Independent Final Report

"Foreign Direct Investment: Spillover Effects in Sub-Saharan Africa"

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Abstract

Foreign direct investment (FDI) is currently one of the critical factors and source of investment for the development and growth of any economy mainly in the developing nations, FDI as an international business trend and practices is gaining its fame through the diverse and direct benefits that give to local companies and governments in managerial knowledge, advanced production technology, best working practices as well as employment for the community.

This independent report is a study that will focus on the effects of the foreign direct investment on the economic activities of a particular region: for this research we will try to make the analysis of the FDI effects on Sub-Saharan African region, understanding how the foreign direct investment can boost the sustainable economic growth of the nations by improving the productivity, creating and adding value to the global supply chain as well as solving social problems.
The primary purpose of this research paper is to answer the research questions by examining data regarding foreign direct investment effects on the Sub-Saharan African region through trust sources, a comparative study and looking at the best practices on FDI.
Research questions:

1. Can foreign direct investment produce knowledge and technology transfer?
2. Can foreign direct investment affect the productivity and the economic growth of a nation?
3. Can the business environment and political risk affect the investors` decision on FDI project implementation?

In this research we will make use of the primary research principles, in which is based on the general knowledge and the understanding of nature as well as its laws; the secondary data analysis will be the primary methodology of this research paper as well as benchmarking (comparative study).
We expect at the end of this research, to expose the effects of a foreign direct investment project into a host economy through some data analysis, as well as expose the best practices on foreign direct investment through comparative studies.

We will obviously give some valuables recommendations concerning foreign direct investment initiatives and the promotion of this type of investment project as well as advise on the acquisition of the best practices on the field in order to have optimal results, also some recommendations for governments in order to promote and support the foreign direct investment (regional and internationally) and create conditions to retain those investment projects.

Introduction

The economy of Sub-Saharan Africa is one of the least developed in the world. Sub-Saharan Africa lies in the south of the Sahara. As it is of public domain, the African regression is due to many factors such as lack of infrastructure, unstable governments, corruption, socio-economic conditions, weak institution, etc. half of the Sub-Saharan countries are impoverished countries that the citizens live with less than 2 $ per day.

One of the ways, in order to solve the issue of poverty reduction and economic development of Sub-Saharan Africa, is through opening completely the doors of investments in general and particularly, foreign direct investment; but we know that the African governments should have good policies and strategies in order to attract and retain the investment projects. According to the UNCTAD, *"Africa and the least developed countries (LDCs) saw the third year of declining FDI inflows. But prospects in Africa are brightening. The 2011 decline in-flows to the continent was due to largely to divestments from North Africa. In contrast, inflows to Sub-Saharan Africa recovered to $37 billion, close to their historical peak."*

Africa is the continent with more natural resources in the world, but no many of these resources are attracting foreign direct investment from the investors due to several issues. UNCTAD said that *"New oil- and gas-producing countries are emerging as major recipients of FDI. Oil production in Sub-Saharan Africa has been dominated by the two major producer countries, Angola and Nigeria. Nigeria was Africa's largest recipient of FDI flows ($8.92 billion) in 2011, accounting for over one-fifth of all flows to the continent. In gross terms, Angola attracted FDI inflows worth $10.5 billion, although in net terms, divestments and repatriated income left its inflows at -$5.59 billion."*

This research will be focused on the effects of the FDI projects in the Sub-Saharan African; we will try to expose the relationship FDI and technology transfer, FDI and economic growth and FDI and political risk. Some valuables recommendations concerning foreign direct investment initiatives and the promotion and retention strategies for host countries in these types of projects as well as advise on best practices acquisition in order to have optimal results.

Chapter 1: Literature Review

This chapter covers the theoretical revision of the different determinants of the FDI which is considered necessary to be able to have a more comprehensive and significant perspective of the fundamental aspects and the existent reasons to carry out a Foreign Direct Investment, helping a better exteriorization of the subject in question to comply with the objectives of this report.

For a better understanding of Foreign Direct Investment (FDI), we present below some definitions and important knowledge of it, as well as examples of practices, treated by important international and academic organizations:

1.1 Definitions of FDI

1.1.1 IMF (International Monetary Fund)

"Direct investment is a category of cross-border investment related to the fact that an investor resident in one economy exercises control or a significant degree of influence over the management of a company that is resident in another economy."

In this participation the following two elements are assumed: 1) the long-term condition between the investor and the company; and 2) a significant degree of influence on the company and its management through a shareholding property of at least 10% (International Monetary Fund, 2007).

1.1.2 OECD (Organization for Economic Cooperation and Development)

"Foreign direct investment (FDI) is a type of international investment whose objective is to maintain a long-term interest in a company located in an economy other than the investor. The foreign direct investment includes both the transfer of resources such as the acquisition or control of these. Subsidiary companies have financial obligations and are part of the parent company. (OECD, 2008).

1.1.3 WTO (World Trade Organization)

"Foreign direct investment occurs when an investor established in a country (origin) acquires an asset in another country (destination) in order to manage it. The asset management dimension is what distinguishes FDI from portfolio investment in assets, bonds, and other financial instruments. In most cases, the asset is managed abroad as a signature of the same business. When this happens, the investor is known as the "parent company" and the asset as "sharp" or "subsidiary." (WTO, 1996).

Summarizing, FDI investment is considered to be the placement of capital in third countries, for the promotion, expansion, or modernization of companies in any of the sectors and among their purposes is internationalization. This not only includes the initial transaction between the investor and the receiver but the following link of transactions between them that can last an extended period. FDI consists of a real investment, that is, tangible productive assets (plant and equipment, inventories, etc.), carried out by a foreign company, which is motivated by the possible benefits of carrying out part of their production processes in another country, which can be done through the total or partial acquisition of an existing company or through the creation of a new, this investment, in any case, will be part of the organizational structure of the parent company. Therefore, this type of investment is expected to have positive impacts on the regional economy of the host country.

1.2 Classification of FDI

Following the analysis made by (IMF, 2015), we can point out:

- Direct investment in new projects **(Greenfield)** "when a new facility is built, or we provide funds for a new factory, a store or distribution plant, in order to establish itself in the receiving country".

- Mergers and Acquisitions **(Brownfield)** " is when FDI is established in an existing activity that would be, for example, to invest in a local company already established or take over its control, instead of establishing a new one. This involves acquiring their facilities, suppliers, and operations, and often the brand itself".

1.3 FDI from the market perspective

- **Horizontal nature**: "is when a global chain production process is divided or has other production processes incorporated, such as when companies decide to invest in the production of components that will be part of a more complex product. A car manufacturer is an example, you can already invest in a plant to make gear boxes that are then sent to a final assembly plant in another country".

- **Vertical nature**: "is when the production process is within a global chain production process such as when companies may invest with the idea of producing components that will be part of a more complex product. A car manufacturer can invest in a plant to make gearboxes that are then sent to a final assembly plant in another country".

Both in foreign investment of a horizontal nature and in that of a vertical nature, productive processes may or may not involve a proportion of national inputs.

In summary, we can say that FDI can be oriented towards the production of services and / or goods, be implemented under different levels of knowledge and technical experience, which will cause a different

impact in the receiving economy. To summarize this analysis, we can say that technology can be differentiated into three levels: high, medium and low, which will be determined by the degree of capital intensity and the use of technology. The primary activities that include agricultural and mining activities are not cataloged according to the technological level, since they are supposed to be investments that require the use of standard technological levels.
According to various kinds of literature related to FDI, we can point out that depending on their degree of control can be classified as:

1) **Branch**: the majority owned by the parent, without economic or financial autonomy and maintaining identity.
2) **Subsidiary**: even though it is widely owned, it has some economic and financial autonomy. There is no obligation to identify with the same business name.
3) **Joint venture**: there is a certain symmetry in the decision capacities among the partners.

1.4 Origin of FDI

When we do an analysis of the origin of the FDI, according to the type of source, these can be classified into private and public:

- **Private**: They are the most important in the channeling of financial resources at the international level and among the most representative include commercial banks, large transnational corporations and institutional investors (mutual and pension funds and insurance companies).
- **Public**: They are classified as bilateral (governments and official credit agencies) and multilateral (different agencies of the United Nations System, international financial institutions, such as the World Bank, the Inter-American Development Bank, the International Monetary Fund (IMF)) and other regional development banks).

But without a doubt, FDI constitutes an instrument of vital importance in the accumulation of capital, technology and in the changes of structure oriented towards the industry. The United Nations Conference on Trade and Development recognizes that: "FDI has the potential to generate employment, increase productivity, transfer know-how and technology, increase exports and contribute to the development of the whole world. More than ever, countries, whatever their level of development, try to increase FDI for development (UNCTAD, 2005).

FDI has different impacts depending on the host country, the industrial sector, and the social and economic environment, which have been analyzed by two schools that have contributed two diametrically opposed conceptions or models. The Benign Model (perspective that FDI brings, therefore, a series of positive effects in the economy of the country that receives the investment flows) and the Malignant Model (criticize the position of the governments that try to make of their countries attractive destinations to the capital Foreign).

We can say that although the two points of view have essential theoretical and empirical support cannot be so radical in terms of totally positive or negative positions, and that in general, there is a series of effects that can be evaluated to the light of available empirical evidence that helps identify what are the general conditions necessary for an FDI to have effects that justify their promotion, especially in developing countries.

1.5 FDI Portfolio diversification model

According to (Fidelity Investment, n.d.) in its Learning Center:

- **Diversification:** "is the practice of spreading your investments around so that your exposure to any one type of asset is limited. This practice is designed to help reduce the volatility of your portfolio over time".

One of the keys to a successful investment is to keep our comfort zone in balance, taking into account the next level of risk compared to your time horizon. In other words, it is to maintain a balance between the risk and the investment portfolio through the diversification of assets. Diversification can help moderate risk and instability in your portfolio, potentially reducing the amount of ups and downs in the process and the implied severity.
To summarize, we can say that, when we talk about the diversification of a portfolio, we refer to building a financial inheritance that has assets of diverse nature, origin, and sector. In this way, we will maintain our profitability with lower exposure to risk.

1.6 FDI Flows

According to the **(World Bank)** in its databank:

Foreign Direct Investment (FDI) flows "record the value of cross-border transactions related to direct investment during a given period of time, usually a quarter or a year. Financial flows consist of equity transactions, reinvestment of earnings, and intercompany debt transactions".

What is the difference between Foreign Direct Investment (FDI) net inflows and net outflows?

1.6.1 FDI net inflows: "are the value of inward direct investment made by non-resident investors in the reporting economy. Inward Direct Investment, also called direct investment in the reporting economy, includes all liabilities and assets transferred between resident direct investment enterprises and their direct investors. It also covers transfers of assets and liabilities between resident and nonresident fellow enterprises, if the ultimate controlling parent is nonresident". (World Bank).

1.6.2 FDI net outflows "are the value of outward direct investment made by the residents of the reporting economy to external economies. Outward direct investment, also called direct investment abroad, includes assets and liabilities between resident direct investors and their direct investment enterprises. It also covers transfers of assets and liabilities between resident and nonresident fellow enterprises, if the ultimate controlling parent is resident. Outward direct investment is also called direct investment abroad". (World Bank).

1.6.3 Inward flows: "represent transactions that increase the investment that foreign investors have in companies resident in the reporting economy fewer transactions that decrease the investment of foreign investors in resident enterprises". (OECD, 2008).

1.6.4 Outward flows: "represent transactions that increase the investment that investors in the reporting economy have in enterprises in a foreign economy, such as through purchases of equity or reinvestment of earnings, less any transactions that decrease the investment that investors in the reporting economy have in enterprises in a foreign economy, such as sales of equity or borrowing by the resident investor from the foreign enterprise". (OECD, 2008)

1.7 FDI and Economic development

The theory of economic development has its origin, in the attempt to explain what the different variables were and / or mechanisms that would help the least developed countries resemble the level of development in the more developed countries. The theory of Development fell into disuse by the decade of 1980s, being replaced by the different growth models that served to respond to these phenomena from a scientific perspective. The Professor (Solow, 1956) with his growth models was the starting point of the so-called classical theory that still remains the basis to explain the growth of economies based on the relationship between capital and labor.

Later, some "endogenous" models advanced along the same line, trying to explain other additional factors such as technological change (Pitelis, 2009), and trying to identify the behavior of the variables that would allow economies less developed to "Catch Up" The levels of the most developed economies. This theoretical effort began with the pioneering work of (Abramovitz, 1986), which sought to explain the factors that allow eliminate those impediments and economic differences that existed between rich and poor countries, which is also known as "Convergence", helping us to understand the capacity of a poor country to benefit from the technological overflows of the more advanced countries and their ability to accumulate that technology. Some authors such as (Nelson, 1991) found that the concept of "convergence" can be applied between poor and rich countries, as long as the most impoverished countries that are not benefited from this process are excluded, based on the analysis that it is easier to find convergence among rich countries.
The author, (Zhang, 2001) states that the relationship between Foreign Direct Investment and economic development can be based on three contexts:

A) That there is a causal link that departs from the unidirectional path of FDI to the growth of the income of the recipient country (GDP), assuming as a result the conduction of benefits in the creation of capital, transmission of technology and production of employment, among others elements.

(B) That there is a causal relationship in the opposite direction of the income of the recipient country (GDP) towards FDI, which means that the investment must reach the country that has absorptive capacity due to the size of its market or because it has developed infrastructures and resources human resources to implement efficient production units.

C) That this is a process that has two senses, in which FDI and income growth have a cause relationship that intensifies each other. The capacity for assimilation is a fixed idea in the analysis of the capacity of FDI to transfer both hard technology (scientific innovation) and soft (management processes, contracting, etc.).

(Bloch, 2001) argue that if we want to assess a country's absorptive capacity, three essential aspects should be taken into account: the entry of foreign technologies, the learning capabilities of the host country and the stimuli and difficulties that exist for the implementation of new technologies, say; fiscal incentives, macroeconomic stability and the institutional environment, without forgetting issues such as the protection of intellectual property.

A fundamental concern is that which is related to the characteristics of FDI in the case of extractive industry. The bibliography related to foreign investment in areas such as oil exploitation and activity in the mining industry tries to argue that these types of activities influence differently from what is observed in foreign direct investment flows that go to other sectors. (Reed, 2009), analyzes these impacts of inclination in the relationship that transnational corporations have with their employees and the societies where they reside in terms of benefits (taxes and others), environmental costs and the economy in general. While it is clear that FDI in the industry helps the creation of capital and the production of foreign currency; It is contested that the existence of a significant development of the extractive industry does not necessarily constitute an instrument of economic development if we assess its impact. This is clearly evident in the case of countries in sub-Saharan Africa, where, for example, a significant proportion of FDI has focused on the exploration of natural resources, based on the UNCTAD Global Investment Report, 2009.

1.8 FDI spillovers

The growing wave of FDI in the world in the last 20 years has highlighted the importance of the indirect or secondary effects caused by these capital flows in the host economies, by promoting improvements in the productive activity of local companies. These effects, known as spillovers of FDI, have popularized an extensive empirical literature that has concentrated on studying its impact on productivity.

1.8.1 "Benign Model", positive effects.

The authors (Christiansen, 2003) analyzed that the Benign Model of FDI focuses on how host countries can break the vicious circle of underdevelopment, which consists of low wages and little savings, which negatively impacts investment rates in those countries. According to (Gillis, 1996), FDI can break the vicious circle of underdevelopment by promoting savings through access to new technologies and through the knowledge and implementation of new business and administrative techniques which tend to improve productivity and develops at the same time the competitive environment. According to a study prepared under the auspices of the Committee on International Investment and Multinational Enterprises of the Organization for Economic Cooperation and Development (OECD Chair Meeting, 2003), FDI is a generally essential support for the economic growth of developing and transition economies, regardless of their current state of development.

1.8.1 .1 The positive consequences associated with FDI in recipient countries are significant and diverse.

Following (Christiansen, 2003), (Blomström, 2003) and (Greenaway, 2004), we can point out the following:

1. It is presented as "the most promising source of 'patient' and stable long-term funding."

2. The arrival of multinationals generally improves trade relations between regions; it is recognized that the presence of these corporations tends to increase exports and imports, giving the receiving country better access to the global networks established by investors.

3. They tend to improve the corporate management of acquired companies, at the same time, that technological improvements are introduced and efficiency is improved.

4. The foreign direct investment normally causes technology transfer, mainly as a new driver for capital inputs; in which with the regular financial investments and/or trade in goods and services is not possible to transfer technology.

5. Those who receive FDI often obtain training for their employees in carrying out new tasks, which contributes to the development of the country's human capital.

6. Local companies can also improve their productivity as a result of a forward or backward linkage with multinationals; they can also imitate the technologies used by them or try to hire employees who have been trained by them.

7. It helps to end local monopolistic practices and stimulates competition and efficiency in the national input market.

8. Transfer innovative inventory and quality control techniques to local suppliers and their distribution channels.
9. They encourage local firms to improve their administrative practices.
10. Externalities of information from platforms that foreign firms have in the host country of international capital in terms of distribution networks, infrastructure, investment in advertising, market intelligence on consumer tastes, etc.; that can be transferred from multinationals to national companies. The choice of policies related to FDI and the design of the surrounding political environment is decisive in the contribution of foreign companies to the economic development of the recipient country.

"It is now generally recognized that FDI can bring substantial benefits to a country - in the form of capital inflows, technology and expertise and better access to markets - but these benefits cannot be taken for granted. The role that FDI plays in the process of industrialization of countries depends on many factors, particularly, the nature of the FDI that is attracted, as well as the specific circumstances (including national and international policy frameworks) in which it is involved. (UNCTAD, 2001)Therefore, we must be aware that within the Benign Model, it is not thought that the simple fact of the existence of FDI flows brings automatic positive consequences. On the contrary, it is recognized that it is essential to take into consideration the determinants of the FDI, the host economy and the role of the state as a promoter of the arrival of investments and as the agent that promotes desired conditions, not only for the development of foreign companies but also for the functioning of national companies; which in this context are expected to establish productive relationships within the country that can generate jobs and, therefore, contribute more importantly to achieve national development.

1.8.2 “Malignant Model”, negative effects.

The Government plays a fundamental role as a promoter of investments, causing some possible adverse effects associated with the arrival of FDI itself, while other results are related to the activities carried out by the companies that they settle in a foreign country. On the other hand, in the case of local governments, in trying to promote the economic development of their respective countries, FDI is presented as one of the tools that enable them to achieve this goal, however, not always, government efforts they have positive consequences in the policies and actions planned to drive the arrival of the investments. For example, government investment incentives may cause you to see reduced government spending on public goods, placing these below their efficiency levels. There may also be competition for giving the most attractive incentives to encourage the arrival of FDI, which means that the authorities spend too much on investment projects, causing subsidies that are too high to foreign companies at the expense of the local economy. This rivalry may also create an excessive movement of capital, because, in the presence of this competition, firms are inclined to reduce the "depth" of their investments in each country, allowing them to move more quickly (Christiansen, 2003).

1.8.2.1 Examples of the negative effects related to FDI

According to (Blomström, 2003):

1. “The operation of the multinationals and their consequent benefits do not occur in all the industrial sectors of the country, so its effect on productivity is not necessarily transmitted to the whole economy, but tends to concentrate only in the industry in which the foreign company works, causing the national companies to be eliminated because of their inefficiency when they operate under the new competitive conditions of the market”.

2. In employment derived from the increase in productivity caused by FDI and the exit from the market of inefficient companies.

3. The excessive arrival of FDI may be a sign of weakness in the local industry.

4. Multinational companies use technologies developed in the context of the developed world in host countries, which are capital intensive and require special skills and producers of goods with high-quality requirements while developing countries need labor-intensive technologies and not so sophisticated products.

Given the above, the challenge for local governments is to try to maximize the benefits and minimize the adverse effects of FDI, so that the positive results presented from the Benign Model have significant positive impacts on the development of local economies. Among other things, the type of industry that is intended to attract the local economy seems to be especially relevant. It is necessary above all to promote the arrival of companies that currently do not have a significant presence in the country, and therefore, come to complement the national industrial plant rather than eliminate local businesses.

1.9 Factors that favor the attraction of FDI

(Dunning, 2001) Focuses on developing a combination of three different criteria. According to the author, for foreign direct investment to take place, we need the analysis of three conditions, described by the theories of the industrial organization, the location, and the internalization, respectively. In this sense, it is clear that foreign companies will have in most cases, certain advantages in terms of the productive processes used in their home towns, some of them derived from their industrial relations with other companies within a cluster. The biggest challenge for the local industry is to be able to work in coordination with foreign companies helping to establish industrial relations similar to those that they had in their countries of origin.

As we can see, companies have different motivations to invest in a foreign country, these motivations should be the subject of a thorough analysis, taking into account the characteristics of candidates to be recipient countries, that is, it is essential that once the companies have decided to carry out a part of their production processes in another country, do not leave aside specific essential characteristics that the host country must gather to ensure, among other things, the proper functioning of its subsidiaries in a climate Favorable and secure business. As a summary, we can signal some of the primary factors that a country must ensure to receive significant FDI flows, according to the experience of different countries:

- **The level of economic integration**, as a result of the possibility of accessing extended markets.
- **The salary level**. In the case that wages are considered as an essential production cost, however, foreign investors are willing to pay higher fees if this represents higher productivity and higher profits.
- **The exchange rate** influences FDI through the effect of wealth and changes in salaries relative to employees or staff in general. In the case of countries investing abroad, a depreciation of their currency has adverse effects when purchasing power in the host country is lost. In the case of the country that receives the investment, devaluation of its currency has positive effects, since it allows its merchandise to be more attractive in the international markets.
- **The risk of the receiving country**. Which is represented by the possibility of social, political, and economic instability. Countries that pose a higher risk in the areas indicated will have fewer options of attracting FDI since this implies an environment of uncertainty and insecurity for companies.
- **The level of urbanization**. A right level of urbanization encourages the arrival of FDI because it favors the concentration of markets in specific places, which is complemented by the greater availability of local infrastructure. As an example, we can mention the creation of special economic zones (clusters) and provide the site for the construction of facilities.

While it is true that there are primary general conditions in which countries must aspire to receive significant FDI flows as indicated above, it is also essential to recognize that, for each specific industry and sector, there are determining factors which are evaluated by the foreign companies to make decisions about the country and the region in which they will make their investments.

Countries with a visible advantage when compared to different aspects, such as favorable foreign direct investment attraction policies or a significant force of skilled workers, often develop investment promotion programs, which They can include marketing campaigns, agencies or institutes responsible for the promotion and recruitment of investments or information offices and even bilateral negotiations between governments and foreign companies. Unlike tax incentives and other tax benefits offered to foreign investors, information campaigns do not erode the tax revenues generated by direct investment.

According to the (UNCTAD, 2017), developing countries attracted 1/3 of global FDI inflows. This portion surpassed 50 percent in 2014 but has shrunk in the last two years. Almost one-quarter of global FDI in 2016, was directed to developing countries in Asia and Oceania and almost 10 percent to developing economies in Africa and America respectively. During the origins of FDI, almost 70 percent were developed by the investors from developed economies; and from this value, 35 percent were from Europe and 25 percent from Northern America.

The fact that there is an overwhelming proportion of direct investments among advanced economies may seem contradictory, but the fact that they can access skilled workers, advanced technology, and large markets in other Advanced economies, taking into consideration the large size of these economies, it is logical that direct horizontal investments dominate global direct investment.

1.10 Macro-regions, formed by commercial agreements

The countries are participating in regional trade agreements, because this type of integration can generate several economic benefits, among them, the stimulus to trade and the increase of investments within the region. In general, regional integration is understood as the reduction of trade barriers and facilities granted to investment flows. Regional integration agreements between countries can affect FDI flows in different ways since there are several reasons why companies may be motivated to make an investment in a foreign country that is a member of a specific region. Companies may be driven by the fading of trade barriers or by the internalization of intangible resources that cannot be efficiently acquired in local markets (Blomström, 2003).

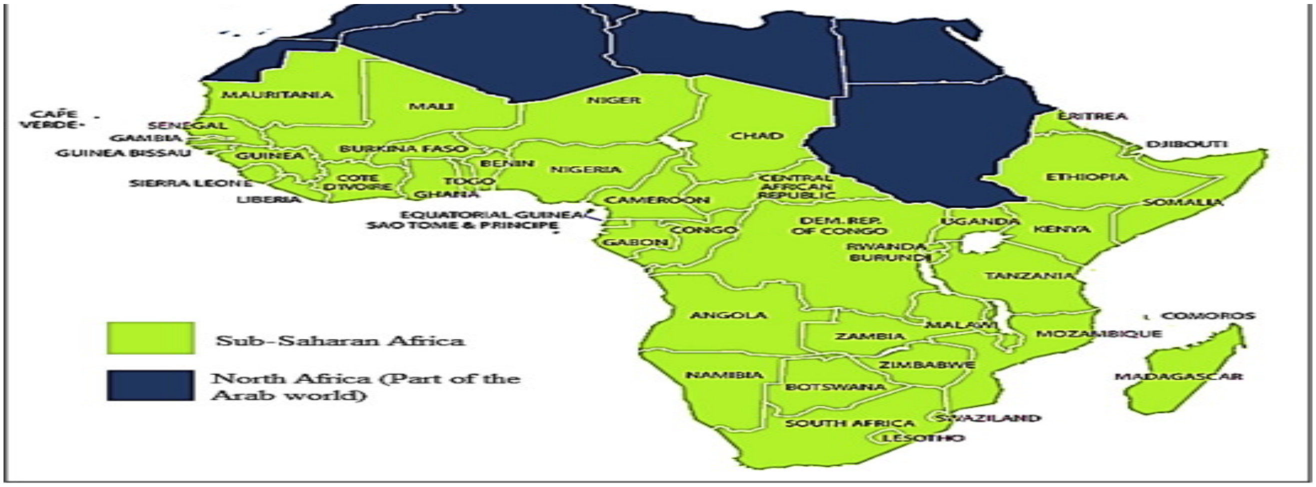
We can affirm that the processes of integration between countries, such as trade agreements, motivate foreign investors to carry out FDI, so it is now necessary to provide the conditions required to the interested investors to crystallize the possible arrivals of investments. It is also possible that the flows of foreign investments do not come only from the member countries of the region, but also from external countries that evaluate the possibility of participating actively in the newly expanded markets based on the established trade agreements.

Given the preceding, we can conclude that the processes of regional integration can have significant benefits even when these processes are carried out between countries with different levels of development: however, it is necessary that they exist in parallel to trade and agreements. Several local conditions that attract foreign investors on their own and complement each other with the benefits of participating in developed markets.

1.10.1 Sub-Saharan Africa

According to (UNHCR, n.d.), Sub-Saharan Africa: is the term used to describe a total of 49 countries of the African continent located south of the Sahara Desert. There are, according to the United Nations Program for Development (UNDP, n.d.), three elements that differentiate Sub-Saharan Africa from the rest of the world: poverty, economic inequality, and illiteracy. Although this argument is simplifying, it sums up concretely the principal evils of Africa.

1.10.1.1 Sub-Saharan African countries



Source: ***http://blogs.ft.com/material-world/2014/05/11/part-lll-sub-saharan-africa***

1.10.2 Southern African Development Community (SADC)

The Southern African Development Community (SADC) is a regional group with 15 Member Countries within the Sub-Saharan region founded in 1980. (FAO, n.d.) The current SADC treaty was signed on October 17, 1992, and is of great importance for coordinated economic development in the region, as well as political stability. The headquarters of the block is located in the city of Gaborone (the largest city of Botswana).

The vision of SADC “is of common interest future, a future within a regional community which will guarantee economic well-being, the improvement of living conditions, freedom, social justice, quality of life, peace and security for the population of Southern Africa. This vision is based on common values and historical and cultural affinities that exist among the people of Southern Africa” (FAO, n.d.).

SADC's mission “is to promote fair economic growth and sustainable and development in the socio-economic field through good governance, cooperation and integration, lasting peace and security, productive systems, so that the region becomes an competitive actor and very effective in international relations and the global economy” (FAO, n.d.).

1.10.2.1 Member countries of the block

Source: *Own elaboration.*

1.10.2.2 Main objectives of the SADC

According to the (SADC, n.d.), its main objectives as a regional organization are the following:

- "Stimulate the trade of products and services among the member countries;
- Reduce the poverty of the population of all member countries and improve the quality of life;
- Maximize the use of the region's natural resources;
- Promote the sustainable growth of the countries of the block;
- Promote peace and good political relations in the area, acting to avoid conflicts and wars;
- Socioeconomic and political cooperation in the region;
- Find standard solutions for the main challenges of the region;
- Reduction and unification of customs tariffs and import and export rates in trade relations between member countries".

1.10.2.3 Main data of the SADC

- Population: 285 million inhabitants (estimate 2018).
- GDP: US $: 1.23 trillion (in 2017 - estimate).
- GDP per capita: US $ 4,315 (estimate for 2017).
- Total area (all countries together): about 9.9 million km².
- Official languages: English, French, and Portuguese.

Chapter 2: Development

2.1 World trends of Foreign Direct Investment

In order to describe the situation of the world trends of FDI thoroughly and to understand the declining of this type of investment, I will quote the United Nations Conference on Trade and Development (UNCTAD, 2018) and the illustrative chart related to the world trends of FDI, it says "*Global foreign direct investment (FDI) flows fell by 23 percent to $1.43 trillion. This is in stark contrast to the accelerated growth in GDP and trade. The fall was caused in part by a 22 percent decrease in the value of cross-border mergers and acquisitions (M&As). But even discounting the large one-off deals and corporate restructurings that inflated FDI numbers in 2016, the 2017 decline remained significant. The value of announced greenfield investment – an indicator of future trends – also decreased by 14 percent. FDI flows to developing economies remained stable at $671 billion, seeing no recovery following the 10 percent drop in 2016.*
• FDI flows to Africa continued to slide, reaching $42 billion, down 21 percent from 2016. The decline was concentrated in the broader commodity exporters. • Flows to developing Asia remained stable, at $476 billion. The region regained its position as the largest FDI recipient in the world.
• FDI to Latin America and the Caribbean rose 8 percent to reach $151 billion, lifted by that region's economic recovery. This was the first rise in six years, but inflows remain well below the 2011 peak during the commodities boom.
• FDI in structurally weak and vulnerable economies remained fragile. Flows to the least developed countries fell by 17 percent, to $26 billion. Those to landlocked developing countries increased moderately, by 3 percent, to $23 billion. Small island developing States saw their inflows increase by 4 percent, to $4.1 billion.
Inward FDI flows to developed economies fell sharply, by 37 percent, to $712 billion. Cross-border M&As registered a 29 percent decrease, with fewer of the megadeals and corporate restructurings that shaped global investment…"

I invite you now to observe the charts below extracted from the World Investment Report 2018, which depicts the overall state of the art of foreign direct investment worldwide. One of the reasons for the declining process to consider is due to the trade war that the United States of America has declared to many nations with the stress on China.

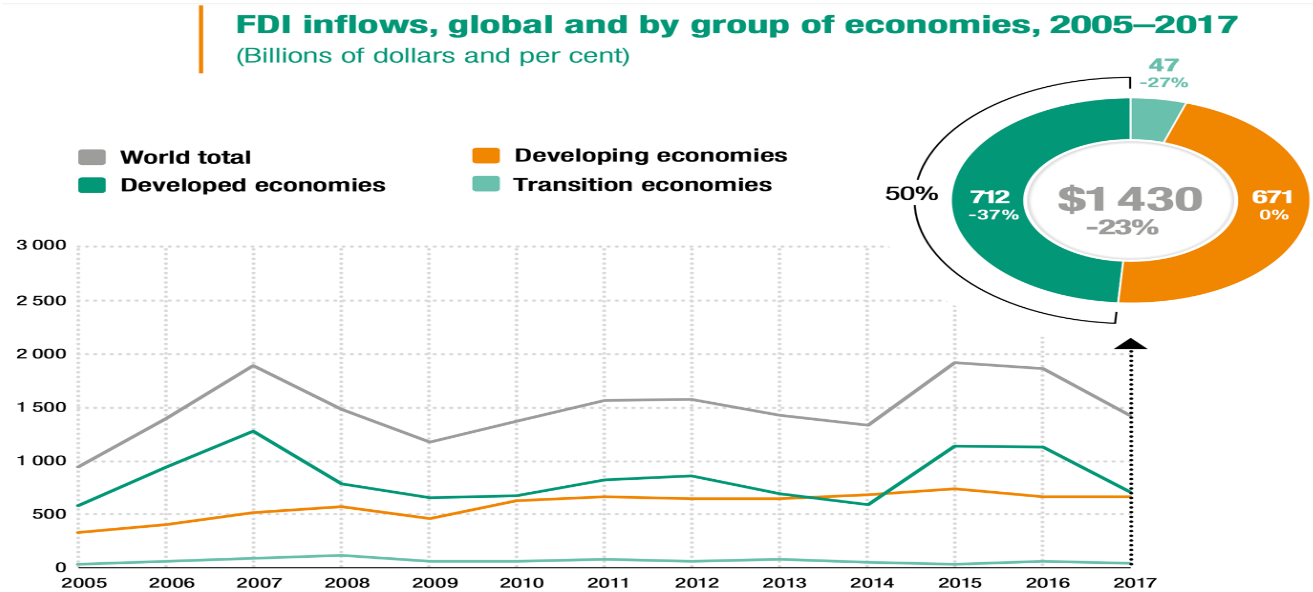


Figure 1: FDI inflows, global and by a group of economies 2005 - 2017. Source UNCTAD, World Investment Report 2018. (www.unctad.org).

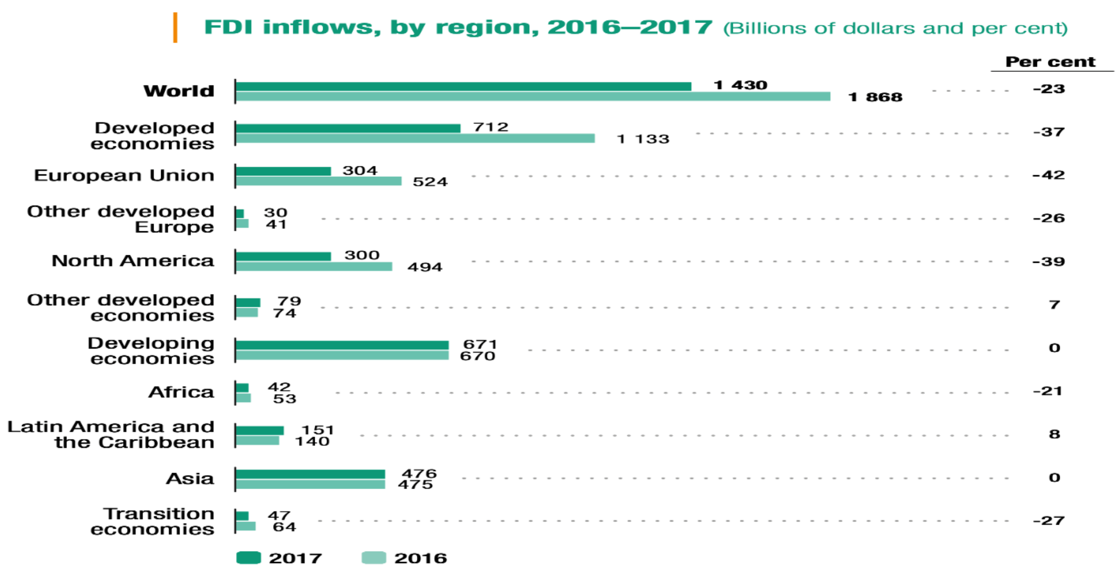


Figure 2: FDI Inflows, by region, 2016 - 2017 (Billions of dollars and percent). Source UNCTAD, World Investment Report 2018. (www.unctad.org).

As we can see from the graphs above; in recent years the FDI projects is declining worldwide also because of the United States tax reforms, which are causing a domino effect and a tit for tat situation among nations: but still Africa has the lowest amount of the direct inward FDI flows; subsequently we are going to describe the trends of FDI in Africa and analyze the different motives and practices.

2.2 Trends of FDI in Africa

FDI in the African continent has experienced a sharp decline of 21%. Oil producing countries are no longer as attractive; only diversified economies are doing well. Foreign direct investment in Africa fell to $ 42 billion in 2017 to $ 52.5 billion in 2016, a decrease of 21%, according to the latest "World Investment Report 2018" published on June 6 by the UNTACD. At issue: low oil prices and the negative consequences of the recession in the commodity sector. "The lingering effects of the slowdown in commodity weighed on FDI in sub-Saharan Africa, with reduced inflows sector up 28 percent to $ 28.5 billion," the analysts said. Foreign direct investment in freefall. However, this decline differs by region. West Africa recorded an 11% drop in FDI, while the decline was more severe in Central Africa (-22%) and especially in Southern Africa (-66%), a reduction of $ 8 billion. A situation that is related to the decrease of 41% inflows to South Africa is due to the difficulties of the commodity sector and political uncertainties.

In all cases, these decreases confirm that some African countries remain too dependent on raw materials or unprocessed products with the recession in the sector; FDI cannot drain enough. This is the case in Angola, where FDI flows have returned to harmful levels (from $ 4.1 billion in 2016 to $ 2.3 billion), with foreign subsidiaries transferring funds to the country from abroad through loans intragroup. By contrast, FDI in Zambia increased, supported by increased investment in copper.

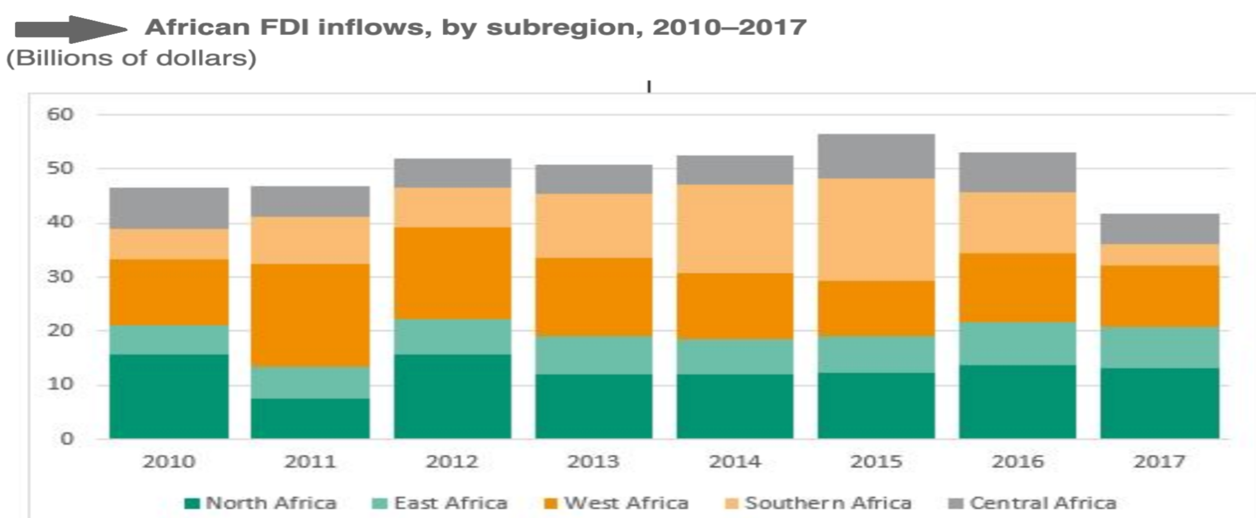


***Figure 3**: African FDI inflows, by subregion, 2010 - 2017. Source UNCTAD, World Investment Report 2018.(www.unctad.org)*

2.3 Chinese FDI toward Sub-Saharan Africa

We cannot talk about investment projects in Africa without mentioning Chinese influence in the mother continent (Africa).
China, during a long time, has proved to keep a very high economic growth, that was able to overtake Japan as the second largest economy in 2010. Recently we have been noticing the trade war that the United States of America had declared to China; allegedly there is a forecasting of the rising of China that preaches that before 2030, China will become the first most significant economy in the world.

In these days China no longer receives much FDI from other countries, though the significant economic growth of the country was due to many inward FDI projects in the past. Nowadays, Chinese richness and wealth are due to outward FDI to several countries, transferring knowledge and technology as well as gaining strategic partnerships in Africa and around the globe.
For almost three decades, China has been trading (exporting) with Africa with its technology products such as types of machinery, pieces of equipment and some other commodities as well as carrying out some greenfield investments. On the other hand, China imports from Africa raw materials, minerals, etc. Currently, China is the first trade partner of Africa overtaking the United States of America.

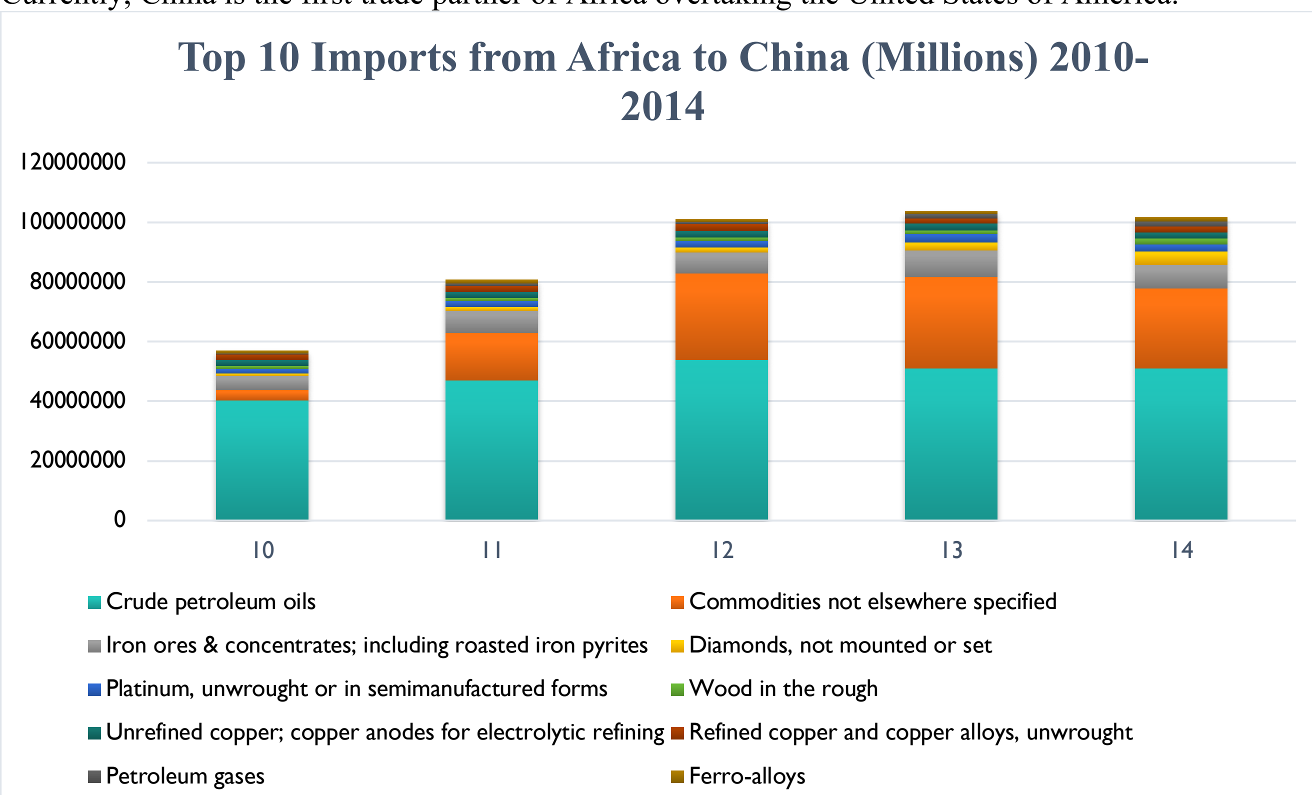


***Figure 4**: Top 10 Imports from Africa to China. Own elaboration based on data obtained from Africa - China trade. (www.tralac.org/resources).*

According to the *China Investment Global Tracker* "the economic relationship between China and Sub-Saharan Africa recently became even stronger than ever, and the Chinese investments and contracts in Sub-Saharan Africa totals $ 299 billion from 2005 to 2018, and in 2018, Xi Jinping (the Chinese President) declared to invest a further $60 Billion for African investment projects". The Chinese government provides funds to Chinese enterprises that are willing to invest in foreign countries with very graceful benefits.

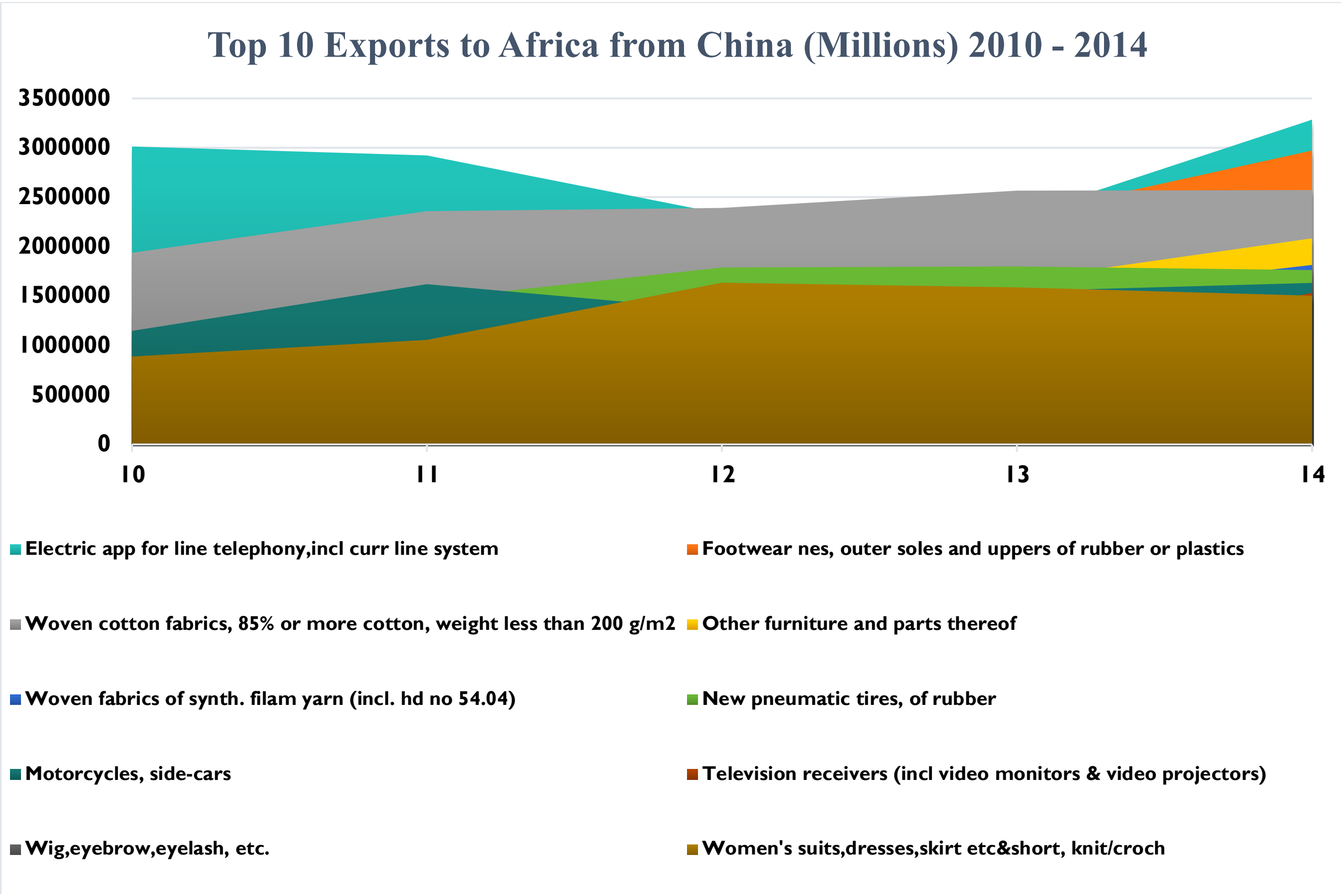


Figure 5: *Top 10 Exports to Africa from China. Own elaboration based on data obtained from Africa - China trade. (www.tralac.org/resources).*

For this research, we will focus on some determinants of foreign direct investment, which we think are crucial for the development and success of foreign direct investment projects.

2.4 Relationship between FDI and Economic Growth

In this section, we are going to talk about three essential factors we believe, play a crucial role in the impact relation between foreign direct investment and economic growth: these factors are the human resources, the market, and the GDP growth.

2.4.1 Human resources

In many kinds of literature about the development economy, states that human resources are the most critical factors for economic growth and one of the most important determinants of foreign direct investment. As a matter of fact, to promote the economic growth of any nation, we should encourage and enable human capital with knowledge and employment first to guarantee such development.
Increasing FDI projects can enable Africa to raise productivity (knowledge) and expand high value-added activities and create decent jobs and a sustained impact on economic growth and industrialization.

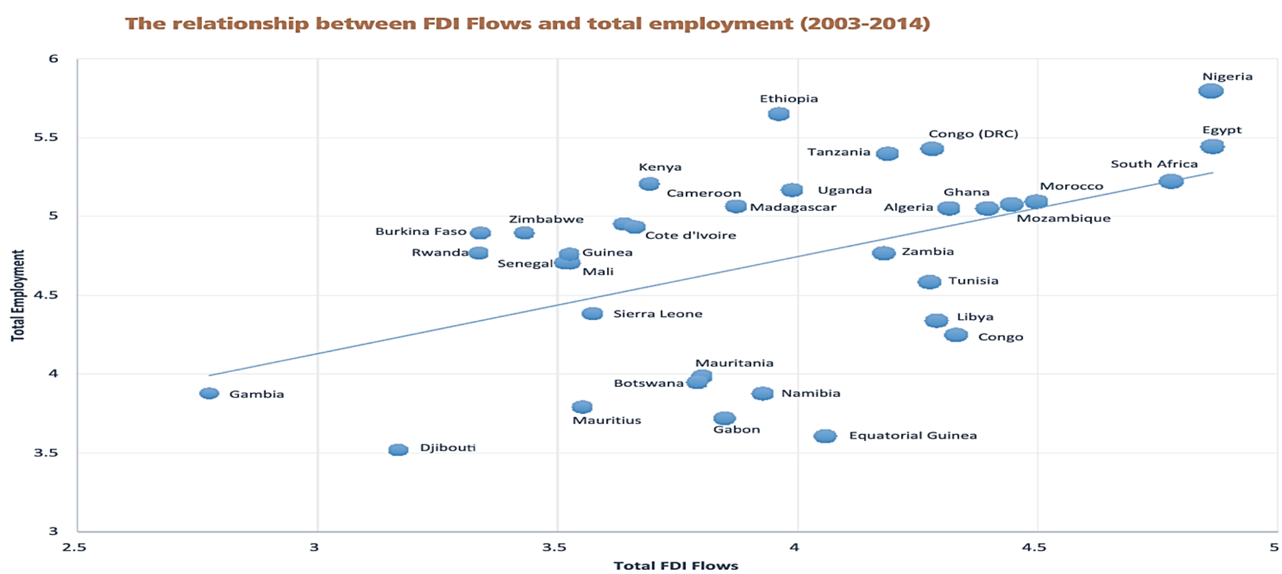


Figure 6: The relationship between FDI Flows and total employment in Africa (2003 - 2014). Source: The Impact of Foreign Direct Investment on Employment in Africa. The State of African Cities 2018. The geography of African investment.

Generally speaking, as we can see from this chart, the greenfield FDI impact on employment of Sub-Saharan Africa between 2003 through 2014, was not very significant when controlled by the trade openness indicators. In this particular case the firms could not create enough jobs or transfer knowledge through technology, due to the fact that most of those greenfield foreign direct investment is implemented into extractive industry such as oil, gas, and mining: according to some statistics FDI in the extractive industry does not give much value to human resources.

2.4.2 Market

Whereas the market is another crucial determinant for FDI implementation and a key factor for economic growth, Sub-Saharan Africa is one of the fastest growing consumer markets with a very young population and more than 1 billion people, in recent years the consumption has increased due to the population growth, urbanization rates and the extensive spread of internet use as well as mobile phones. Sub-Saharan Africa currently is expanding in retail and distribution channel because of the many local vendors and entrepreneurial promotion and incentives from governments, although the transportation sector, has been a big problem to be solved; Sub-Saharan Africa is a large potential market attracting investments in any industry.

As we can observe below from the chart Sub-Saharan region only have a significant percentage of beverages and food; it means that there is room many more foreign direct investment projects.

Figure 7: Share of Consumption by Country and Sector 2010. Own elaboration based on data obtained from (www. datatopics.worldbank.org).

2.4.3 GDP Growth

According to the (IMF, 2008), “GDP is in charge of measuring the monetary value of services and final goods – which are, those from the by the final consumer, that is produced during a period of time by a nation (like, a semester or one year), and counts all produced inside the country. It is comprised by services and goods produced for sale in the market, but also includes others, such as education, health and the national defense of a country”.

In theory, GDP can be approached from three angles:
• The production approach adds the "added value" in each stage of production. This benefit is defined as total sales minus the value of intermediate inputs used in production.
The expenditure approach adds the value of the acquisitions made by the end users
• The income approach combines the income generated by production;

The GDP calculation of a country is normally the responsibility of the statistics institutions or the central statistic entity, which collects different data from a large number of sources. Most countries adhere the international standards and practices; for the measurement of the GDP they use System of National Accounts 1993 established by the International Monetary Fund, the World Bank, the European Commission, the Organization for Economic Cooperation and Development and the United Nations.
Normally we calculate the GDP with the current prices, ignoring the inflation rate. Whereas to calculate the `real` GDP it is import to look at the fluctuation rates; doing so, you will know if the product value has a direct effect of the economic production or due to the random increase of the price.
For this type of analysis, we use a statistical software called GDP Deflector; one of the great importance of the GDP is that, it gives evidences of the economy size and the performance. The growth rate of GDP is used to indicate the overall status of the host economy, which means if the GDP increases allegedly the economy is doing well and if the rise is to big companies tend to recruit more personnel and the people in general have more financial capacity.

The charts below, analyzed from data of *new-display.compareyourcountry.*org show the benchmarking of some countries of the Sub-Saharan region regarding the Growth Domestic Product: as we can observe, for the period of 2015 through 2022, South Africa leads the groups with more than 50% from the average in general GDP measurement with the tendency of growing in the following years, followed by Angola whereas Mozambique with the least percentage below 10% from the standard, followed by Zimbabwe.

In the real Gross Domestic Product chart for the same period (2015-2022) shows that the Sub-Saharan region trend, in general, had a positive and steady growth during the period, with the exception of Angola with a decrease in 2017 of almost 20%, 2016 nearly 10% and 2015 around 5%; the other country is Nigeria which also scored below zero in the year 2017 with nearly 8% and 2016 around 5%.

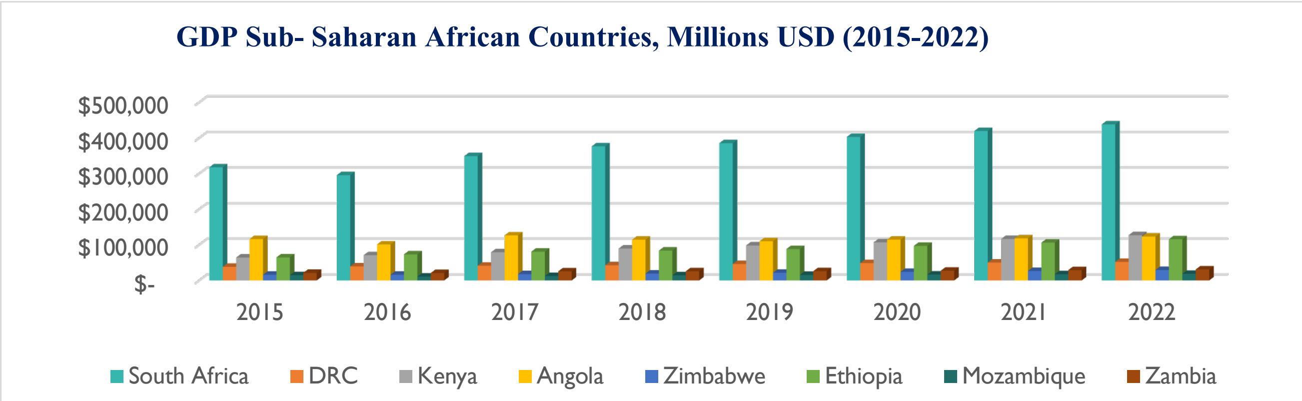


Figure 8: *GDP Sub - Saharan African Countries (2015 - 2022) Own elaboration based on data obtained from new-display.compareyourcountry.org.*

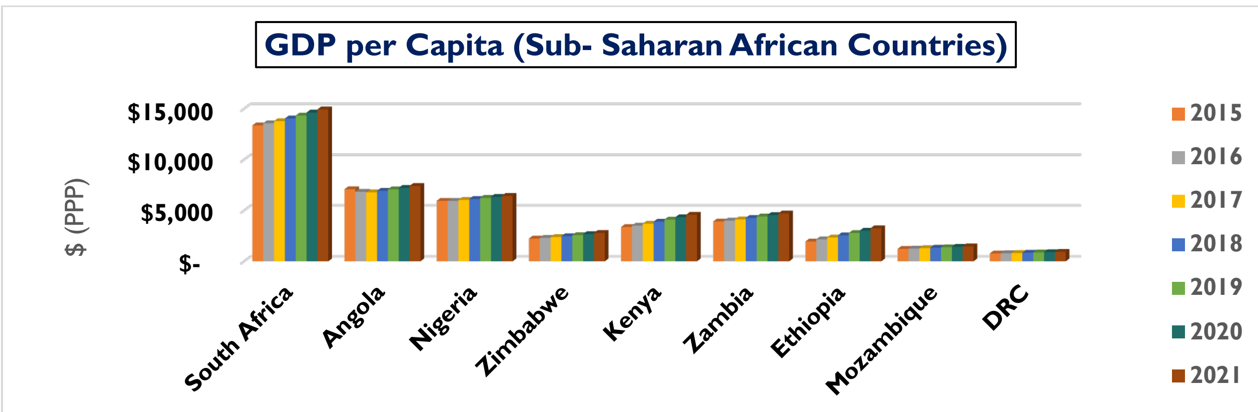


Figure 9: *GDP per Capita, Sub - Saharan African Countries (2015 - 2021) Own elaboration based on data obtained from new-display.compareyourcountry.org.*

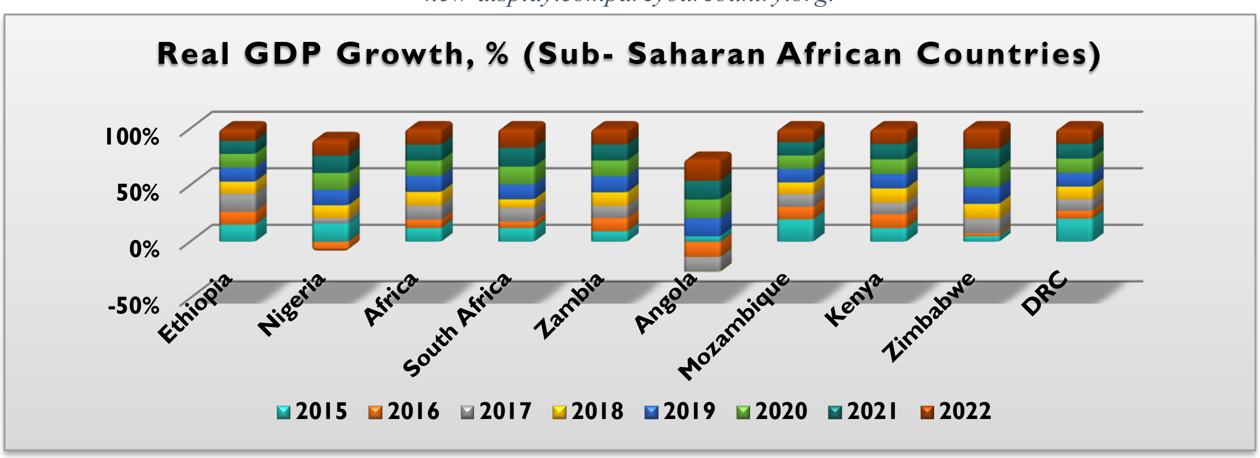


Figure 10: *Real GDP Growth, Sub - Saharan African Countries (2015 - 2022) Own illustration based on data collected from new-display.compareyourcountry.org.*

2.5 Relationship between FDI and Technology transfer

At the international level, there is an absolute consensus that FDI through transnational corporations (TNCs) can be a channel for global dissemination of knowledge and technology, and in the case of developing countries it can contribute to accelerating economic development processes in the countries where they are installed, through the effects of spillover technology and knowledge.
FDI is associated with the transfer of technology, mainly in greenfield manufacturing investment projects and also, introduces new knowledge, administrative and marketing skills that together constitute the resources of multinational corporations. In other words, the advantages of foreign companies are the implementation of modern or unique production processes, the introduction of new management techniques and the higher qualification of the workforce as well as the competitive technological advantage, in which can translate into positive externalities for national entrepreneurs.

According to (UNCTAD, 1999), (UNCTAD, 2006), we can summarize that, FDI favors the introduction of new technologies and knowledge by the following way:

- FDI enforces the use and adaptation of technology.
- FDI Increases the knowledge of current technologies used in the receiving country.
- FDI updates the local conditions environment, transferring the technologies to the local communities in adaptive way.
- FDI updates and improves technologies and consumption behavior change.
- FDI stimulates local firms to efficiently change their technological methods as well as the the other stakeholders to act in the same way and consequently it produces competitiveness in the market.

2.5.1 Greenfield manufacturing investments

To illustrate better the technology transfer and Foreign Direct Investment (FDI) relationship, we have to look at the Manufacturing FDI, specifically the greenfield manufacturing investments which usually play a vital role in the industrialization process of sub-Saharan Africa.
Reversely to greenfield foreign direct investment in the extractive industry; the manufacturing industry, serves as a catalyzer of knowledge and technology transfer as well as job creation.
In the two pictures below shows the sectors in manufacturing FDI, which created jobs along with the investor's group that had significant influence in this type FDI in the period 2003 through 2014.

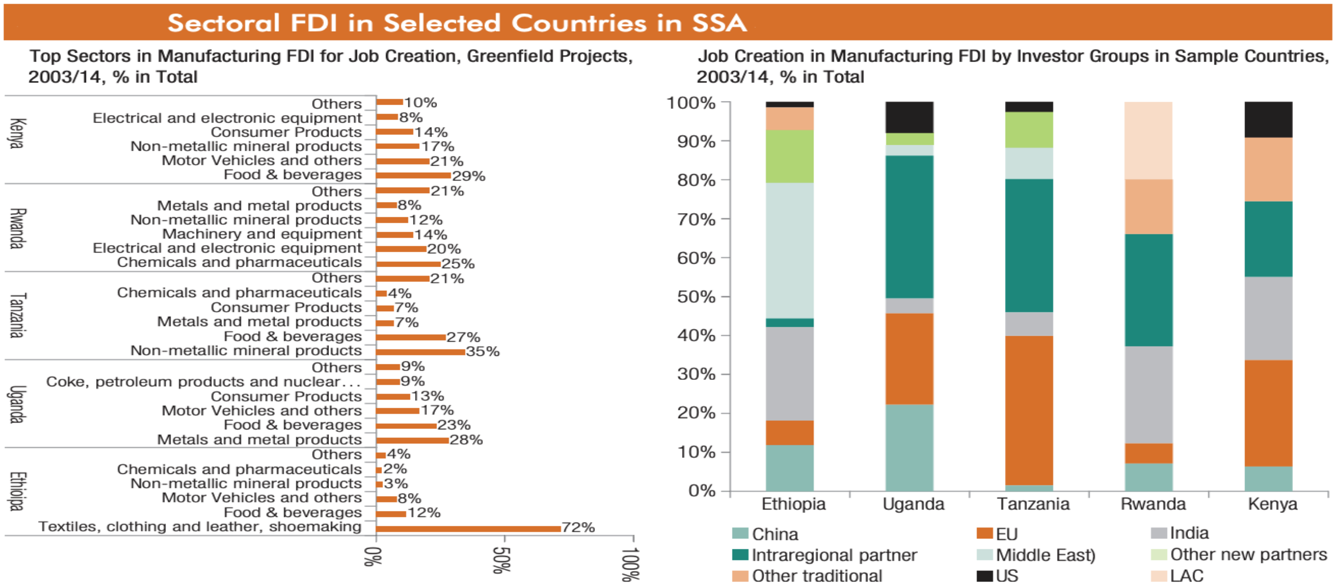


Figure 11: *Sectoral FDI in Selected Countries in Sub- Saharan Africa. Source: World Development indicator, 2014. (www.fdimarkets.com).*

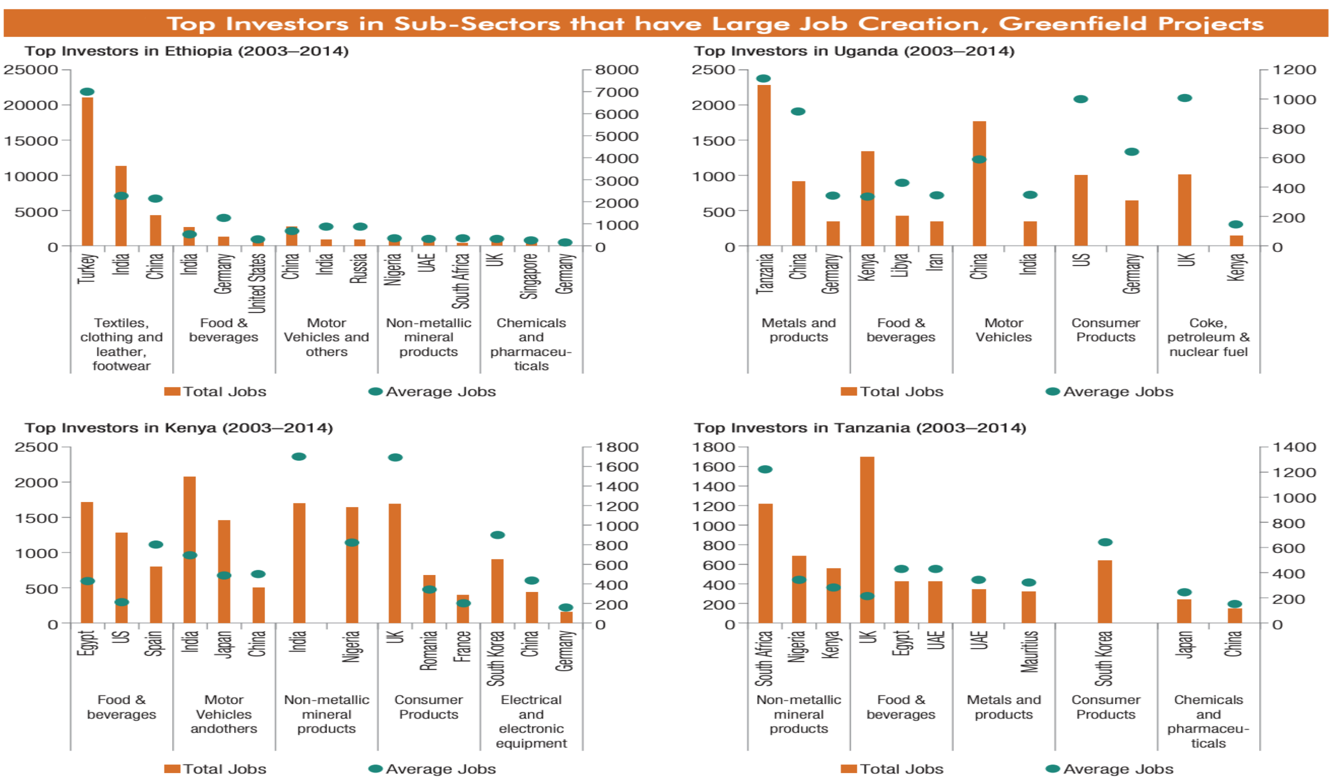


Figure 12: *Top Investors in Sub- Sectors, Greenfield Projects. Source: www.fdimarkets.com*

As we can observe from these charts, there has been a considerable amount of Greenfield investment projects implemented in Sub-Saharan Africa in different sectors and by different investors; which as a consequence of those investments, produced many decent jobs as well as introduced new technologies and innovation systems in the region.
As it is of public concern, greenfield investments carry higher risks and costs due to the scarcity of resources (Human, material and financial) associated with the building of new facilities and systems: but the positive side of this type of investment for the society is that it impacts the surroundings also, by building roads, living quarters, distributions centers and offices
Typically the greenfield investment projects need a significative number of the labor force, a minority with specialized skills and the majority that will need further training to adapt to the technology and system implemented.

Table C. **Announced greenfield FDI projects by industry, 2016–2017** (Millions of dollars)

Sector/industry	Africa as destination		Africa as investor	
	2016	2017	2016	2017
Total	**94 039**	**85 305**	**11 772**	**5 796**
Primary	**3 713**	**10 574**	**-**	**-**
Mining, quarrying and petroleum	3 713	10 574	-	-
Manufacturing	**19 357**	**21 060**	**5 991**	**2 907**
Textiles, clothing and leather	1 077	3 998	46	91
Chemicals and chemical products	5 107	5 644	4 596	1 194
Non-metallic mineral products	1 144	3 036	576	314
Motor vehicles and other transport equipment	2 754	1 506	28	40
Services	**70 969**	**53 671**	**5 782**	**2 889**
Electricity, gas and water	15 601	37 485	156	156
Construction	16 372	6 488	2 542	204
Transport, storage and communications	12 872	3 215	698	452
Business services	22 734	3 063	1 030	829

Table D. **Announced greenfield FDI projects by region/economy, 2016–2017** (Millions of dollars)

Partner region/economy	Africa as destination		Africa as investor	
	2016	2017	2016	2017
World	**94 039**	**85 305**	**11 772**	**5 796**
Developed economies	**19 945**	**32 398**	**1 411**	**1 961**
European Union	11 864	22 704	1 209	1 658
Italy	4 006	10 383	-	-
United Kingdom	2 395	2 287	444	83
United States	3 640	3 901	55	197
Developing economies	**73 643**	**21 582**	**10 342**	**3 829**
Africa	8 604	1 949	8 604	1 949
South Africa	1 618	841	74	151
China	36 144	8 920	110	224
Saudi Arabia	4 057	3 972	743	6
United Arab Emirates	10 997	2 023	117	163
Transition economies	**452**	**31 324**	**19**	**6**

Figure 13: *Announced Greenfield FDI projects by industry, (2016 - 2017). Source: UNCTAD, World Investment Report, 2018.*

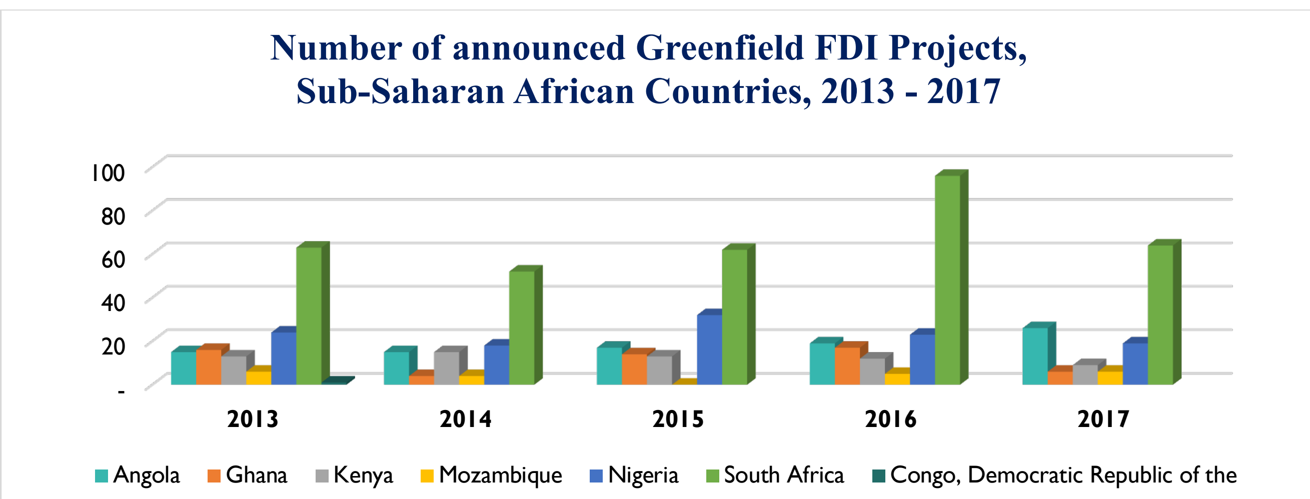


Figure 14: *Number of announced Greenfield FDI Projects, Sub- Saharan Countries (2013 - 2017). GDP Sub - Saharan African Countries (2015 - 2022) Own elaboration based on data obtained from www.unctad.org*

2.6 Relationship between FDI and Political risk

The other aspect we are going to talk about is the political risk related to FDI; this topic is crucial because it is because of this factor that many companies go to invest abroad or reversely, stay in their comfort zone and protected business environment. According to (Buttonwood, 2017), Political Risk is the danger that the actions of governments might reduce the cash flows that investors expect from their investments. There are many kinds of political risk, and they can be divided into extralegal risks and legal-governmental risks. The extralegal political risk refers to any external situation in which affects the actual authority or any institutions of the country, we can mention some like militias, paramilitary rebels, revolutions, terrorism and sabotage. On the other hand, legal government risk is the result of the current political processes and includes the elections of the country that may incur to changes in governments, labor policies, incentives, FDI regulations, development strategies, technology, banking system etc.

For the analysis of the Political Risk in Sub-Saharan Africa before the decision to implement a foreign direct investment project or any investment, two factors were taken into consideration, Corruption and Political Instability.

2.6.1 Corruption

Corruption is a severe problem in many developing countries, specifically in sub-Saharan Africa. A phenomenon hinders the processes of investment and economic growth, creates obstacles to socio-economic and political reforms, causes considerable long-term losses of social welfare, and exacerbates the differences between rich and poor. Corruption in Africa is the result of three factors. First, the weakness of the institutions, which makes possible the misappropriation or misuse of national resources (including natural resources) and the abuse of power without control. Second, the continued deterioration of the living standards of public employees - associated with weak labor incentives. Migrations from the countryside characterize this transformation to the city, and the transfer of labor and capital from the agrarian sector to the industrial and tertiary sectors, turning corruption into an attractive and viable form of survival. Third, foreign companies and dominant private interests take advantage of the weaknesses or lacunae of the institutions and the adverse living conditions of the citizen to obtain benefits, privileges of public policies, in exchange for the payment of bribes.

The negative impacts of corruption are of great magnitude. They include the loss of effectiveness of politicians and public servants in the exercise of their functions, the relaxation of effective border control, mistrust in government, cost inflation and the loss of attraction of trade and investment. Adverse effects to which must be added, due to its relevance are; the adverse reaction of international organizations, which deny loans and aid to governments that do not have a fighting standpoint on corruption, which seriously affects the African states that still depend strongly from external support.

For a better perception of the degree of corruption at the level of the countries, Transparency International published the Corruption Perceptions Index, which measures the perceived levels of public sector corruption in 180 countries and territories. Drawing on 13 surveys of businesspeople and expert assessments, the index scores on a scale of zero (highly corrupt) to 100 (very clean). (Transparency International, 2018).

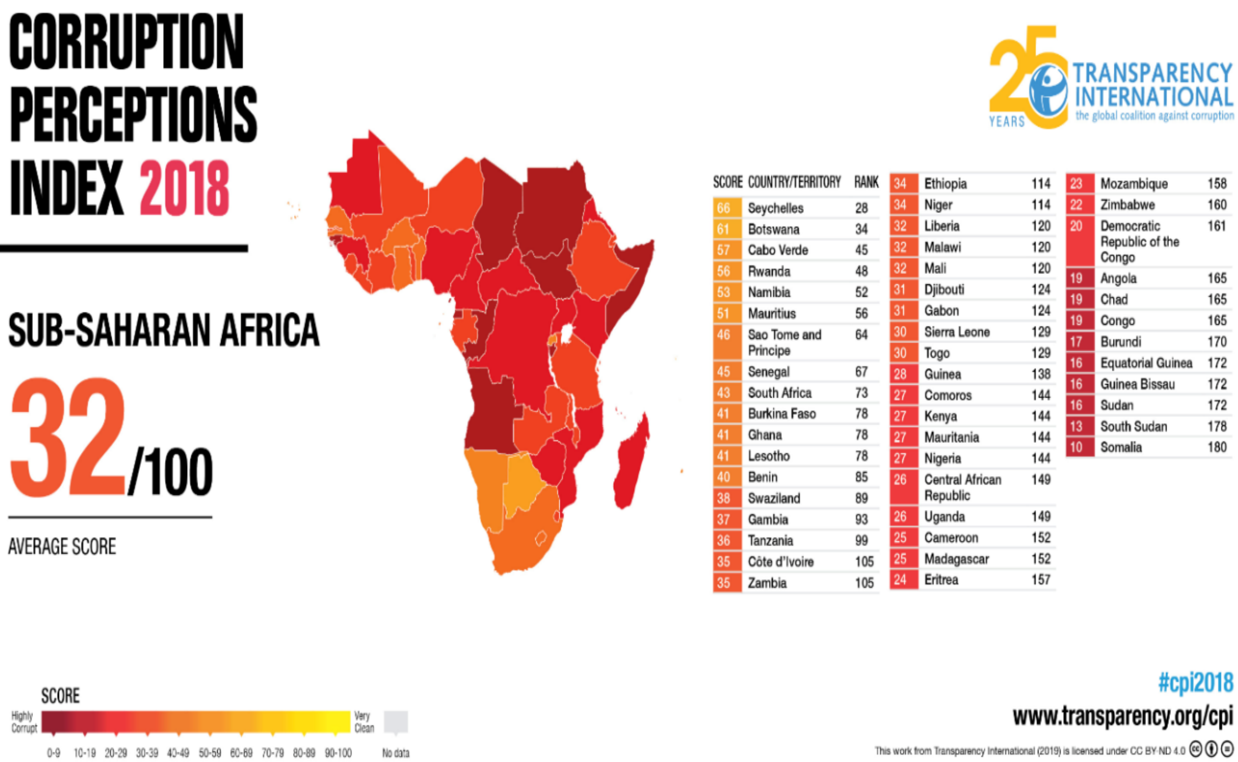


Figure 15: Corruption Perceptions Index 2018. Source: Transparency International 2019.

2.6.2 Government instability and policies

It is considered that instability in any of its dimensions jeopardizes compliance with the contracts that protect foreign investors, as we all know the Sub-Saharan region still struggles with internal conflict and uncertainty, and some countries in the area that have some stability still lack appropriate policies to promote and retain foreign investments. These instabilities somehow raise the costs of the finances as well as the operating costs.

As a consequence of this instability and lack of adequate policies can drive to the ineffectiveness of institutions, thus weakening systems related to foreign investments in general or, as in our case to FDI.

This reality has been especially prevalent in the analysis of sub-Saharan Africa; a region that in recent decades has been characterized, as a whole, by a weak economic performance and declining participation in international capital flows. Reversely the area has been affected by numerous war, political and social conflicts manifested in countries of the region such as Nigeria, the Democratic Republic of the Congo, South Sudan, Central African Republic, Somalia, Mali and Burundi, Chad, Ivory Coast, and South Africa.

2.6.2.1 Political risks factors

• Sources of Political Risk	• Sectors that can cause Political Risk	• Effects of Political Risk
• International alliances recently established. • Growing nationalism • Social instability • Antagonistic religious groups. • Interests of local business groups. • Political or recent independence. • Changing political philosophies and governance style. • Armed conflict or terrorism	• Current government with its various departments, ministries, and dependencies. • Opposition groups in the government that do not have the power, but if political influence. • Terrorist or anarchist groups operating in the country. • Foreign governments have formed strategic alliances with the host country of the FDI or that support the opponents of the government. • International organizations, such as the World Bank or the United Nations.	• Expropriation of assets (with or without compensation). • Restrictions on operational freedom related, for example, to hiring policies, free competitions, and product manufacturing. • Damage to property or to the personnel itself caused by political disturbances, assaults, or terrorism. • Cancellation or revision of contracts. • Loss of financial capacity to repatriate assets or profits. • Increased taxes deliberately and other economic sanctions.

***Table 1**: Political Risks factors. Own elaboration.*

Chapter 3: Conclusions

As a conclusion, I would like to mention again that the economy of Sub-Saharan Africa is one of the least developed in the world. Sub-Saharan Africa lies in the south of the Sahara. As it is of public domain, the African regression is due to many factors such as lack of infrastructure, unstable governments, corruption, socio-economic conditions, weak institution, etc. half of the Sub-Saharan countries are impoverished countries that the citizens live with less than 2 $ per day.

One of the ways, in order to solve the issue of poverty reduction and economic development of Sub-Saharan Africa, is through opening completely the doors to investments projects in general and particularly, foreign direct investment; but we know that the African governments should also have good policies and strategies in order to attract and retain those investment projects.

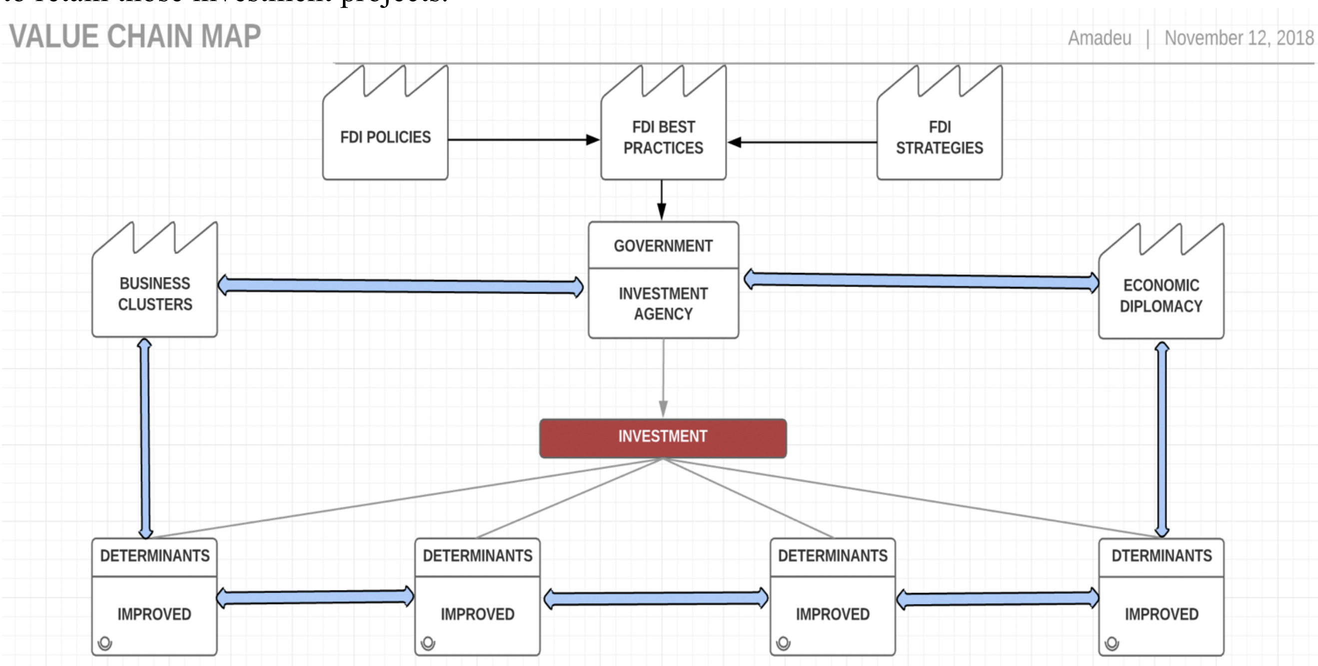
Foreign direct investment (FDI) is currently one of the critical factors and source of investment for the development and growth of any economy; mainly in the developing nations, FDI as an international business trend, and practices are gaining its fame through the diverse and direct benefits that give to local companies and governments in managerial knowledge, advanced production technology, best working practices as well as employment for the community.

We believe to have exposed, in this independent report the effects of the foreign direct investment on the economic activities of some specific countries of the Sub-Saharan region: as well as understanding how the foreign direct investment can boost the sustainable economic growth of the nations by improving the productivity, creating and adding value to the global supply chain as well as solving social problems. The primary purpose of this research paper which was to basically to answer the research questions proposed, by examining data regarding foreign direct investment effects on the Sub-Saharan African region through trust sources, a comparative study and looking at the best practices on FDI; we believe have accomplished satisfactorily.
The research questions were:

- Can foreign direct investment produce knowledge and technology transfer?
- (*it was proved and exposed that FDI indeed produce knowledge and technology transfer*)
- Can foreign direct investment affect the productivity and the economic growth of a nation?
- (*it was proved and exposed that FDI indeed affect the productivity and economic growth of a nation*)
- Can the business environment and political risk affect the investors` decision on FDI project implementation?
- (*it was proved and exposed that the business environment and the political risk indeed affect the investor`s decision on FDI project implementation*)

Chapter 4: Recommendations

As for recommendations, we advise the host governments to have good policies concerning foreign direct investment initiatives and the promotion of investment projects (regional and internationally), as well as to acquire the best practices, and strategies on FDI to have optimal results, and create conditions to retain those investment projects.



We also recommend, host economies to empower their institutions and restructure their government for better functioning and start mitigating the several internal risks; moreover, we agree that governments should not run themselves the investments but leave that to the private sector (with the exception of national strategic industries); or do public-private partnership (PPP), but one government should always guarantee the organization of the market, mechanism design, develop policies and supervise and check the execution and its impact on the society and communicate.

Some corrupt practices in governance also should be banned with transparency, commitment, discipline, and accountability: moreover, they should involve the society to participate (democracy) and engage the international community through the different international organizations and the diplomatic mission abroad.

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RE-EXAMINATION

Independent Report:
Foreign Direct Investment spillover effects in Sub-Saharan Africa

First of all, I would like thank for this opportunity to address some of the comments from professor (Examiner).
I would like to mention that, in the beginning I wanted to do a thesis work, which is much more rigorous in terms of methodologies used, giving a contribution to a particular field of knowledge, the originality as well as proving the hypothesis or assumptions made in the research questions; but due to supervisor change and some issues related to methodology expertise I decided to chance and do an Independent Report option, which in my view has not the same level of difficulty and rigor such as a Thesis.

- **(Originality) Applies someone else's ideas, methods without any adaptation at all**

Concerning the Originality, I structure and developed the idea and expose properly the knowledge in debate and to answer the research questions that I have proposed; obviously I consulted several literatures (as it is referred in the work) in order to give certain logic on the structure and the contents as well; is it is stated in the abstract "*In this research we will make use of the primary research principles, in which is based on the general knowledge and the understanding of nature as well as its laws; the secondary data analysis will be the primary methodology of this research paper as well as benchmarking (comparative study).*
We expect at the end of this research, to expose the effects of a foreign direct investment project into a host economy through some data analysis, as well as expose the best practices on foreign direct investment through comparative studies".

- **(Research questions/hypothesis) Definition is incomplete and minimally specifies components**

  I don't really understand this point, but I can assure you that I try to make good and simple research questions for an Independent Report according to the norms.

- "*Can foreign direct investment produce knowledge and technology transfer?*
- *Can foreign direct investment affect the productivity and the economic growth of a nation?*
- *Can the business environment and political risk affect the investors` decision on FDI project implementation*"?

- **<u>(Awareness of the issue)</u> definition of the issue and its context is incomplete and specification of key component is minimal.**

  "*This research will be focused on the effects of the FDI projects in the Sub-Saharan African; we will try to expose the relationship FDI and technology transfer, FDI and economic growth and FDI and political risk. Some valuables recommendations concerning foreign direct investment initiatives and the promotion and retention strategies for host countries in these types of projects as well as advise on best practices acquisition in order to have optimal results*".

  (Analysis of findings/results) Can be discerned with great effort (C 60%-70%)

  If we pay really attention on main objective of the independent report which is illustrated in both abstract and the Introduction and later developed in the work; I believe is well developed according to my objectives.

  Main Objective:

  "*This research will be focused on the effects of the FDI projects in the Sub-Saharan African; we will try to expose the relationship FDI and technology transfer, FDI and economic growth and FDI and political risk. Some valuables recommendations concerning foreign direct investment initiatives and the promotion and retention strategies for host countries in these types of projects as well as advise on best practices acquisition in order to have optimal results*".

- **(Citations and source materials in the text list of references) Citations of sources of information and ideas are missing in several places.**

In the present work, I used citation, quotations and a list of references as it is stated in the Bibliography section; and it can be seen in the work that I put the references, some ideas and/or constructs it was my own according to some other literatures and experience in the field of investment.

- **(Overall structure of the paper)** **is not logical apparent but can be discerned with efforts.**

Contents ***Pages***

- **<u>(Conclusion)</u> The conclusion is discernible only with an effort.**

We believe, we have expose in this Independent Report the effects of the foreign direct investment on the economic activities of a certain countries of the Sub-Saharan region: as well as understanding how the foreign direct investment can boost the sustainable economic growth of the nations by improving the productivity, creating and adding value to the global supply chain as well as solving social problems.
"*This research will be focused on the effects of the FDI projects in the Sub-Saharan African; we will try to expose the relationship FDI and technology transfer, FDI and economic growth and FDI and political risk. Some valuables recommendations concerning foreign direct investment initiatives and the promotion and retention strategies for host countries in these types of projects as well as advise on best practices acquisition in order to have optimal results*"; we believe, we have accomplished satisfactorily and met the following research questions.
The research questions were:

- Can foreign direct investment produce knowledge and technology transfer?
- (*<u>it was proved and exposed that FDI indeed produce knowledge and technology transfer</u>*)
- Can foreign direct investment affect the productivity and the economic growth of a nation?
- (*<u>it was proved and exposed that FDI indeed affect the productivity and economic growth of a nation</u>*)
- Can the business environment and political risk affect the investors` decision on FDI project implementation?
- (*<u>it was proved and exposed that the business environment and the political risk indeed affect the investor`s decision on FDI project implementation</u>*)