017).

Regarding the general characteristics of FDI, Blaine (2008) argues that generally, FDI is divided in two main types: vertical and horizontal FDI. On one hand, vertical FDI occurs when a foreign company expands into the host country by moving operations to a different level in terms of supply chain. On the other hand, horizontal FDI occurs when a company expands its local operations to a foreign host country. In this case, the company still conducts the same operations, only in a foreign country (Froot, 1993; Blaine, 2008). It is argued by many scholars that, the 1980s marked the emergence of FDI, and many developing world countries have adopted FDI as major strategy of capital transfer investment to diversify their portfolio and achieve economic development (Froot, 1993; Carbaugh, 2015).

Three theories on the relationship between FDI and economic growth and development are showcased in the literature: Firstly, the dependency theory is based on Marxism which perceives globalization and its effects as being detrimental for developing countries, especially when considering the issues of cheap labor and exploitation of natural resources (Toone, 2013; Gammoudi et al, 2016). The dependency theory holds that FDI can be detrimental because in many instances the gains of FDI are not always distributed in an equitable fashion that benefits those in need. Further, MNCs tend to create disruptions in domestic investments due to the heavy reliance on capital intensive technologies that ultimately increase unemployment rates (Jensen,2008; Taylor and Thrift, 2013). Secondly, proponents of the "classical theory" argue that FDI can benefit developing countries through several mechanisms including development of infrastructure, investments in agriculture, and transfer of technology and skills, the so called "technology spillovers" such as improved working practices, better managerial skills, and higher levels of productivity (Toone, 2013; Gammoudi et al, 2016; Taiwo and Olayemi, 2015; Javorcik, 2004; Asongu and De Moor, 2017). Finally, the so called "middle path" theory is a combination of the two theories discussed above. Essentially, it on the development outcome of FDI (Asongu, 2017; Gammoudi et al, 2016). The theory converges both the "classical" and the "dependency" theories by focusing on factors such as openness to trade and the role of a strong regulatory framework in host countries (Asongu et al, 2018).

The study turns now to the determining factors of FDI recognized in the existing literature. According to scholars, FDI is determined by variables in the political, business, and market realm in host countries (Asongu et al, 2018). The process to engage in FDI

starts with the willingness of MNCs or individuals to invest, and this process is described in the literature through the lens of the following theories: eclectic paradigm, neoclassical trade, product lifecycle and market imperfections theory (Weigel et al, 1997; Seyoum et al,2015).

According to the neoclassical trade theory- which is based on the Heskscher-Ohlin model- MNCs decision to invest is based on the ability benefit from low costs of production and higher returns on investment (Carbaugh, 2015). Comparatively, according to the market imperfection theory, MNCs invest to benefit from the ability to locate business units and/or production to benefit from economies of scale as well as ownership advantages (Kindlerberger, 1969; Eiteman et al, 2007; Buckley and Casson, 1976; Hennart 1982; Shapiro, 2006). The product lifecycle theory contends that MNCs decision to invest is influenced by the product lifecycle from its introductory stage, growth, the maturation, until its decline. Similar to the market imperfection theory, here MNCs aim to benefit from lower costs of production (Vernon, 1966). Last, but not least, in the eclectic paradigm theory, factors such as the scope, location and industrial variables matter for MNCs decision to invest in host countries Dunning (1980). The interaction between these variables composes the so called "OLI framework" (Ownership, Location, and Internalization) Dunning (1980).

Determinants of FDI: Beyond the OLI Framework

The OLI framework developed by Dunning (1980) is often considered by scholars as the center piece behind MNCs investment decisions. Ownership is achieved when MNCs acquire assets or processes that ultimately bring about competitive advantages compared to local firms in host countries (Todaro and Smith, 2017). Location matters for

MNCs decision to invest because some regions offer low labor force costs, natural resources, and an overall better climate conducive of businesses compared to others (Carbaugh, 2015; Aitken and Harrison, 1999; Alfaro and Chauvin, 2017; Sasi, 2015; Markusen and Venables, 1997). According to Sasi (2015), the internalization component captures MNCs motivations for choosing to outsource production (Dunning, 1980; Asongu and Isihak, 2018).

Recognizing that the OLI framework does not account for all the factors that determine FDI- given the considerable differences in levels of FDI inflow between regions across the globe- to host countries, scholars have proposed several other factors to which the study now turns. The literature differentiates between two groups of determining factors of FDI: The first group comprises the policy framework in the host country and the second group encompasses the economic panorama in the host country. For example, variables such as the rate of industrialization of the host country (Moudatsou, 2003; Merollari and Koti, 2015), urbanization (Moudatsou, 2003; Maurice, 2009; Ludo et al, 2011), debt (Maurice, 2009; Carbaugh, 2015), inflation, market size and labor costs represent economic factors that foster or hinder FDI inflow to host countries (Froot, 1993; Frank et al,2009; Borensztein et al, 1998). From a policy perspective, variables such as the host country trade policies, the legal framework, corruption levels, property rights, political stability, rule of law, and judicial transparency matter for fostering or hindering FDI (Alfaro and Chauvin, 2017; Alfaro et al, 2004; De Mello, 1999).

Political instability and corruption are among the variables that greatly inhibit developing countries from attracting FDI (Ujjaini and Chaudhuri, 2014). Mottaleb (2008)

and findings further reinforces this claim and the author's study found also that judicial transparency and the overall regulatory framework in the host impact greatly FDI inflows. From a macroeconomic approach, Keeley and Matsumoto (2018), found that market size, and the host country policy environment influence positively FDI inflows. Further, the authors argue that a strong legal framework providing safeguards to MNCs, in terms of intellectual property protection, tends to be more likely to attract higher FDI inflow. Alfaro (2017) findings also show that in general MNCs rely on a more stable political, economic and social environment when deciding to invest in developing countries. Additionally, variables such as the investment promotion, which includes investment facilitating services are also important to foster FDI in developing countries.

In "Determinants of FDI in Cambodia", Ludo et al (2011) analyze the determinants FDI inflow in Cambodia. The authors findings show that exchange rate, bilateral agreements between the host country and investors, and the host country's GDP have a positive relationship with FDI inflow, whereas geographic distance negatively affects the level of FDI inflow in Cambodia. Finally, in investigating the determinants of FDI in the Philippines, Marco (2013) found that trade openness, external debts, government expenditure, bilateral agreements between the host country and investors and GDP per capita are determining factors of FDI inflow in the country.

FDI in Developing Countries: Effect on Productivity and Technology

The literature shows mixed and to some extent conflicting evidence on the effect of FDI on productivity, especially in the context of developing economies. According to UNCTAD (2013), for the 1991-2012 period many developing countries have enacted policies that enable FDI to foster economic growth. In the 1980s, many scholars found a

positive productivity and technology spillover effect in cross-sections studies. For instance, Blomstrom and Persson (1983) findings show that FDI has a positive correlation with productivity levels of host country firms. The employment of different methodologies such as cross-section and industry level approaches suggest that the results of the findings of many of the studies in this era face the so called "identification problem" which in turn makes the results unclear (Demena and Peter, 2017). The 1990s marked an era of consistent reports of both negative (Haddad and Harrison, 1993; Harrison, 1999) and positive spillover effects on productivity (Kokko (1994, 1996); Blomstrom and Sjoholm (1999); and Chuang and Lin (1999). The so called "domestic capability model" was introduced in the literature in the 2000s and it initiated a new strand of the literature that claims that spillovers are not automatic, rather they are dependent on the capabilities of firms in host countries (Demena and Peter, 2017). Although there is a growing body of studies based on this new strand, the results are still inconclusive as seen in the following case studies of Venezuela (Blyde et al, 2004), Zambia (Bwalya, 2006), South Africa (Mebratie and Bedi, 2013) and Argentina (Bell, 2006).

Mixed and contradicting results abound as well when it comes to the empirical evidence on technology spillovers. On one hand, one view claims that transfer of new technology as well as skilled labor in the host country has the potential to increase economic growth because the level of exposure to a greater technological environment fosters industrialization which is an essential factor in the quest to achieve economic growth (Todaro and Smith, 2017, Keeley and Matsumoto ,2018). Markusen and Venables (1997), further reinforce this argument, by arguing that through technology transfer, FDI

has the potential to increase substantially the stock of knowledge in the host country by enhancing and changing in many instances managerial and organizational practices in host country companies. Contrarily, another view posits that FDI devotes its resources to account for MNCs best interests and not necessarily for the benefit of the host country. The consequence is a further decline in the prospects of sustainable economic growth and development prospects (Sachs et al, 2004; Seyoum et al, 2015; Adams et al, 2015). Borensztein et al. (1999), empirical analysis shows that FDI is a better catalyst of economic growth than domestic investment in the host country. Yet, the benefits from FDI, can only be fully realized when the host country has in place a standard level of human capital (Borensztein et al, 1999).

FDI, Economic Growth, Aid and Economic Development: The Linkages

Scholars recognize the importance of FDI in fostering economic growth and development in developing countries because it brings with it the feature of capital amassing and the possibility of technology and productivity spillover in the host country (Ujjaini, 2014; Weigel et al, 1997; Adams, 2009). Given the long period of economic stagnation that many countries in the SSA experienced (Abdulai, 2007), FDI is of utmost importance in order to help fill in the existing funding gap and foster economic growth which in turn paves the way for economic development (Abdulai, 2007; Asefa, 2003; Asfaw and Mbeche, 2006). Although many countries in the region have been able to register impressive growth levels in the 1990s, countries in the region still lack behind when compared for instance to other countries in the Southeast Asia region such as Singapore, Thailand and Malaysia (Adams, 2009; Seyoum et al, 2015; Carbaugh, 2015; Todaro and

Smith, 2017). The present dissertation explores next the linkages between FDI and economic growth.

The nexus FDI-growth presents mixed results, nevertheless the majority of the studies in the literature show a positive relationship between both (Aitken and Harrison, 1999; Carkovic and Levine, 2005); Haddad and Harrsion, 1993; Kokko et al.,1996; Alfaro et al.,2004; Bwalya 2006). Furthermore, Xiao and Xiaming (2005) found a statistically significant relationship between both variables from mid-1980s onwards. According to the authors, FDI has shown both the ability to foster economic development and also through interaction factors such as the stock of human capital. Employing a different strategy, Adams' (2009) and, findings show that for the 1990-2003 period, FDI has a positive relationship with economic growth.

Adams et al (2015) on the other hand contend that the interaction between FDI and regulation in the host country have a statistically significant effect on economic growth. which suggests that the growth effect of FDI is enhanced when effective regulations are in place in the host country. Kohpaiboon's (2003) results support the so called 'Bhagwati' hypothesis according to which, *ceteris paribus*, the growth effect of FDI is greater under export promotion (EP) trade regime compared to an import-substitution (IS). Typically, SSA countries had a history of EP regime.

In the early 1960s, in the wake of the independence of many countries in the region, SSA still had a primary exportation economy (Ekanayake and Ledgerwood, 2010; Frank et al, 2009; Farole and Winkler, 2014; Felix, 2014). In exploring the linkages between FDI and economic growth in Europe, Merollari and Koti (2015) argue that FDI has been beneficial for Albania and other countries of Eastern and central region of

Europe because it created the conditions for capital amassing, particularly for countries that transitioned to more open market economies.

The view that perceives FDI as being detrimental for economic growth is also very much present in the literature. As posited by scholars, FDI affects negatively economic growth in developing countries in terms issues such as negative spillovers, foreign competition, loss of national sovereignty, and environmental issues (Ojewumi and Akinlo, 2017; Blaine ,2008; Markusen and Venables, 1997; Alfaro et al., 2014). According to Blaine (2008), job creation in the host country by MNCs, does not translate into positive additions in employment rates in host countries.

Regarding loss of sovereignty, Markusen and Venables (1997) maintain that different than any other source of capital, FDI has historically been at the center of clashing opinions, because of the controlling involvement of MNCs over the host country government who fear to lose power. From an environmental approach, Blaine (2008) points to the issue of lack of strong environmental legislation in developing countries and how MNCs take advantage of this factor to further exploit host countries.

Overall, the relationship between FDI, economic growth, and development is not always straightforward as noted by many scholars. In fact, given the different nature and market environment in each country, scholars recognize that, not every country will be in the best position to attract FDI tailored to its needs, and MNCs take all variables into account when deciding or not to pursue investments (Ludo et al, 2011; Ahmeti and Kukaj, 2016, Barro,1999; Barro and Lee, 1993).

The study turns now to an overview of the linkages between aid, FDI and economic growth. From an economic standpoint, some scholars argue that aid has the

potential to contribute to economic growth in recipient countries. Others on the other hand contend that this claim can easily be challenged especially when one explores the experience of SSA countries. In fact, countries in the region have been some of the major recipients of aid from several international organizations including the World Bank and yet, the levels of economic growth and development have been questionable over the years (Addison et al., 2005; Easterly, 2006).

The empirical evidence on aid effectiveness is inconclusive. For instance, Boone (1996) findings show that although aid tends to increase government consumption, it does not help those in need nor impacts positively investment. McGillivray et al. (2006) contends that moral hazard impacts negatively the potential of aid described in the Solow model. further, Gomanee et al (2005) findings show that even though SSA experienced significant aid inflows, countries in the region registered very low levels of economic growth. the authors recognize that aid has had a positive effect given that without it SSA countries would have experienced negative or even lower levels of growth. Thus, as long as more is done to ensure that funds are canalized to where it is needed, the authors argue that aid can be beneficial for economic growth in recipient countries (Gomanee et al, 2005). Burnside and Dollar (2000) reinforce this claim by showing that aid has a positive correlation with growth, yet strong institutions and sound policies need to be in place.

Theories of Economic Growth and Motivation for FDI

As discussed previously, the main ways in which FDI affects economic is through capital deepening (in the form of technology and knowledge transfer), and capital widening which encompasses increases in human capital (Luo, 2003). Solow (1956)

maintains that increases in the stock of human capital has the potential to increase GDP per capita. Yet, this type of growth is not sustainable in the long run because of the presumption of diminishing returns to investment. According to Romer (1994), long and short run economic growth can be achieved through the transfer of technological and knowledge skills which in turn increases productivity and consequently economic growth in both the short and long run. Against this backdrop, the study turns next to a brief discussion of two theories of economic growth that are at the center of the discussion on the impact of FDI which are the neoclassical growth and the new endogenous growth theory.

Developed by Solow and Swan in the 1950s, the neoclassical growth theory asserts that long-run economic growth is achieved through capital accumulation, increase in labor force, technological progress, and population growth (Solow, 1956). The model is not without its weaknesses, one of them being the fact that technology is an exogenous component. Many scholars have challenged this assumption, by arguing that the technological component should instead be endogenous given that it fosters investment in research and development which in turn leads to capital amassing and knowledge (Stonier and Hague, 1972). Further, scholars argue that the model devotes much attention to the physical capital component while overlooking the role of human capital in the equation (Romer, 1994). The new endogenous growth model emerges in the midst of the recognition of the weaknesses of the neoclassical model. This new model focuses on the role of human capital (through technological change, and transfer of knowledge) and posits that innovation and increase in knowledge provide the necessary incentives for capital amassing, thus leading to an increase economic growth per worker (Romer, 1994).

As discussed previously, FDI inflows start with the decision of MNCs or individuals to invest in host countries. The decision-making process is based on strategic reasons to which the study devotes its attention next. The literature discusses three motives that are central to MNCs decision to invest: market-seeking, resource-seeking and efficiency-seeking. As the name suggests, in market-seeking strategies MNCs invest based on the market size in the host country (Luo, 2003). Resource-seeking FDI is of particular importance for developing countries that are rich in natural resources. In the SSA region for example, countries such as Nigeria and Angola, have been able to attract FDI to the oil and gas industry (Dunning, 2009; SADC, 2019). Efficiency-seeking FDI demands that host countries have in place a combination of factors including infrastructure, skills, low production costs, as well as easy access to developed economies (Dunning, 2009).

FDI, Institutional Quality, Governance, Economic Growth and Development: SSA Perspective

The World Bank reports that FDI inflows to the SSA region has been on the rise in the past decades (World Bank 2018). Nevertheless, most countries in the region still lack behind in terms of economic development and prospects of sustainability are extremely (World Bank, 2018). Many scholars such as Kapingura et al (2018), Alfaro, Ozaca and Volosovych (2008), Akhtaruzzaman, Hazler and Owen (2018) have devoted their attention in the quest to understand this puzzling trend.

It is worth mentioning that the existing empirical studies on the role of institutions have yet to examine the overall impact of institutions in determining FDI in developing countries (Addison and Heshmati, 2003; Asiedu, 2002; Asiedu and Lien, 2011; Jensen,

2008). According to the theory on investments, MNCs invest with the expectation to have high returns on investment while face minimal risks in conducting businesses (Asiedu and Lien, 2011). However, conducting businesses in developing countries is to a great extent risky due the nature of the overall business environment which includes the presence or absence of strong institutions. This factor alone inhibits many MNCs from investing in the SSA region and other developing regions of the world (Asiedu and Lien, 2011; OECD, 2002).

Institutional quality is of utmost importance in attracting or repelling FDI into developing countries because it has the potential to reduce additional transactional costs to FDI while offering predictability and stability to MNCs and investors in general this includes for example the guarantee that property rights will be accounted for when conducting businesses (Ferreira, 2016; Lucas, 1990; Akhtaruzzaman et al, 2018; Alfaro et al, 2008; Papaioannou, 2008; Silajdzic and Mehic, 2012; Cao, 2009).

Both economic and political institutions matter for economic growth. In this regard, Jensen (2008) maintains that democracy has the potential to reduce the risk to MNCs thus fostering the FDI inflows. On the same token, Asiedu and Lien (2011), found a positive correlation between democratic regimes and FDI flows, and the authors claim that such is the case because democracy brings to the table accountability to citizens of host countries. Jensen's (2003) shares the same view by arguing that political leaders face many checks and balances under democratic regimes which in turn fosters political stability and helps to provide a more favorable environment conducive of businesses. In general, MNCs and investors tend to perceive democratic regimes as being more

trustworthy which is why they are more inclined to invest in countries democratic countries (Ferreira, 2016).

Robert and Blanton (2012) challenged this argument by claiming that both autocratic and authoritarian regimes tend to attract more FDI because they provide many incentives including low wages and low production costs for MNCs. Asiedu and Lien (2011) are also proponents of this view, the authors argue that MNCs would rather invest in repressive regimes mainly because of the lack of checks and balances thus, they offer a better immunity from labor unions.

According to World Bank indicators (2016), the overall environment regarding institutional quality has seen an improvement over the 1995-2012 period. Indicators such as political stability, and voice and accountability have registered a positive change. Further, democracy is more rooted in the African continent given the significant number of governments that are elected in free elections; yet political instability and a certain degree of violence is still present in some countries. On the other hand, government effectiveness has seen a significant decline as well as control of corruption, the regulatory quality, and the rule of law (World Bank, 2016; Busse and Hefeker, 2007).

Besides the factors mentioned above, weak institutions are equally linked to the resource curse in developing countries. The current debate on economic development in the African continent recognizes that dependency on natural resources is linked to failure of countries to democratize (Barbier, 2005). From an empirical approach, countries rich in natural resources are more prone to be authoritarian. Scholars argue that this may be linked to colonial origins, but the socioeconomic factors should not be ignored. The argument is that there is no incentive to tax, in a rentier economy on the other hand,

governments have incentive are able to allocate enough revenues from the resources to boost economic growth (Barbier, 2005; Mehlum and Torvik, 2005). In the SSA region for example, scholars argue that revenue from resources has the great potential to exacerbate corruption which in turn hinders prospects of economic growth and development (Barbier 2005). Such is the case in Nigeria, Angola, Liberia and Democratic republic of Congo (Mehlum, Moene, and Torvik 2005). In the aforementioned countries, the rent-seeking behaviors of governments, have prevented the citizens from experiencing the benefits from natural resources not to mention that economic growth is not translated into an increase in the standard of living of citizens. Further, given the volatility of commodity prices, heavy reliance on oil makes countries in the region more susceptible to experience tremendous worsening on their terms of trade (Poelhekke and van der Ploeg, 2009).

Natural resources are also linked to crowding of important sectors of the economy, and the consequence of that is ineffectiveness on the allocation of resources to the areas that need it the most such as education, agriculture and infrastructure (Birdsall and Sabot 2000). All the factors mentioned above create the so called “resource curse” which in turn suggests that countries rich in natural resources need to devote closer attention to policy reforms encompassing the creation of strong institutions to curb this issue and promote economic growth and development (Poelhekke and van der Ploeg, 2009).

FDI, Institutions and DFIs

North (1981) defines institutions as “a set of rules, compliance procedures, and moral and ethical behavioral norms designed to constrain the behavior of individuals in the interests of maximizing the wealth or utility of principals” (pp. 201-202). The existing literature

has devoted much attention on the role of institutions as promoters of economic growth and development (World Bank, 1997; Stiglitz 1998; Borensztein, et al, 1998; Blomstrom et al, 2005; Calderón, 2009; Beck, 2011; Bigg, 2002; Bodea and Elbadawi, 2008; Srinivasan, 1995; Lal and Myint, 1996; Aron, 1996). Cross-country studies (Easterly and Levine, 1997) show that the conventional variables that determine economic growth everywhere else do not fully explain the experience of African countries, this factor have propelled a closer attention to the role of institutional quality in fostering economic growth (Xiao and Xiaming, 2005; Acemoglu et al, 2011; Barro, 1999; Borensztein et al, 1998; Aron, 2000; Acemoglu and Robinson, 2008; Acemoglu et al, 2011; Barro, 1996; Asfaw and Mbeche, 2006; Birdsall, 1993). In general, scholars classify countries in the continent as possessing weak institutions, which is linked to low levels of economic growth and exacerbated poverty levels (Abdulai, 2007; Asongu and De Moor, 2017; Ajakaiye and Ncube 2010).

A given country's institutional framework impacts economic growth because it is essential to the proportion that is spent on transactional and transformational costs (Ndikumana, 2006; Todaro and Smith, 2017, North, 1990). Transactional costs, for instance tend to be higher in the absence of the rule of law and protection of property rights. In such situations MNCs tend to dimmish their operations or even turn to illegal practices such as relying on corruption and bribery to ease business operations (Kokko, 1994; Kokko et al, 1994; Merollari and Koti, 2015; Taylor and Thrift, 2013; (Hennart, 1982; Jensen, 2008). Transformational costs on the other hand tend to be high due to lower levels of specialization (Asongu and De Moor, 2017; Aitken and Harrison, 1999; Fearon, 1988).

Additionally, in the absence of strong institutions, it is likely that MNCs and investors are unable to pursue more compounded and long-term contract exchanges with virtual execution as otherwise (Gutierrez et al, 2011; Gibson et al, 2005; International Finance Corporation, 2011; Mavrotas, 2009; Wanjuu and Le Roux, 2017; Rodrik, 2007; Asfaw and Mbeche, 2006; Przeworski et al, 2000).

Economic institutions matter for economic growth because they govern the incentives of the important players in an economy (Easterly, 2008; Acemoglu et al, 2005; Smith, 1776; Sachs, 2005). Scholars argue that the economic institutions that matter for economic growth include those that safeguard property rights (Acemoglu et al. 2001; North and Thomas, 1973), foster savings for investment purposes (Tchouassi, 2014) and those ensure checks and balances, as well as accountability from government officials (Acemoglu and Robinson, 2012; Keefer 2005).

Political institutions as equally important for economic growth and development (Alesina et al, 1996; Hodgson, 1988; Fedderke, 1997; Tavares and Wacziarg, 2001; Asfaw and Mbeche, 2006; Bodea and Elbadawi, 2008) they consist of the methods through which governments are selected, they account for power separation within the government, as well as the ability of citizens to be part of the country's political agenda (Przeworski and Curvale, 2007; Tsebelis, 1995; Tavares and Wacziarg, 2001; Shabbir et al, 2016; Pereira and Teles, 2010).

Whether formal or informal, these institutions shape the incentives and constraints that essential players face (Putnam, 1993; Olson, 1993; Huntingdon, 1968; Tsebelis, 1995; Przeworski et al, 2000; Tavares and Wacziarg, 2001). Scholars (Hwang, 2009; Fedderke, 1997; Asefa, 2003; Bardhan, 1999; Bodea and Elbadawi, 2008; Pereira and

Teles, 2010; North, 1999; North et al, 2000) maintain that political institutions impact economic growth through governance characterized by desirable features, trustworthiness and adjustability (Bodea and Elbadawi, 2008; Bruinshoofd, 2016; Kurzman and Burkhart, 2002; Przeworski and Limongi, 1993; Putnam, 1993; Hwang, 2009; Fedderke, 1997; Knutsen, 2012, Henisz, 2000; Huntingdon, 1968).

The dissertation turns now to a brief discussion on the relationship between DFIs and FDI. The literature on the role of DFIs as a vehicle to promote FDI is not voluminous. Yet, scholars agree that there is potential for DFIs to help developing countries to attract FDI and achieve economic growth. As discussed in previous sections, developing countries struggle to attract FDI because of the risky nature of their financial markets, not to mention that many countries in the developing world still experience some level of instability, violence and ethnic tensions (Rorvik, 2011; Attridge et al, 2019; Shirazi et al, 2009; Rodrik, 2007; Knack and Keefer, 1995; Carbaugh, 2015; Levine, 1997 and 2000; Merton and Bodie, 2004).

In this regard, financial institutions can help to propel, develop and treat information regarding potential investors to enable an effective allocation of funds, monitor investments and apply governance after the distribution of the funds (Carbaugh, 2015; Nsouli, 2000; Kong, 2005). The private sector here is essential to achieve these goals because it provides jobs, increase in income, and helps people to fight poverty while elevating their living standards (Buckley and Casson, 1976, Shapiro, 2006; Adams et al, 2015; Sachs et al, 2004; Eiteman et al, 2007). The recognition of the importance of the private sector is shared by the SDGs of the United Nations 2030 agenda which aim to endorse a combined strategy to achieve economic, social and environmentally sustainable

development, placing a huge emphasis on a development model where the both the public and private sectors complement each other on their roles of supporting broad and sustainable economic growth (Attridge et al, 2019).

According to Rorvik (2011), DFIs represent risk-capital investment institutions that invest mainly in the private sector of underdeveloped economies. The aim of DFIs is to impact the development agenda in underserved countries (through investments) by generate sustainable business strategies.

DFIs can help to foster economic growth in developing countries through the mobilization of investment from the private sector which encompasses financing, risk-sharing and other supporting activities (Rorvik, 2011; Pietro, 2013; Magombeyi et al, 2017; Ndikumana, 2006; Massa et al, 2016; Nsouli, 2000; Lemma,2015). A report from the UNCTAD -which surveyed some of the biggest markets in the African continent- concluded that lending from multilateral institutions has the potential to foster FDI in African countries (UNCTAD, 2000). The role of DFIs can also be extended to helping to tackle global issues such as climate change (Lemma, 2015; International Finance Corporation, 2011) this particular role requires an extension of their traditional scope in order to account for market failures brought about by the adoption of new technology (Gutierrez et al, 2011). Te Velde (2011) shares the same vision by arguing that global challenges such as financial crises warrant for a great exposure of DFIs in developing countries as a strategy to help the poor escape the negative effects of crises. From a macroeconomic perspective, Massa's (2011) findings show that multilateral commitments have a statistically and positive relationship with economic growth in recipient countries with greater emphasis in lower than higher income countries. Against

this backdrop, the present dissertation focuses on the relationship between DFIs and FDI and it fills a significant gap in the literature in terms of the role DFIs play in the economic development panorama of African countries, more specifically in SSA. The main argument is that DFIs have the potential to increase the amount of FDI inflow in SSA due to the several properties that make them able to influence and initiate investors, thus, in addition to the variables discussed in the literature, DFIs should be included in the framework when analyzing economic growth and development. The next chapter investigates the relationship between FDI and economic growth.

CHAPTER III - AN EXPLORATION OF THE NEXUS FDI-ECONOMIC GROWTH, TRENDS, AND FLOWS GLOBALLY AND IN THE SSA REGION

Introduction

This chapter analyses the nexus FDI and economic growth. To investigate the relationship between FDI and growth, a panel model is employed and a sample of 76 countries (developed and developing) is analyzed. The study argues that FDI causes economic growth, which in turn paves the way for the attainment of economic development. The chapter is divided into six sub-sections: the first section conceptualizes FDI by presenting an overview of the benefits of FDI in accelerating economic growth while paving the way for development. Section 2 presents an overview of FDI trends from a global perspective to provide a better understanding of the current situation and the way forward. Section 3 discusses the effect of FDI in bridging the funding gap in Africa as an alternative to foreign aid and considering the SDGs of the United Nations 2030 agenda. Section 4 discusses China's influence in Africa, the implications for the United States and Africa relations. Section 5 presents the analysis of the nexus FDI- growth and section 6 offers a brief conclusion.

Conceptualizing FDI: Benefits in Accelerating Economic Growth and Development

There is consensus in the literature that globalization is at the center of the increase in FDI inflows after World War II (Narula and Dunning, 2000). Researchers became motivated to critically explore the effect of FDI in fostering economic growth in developing countries (Nayak and Choudhury, 2014). As discussed in chapter 2, several empirical studies have explored the impact of FDI on economic growth and development. More recently, the nexus FDI-economic growth has been tremendously significant due to

improvements registered in the relationship between MNCs and host countries (Nayak and Choudhury, 2014). This improvement is often attributed to the Washington Consensus (Williamson, 2004). FDI is important to achieve economic growth and development as determined empirically by scholars in the literature, however, in order to fully realize this potential, host countries need to ensure the maximization of its benefits while minimizing its costs by critically evaluating the incentives offered to MNCs (Golub, 2003; Hill, 2000).

Even though, FDI has been empirically determined to be relevant to economic development and growth of countries, it is the responsibility of host countries to maximize their benefits from FDI and at the same minimize their cost by critically assessing the incentives they offer (Golub, 2003; Kurtishi-Kastrati, 2013; Apergis et al, 2005; Hill, 2000; Liu, 2008). From the perspective of MNCs, FDI offers the opportunity for increased innovation and enhancement of skills which in turn contributes to a more competitive corporate environment (OECD, 2002; OECD, 2014).

FDI Trends: Global and SSA Perspective

Over the years, there has been a tremendous increase in FDI inflows across the world (Agarwal and Weekly, 1980; Ramrattan and Szenberg, 2014; Ujjaini et al, 2014). Table 1 provides some trends: developed countries account for roughly two-thirds of FDI inflows whereas developing countries been falling behind over the years (see table 1).

Table 1

FDI Inflows, Trends, and Shares

	World				**Developed Countries**				**Developing Countries**			
Period	1970s	1980s	1990s	2000s	1970s	1980s	1990s	2000s	1970s	1980s	1990s	2000s
FDI (current period)	23	92	387	1042	181	71	278	745	59	22	116	485
Percentage of FDI	99	99	99	99	74	74	68	68	25	26	32	28
Percentage of GDP	0.50	0.70	1.8	2.88	0.46	0.64	1.22	2.40	0.62	0.75	2.09	3.44
Percentage of GFCF	2.04	2.55	6.54	11.00	1.70	2.84	6.9	12.02	3.84	3.00	8.22	14.05

Source: Author's own calculations using data from UNCTAD, 2016

Despite the fact that developing countries experienced lower levels FDI inflows, it is essential to point that FDI was, and it is still, a significant part in their GDP formation. For instance, FDI as a percentage of GDP increased over the years from 0.62 % to 3% in the 2000s. The importance of FDI in the process of capital amassing in developing countries is further demonstrated by the fact that the ratio of FDI as a percentage of gross fixed capital formation (GFCF) increased substantially from 3.84 to 14.05 during the 2000s. Suggesting that developing countries must do more to attract more FDI inflows (World Bank, 2017) which can be challenging considering all the factors discussed in chapter 2 such as a weak institutional environment (Sharma and Abekah, 2007;Alfaro, 2003; Krause and Kaufmann, 2011).

Bridging the Funding Gap in Infrastructure and Agriculture in SSA: Is Aid Effective?

The World Bank estimates that SSA needs roughly 180 million dollars in investments in infrastructure per year by 2025 in order to be on the right path to achieve the SDGs of the 2030 agenda (World Bank, 2019) therefore, closing the gap is of utmost importance for countries in the region (Gurara et al. 2017; Shantayanan et al, 2004;

Shirazi et al, 2009; Mavrotas, 2009). With significant increase in population, the region's infrastructure investment gap has increased, which in turn increased the pressure on existing social infrastructure (World Economic Forum, 2015). On top of that, investors' willingness for SSA's infrastructure has not been sufficient to help countries achieve sustainable development, and this is a reflection of the underdevelopment character of SSA countries' structures (World Bank, 2015; Gurara et al. 2017).

Funding Gap in the Agricultural Sector

Different from other regions of the world, agriculture productivity per worker in the SSA region has registered a downward trend over the years (UNCTAD, 2015). Increasing the productivity has the potential to contribute significantly to economic growth and alleviation of poverty (Gurara et al. 2017, UNCTAD, 2015). Low levels of productivity on the other hand have significantly impacted the ability of SSA countries to compete in the international economic arena (UNCTAD, 2017). To solve the problem, SSA countries must seek more investment in the sector to boost economic growth (UNCTAD, 2017).

Can Aid Help to Fund the Current Gap? Aid Dependency and Institutional Destruction

Compared with other regions, SSA countries rely massively on aid flows (UNCTAD, 2012; UNCTAD, 2016). Proponents of aid effectiveness argue that aid may furnish much needed resources to complement domestic savings and may be used to help build infrastructure in developing countries (World Bank, 2016; Harms and Lutz, 2006; Alesina et al, 1992; Rajan and Subramanian, 2011; Radelet et al, 2004). When provided with requirements, aid may also help to implement good institutional quality and change the policy landscape. On the other hand, access to funds tend to decrease government

incentives to tax or its intentions to attract FDI, frustrate accountability of government officials to its citizens, while also enabling corruptive practices Moyo, 2009; Radelet et al, 2004), consequently corruption discourages FDI (Moyo, 2009; Rajan and Subramanian, 2011; Radelet et al, 2004; Munemo et al, 2007).

Although the debate on aid effectiveness is inconclusive, there is consensus that it is not providing the anticipated results in the developing world (Moyo, 2009; Easterly, 2006; Werlin, 2005). This is consistent with the claim of the present study according to which, aid alone cannot close the existing funding gap, but it has the potential to help SSA countries if the right set of institutions is in place.

China in Africa

China's Impact on Africa: The Good, the Bad, and the Ugly

The effect of FDI from China on the economic growth of African countries is not settled in the literature. On one hand researchers maintain that China's FDI inflows to the continent increase economic growth in host countries (Chemingui and Bchir 2010; Baliamoune-Lutz 2011; Zamfir, 2016). On the other hand, scholars claim that FDI from China more than beneficial is harmful to the continent's prospects to achieve sustainability in the long run (Ademola et al. 2009; Woods, 2008; Miao et al. 2020; Borojo and Yushi 2016).

Still on the positive front, Whalley and Weisbrod (2012) findings suggest that Chinese FDI is responsible for the accelerated economic growth that many countries in Africa experienced in the aftermath of the financial crises of 2008. Furthermore, China is responsible for improvements in the terms of trade of African countries due to a tremendous demand for raw materials (Zafar, 2007; Adisu and Okoroafo, 2010). An array

of cheaper goods available from China is also mentioned as beneficial for consumers in the continent (Adisu and Okoroafo, 2010). Contrary to the positive front, researchers maintain that China's high demand for raw materials coupled with African economies' high reliance on resources increases the likelihood of the resource curse, while the exportation of natural resources is linked to rent-seeking behavior and corruption (Carmignani and Chowdhury, 2012; (Busse and Gröning, 2013; Swaleheen, 2007; Dort et al; 2014). The ugly side of China's FDI impact on African economies relates to the issue of exploitation and lack of good governance practices (Alden ,2005; Cheru and Obi, 2010; Esposito and Tse, 2015; Adisu and Okoroafo, 2010; Fasslabend, Werner, 2015; Kandiero and Wadhawan 2003; Cheru and Obi, 2010; Esposito and Tse, 2015; Kolstad and Wiig, 2011).

China's Influence in Africa: Implications for the United States and Allies

China's broad interests in Africa threaten to damage the United States and its allies' efforts to foster peaceful, and prosperous societies in the continent (Harms and Lutz, 2006). Scholars argue that China's expansion across Africa aims to control supplies of natural resources, to curb the economic and political leadership of western countries (including the United States) and to segregate Taiwan (Eiteman et al, 2007; Xiao and Xiaming, 2005; Harms and Lutz, 2006). Thus, it is in the best interest of the United States to continue addressing these formings in the continent by expertly encouraging democracy, economic liberation as well as the protection and safeguard of human rights (Harms and Lutz, 2006; (Fasslabend, 2015; Harms and Lutz, 2006).

Does FDI Cause Growth? A Panel Model Analysis

This section is devoted to analyzing the nexus FDI- economic growth. As previously discussed, FDI has the potential to boost economic growth through productivity and technology spillovers, which ultimately can help countries achieve economic development.

Methodology

General Data

The nexus FDI-growth is analyzed using a broad sample of 76 countries (see Appendix A, Table A2) during the 1990-2018 period. Data is obtained from the Penn World Tables and World Bank database. A panel model, which tracks countries over time, is employed to estimate the relationship. The main advantage of using panel data approach (compared to cross-section or time-series approach), is that this method blends the inter and intra individual differences of the variables being investigated and it offers a more reliable inference of the variables in the model (Greene, 2008; Woolridge, 2010). The period was chosen due to data availability pertaining the variables being explored in the study. Appendix A (Table A1) shows list of variables and data sources. Table A2 shows the countries in the sample of model. Appendix A (Table A3 and A4) shows the descriptive statistics for the models being estimated.

Explanation of the Variables

The dependent variable is *GDP Growth*, it is measured as the rate of growth of current period (in billions of US dollars). The independent variables are as follows: *HC* is the human capital. It is taken from the World Bank, and it is a summary measure (index) of the proportion of human capital that a child born today can hope to gain by age 18

accounting for risks such as poor educational and healthy systems that abound in the country where the given child lives (World Bank, 2017). The *HC* ranges from 0 to 1, thus a value of 0.5 means that a child born today will be only half as worthwhile as a worker in the future if she had full education and health care (World Bank, 2017). *FDI* represents FDI inflows as a percentage of GDP measured in current prices. Specifically, FDI inflows measure the aggregate investment by foreign investors with a minimal amount of 10% of MNCs' share (World Bank, 2017). *TRD* represents trade volume (the sum of exports and imports as a percentage of GDP) World Bank, 2017).

EDU is literacy rate for each country, *INFL* is the inflation and represents the percentage changes in the consumption price index. *QoI* is quality of institutions (the present study uses the regulatory quality index of the World Bank as proxy. This variable captures the government's ability to implement regulations and policies to foster economic growth and development. It ranges from 0 to 100, with 100 being the highest (World Bank, 2017).

The variables chosen in the present study are in line with past empirical studies which found that they have a positive relationship with economic growth in the developing world (Ferdausy and Rahman, 2008; Farole and Winkler, 2014; Ekanayake and Legerwood, 2010). For example, a positive relationship is expected between human capital and economic growth because the stock of human capital is essential for capturing technological and productivity spillovers in host countries (Farole and Winkler, 2014). The same result is expected with inflation as this variable represents an important indicator of a climate conducive of businesses as well as an indication of sound monetary and fiscal policy in host countries (Makki and Somwaru, 2004).

A positive relationship between economic growth and education is also expected. Scholars agree that education is central to countries strategy to achieve economic growth and development (prospects of development cannot be fully realized without investment in education) also, education is crucial for development because it enhances one's understanding of themselves and the world around them (Birdsall, 1993; Grossman and Helpman, 1989; Tilak, 1989). Regarding trade, there is no consensus in the literature as to whether openness to trade is beneficial for economic growth in developing countries (Alesina et al, 2000; Bond et al,2005; Jyun-Yi et al, 2008). On one hand economic thought assumes that trade enhances economic growth, on the other hand, contemporary studies suggest that openness to trade is not always good for economic growth because it may create distortions in domestic markets. Based on the literature that found a positive relationship between trade openness and economic growth (Barro and Sala-i-Martin, 1997, Baldwin et al., 2005, Almeida and Fernandes, 2008; Matthew and Adegboye, 2014; Eiteman et al, 2007; Frankel and Romer, 1996) the study argues that trade increases economic growth and that developing countries are better off when they liberalize than otherwise.

Model and Hypothesis

The econometric model employed in the analysis of the nexus FDI-growth is based on endogenous growth theory, more specifically in the empirical studies of Balasubramanyam et. al (1996) and Borensztein et. al (1998). According to these studies, FDI impacts economic growth directly (through the transfer of new technology) and indirectly (by increasing the stock of human capital, better infrastructure, and the implementation of strong institutions in host countries).

The simultaneous equation model (SEM) and the panel model are as follows:

SEM Model

$$GDP\ Growth = \beta o + \beta 1HC + \beta 2\ FDI + \beta 3TRD + \beta 4EDU + \beta 5INFL + \beta 6QoI + \varepsilon$$

Panel Model

$$GDP\ Growth_{it} = \beta o + \beta 1HC_{it} + \beta 2\ FDI_{it} + \beta 3TRD_{it} + \beta 4EDU_{it} + \beta 5INFL_{it} + \beta 6QoI_{it} + \alpha i + \delta t + \varepsilon$$

Where: GDP Growth represents the rate of growth of current period; HC represents human capital, TRD is trade volume, EDU represents the percentage of literacy for each country; INFL is the percentage changes in consumption; QoI represents quality of institutions. The study uses the regulatory quality index of the World Bank as a proxy for institutional quality due to lack of as previously explained. αi represents country fixed effects; δt represents year fixed effects and ε is the error term. The hypothesis being assessed are as follows:

Ho: FDI Increases economic growth

Ha: FDI does not increase economic growth

Diagnostic Tests

As part of the process to investigate the nexus FDI- economic growth, the study performs different tests to ensure that the data is accurate and reliable, while accounting for amendments where and if needed. Firstly, the study performs the normality test; in order to access the normality diagnostic, the *Jarque Bera* test is performed. The normality test allows one to determine whether the data meets the requirement of normal distribution (Greene, 2003; Woolridge, 2010).The obtained value of [Chi(2)]- which is a statistic representing is a single number that tells how much difference exists between the

observed and expected counts ((Baltagi , 2001)- is 0.076 thus, it can be concluded that the data is normally distributed given that [Chi(2)] is more than 5% (significance level being used as a benchmark).

The sample is also tested for multicollinearity using the variance inflation factor test (VIF). According to Baltagi (2001), multicollinearity refers to when the predictor variables are highly correlated with each other. Assuming that the independent variables should be independent, if the degree of correlation between variables is high enough, it can undermine the interpretation of the estimation results (Baltagi, 2001; Woolridge, 2010). On one hand, given that the VIF value for all the independent variables is less than ten (conventional significance level being used as benchmark), it can be inferred that multicollinearity is not present in the sample as shown in Table 2. As shown in the table, the variables do not overlap with one another and the VIF factor is not up to the conventional benchmark of 10.

Table 2

Multicollinearity Test

Variable	VIF	1/VIF
HC	1.86	0.53
QoI	1.86	0.53
Trade	1.17	0.85
FDI	1.10	0.91
EDU	1.06	0.94
INFL	1.00	0.99

ource3: Author's calculations using *STATA*

The correlation matrix provides also valuable information for the overall model in analysis. For instance, all the independent variables are positively correlated with GDP

Growth (see Table 3). This result is in line with the claims of the study. Nevertheless, because correlation is not causation, the study undertakes additional steps to examine the nexus FDI- economic growth.

Table 3

Correlation Matrix

	GDP	***HC***	***FDI***	***EDU***	***INFL***	***QoI***	***TRD***
GDP	1						
HC	0.0401	1					
FDI	0.0230	0.0674	1				
EDU	0.3334	0.0213	0.4018	1			
INFL	0.0279	0.0516	0.0159	0.3447	1		
QoI	0.2999	0.0256	0.4347	0.0784	0.1654	1	
TRD	0.3204	0.1045	0.3201	0.0198	0.0252	0.2025	1

Source: Derived from author's calculations using *STATA*

The model is also tested for heteroskedasticity by employing the *White-Test*. According to Allison (1999) and Woolridge (2010) OLS regression is based on the premise that the errors are the same while the variance between them is unknown which is also denominated homoscedasticity. When there is a violation of this premise, heteroscedasticity is present (Allison, 1999; Woolridge, 2010). Table 4 shows the results for the heteroskedasticity test. The null hypothesis is the that the error terms are homoscedastic, and the alternative hypothesis is that there is presence of unrestricted heteroskedasticity (Allison, 1999; Woolridge, 2010). The [Chi (2)] is 0.37 and Prob > [Chi (2)] = 0.4975. Since [Chi (2)] is more than 5% the analysis rejects the null hypothesis and concludes that there is no heteroskedasticity present.

Table 4

Heteroskedasticity Test – White Test

Prob > [Chi (2)] = 0.4975

Source	[Chi (2)]	Degrees of freedom (df)	*P*
Heteroskedasticity	6.37	9	0.4784
Skewness	3.33	3	0.3468
Kurtosis	2.60	1	0.2063
Total	12.30	13	1.0315

Source: Author's calculation using *STATA*

To determine whether to employ fixed effects (FE) or random effects (RE) approach on the sample in analysis, the Hausman specification test is performed. On one hand, FE explores the relationship between dependent and independent variables within a given entity. The main assumption here is that the individual characteristics of the entities may or not impact the independent variables (Greene,2008). Alternatively, the main assumption in the RE approach is that the error terms are not correlated with assumes that the entity's error term is not correlated with the independent variables (Greene,2008).

According to Greene (2008), the fundamental distinction between both approaches is whether the undetected individual impact encompasses factors that have a correlation with the regressors in the model, not whether the impact is limited or not (Allison, 1999; Woolridge, 2010; Greene, 2008). Table 5 shows the result of the regression when employing the FE approach and table 6 shows the RE approach, both using the entire sample of 76 countries for the 1990-2018 period. For each approach, the number of observations is 2204.

Table 5

Fixed Effects Approach

Gross Domestic Product (Growth)	Coef.	Standard Error	t	P>|t|	Sigma_u	Sigma_e	rho
Human Capital	3.543352	0.229	5.99	0.000	1.872	0.592	0.909
Foreign Direct Investment	1.633332	0 .071	4.37	0.000	1.872	0.592	0.909
Education	2.476230	0 .040	0.90	0.000	1.872	0.592	0.909
Inflation	0.587905	0.037	-13.63	0.366	1.872	0.592	0.909
Quality of Institutions	-0.1378	0.090	-1.52	0.129	1.872	0.592	0.909
Trade	0.070	0.60	1.16	0.247	1.872	0.592	0.909
-Constant	25.996	0.437	59.44	0.000	1.872	0.592	0.909

Source: Author's calculation using *STATA*

Table 6

Random Effects Approach

Gross Domestic Product (GDP Growth)	Coef.	Standard Error	z	P>|z|	Sigma_u	Sigma_e	rho
Human Capital	2.015	0.211	9.54	0.000	1.259	0.592	0.819
Foreign Direct Investment	0.303	0.072	4.19	0.000	1.259	0.592	0.819
Education	0.044	0.041	1.07	0.028	1.259	0.592	0.819
Inflation	-0.505	0.037	-13.37	0.000	1.259	0.592	0.819
Quality of institutions	-0.062	0.091	-0.69	0.049	1.259	0.592	0.819
Trade	-0.003	0.463	-0.06	0.952	1.259	0.592	0.819
-Constant	26.587	0.463	57.39	0.000	1.259	0.592	0.819

Source: Author's calculation using *STATA*

The second step is to compare both approaches. After estimating and saving the results on *STATA*, results are then used to perform the Hausman test (see table 7).

Table 7

Hausman Test

	(b) Fixed	**(B) Random**	**(b-B) Difference**	**Sqrt(diag(V_b-V_B)) S.E**	**Prob>Chi2**	**Chi2(6)= (b-B)'[(V_b-V_B)^(-1)](b-B)**
Human capital	1.375	2.015	-0.640	.0891	0.000	319.9
Foreign Direct Investment	0.310	0.303	0.007	0.003	0.000	319.9
Education	0.036	0.044	-0.007	0.002	0.000	319.9
Inflation	-0.506	-0.505	-0.001	0.031	0.000	319.9
Quality of Institutions	-0.137	-0.062	-0.075	0.001	0.000	319.9
Trade	0.070	-0.003	0.073	0.004	0.000	319.9

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
Source: Author's calculation using *STATA*

According to Hausman (1978) the null hypothesis of the Hausman test for FE versus RE is that the RE is appropriate and so with a p value greater than 0.05 one would fail to reject the null, if p value is less than 0.05 the null hypothesis is rejected and state that FE is appropriate. Given that the overall statistic, chi2(6), has p = 0.000, the null hypothesis (that RE provides consistent estimates) is rejected, thus the FE approach is chosen. In other words, the prob> chi2 is 0.000 which is less than 0.005 (level of significance), the FE approach is the appropriate choice.

Findings and Discussion of Results

Table 8 shows the results of the OLS fixed effects regression analysis. The model was estimated using three approaches. On the first, the entire sample of 76 countries (developed and developing) was investigated. Second, the study analyzed only developing countries and lastly countries in the SSA region. This approach is taken to better access the effect of the independent variables on GDP Growth in the different

countries of the sample. This approach is equally helpful to examine the differences in their FDI patterns, accounting for how different determinants make up the amount of total FDI inflows.

Additionally, the approach taken is helpful in examining differences in growth factors in the countries in the sample, as well as how FDI inflows impact the total GDP growth of each group of countries. Finally, considering that countries in the sample have different economic and political characteristics, and accounting for the different levels of economic consolidation, their comparison has the potential to provide with essential policy implications particularly in the context of developing countries.

Table 8

OLS Panel Regression (Fixed Effects Approach) 1990-2018

VARIABLES	(1) Whole Sample	(2) Developing Countries	(3) SSA Countries
Human Capital	0.181	0.566	0.469
	(0.465)	(0.305)*	(0.022)***
FDI	0.094	0.081	0.660
	(3.620)*	(3.650)*	(0.033)***
Inflation	-0.099	1.680	0.893
	(-0.528)	(0.701)	(0.134)
Education	0.146	0.490	0.176
	(2.546)*	(0.035)***	(0.189)
Quality of Institutions	0.796	0.833	0.901
	(0.141)***	(0.100)	(0.001)***
Trade	0.595	0.723	0.901
	(0.088)***	(0.024)	(0.025)**
Constant	2.786	3.006	2.217
	(0.700)***	(1.237)***	(0.523)
Observations	2,204	1,450	754

Table 8 *(Continued).*

R^2	0.600	0.507	0.682

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Source: Author's calculation using STATA (country and year effects)

The result of the OLS panel regression analysis shows that the coefficient of determination or R^2 value is 0.600 for the whole sample which means that 60% of the independent variables predict 60% of the variation in the output variable is predicted by the regressors. For the developing countries sample and SSA, R^2 is 0.507 and 0.682 respectively; meaning that 50.7% and 68.2% of the variation in the output variable is predicted by the regressors. In addition, the coefficients of the independent variables are highly significant at a conventional level.

The dependent and all the independent variables were transformed through the natural logarithmic function. One of the benefits of transforming the variables into natural logarithm is that when performing the regression analysis, the transformation of the variables in natural logarithm permit that their coefficients are explained in terms of their flexibility (Anderson, 2003). Further, logarithmically transformed variables enable one to interpret how much a percent change in the regressors affect the output variable and the percent of change is defined by the regressors' coefficient (Hair et al. 2005; Anderson, 2003).

In all the models, the results show a positive relationship between the output variable *GDP Growth* and all the regressors, except for *INFL*. Inflation has the potential

to increase the cost of capital, which in turn decreases capital accumulation and lower productivity (De Gregorio, 1993) inhibiting economic growth in the long-run. Moreover, inflation reduces both the level of investment, and the efficiency of factors of production (Khan and Senhadji, 2001; Lopez-Villavicencio and Mignon, 2011). Inflation is higher in developing and SSA countries than it is in developed countries. This is consistent with Khan and Senhadji (2001) and Lopez-Villavicencio and Mignon (2011) which found that the inflation threshold appears to be much higher in developing than in developed countries (only 1.2%). Thus, below the threshold level, the inflation effect is positive for developed countries.

The findings show that, for each 1% increase in *HC*, *GDP growth* increases by 0.181 % for the whole sample, 0.566 % in developing countries and 0.469 % in SSA. This result is in line with the theoretical argument according to which, an increase in human capital is related to a positive impact on economic growth due to its direct involvement in the overall macroeconomic production function.

Consistent with the growth theory, education (*EDU*) has a positive correlation with growth in all models. *QoI* -proxied by the regulatory quality index of the World Bank -is statistically significant and has a positive relationship with economic growth across all the samples in the analysis. A 1% increase in institutional quality leads to a 0.833 % increase in growth in developing countries and a 0.977 % increase in SSA alone. This result is significant and has important policy implications for the countries in the region. The result of the regression is consistent with the present study claim according to which, institutions matter for economic growth and is also in line with the findings in the literature.

Finally, the result of the model estimation supports the claim of the study according to which, FDI causes economic growth. For instance, an increase of 1% in *FDI* causes an increase in *GDP Growth* of 0.094%, 0.081%, and 0.660 % in the entire sample, developing countries and SSA region respectively. This is consistent with the literature on the FDI-growth nexus which contends that FDI enhances economic growth. the results of the study suggest that it is essential that developing countries enact policies that attract FDI to achieve economic growth and pave the way for the attainment of sustainable development.

In order to make sure that the primary results obtained are not just an artifact of the particular specification employed in the estimation, the study presents below the sensitivity analysis and robustness check (see table 9).

Table 9

Sensitivity Analysis and Robustness Check (Fixed Effects Approach) 1990-2018

	Model	Model2	Model3	Model4	Model 5	Model 6	Model 7	Model 8
Human Capital	0.1617 (2.3356)	0.0741 (0.0366)**	0.3130 (0.3051)	0.0903 (0.0533)*	0.2276 (0.6564)	0.9543 (0.5332)*	0.8822 (0.1771)**	1.3339 (0.0688)***
FDI	0.080 (4.403)*	0.1213 (0.0582)**	0.1068 (0.0733)	0.3807 (0.0946)***	1.0043 (0.0432)***	0.1066 (0.0732)	0.9255 (1.6498)	-
Inflation	- 0.0862 (3.581)*	-0.1649 (1.1016)	0.3037 (0.1172)***	-0.0331 (0.0328)	-0.158 (0.006)	-0.329 (0.002)**	-	-0.3045 (0.0605)***
Education	0.1237 (2.1572)**	0.0923 (0.0678)	0.3778 (0.5332)	0.0904 (0.0544)*	0.0640 (0.0227)**	-	0.6559 (0.3150)*	-0.3020 (0.0843)***
Quality of Institutions	0.1376 (2.1134)**	0.0322 (0.0165)*	0.0705 (0.0651)	0.3807 (0.0950)***	-	0.1347 (0.0862)	0.0674 (0.0671)	1.6008 (0.7219)**
Trade	0.244 (0.061)	0.0866 (0.0378)**	0.3209 (0.0852)***	-	0.0165 (0.0187)	0.1489 (0.1258)	0.4478 (0.2149)*	0.7930 (0.6002)
Government Effectiveness	0.032 (0.557)	0.3587 (0.0647)***	-	0.5644 (0.1604)***	-0.1649 (1.1016)	-0.1836 (0.3387)	-0.0265 (0.0154)*	1.2330 (0.0665)***
Control of Corruption	0.4630 (0.7583)	-	0.5456 (0.1775)	0.3234 (0.3051)	0.3800 (0.1564)**	-0.1473 (0.0612)**	-0.0126 (0.0149)	0.2698 (0.1188)**
Constant	0.2729 (0.4526)	0.5576 (0.1461)***	0.4683 (0.1742)***	0.5684 (0.1644)***	0.0149 (0.3456)	0.1694 (0.3076)	0.1714 (0.0875)*	0.2818 (0.4367)
Observations	2,204	2,204	2,204	2,204	2,204	2,204	2,204	2,204

Table 9 *(Continued).*

R^2	0.522	0.611	0.531	0.520	0.671	0.666	0.544	0.600

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Source: Author's calculation using STATA (country and year effects)

To check for the robustness of the variables of interest, sensitivity analysis has been conducted by adding and dropping the independent variables in the model. For this purpose, 8 different regressions using the OLS fixed effect approach have been estimated having *GDP Growth* as the dependent variable. Two variables (Government Effectiveness and Control of Corruption) were added to the model as additional variables discussed in the literature regarding determining factors of FDI. Similar to the independent variables used in the study, data for the additional variables was obtained from the World Bank database.

As seen in the results of the estimation, the sensitivity analysis shows that for the most, the independent variables have a positive relationship with *GDP Growth*. This result reinforces the findings of the estimation. Further, as the variables are dropped and added, the R-squared remains fairly high and significance of the coefficients remain consistent. *FDI* (the main variable of interest is significant and has a positive relationship with *GDP Growth*) thus, this sensitivity analysis confirms the robustness of the results of the present study.

Conclusion

In this chapter the research answered the question: *Does FDI increase economic growth?* The study employed a fixed panel model approach to estimate a sample of 76 countries (developed and developing) to achieve this goal. The results support the claim

according to which, FDI increases economic growth when estimating the model for the entire sample, developing countries and SSA countries as well.

In line with the literature on the determining factors of economic growth, the analysis shows that human capital, foreign investment, education, inflation, quality of institutions and openness to trade affect the ability of countries to achieve economic growth. Consistent with the new institutional framework, it is evident that institutions play an important role in determining economic growth into developing countries. this suggests that the stronger the institutions in a particular country, the better is the likelihood of attainment to economic growth and sustainable development.

CHAPTER IV – THE IMPACT OF DFIs ON ECONOMIC GROWTH AND DEVELOPMENT IN SSA

Introduction

This chapter addresses the question: Do DFIs increase FDI and growth in the SSA? To estimate the relationship between DFIs and FDI in the region, a sample of five countries are explored for the 1990-2018 period. The study claims that DFIs increase FDI which in turn increases economic growth and consequently paves the way to sustainable economic development.

There is a growing literature that has been focusing on the impact of DFIs from a micro level perspective. However, the role of DFIs in fostering economic growth in SSA is not fully developed (Blalock and Gertler, 2008). (Wurgler, 2000; Adams et al, 2015; Barrios and Strobl ,2005; Khan and Reinhart, 1990. In fact, at the time of this research there is no study investigating the impact of DFIs on FDI in the region. This chapter is divided in five sections. Section 1 conceptualizes DFIs, section 2, section 3, section 4, section 5 implements a qualitative approach in the form of interviews to provide an in-depth comprehension of the role of DFIs in the overall economic growth and development panorama. The analysis showcases Angola as the case study during the 1990-2018 period.

Overview of DFIs

DFIs are defined as institutions that finance and promote foreign investment aiming at helping host countries realize sustainable development goals in the long run (Calice, 2013; Massa, 2011). DFIs can be bilateral or multilateral. The present research focuses only on multilateral DFIs, such as the World Bank.

DFIs provide an array of financial services including loans and guarantees (De Luna-Martinez and Vicente, 2012; La Porta et al, 2002).

Why is DFI intervention through FDI different? Role of African DFIs on Development

Considering the important role of FDI in development, it makes sense for DFIs to exercise its potential towards development (Chatterjee and Morshed, 2011). DFIs can ease and outline development impact of FDI in many ways including by sponsoring MNCs' FDI through equity, loans or guarantees (Calice, 2013; Massa, 2011; Chatterjee and Morshed, 2011; De Luna-Martinez and Vicente, 2012).

In Africa, there are more than 150 DFIs, unlocking their potential to contribute to the growth agenda in SSA is crucial as these institutions can make an important contribution to growth developments in the financial sector and gather resources for underdeveloped sectors of the economy of countries in the SSA region and beyond (Calice, 2013; Angeletos and Manova, 2010; Aghion, Bacchetta, Rancieere and Rogoff, 2009; La Porta et el, 2004).

Despite their tremendous potential, African DFIs' compliance with best practices in corporate governance needs significant improvement in a several areas such as the separation of ownership from control by strengthening the regulatory structure; improvement in the process of selection of the board of directors and enhancing the framework where DFIs operate (De Luna-Martinez and Vicente, 2012; Rudolph, 2009; Gutierrez et al, 2011; La Porta et al, 2002).

Exploring the Minimum Requirements for the Success of DFIs in SSA

It is imperative that SSA countries adopt strategies and governing rules to improve the execution and effectiveness of DFIs (De Luna-Martinez and Vicente, 2012).

Some of the minimum requirements for the success of DFIs in the region include the blending of DFIs into country's national development programs. Further, enhancing the role of DFIs to economic development demands that the projection of the national plans take into account DFIs role in the funding process as well as in the implementation phase (Calice, 2013; Dinc, 2005; Yaron, 2005). This in turn requires that, national development banks be given precise orders regarding the sectors in which to focus and canalize the available funds (Xu,2000; Wagner, 2010; Te Velde et al, 2007). Moreover, the government must incentives aiming at rewarding good governance practices while holding accountable failure to translate plans into action (Te Velde et al, 2007; Massa, 2011). Finally, in order to be successful in the SSA region, DFIs must be effectively managed.

Do DFI increase FDI and growth in the SSA?

In this section, the study investigates the nexus DFI-FDI in SSA. The main argument is that DFI increase FDI in the region and have the potential to boost growth.

Methodology

To investigate the effect of DFI in FDI in SSA, a panel model is employed in a sample of five countries for the 1990- 2018 period. The countries are namely: Nigeria, Ghana, Kenya, South Africa, and Zimbabwe. The choice of this set of countries is to allow a comparative study to understand the differences and similarities of the effect of DFI in developing countries in that region given also that these countries are rich in natural resources. As mentioned before, the main advantage of using panel data approach (compared to cross-section or time-series approach), is that this method blends the inter and intra individual differences of the variables being investigated and it offers a more

reliable inference of the variables in the model (Greene, 2008; Woolridge, 2010; Stanley and Doucouliagos, 2012). Appendix A (Table A3 and Table A4) show the descriptive statistics for the models estimated in chapters 3 and 4. For model 1 (see table A3), The average rate of growth is higher in the whole sample (1.45) than in SSA (1.17). The average trade is lower in developing and SSA countries compared with the whole sample (0.29 against 1.26). The statistics suggest that over the period 1990–2018, FDI to SSA averaged nearly 75%. This suggests that FDI represents an important source of financing for SSA countries. Human capital registers a mean of 4.27 for SSA and 4.38 for developing countries suggesting that the stock of human capital in developing countries is very low when compared to that of developed countries, which according to the World Bank is equal or above 50%. For model 2 (see table A4) GDP Growth has the highest mean value at US$1015.386 and standard deviation at 1718.654. The variables *Pol* and *Law* have low averages suggesting that institutional quality in SSA is poor. Over the period 1990–2018, FDI to SSA averaged nearly 5.3%. This suggests that FDI has been an important source of finance for SSA countries.

Explanation of the Variables

The dependent variable is *FDI*, it represents FDI inflows as a percentage of GDP measured in current prices. Specifically, FDI inflows measure the aggregate investment by foreign investors with a minimal amount of 10% of MNCs' share (World Bank, 2017). *TRD* represents trade volume (the sum of exports and imports as a percentage of GDP) World Bank, 2017). The independent variables are as follows: *GDP Growth* is the rate of growth of current period measured in billions of dollars, *DFI* represents multilateral development finance institutions. Following Massa (2011), and for the purposes of the

present research, DFIs' it is measured as the sum of investment commitments by World Bank over GDP. Data on investment commitments is the compound of commitments on different projects in agriculture and infrastructure-which constitute the activities of DFIs in which the research focuses- as these have the great potential to contribute to the economic growth and development. *TRD* represents trade volume (the sum of exports and imports as a percentage of GDP), *INFL* is inflation and represents the percentage changes in the consumption price index (World Bank). *Pol* represents political stability. It is an index value that measures understanding of the probability of occurrence of political instability (World Bank, 2018). The index ranges from 0 (lowest value) to 100 (highest rank) (World Bank, 2018). *Law* represents the rule of law, this variable captures the understanding of the extent to which players can rely on and follow the society's rules (World Bank, 2018). It ranges from 0 (lower value) to 100 (highest value) (World Bank, 2018).

Model and Hypothesis

The models being estimated are as follows:

SEM Model

$$FDI = \beta o+\beta 1GDP+ \beta 2DFI+\beta 3\ TRD+\beta 4INFL+ \beta 5POL + \beta 6Law+ \varepsilon$$

Panel Model

$$FDI_{it} = \beta o+\beta 1GDP_{it}+ \beta 2DFI_{it}+\beta 3\ TRD_{it}+\beta 4INFL_{it} + \beta 5Pol_{it} + \beta 6Law_{it} + \alpha i + \delta t+ \varepsilon$$

Where: αi represents country fixed effects, δt represents year fixed effects and ε is the error term. In the last chapter the study had FDI as causing growth, and in the model above, growth is causing FDI, which suggests a problem with reverse causality in both of these. For the purposes of the present study and following the empirical studies of Tekin (2012),

Olusanya (2013), and Seyoum et al (2015), the present study assumes that a two- way granger causality link exists between FDI and economic growth, and this link is homogeneous among all the countries in the sample.

The hypothesis being assessed by the study are as follows:

Ho: DFIs increase FDI in SSA

Ha: DFIs does not increase FDI in SSA

Diagnostic Tests

To ensure that the data set is accurate and reliable, the study employs different diagnostic tests. The procedures follow the same steps described in chapter 3. Firstly, the study performs the normality test; to access the normality diagnostic, the *Jarque Bera test* is performed. The normality allows to determine whether the data meets requirement of normal distribution (Allison,1999; Greene, 2003). The obtained value of [Chi (2)]- which is a statistic representing is a single number that tells how much difference exists between the observed and expected counts (Dhrymes,1978; Wooldridge et al, 2017)- is 0.081 thus, it can be concluded that the data is normally distributed given that [Chi (2)] is more than 5% (significance level being used as a benchmark). The sample is also tested for multicollinearity using the variance inflation factor test (VIF). Multicollinearity refers to when the predictor variables are highly correlated with each other (Allison,1999). The presence of multicollinearity is an issue, as the model may not be able to accurately associate variance in the outcome variable with the correct predictor variable, leading to inconsistent results and incorrect inferences (Wooldridge et al, 2017; Dhrymes, 1978). On one hand, given that the VIF value for all the independent variables is less than ten

(conventional significance), it can be inferred that multicollinearity is not present in the sample (see table 10).

Table 10

Multicollinearity Test – VIF

Variable	VIF	1/VIF
FDI	1.00	1.00
GDP	1.02	0.98
DFI	1.09	0.92
TRD	1.12	0.89
INFL	1.10	0.90
Pol	1.15	0.87
Law	1.14	0.88

Source: Author's calculation using *STATA*

As shown in the table, the variables do not overlap with one another and the VIF factor is not up to the conventional benchmark of 10. The model is equally tested for heteroskedasticity by employing the *White Test*. Heteroskedasticity refers to the state of systematic changes in the spread of residuals or the error term of the model (Wooldridge, 2010; Wooldridge et al, 2017). Table 11 shows the results of the *White Test*. The null hypothesis is the that the error term is homoscedastic, and the alternative hypothesis is that there is presence of unrestricted heteroskedasticity (Wooldridge et al, 2017). [Chi (2)] is 0.43 and Prob > [Chi (2)] = 0.5544. Since [Chi (2)] is more than 5% the analysis rejects the null hypothesis and concludes that the error term is the same across the regressors (Wooldridge et al, 2017).

Table 11

Heteroskedasticity Test-White Test

Source	[Chi (2)]	Degrees of freedom (df)	*P*
Heteroskedasticity	5.33	8	0.5584
Skewness	1.56	2	0.3463
Kurtosis	4.60	1	0.2042
Total	11.49	11	1.1089

Source: Author's calculation using *STATA*

The correlation matrix provides also valuable information for the overall analysis. For instance, all the independent variables have a positive correlation with FDI which is in line with the claims of the study according to which, FDI is determined by the independent variables, this result also reinforces the claim that the model is good (see Table 12).

Table 12

Correlation Matrix of the Variables

	FDI	***GDP***	***DFI***	***EDU***	***TRD***	***INFL***	***Pol***	***Law***
FDI	1							
GDP	0.0001	1						
DFI	0.0131	0.0664	1					
TRD	0.2335	0.0113	0.2043	1				
INFL	0.0179	0.0414	0.0163	0.6547	1			
Pol	0.1890	0.0359	0.3347	0.0683	0.1884	1	1	
Law	0.1118	0.1144	0.2209	0.0338	0.0300	0.4531	0.0222	1

Source: Derived from author's calculations using *STATA*

Nevertheless, given that correlation is not causation, the study performs next an empirical analysis to explore in the depth the nexus DFIs-FDI.

To empirically examine this nexus, the model is estimated by employing a panel data method of estimation. To determine whether to employ FE or RE approach, the *Hausman specification test* is performed following the same steps taken on chapter 3. The results of both approaches are summarized in tables 13 and 14. The number of observations for each approach is 144.

Table 13

Fixed Effects Approach

Foreign Direct Investment	Coef.	Standard Error	t	P>|t|	Sigma_u	Sigma_e	rho
Gross Domestic Product	1.592076	0.1817356	8.76	0.000	1.3108299	0.97643107	0.64314099
Development Finance Institutions	0.0311491	0.0997546	0.31	0.755	1.3108299	0.97643107	0.64314099
Trade	0.830838	0.2345126	3.54	0.001	1.3108299	0.97643107	0.64314099
Inflation	0.0009286	0.1351949	0.01	0.995	1.3108299	0.97643107	0.64314099
Political Stability	-0.139431	0.5508704	-0.25	0.801	1.3108299	0.97643107	0.64314099
Rule of Law	0.1653325	0.3746255	0.44	0.660	1.3108299	0.97643107	0.64314099
Constant	-21.1658	3.82951	-5.53	0.000	1.3108299	0.97643107	0.64314099

Source: Author's calculation using *STATA*

Table 14

Random Effects Approach

FDI	Coef.	Standard Error	z	P>|z|	Sigma_u	Sigma_e	rho
Gross Domestic Product	0.9627578	0.995459	9.67	0.000	0	0.97643107	0
Development Finance Institutions	0.1286091	0.1306798	0.98	0.325	0	0.97643107	0
Trade	0.5933398	0.280704	2.11	0.035	0	0.97643107	0
Inflation	0.0510496	0.1339424	0.38	0.703	0	0.97643107	0
Political Stability	0.590256	0.6120377	0.96	0.335	0	0.97643107	0
Rule of Law	1.050129	0.4657569	2.25	0.024	0	0.97643107	0
-Constant	-9.540069	2.38881	-3.99	0.000	0	0.97643107	0

Source: Author's calculation using *STATA*

The second step is to compare both approaches. After estimating and saving the results on *STATA*, results are then used to perform the Hausman test. Table 15 shows the results when employing the FE approach.

Table 15

Hausman Test

	(b) Fixed	**(B) Random**	**(b-B) Difference**	**Sqrt(diag(V_b-V_B)) S.E**	**Prob>Chi2**	**Chi2(6)= (b-B)'[(V_b-V_B)^(-1)](b-B)**
Gross Domestic Product	1.592076	0.9627578	0.6293177	0.1520475	0.000	47.24
Development Finance Institutions	0.0311491	0.12866091	-0.09746	0.123538	0.000	47.24
Trade	0.830838	0.5933398	0.2374982	0.018359	0.000	47.24
Inflation	0.0009286	0.0510496	-0.050121	0.022210	0.000	47.24
Political Stability	-0.139431	0.590256	-0.7296871	0.133458	0.000	47.24
Rule of Law	0.1653325	1.050129	-0.8847963	0.015762	0.000	47.24

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
Source: Author's calculation using *STATA*

Following Hausman (1978), given that the overall statistic, chi2(6), has p = 0.000, this leads to rejection of the null hypothesis that RE provides consistent estimates, thus the FE approach is chosen. In other words, the prob> chi2 is 0.000 which is less than 0.005 (level of significance), the FE approach is the appropriate approach for the estimation of the model.

Findings and Discussion of Results

Table 16 shows the result of the OLS panel regression. The coefficient of determination or R-squared value is 0.520 for the whole sample which means that roughly 52 % of the variation in the output variable is predicted by the regressors. The dependent and all the independent variables were transformed through the natural

logarithmic function. One of the benefits of transforming the variables into natural logarithm is that when performing the regression analysis, the transformation of the variables in natural logarithm permit that their coefficients are explained in terms of their flexibility (Anderson, 2003). Further, logarithmically transformed variables enable one to interpret how much a percent change in the regressors affect the output variable and the percent of change is defined by the regressors' coefficient (Hair et al. 2005; Anderson, 2003).

The regression estimates are significant in general, and the coefficients of the regressors are significant at a conventional level. The analysis shows a positive relationship between *FDI* and all the regressors. Consistent with the literature on the determining factors of *FDI*, the analysis supports the claim according to which, economic growth also increases *FDI* inflows in developing countries (Carbaugh, 2015; Nsouli, 2000; Magombeyi et al, 2017). *TRD* is equally significant and has a positive relationship with *FDI* which in turn implies that openness to trade is a determining factor for FDI inflow in the region. *INFL* has also a positive correlation with *FDI.*

For the purposes of the present study- and given that determining the specific threshold (balance between high growth and low level of inflation) for SSA countries goes beyond the scope of the study- the positive relationship between *INFL* and *FDI* implies that an increase in the expected rate of inflation has the potential to increase capital accumulation and overall growth in the economy of SSA. The variables that account for institutional quality, *Pol* and *Law* are equally significant and have a positive relationship with FDI suggesting that institutions matter for attracting FDI into the region

and further to achieve economic growth and development. For example, an improvement in political stability by 1 % increases FDI inflows by 0.186 % in a given country in SSA.

Similarly, an improvement in the attainment of the rule of law by 1% increases FDI inflow by 0.164%. Again, these results have significant policy implications for the region because political instability and the absence of rule of law inhibit FDI inflows and undermines the overall economic environment of the host country. In line with the new institutional literature, the results suggest that an economic environment conducive of business requires that host countries have in place strong institutions. Finally, DFIs have a positive correlation with FDI in SSA which is in line with the present study claim according to which, DFIs have the potential to increase FDI in the region. DFIs' investment commitments are a tremendous driver of FDI and economic growth. In fact, when DFIs commitments increase by 1%, FDI inflow increases by 0.156 %

The fact that DFIs play such a role, suggests also that countries in the region and in the continent in general could benefit from the adoption of policies that create the necessary conditions for the proper operation of DFIs. Additionally, these institutions can serve as an alternative to curb the issue of aid dependency.

Table 16

OLS Panel Regression 1990-2018

	(1)	(2)
VARIABLES	Whole Sample (SSA Countries)	Sectorial Analysis (SSA Countries)
Gross Domestic Product	0.023	0.104
	(0.671)	(0.090)
Development Finance Institutions	0.156	0.244
	(0.245)	(0.066)
	0.214	0.177

Table 16 *(Continued).*

Trade	(0.105)***	(0.140)
Inflation	-0.320	-0.154
	(0.000)**	(0.003)
Political Stability	0.186	0.022
	(0.001)**	(0.607)
Rule of Law	0.164	0.294
	(0.222)	(0.030)**
AGRI	-	0.055
		(0.366)
IND	-	0.237
		(0.085)
INFRA	-	0.108
		(0.24)
Constant	1.208	0.051
	(0.433)***	(0.395)
Observations	144	144
R^2	0.520	0.618

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.
Source: Author's calculation using STATA (controlling for country and year effects)

To investigate the sectors that account for the most developmental impact when it comes to DFIs commitments, the analysis (see table 16, sectorial analysis) breaks down the variable DFI into three broad variables: the first accounts for commitments from the World Bank in agriculture and agribusiness initiatives (*AGRI*); the second encompasses the investment commitments directed to industry (*IND*), and the last one accounts for commitments to investments in infrastructure (*INFRA*). *GDP Growth* continues to have a positive and significant relationship with *FDI*. The sectorial analysis show that *INFRA* has the biggest effect on *FDI* inflows. Followed by DFIs' investments in *IND* and lastly investments in agriculture *AGRI*. The findings suggest that commitments into the sectors are paramount for developing countries to achieve growth and development taking also into consideration the SDGs of the United Nations 2030 agenda.

To check for the robustness of the variables of interest, sensitivity analysis has been conducted by adding and dropping the independent variables in the model. For this purpose, 8 different regressions using the OLS fixed effect approach have been estimated (see table 17) having *FDI* as the dependent variable. Two variables (Government Effectiveness and Control of Corruption) were added to the model as additional variables discussed in the literature regarding determining factors of FDI. Similar to the independent variables used in the study, data for the additional variables was obtained from the World Bank database.

Table 17

Sensitivity Analysis and Robustness Check (Whole Sample 1990-2018)

	Model 1	Model2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
GDP Growth	0.025 (0.664)	0.167 (0.249)	0.026 (0.666)	1.088 (0.000)**	1.150 (0.000)**	0.193 (0.552)	0.362 (0.012)**	0.011 (0.058)
DFIs	0.156 (0.243)	0.198 (0.122)	0.294 (0.036)**	0.053 (0.465	0.063 (0.295)	0.195 (0.133)	1.296 (0.000)**	-
Trade	0.219 (0.108)	0.977 (0.000)***	0.978 (0.20)	0.115 (0.345)	0.252 (0.065)	0.264 (0.055)	-	0.039 (0.008)***
Inflation	-0.120 (0.021)**	-0.163 (0.002)**	-0.160 (0.005)	-0.343 (0.000)**	-0.287 (0.000)**	-	-0.139 (0.008)	0.127 (0.022)***
Political Stability	1.582 (0.000)**	0.109 (0.081)	1.109 (0.017)**	0.233 (0.120)	-	1.482 (0.000)**	0.396 (0.005)**	0.078 (0.018)***
Rule of Law	0.188 (0.00)**	0.240 (0.070)	1.100 (0.000)**	-	0.161 (0.244)	0.098 (0.388)	0.195 (0.150)	0.036 (0.007)***
Government Effectiveness	0.174 (0.189	-0.157 (0.003)	-	-0.282 (0.000)**	-0.356 (0.000)**	-0.270 (0.000)**	0.3624 (0.011)**	0.014 (0.007)*
Control of Corruption	1.149 (0.000)**	-	0.066 (0.267)	-0.423 (0.000)**	-0.308 (0.000)**	0.095 (0.366)	-0.104 (0.561)	-0.0101 (0.062)*
Constant	0.336 (0.074	0.026 (0.671)	1.152 (0.000)**	0.249 (0.068)	0.043 (0.451	0.109 (0.29)	0.099 (0.466)	0.048 (0.037)
Observations	144	144	144	144	144	144	144	144
R^2	0.42	0.46	0.50	0.40	0.55	0.60	0.48	0.59

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1
Source: Author's calculation using *STATA (country and year effects)*

The sensitivity analysis shows that as the variables are dropped and added, the sign and significance of the coefficients for most of the independent variables and the main

variable of interest (DFIs) remain consistent, thus, this sensitivity analysis confirms the robustness of the results of the present study.

Conclusion

This chapter answers the question: Do DFIs increase FDI in SSA? To answer this question, a panel model approach is employed on a sample of five SSA countries for the 1990-2018 period. The findings support the study hypothesis according to which, DFI increase FDI in the region, and are aligned with new institutional framework. The results are in line with the study claim according to which, institutions are essential for economic growth and development.

The results have important implications for SSA given the unsatisfactory record of the institutions in place which in turn exacerbates underlying problems and inhibit the region from escaping poverty, as well as achieve long-run growth and sustainability.

Considering the SDGs of the 2030 agenda and the need for funding, the study assessed also which sectors can boost economic growth and consequently development. The results show that agriculture and infrastructure are paramount on the road to achieve these goals, thus implying that policymakers need to devote more attention to these sectors. This result also confirms the role of DFIs in boosting economic growth through their distributional and catalytic effects. The fact that DFIs play such an important role, suggests also that countries in the region and in the continent in general could benefit from the adoption of policies that create the necessary conditions for the proper operation of DFIs.

CHAPTER V – DFIs, FDI AND ECONOMIC GROWTH: A QUALITATIVE APPROACH

Introduction

The present chapter focuses on providing a general understanding of the development impact of DFIs in Angola, considering the achievement of the SDGs of the 2030 agenda. In the preceding chapter the research has established that DFIs increase FDI in SSA and that the private sector is central to help close the financing gap in infrastructure and agriculture sectors. For the purposes of the present study, Angola is used as a case study. A case study approach in this context was the chosen strategy because it helps to provide an in depth understanding of a given phenomenon Yin (2018). The choice of the country is because, it is worth investigating the relationship between DFIs, FDI and growth from an oil producing country perspective.

Angola is Africa's second-largest oil producer. Yet, the country has not been able to reap the benefits from its natural resources. The country is characterized by high levels of poverty (with roughly two-thirds of the population living with less than $1 per day), political corruption, weak institutions and ethnic tensions among other pressing issues (Nega and Schneider, 2011; Matthew and Adegboye, 2014; Mebratie and Bedi, 2013).

Recently, FDI inflows to the country has been low and heavily concentrated in the oil and gas industry (Magombeyi et al, 2017; Hansen and Rand, 2006). A more diversified FDI portfolio along with the targeting of FDI tailored to the country's needs should be the way forward in order to support the achievement of the SDGs of the 2030 agenda.

Why a Qualitative Approach?

The analysis employs a qualitative approach in the form interviews that was specifically designed to this end. According to Saldana (2011), "qualitative research represents an umbrella term for a wide variety of approaches to and methods for the analysis of natural social life".

In the present context, interviews provide a more untroubled environment in which participants and interviewee can debate specific, broad or even critical concerns. Interviews also provide a channel through which individuals are able share their opinions and ideas (Rubin and Rubin, 2005; Fontana and Prokos, 2007; Saldana,2011; Fowler, 2009; Cormac et al, 2019; Bell, 2014). The formulation of the interview questions was based on the existing literature on the impact of DFIs on economic growth.

For the purposes of this study, an unstructured interview approach was chosen because the unstructured format provides a significant degree of flexibility which allows the researcher to approach the topic and interaction with interviewees in a less bureaucratic manner (Gubrium and Holstein 2003; Kvale, 2007).

The literature on employment of interviews to assess opinions regarding the impact of DFIs on FDI and economic growth is nonexistent as the field of study is to some extent novel and evolving. Thus, in the present context, the employment of interviews is also helpful as it opens an important conversation regarding the topic being discussed.

Methodology

The purpose of the research project is to investigate the impact of DFIs on FDI in Angola for the 1990-2018 period. The study argues that DFIs increase FDI which in turn

increases economic growth leading to development in the long run. The research topic emerges in a time when the world faces the COVID-19 pandemic which surfaced in the province of Wuhan, in China in late 2019, and this factor alone has impacted greatly the feasibility of the interview process as discussed further in the next sections.

Population

The subjects of the interview are divided into two groups (including male and female): the first composed by four diplomats that represent Angola in the ECOSOC (Economic and Social Council of the United Nations), and the second group is composed of three members of the Angola ministry of industry, trade, and foreign relations. The population is unique in two ways, the subjects have more than 10 years of work experience, and their field of expertise range from economics, finance, and foreign relations. The responders ages range from 30 to 68 years old, and all respondents have at least a bachelor's degree, the highest degree in the sample is a master's degree in economics and public administration.

Instrumentation

A semi-structured interview technique was employed, and the interview guide was constructed based on the research design as posited by Borg and Gall (1983) and Gay (1981). Following the steps outlined by the authors, the study developed the interview plan. Further, in order to construct the semi-structure interview guide, the researcher attended a two-week course in qualitative research, while also relying on courses taken with Dr. Pauly throughout the PhD program.

Due to the ongoing situation of pandemic that the world is facing, the initial plan to conduct the interviews in person was cancelled. The researcher conducted all

interviews via telephone using the application *WhatsApp*. This procedure allowed the researcher to expedite interview time and provide respondents with a convenient format for participating in the study; particularly with schedule and time constraints due to the COVID-19 pandemic. The researcher recorded all interviews to ensure objectivity and efficiency.

Procedures

In February of 2022, permission was obtained from the Angola mission to the United Nations and the Angola ministry of industry, trade, and foreign relations to conduct the present study. A personalized letter of research intent and seeking the participation of members of both entities was written and sent to the head of the institutions by e-mail. The interview guide was developed in advance and one test interview was conducted prior to the actual interview. The aim of conducting a test interview was to provide the researcher with an opportunity to explore any issues with the clarity of the questions.

Dates and times for the interviews had to be in accordance with the interviewees' schedule and taking also into consideration the different time zones in which the interviewer and the interviewees are physically located. In preparation to conducting the interview, the researcher reviewed interview transcripts; relied on materials from courses taken in qualitative research and participated in role-plays with family members. Interviews were conducted on March 1st, 2nd, and 3rd of 2022 and lasted for 30 minutes. The interviews were conducted in English for the purposes of the study.

Challenges

The initial plan was to conduct the interviews in person. Access to the elites in the context of this study was possible through the researcher's network connections at the United Nations. Due to the Covid-19 pandemic, and following the guidelines of social distancing, the interviews were cancelled. As a novice in the art of interviewing, and due to inexperience, the interviewer was overly active in the conversations in some instances. Thus, to keep the study on track the interviewer had to talk and allow for silence to act as the catalyst that drove the conversation forward. Another challenge worth mentioning was the fact that, even though the researcher checked for internet connection reliability prior to the interview, during the first interview, the internet connection on the interviewees side in Angola was slow in some instances and the signal was very poor which in turn delayed the time allocated and originated frustration on both parts.

Another challenge faced was to ensure reliability and validity of the study because the interviews were conducted over the phone. The use of telephones for data collection in qualitative research is very common. But in general, this approach is considered as being inferior when compared to others (Novick, 2008). Yet, and as experienced during the interviews, telephones allowed participants to feel more relaxed, and able to share information.

The issue of bias in research was acknowledged from the onset. Scholars contend that objectivity is central to scientific research, yet qualitative research is subjective in nature and researchers may find it challenging to maintain objectivity and avoid research bias Creswell, 2013; Creswell and Creswell, 2014). Although avoiding entirely bias is challenging, there are many strategies to minimize it (Creswell and Creswell, 2014, Bell,

2014). The researcher overcame the issue of potential bias by remaining reflexive, conscious, and aware of her impact in the interviews.

Discussion of Results

As reported in the preceding section, the semi-structured interview was designed to explore the impact of DFIs on FDI in Angola considering the 2030 agenda of the United Nations. The research questions serving as the ground of this study are found in Appendix B. The findings are discussed next.

At the onset, respondents were unanimous in reporting an increase in FDI inflows in Angola in the decades that followed the end of the civil war; followed by a downward trend right after and more recently as well.

According to respondents, FDI has had a positive impact in the economy leading to increases in GDP but inflows were concentrated fundamentally in the oil and gas sectors, which left other essential sectors of the economy (such as agriculture and infrastructure) neglected.

Considering the SDGs of the 2030 agenda of the United Nations, respondents were inquired about the role of DFIs, its interaction with FDI the impact of aid, and the institutions in general. 60% of the respondents recognize that DFI have the potential to boost FDI which would help to catalyze funds to projects aimed at reaching these goals through the private sector.

On the other hand, 40 % of respondents disagree by stating that the private sector seeks profitable investments and in developing countries like Angola, MNCs are competing actors with different interests than those of local governments which in turn creates a disconnect.

Regarding aid effectiveness, 50 % of respondents argue that foreign aid is not a problem by itself, but poor allocation of resources, corruptive practices, and bad governance limit a given country's ability to fully realize its benefits. The other 50 % of respondents point out that aid had failed tremendously to work and has worsened many of Angola's underlying issues such as exacerbated poverty, corruption, and weak institutions. Respondents agree that aid must be aligned with national development plans to be effective. When inquired about the role of DFIs, respondents believe that DFIs are important to achieve the SDGs of the 2030 agenda and pave the way to economic development in Angola due to the financial support that they bring to high-risk investments.

In assessing FDI from China, more than a competitor, interviewees see in China a trading partner that has helped the country to advance its goals towards economic growth.

Regarding the United States-Angola relations, respondents contend that the good relationship that characterize both sides is important for Angola and should be strengthened. Interviewees agree that the bilateral relation with the United States is not in jeopardy, rather it is essential to continue collaborating to curb mutual security threats. Thus, policymakers in both countries must devote more attention to developing and implementing new strategies in collaboration with the G-8, the United Nations, and the African Union.

According to interviewees, the way forward is promising but challenging given the country's heavy reliance on commodities, failure to diversify its economy, high levels of poverty and weak institutions. All these factors pose tremendous challenges to the achievement of the SDGs of the 2030 agenda and beyond.

Conclusion

This chapter investigates the relationship between DFI and FDI from a qualitative approach (interviews) using Angola as a case study for the 1990-2018 period. The findings of the interview show that FDI is essential to achieve the SDGs and that DFIs have the great potential to aid in this purpose. FDI can be seen as an alternative to aid, particularly given the fact the country's long history of aid dependency as prevented it to explore other alternatives to diversify its economy.

The findings of the interview suggest that FDI from China is positive to some extent in the sense that it enabled Angola to register growth, but the level of growth is not translated into economic development. Regarding the impact of China in Africa and the implications for the United States, respondents consider that the good relationship that characterize both sides is important for Angola and should be strengthened.

Respondents believe that with the end of the Cold War, it is time for a different and renewed approach for policymakers in both countries and in the African continent in general. It is imperative to discuss goals and continue to work cooperatively in order to combat the numerous transnational security threats that irradiate from the continent as well as from the rest of the world.

CHAPTER VI – CONCLUSION AND POLICY IMPLICATIONS

Introduction

The literature provides several studies that investigate the nexus between FDI, economic growth, institutions, and economic development. However, the literature on the role of DFIs in SSA is not extensive, to the best of the present study's knowledge, there is not a single study in the literature that addresses this relationship. This dissertation, attempts to fill this gap by exploring the relationship between DFIs and FDI and its impact on the economic growth prospects of SSA countries, considering the achievement of the SDGs of the United Nations 2030 agenda. The present study focused on studying the relationship between DFI and FDI in SSA for the purpose of achieving economic growth and consequently development. To achieve this goal, the research employs both qualitative and quantitative approaches. Firstly, the nexus FDI-growth is analyzed using a broad sample of 76 during the 1990-2018 period. Secondly, a panel model is employed on a narrower data set of only African countries in the SSA region to investigate the effect of DFIs on FDI as a manner to achieve economic, and consequently economic development. Finally, the research takes on a qualitative approach (interviews) to investigate the impact of DFIs on FDI and economic growth in oil producing countries taking Angola as a case study for the 1990- 2018 period.

Summary of the Findings

Chapter 2

The surveyed literature regarding the nexus FDI-economic growth shows mixed results, yet most empirical studies show a positive correlation between both variables. FDI promotes technology transfer and increased productivity. These factors represent an

important vehicle for to boost the economy in the host country to move towards sustainable prosperity for citizens. Beyond the OLI framework, the factors that determine FDI include but are not limited to host country policies and economic conditions. The relationship between FDI, economic growth, and development is not always straightforward as noted by many scholars. In fact, given the different characteristics in each country, FDI is not always tailored to host countries' needs and reality, which in turn makes it difficult to absorb its benefits. On the same token, the relationship between FDI, aid, economic growth is far from straightforward. An example is the case of African countries where many scholars found a statistically significant relationship between foreign aid and decay in governance. Moreover, aid is linked to increase in corruptive practices especially in countries where it is already far-reaching. This factor suggest that SSA countries must make considerable improvements in terms of institutional quality. It is in the context of the new institutional framework that the study surveyed the effect of DFIs on FDI considering the achievement of the SDGs of the 2030 agenda.

Chapter 3

The results of the panel regression show that a positive correlation between FDI and economic growth when estimating the panel model for the entire sample, developing countries only and SSA countries as well. Under all the samples, an increase in institutional quality, increases economic growth. In line with the literature on the determining factors of economic growth, the analysis shows that human capital, foreign investment, education, inflation, quality of institutions and openness to trade affect the ability of countries to achieve economic growth.

Chapter 4

The results of the analysis support the study hypothesis according to which, DFIs increase FDI in SSA. An increase in DFI commitments increased FDI in the whole sample. The findings are in line with the study claim according to which, institutions are important for economic growth and development. The results provide important policy implications for SSA given the unsatisfactory record of aid effectiveness in the region. DFI in this context can help to fund the existing gap through the private sector, by helping countries attract more FDI, which in turn can be helpful in curbing the issue of aid and resource dependency. Considering the SDGs of the 2030 agenda and the need for funding, the study concludes that agriculture and infrastructure are paramount on the road to achieve these goals.

The result also confirms the role of DFIs in enabling economic growth through their distributional and catalytic effects; given the positive record in the country of financing projects that would not otherwise. The fact that DFIs play such a role, suggests also that countries in SSA and in the continent in general could benefit from the adoption of policies that create the necessary conditions for the proper operation of DFIs.

Chapter 5

In assessing the impact of DFIs on FDI in Angola, the study argues that, to reduce oil dependence and diversify the country's economy, investments in agriculture and infrastructure will lead the country on the path to sustainable development and in line with the SDGs of the 2030 agenda of the United Nations. The qualitative perspective in form of interviews confirms the importance of DFIs in fostering economic growth through their distributional and catalytic effects; given the positive record in the country

of financing projects that commercial banks are not willing to undertake. The interviews shed also light on China's influence in the country and the implications to the United States. The investigation found that FDI from China has had a positive and negative impact on economic growth in Angola. On one hand, GDP grew because of FDI inflows, on the other hand, growth was not followed by economic development. Interviewees agree that it is important that Angola strengthens the bilateral relations with the United States at several levels including from a national security perspective. It is important that both sides work together to defend the interests of the United States in SSA and curb possible threats that may arise from the region and the continent such as terrorism.

Policy Implications

The SDGs of the United Nations of the 2030 agenda can be achieved in SSA. Nevertheless, it is imperative that countries in the region and in Africa in general pursue much needed policy changes that cater for a better economic environment for both domestic and MNCs to thrive. This environment is one that accounts for the implementation of strong institutions including the protection of property rights, the rule of law, improving governance practices, eliminating corruptive practices and other forms of inefficacies, ensuring political stability and checks and balances in place to held government officials accountable.

The SDGs of the 2030 agenda must be acknowledged as homogenization of different sectors of the economy as well as socioeconomic areas; thus, SSA countries are required to translate plans into proper action in order to fully achieve these goals. In other words, countries in SSA must change perspective in the implementation of these goals and move beyond mere national development programs (which in many cases don't

consider the entire development picture) and pay closer attention to the implementation of projects that will actually translate into sustainable development in the long run. In order to achieve these goals, political will is of utmost importance considering that in many instances the issue is not necessarily having good policies, rather it is often times the required political will to implement them.

From a policy implication standpoint, SSA countries should also work collaboratively aiming at implementing policies that benefit the region and the continent such as those that promote and support DFIs implementation to foster FDI, economic growth and development.

It is widely known that SSA countries face tremendous development challenges, and much needs to be done to alleviate poverty, invest in infrastructure and agriculture, improve human capital stock, as well as education and health rates. While governments in these countries alone should ensure a more equitable distribution of funds, and a better distribution of wealth from natural resources (in the case of resource rich countries), DFIs have the great potential to help ease these challenges through the private sector. Therefore, efforts by governments in SSA and developing countries should be made to support DFIs and private initiatives in the quest to achieve economic growth that is translated into sustainable development.

Final Word, Limitations of the Study and Future Research

The literature on the role of DFIs is not voluminous as others such as the literature on economic growth, FDI and foreign aid. Researchers maintain that this issues such as authorship of the studies and audience are at the center of the current gap in the literature. This is to say that the existing reports and empirical studies conducted have been written

mainly by analysts and target at a policy niche. Independent researchers and academics in general have yet to devote their attention to exploring this literature. At some stages of the study, the very basic objective was to some extent impacted negatively due to the lack of an extensive literature.

As far as the way forward, the literature would benefit from a throughout examination of different sector effects of DFIs on FDI and economic growth using a bigger data sample. In this regard, a comparative case study of countries without and endowed with natural resources would be useful in assisting policymakers in the decision-making process to attract more FDI. Finally, given that an empirical investigation of the resource curse was outside the scope of the study, future studies would benefit from an in-depth analysis of the impact of DFIs considering the issue of the resource curse in the SSA region.

APPENDIX A – Additional Tables

Table A1.

List of Variables and Data Sources

Variables	**Description**	**Source**
GDP (Dependent variable)	The growth rate measured in US$ billions	World Bank Group
HC (Independent variable)	HC is the human capital. It is an index of the proportion of human capital that a child born today can hope to gain by age 18 accounting for risks such as poor educational and healthy systems that abound in the country where the given child lives. The HC ranges from 0 to 1, thus a value of 0.5 means that a child born today will be only half as worthwhile as a worker in the future if she had full education and health care.	World Bank Group (https://databank.worldbank.org/source/human-capital-index#); Penn World Tables
FDI (Dependent variable)	Represents FDI inflows as a percentage of GDP measured in current prices.	World Bank Group
TRD (Independent variable)	TRD represents trade volume (the sum of exports and imports as a percentage of GDP)	World Bank Group; UNCTAD
EDU (Independent variable)	Percentage of literacy (for each country)	World Bank Group; Penn World Tables
INFL (Independent variable)	It represents the percentage changes in the consumption price index.	World Bank Group
QoI (Independent variable)	Represents quality of institutions (the present study uses the regulatory quality index of the World Bank as proxy. This variable captures the government's ability to implement regulations and policies to foster economic growth and development. It ranges from 0 to 100, with 100 being the highest.	World Bank Group; Jyun-Yi and Hsu (2008)
DFI (Independent variable)	Represents development finance institutions. is measured as the sum of investment commitments by World Bank over GDP. Data on investment commitments is the compound of commitments on different projects in agriculture and infrastructure.	World Bank Group; Massa (2011); African Development Bank
Pol (Independent variable)	Represents political stability. It is an index value that measures understanding of the probability of occurrence of political instability. The index ranges from 0 (lowest value) to 100 (highest rank)	World Bank Group
Law (Independent variable)	Rule of law. The variable captures the understanding of the extent to which players can rely on and follow the society's rules . It ranges from 0 (lower value) to 100 (highest value).	World Bank Group

Table A2.

Countries in the Sample (Model 1)

Argentina	Australia	Austria	Angola	Belgium	Bolivia	Botswana	Brazil
Namibia	Chile	Colombia	Costa Rica	Cyprus	Burkina Faso	Burundi	The Bahamas
Ethiopia	Germany	Denmark	Dominican Republic	Ecuador	Spain	Trinidad and Tobago	France
Ghana	Greece	Guatemala	Honduras	Haiti	India	Ireland	Israel
Jordan	Jamaica	Japan	Kenya	Sri Lanka	Nigeria	Guyana	Korea
Canada	Cameroon	United Kingdom	Italy	Mozambique	Mexico	Mali	Malta
Malaysia	Namibia	Niger	Netherlands	Norway	New Zealand	Pakistan	Panama
Peru	Papua New Guinea	Philippines	Portugal	Paraguay	Senegal	Singapore	Sierra Leone
El Salvador	Sweden	Thailand	Uruguay	Switzerland	United States	Venezuela	Syria
Togo	South Africa	Zimbabwe	Indonesia				

Table A3.

Statistical Description of the Variables in Model 1(Chapter 3)

	Obs.	Mean	Std.Dev	Min	Max
Developing Countries					
GDP Growth	1450	1.27	0.82	-1.61	3.33
HC	1450	4.38	0.44	2.77	5.43
FDI	1450	0.99	1.19	-3.51	3.94
EDU	1450	2.56	0.35	1.33	3.48
INFL	1450	4.78	0.08	4.51	4.95
QoI	1450	0.60	0.004	0.316	0.89
TRD	1450	0.29	0.023	-2.53	2.26
SSA Countries					
GDP Growth	754	1.17	0.85	-1.59	2.70
HC	754	4.27	0.43	2.97	5.37
FDI	754	0.75	1.26	-3.51	3.78
EDU	754	2.58	0.35	1.51	3.46
INFL	754	4.66	0.06	4.54	4.92

Table A3. *Continued*

QoI	754	-1.39	1.45	-6.53	1.66
TRD		0.20	0.86	-2.50	2.28
Whole Sample					
GDP Growth	2204	1.45	0.79	-1.53	3.33
HC	2204	4.48	0.44	2.78	5.42
FDI	2204	1.22	1.01	-1.51	3.96
EDU	2204	2.76	0.35	1.33	3.50
INFL	2204	4.69	0.07	4.56	4.93
QoI	2204	-1.72	1.39	-6.76	1.52
TRD	2204	1.26	0.80	-1.59	3.20

Source: Author's calculation using *STATA*

Table A4.

Statistical Description of the Variables in Model 2 (Chapter 4)

Variable	**Obs.**	**Mean**	**Standard Deviation**	**Minimum**	**Maximum**
FDI	144	0.0530	0.0912	-0.0373	0.7207
GDP	144	1015.386	1718.654	85.5457	8605.29
DFI	144	30.5175	16.9634	0.3182	74.6192
TRD	144	0.7786	0.0098	-0.0031	0.073
INFL	144	0.0977	0.2068	-0.6387	0.8765
Pol	144	0.3362	0.2635	0.0562	1.5548
Law	144	0.1552	0.1890	0.0001	0.9382

Source: Author's calculation using *STATA*

APPENDIX B – Interview Guide Questions

1-How do you assess the record of FDI in Angola in the 1990-2018 period?

2-In your opinion, what were the key determining factors of FDI in Angola? Why?

3- Considering the SDGs of the 2030 agenda of the United Nations, how do you feel about the potential that DFIs offer to catalyze FDI to the Angola? Why?

4- What is your opinion regarding Angola's dependency on aid despite being rich in natural resources?

5- What role do institutions play in the overall economic panorama of the country?

6- In terms of foreign relations are there any concerns regarding China's presence in Angola and the Angola-United States relations? Why or why not?

7- How do you feel about the involvement of the private sector to realize the decade of action of the 2030 agenda of the United Nations? Why?

8-How have DFIs commitment impacted the agricultural and infrastructure sectors in the last decades?

9-How to you feel about the ability of Angola to achieve sustainable development?

10- What is your opinion regarding the way forward?

APPENDIX C –IRB Approval Letter

Office *of*
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NOTICE OF INSTITUTIONAL REVIEW BOARD ACTION

The project below has been reviewed by The University of Southern Mississippi Institutional Review Board in accordance with Federal Drug Administration regulations (21 CFR 26, 111), Department of Health and Human Services regulations (45 CFR Part 46), and University Policy to ensure:

- The risks to subjects are minimized and reasonable in relation to the anticipated benefits.
- The selection of subjects is equitable.
- Informed consent is adequate and appropriately documented.
- Where appropriate, the research plan makes adequate provisions for monitoring the data collected to ensure the safety of the subjects.
- Where appropriate, there are adequate provisions to protect the privacy of subjects and to maintain the confidentiality of all data.
- Appropriate additional safeguards have been included to protect vulnerable subjects.
- Any unanticipated, serious, or continuing problems encountered involving risks to subjects must be reported immediately. Problems should be reported to ORI via the Incident submission on InfoEd IRB.
- The period of approval is twelve months. An application for renewal must be submitted for projects exceeding twelve months.

PROTOCOL NUMBER:	22-101
PROJECT TITLE:	Towards Economic Growth and Development: The Role of Development Finance Institutions in Fostering Foreign Direct Investment in Sub-Saharan Africa.
SCHOOL/PROGRAM	School of Social Science & Global Studies
RESEARCHERS:	PI: Carmen Saituma Investigators: Saituma, Carmen~Sayre, Edward~
IRB COMMITTEE ACTION:	Approved
CATEGORY:	Expedited Category
PERIOD OF APPROVAL:	06-Apr-2022 to 05-Apr-2023

Donald Sacco, Ph.D.
Institutional Review Board Chairperson

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