DOES CORRUPTION HAVE IMPACT ON FDI & POVERTY? EVIDENCE FROM SELECTED SUB-SAHARAN AFRICAN COUNTRIES

By

MODESTO, Edema Francis Vuga

THESIS

Submitted to
KDI School of Public Policy and Management
In Partial Fulfillment of the Requirements
For the Degree of

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TABLE OF CONTENT

Cover page......................................................................................................................... i
Acknowledgement ............................................................................................................... ii
Table of content .................................................................................................................. iii
Abstract ............................................................................................................................. vi

CHAPTER I: INTRODUCTION

1.1.0 Introduction ............................................................................................................... 1
1.1.1 Definition and concept of corruption ...................................................................... 1
1.1.2 Foreign Direct Investment ....................................................................................... 1
1.1.3 Definition and concept of poverty .......................................................................... 2
1.1.4 Previous studies ..................................................................................................... 3
1.2 Originality and contributions of this study to the academia ....................................... 5
1.3 Statement of problem ............................................................................................... 6
1.4 Purpose of the study ................................................................................................. 6
1.5 Research questions ................................................................................................... 6
1.6 Claims and hypothesis

1.6.1 Claims ..................................................................................................................... 6
1.6.2 Hypothesis ............................................................................................................. 7
1.7 The scope of the study ............................................................................................. 7

CHAPTER II: LITERATURE REVIEWS

2.1 The impact of corruption on FDI inflow ................................................................. 8
2.2 The review of the literatures to support other channels through which corruption can affect poverty ................................................................................................................. 10
2.2.1 Economic model ................................................................. 11
2.2.2 Governance model .......................................................... 12
2.2.3 Social model ................................................................. 13
2.3 The effect of corruption on growth and inequality ........................................... 13

CHAPTER III: HYPOTHESIS DEVELOPMENT
3.1 The impact of corruption on FDI inflow ........................................................... 15

CHAPTER IV: RESEARCH DESIGN AND METHODOLOGY
4.1 Description of variables and Data sources ............................................................ 17
4.1.1 Data sources and collection ........................................................................ 17
4.1.2 Variables
4.1.2.1 Dependent variable: FDI inflow .......................................................... 17
4.1.2.2 Independent variable: Corruption index ................................................. 17
4.1.2.3 Control variables ................................................................................. 18
4.1.2.4 Dummy variable .................................................................................. 18
4.2 Econometric model specification ................................................................. 18
4.3 Methods of estimation ................................................................................. 21
4.4 Research design ......................................................................................... 21
4.5 Data analysis ............................................................................................ 21
4.6 Quality control .......................................................................................... 21

CHAPTER V: DATA ANALYSIS AND INTERPRETATION
5.1 Test of Hypothesis .................................................................................... 22
5.2 The impact of corruption on FDI inflow ....................................................... 22
5.3 Estimation improvement ............................................................................ 23
5.4 Additional analysis ........................................................................................................25

5.4.1 Corruption and FDI inflow ....................................................................................25

5.4.2 Corruption and poverty ........................................................................................26

5.4.3 FDI inflow and poverty ........................................................................................26

CHAPTER VI: DISCUSSION, CONCLUSION, LIMITATION AND RECOMMENDATION

6.0 Discussion and conclusion ........................................................................................27

6.1 Impact of corruption on FDI inflow .........................................................................27

6.2 Other analysis ...........................................................................................................28

6.3 Limitations of the study ..........................................................................................28

6.4 Recommendations ..................................................................................................28

6.5 Future research area ...............................................................................................29

REFERENCES ................................................................................................................30

APPENDIX ......................................................................................................................34

List of abbreviations ........................................................................................................34

Table 1: Summary of literature review ...........................................................................36

Table 5: Data analysis .....................................................................................................43

Table 6: Sample of countries ........................................................................................44
ABSTRACT

The study on the effects of corruption has attracted attention of many scholars in the world today. This study focus on corruption and its impacts on FDI inflow and poverty. It is argued that corruption does not only reduce FDI inflows in a country, but also cause poverty in the host country by negatively affecting and weakening social, economic and political institutions at different levels. Using data from World Bank group, 2016, the result of the cross-sectional setting showed that corruption negatively affect FDI inflow and it is significant. Since this study seek to find out the effect of corruption on inward FDI and its effect on poverty levels, the investigation was started by using a cross-sectional data analysis on 34 countries for 11 years to confirm the former findings of authors. Later panel data analysis was used since the sample size in panel data is quite larger than the use of time-series.

Therefore, a benchmark FDI theoretical model and equation in the methodology constructed to test corruption and its effects on attraction of FDI. While, the link between corruption and poverty was confirmed and validated by the previous studies. In order to distinguish between two treatment groups, a dummy variable was added and the result showed negative and significant effect on FDI inflow that means other factors apart from practice of Corruption in any country can affect and discourage FDI inflow. This study also consider that not only corruption influences the level of country’s FDI inflow but other determinants like political instability in the host nation.

The fact is that corruption is deeply rooted in the African society, it has captured public debate in regard to its effects on the social, economic and political instruments. The result in this study will help the policy-makers to tackle corruption from all the angles of its negative influences on inward FDI and poverty levels of countries under this study.

Therefore, we conclude that corruption is significantly an obstacle to FDI inflow in Sub-Saharan African countries because corruption obstruct FDI inflow by increasing economic risks and uncertainties, thereby destroying investors’ confidence in investing in the existing market. Ideally, all the stakeholders should carry the blame for feeding corruption in their society because they are all participants in the corruption scandal. Corruption must not only be controlled for political reasons but also for economic growth and prosperity for those host countries.
I task the governments to consider good regulatory measures to deal with corruption and establish all the required ways to make sure that right steps are taken to establish a trusted and consistent rule of law in order to attract more FDI which will provide quick and direct finance to elevate poverty and improve the overall economic growth.

I believe that this study alone cannot cover all the policy issues related to corruption. This study empirically proved significant relations between corruption and inward FDI and discovered that corruption affect poverty indirectly. So stating conclusion that corruption have effects on poverty level without empirical evidence is bias and unfair. It would be an asset for future researchers to empirically test the relations in question to fill this gap.
CHAPTER I
INTRODUCTION

1.1.1 Definition and concept of corruption

Eric, Spector and Frances, (2003) holds that corruption and poverty have the same footsteps in developing nations. The level of FDI Inflows and poverty are influenced by Corruption in all the sectors. The worse form of corruption include stealing of funds meant for public projects, diversion of public programs (Jakob Sevensson, 2005)

Therefore, corruption is defined as an “abuse of public office for personal interest”,(Chetwynd, Chetwynd & Spector, and 2003 pp 6). Additionally, corruption brings together the public and private sector to achieve corrupt interests (Akçay, 2006). Furthermore, “corruption can be a response to beneficial or harmful rules” (Jakob Sevensson, 2005). It’s seen through embezzlement, Nepotism, Bribe, frauds and favoritism.

The burden of corruption rest entirely on the poor people because those who are poor cannot make financial coordination and connections. (Eric, Spector and Frances, 2003) explained. Furthermore, they stated that Corruption affects the poor people in many ways. Government spending are diverted away from valuable projects that poor people could benefit from, such as education, hospitals, and end up increasing public expenditures on projects that are closely attached to kickbacks. (World Bank, 1997, pp 8).

The relationships between corruption and poverty have been tested empirically. Therefore, many literatures today agrees with these findings including international organizations but how to attend to this problem remained in hypothesis. Surprise to note is that many literatures record that corruption cannot directly cause poverty however, it affects other factors that tend to cause poverty themselves.

1.1.2 Foreign Direct investment, can be defined as “Investment made to acquire a lasting interest in or effective control over an enterprise operating outside of the economy of the investor. FDI inflows are the value of inward direct investment made by non-resident investors in the reporting economy, including reinvested earnings and intra-company loans, net of repatriation of capital and repayment of loans.” (IMF, 1993)
Many developing nations are relaying on FDI as the major sources of foreign finances in order to implement their development goals, nevertheless FDI also contributes in these countries more than a mere sources of finance but also as a direct transfer of technology from the advanced countries, improved labor and skills, creation of efficient markets and investment in climate. Today in Sub-Saharan African countries, the increased inflow of FDI is witnessed (IMF, 1993) but some countries still record low FDI inflow due to couple of reasons varying from one to the other, “corruption” being the pivot for all the reasons.

1.1.3 Definition and concept of poverty

The definition of poverty depends on whom you ask and the prevailing conditions of the respondents. World Bank defined poverty as “a state of survival on less than $ 1.90 a day”. Poverty is a chronic sickness that brings about suffering in the developing countries (American international Journal of social science, 2014) over 700 Million are estimated to be in extreme poverty. Very little effort is put to end their poverty; most of them are struggling to fulfil their basic needs like food, education, health and access to clean water and sanitation (Jeffrey D Sachs 2012)

The poverty level in Africa depend on country to countries, most countries in Sub-Saharan Africa live in extreme poverty, over 314 Million persons live on less than $1 per day almost twice as large population as in 1981. Africa is home to 34 poor nations out of 48 world’s poorest countries and 24 out of 32 nations ranked lowest in HDI. Poverty prevail more in rural than urban. South Africa 86%, and CAR 77% record the highest population in extreme poverty (World Bank, 2005)

The poor nations cite their roots to colonial pasts or due to Western power play; amazingly many did not consider corruption as the main reasons behind massive poverty around the globe. Many people urged that colonization and its impacts played major roles in existing situation as many former colonized nations have transformed into rich nations, we cannot assert that colonization is the major cause of poverty in some nations. According to Nelson Mandela (2005), “Poverty is like slavery and apartheid, not natural. It’s man-made and can be eradicated by actions of man”.

Most poor people are found in Sub-Saharan Africa and South Asian region. World Bank (2013), recorded that 40.99% of the poor population are found in Sub-Saharan African region, South Asia (15.09%), South America, Caribbean (5.40%), East Asia (3.54%) and Europe (2.15%). (Jeffery
Sachs, SDGs 2012), estimated that about 70% of the world population in extreme poverty comes from these regions. Half of the world poor population lives in lower middle-income countries like China, Indonesia, Sri Lanka, India and Nigeria.

The poor people suffer from bad government policies, wrong procedures, poor health services, poor education facilities, limited supervision, weak laws and order and lack of political wills, on other hands, corruption has rooted deep in the poor nations than in the rich nations (Herbert Werlin, 2012). Where the dead and killers cannot be differentiated, the financial institutions are weak and not trustworthy, those in power develop plans to loot from the national treasury inform of borrowing money without repay, the import is much intended to serve God and their stomach, employment is based on tribalism and other social affliction, Not forgetting that those in power considerably avoid tax payments, to create social differences they normally send their children to good schools abroad and use oversea medical services all this created poverty trap.

Despite of wide spread poverty in Africa, there is little agreement among the leaders that corruption and poverty go hand to hand. Theoretically, most African leaders urged that their existing poverty is a natural phenomenon not man-made. In a close look, rampant corruption is considered as a sole cause of social evils among African societies. Today most of the donors and other international institutions based their aid allocation on the condition to eradicate poverty and ensure reforms that lead to good governance.

1.1.4 Previous Studies

In the previous studies, corruption and poverty were not major interest of previous studies, however of recent there were notable studies carried out on corruption and poverty. (Eric, Francis and Spector 2003) concluded that corruption influence other factors to cause poverty. Thus, the relationship they gave was an indirect one. These researchers produced 2

(a) The Economic Model therefore explains that corruption affect poverty through other factors.
(b) The Governance Model similarly stated that, corruption cause poverty through affecting other factors which later cause poverty.

Several authors wrote about the impact of corruption on FDI. (Marcos Hilding Ohlsson 2007) discuss that corrupt countries receive less amount of FDI. Through regression the result showed “that corruption has negative impact on FDI and it was significant”.


Some of the previous literatures tried to establish the existing relation between corruption and FDI inflow, others came out with negative relationship between corruption and FDI inflow on the host nations but others did not find any significant relationship or evidence.

In some countries, the previous results shows that corruption has positive effects but insignificant relationship with FDI inflow instead shows institutional quality as an obstacle to increased FDI inflow with negative effects and statistically significant relationships.

There were continuous disagreement in the previous literatures concerning the impacts of corruption on FDI inflow and poverty, some proved their arguments through scientific findings others have arguments that remained in hypothesis.

Most of the previous literatures used a cross-sectional data analysis rather than Panel data analysis in examining the complexity of corruption and FDI inflow, in such cross-section study, the unobserved country specific effect cannot be controlled since it depends from one country to others which corruption may be correlated with. Although some of the studies employed panel data, they did not consider corruption as a necessary independent variable but treated it as an endogenous variable. The authors who used time-series failed to relate their results to other countries, hence their results are geographically limited.

Motivated by this issue, economic stagnation due to corruption and poverty are the chronic sickness in African societies yet less attention is put to identify this prominent causes, corruption as major cause is sometimes not talk about when forging ways of reducing poverty. This paper will empirically examine the consequences of corruption on FDI inflow by using panel data from 34 countries from Africa, from 2005 to 2015. More so, the researcher want to answer this question: what are impact of corruption on FDI inflows?

More still, there were few studies conducted related to poverty and corruption in African context, yet poverty remained the major socio-economic challenge to African development. Thus, the researcher intends to fill these gaps.

Thus, the review of related literatures agree that there are many other channels through which corruption affects poverty. So these findings will be discussed theoretically in the fourth chapter to supplement the scientifically tested hypothesis.
1.2 Originality and contributions of this study to the academia

This is a distinctive paper, it used a panel data analysis and what makes it unique is its strength to study the effects of corruption on both FDI inflow and poverty simultaneously, the variables used were from governance indicators which are policy oriented unlike the previous studies that focus only on corruption and its impacts on FDI inflow or poverty levels and dealt with economic and development indicators which were well known variables. Most of the previous literatures used a cross-sectional data analysis rather than Panel data analysis in examining the complexity of corruption and FDI inflow, in such cross-section study, the unobserved country specific effect cannot be controlled since it depends from one country to others which corruption may be correlated with. Although some of the studies employed panel data, they did not consider corruption as a necessary independent variable but treated it as an endogenous variable.

Furthermore, most of the previous studies did not pay keen attention in scientifically proofing that corruption affect inward FDI particularly in Sub-Saharan African region, using this paper, we can make decisions in order to address issues partnering corruption, FDI inflow and poverty.

The paper contributes to the existing studies on the impacts of corruption on FDI inflow and poverty. This study primarily contributed to the finding that corruption affects FDI inflow in at least 34 Sub-Saharan African countries. I have acknowledge that this study had contributed and added knowledge to the global discourse.

We look at the effects of corruption on FDI inflow and poverty because these variables are interdependent on each other. First, the level of corruption in a given country can affect the levels of FDI inflow, Secondly, the corrupt countries has large population living in poverty, thirdly, high inflow of FDI in a host nation could mean reduction in the level of poverty as FDI is attached with many economic and social benefits.

The results and findings in this paper significantly contributed to the areas for future study, the future researchers will pick up from the identified gaps. The gaps should be the areas to care about because it matters a lot for decision making thus, worthy noting.

The study provided tangible views through its theoretical frame work and shows practical solutions to the known problems and demonstrated the effectiveness of this solutions in both scientific and theoretical sphere.
I believe that the limitations in this paper will be a potential for the future researchers to find out the direct effects of corruption on poverty. The desire to fill up this identified gap is the most warranted.

1.3 Statement of the problem

The past decades have witnessed an increase in corruption across countries in Africa, measuring the level of corruption is a difficult work due to its disparity and the forms it takes but they are all correlated in the reflection of underlying institutional framework. Despite of the efforts put by the developed countries and UN towards eradication of poverty everywhere in the world by 2030, some African countries have not significantly contributed to reducing poverty in their countries based on the international context. This is because their government activities continue to abuse the set goals to end poverty by 2030 (Ban Kin-Moon 2014, pp 29) For example civil wars, increase in corruption, weak laws and order, poor health services, lack of access to information to citizens, poor education facilities, poor infrastructures and human rights abuses. All these contributed negatively to the socio-economic development.

1.4 Purpose of this study

The study seeks to find out the effects of corruption on inflow of FDI and its effect on poverty. The study was carried out from 34 Sub-Saharan countries for a period of 11 years.

1.5 Research question.

The study was based on a sets of question which guided the investigation, it was also on the basis of this question that the research instruments will be designed and administered for example;

(1) What are the effects of corruption on FDI in-flow and poverty?

1.6 Claims and hypothesis

1.6.1 Claims

The money from FDI is cash money from foreign countries, injecting them into the economy has immediate impact on elevating poverty. More so, FDI inflow will led to employment opportunity, improved health services, improved education services and increase in GDP per capita of developing countries.
First, corruption affects FDI inflow in several ways, it increases the FDI cost by demanding for bribes during registration processes and the revenue that goes into the national treasury ended up in individual pockets. In some cases company are forced to pay an extra charges without official rates (Dahlström and Johnson 2007).

Secondly, corruption also affect the in-flow of ODA. Most developed countries give foreign assistance to poor countries with good institutions (Craig Burnside; David Dollar, 2000) thus the corrupt nation that cannot achieve the motive of ODA ended up receiving limited foreign assistance, this will affect the socio-economic situation of the people hence persistent poverty. (Burnside and Dollar 2004) gave evidence that aid increase growth in emerging nations with good institutions and policies, however has little or no effect in countries with poor policies and institutions. “Because of corruption, foreign assistance to developing countries is mostly wasted.” (Burnside and Dollar, 2004 pp 2)

1.6.2 Hypothesis

This hypothesis was tested by the previous literatures and evidence from the panel data collected from 34 countries in sub-Saharan Africa from 2005 to 2015.

H1: Corruption affects the of FDI inflows. More so, corrupt countries tend to receive less foreign assistance and have larger population living in poverty.

1.7 The scope of this study.

This study assesses the impact of corruption on FDI inflow in relations to poverty in selected Africa countries. These countries experienced extreme poverty for decades and ravaged by civil wars, mis-governance and economic stagnation. More than 50% of the population in these countries live in acute poverty (The World Bank 2005). The Panel data analysis on 34 Sub-Saharan African countries from 2005 to 2015 was used.
CHAPTER II
LITERATURE REVIEWS

The review of the previous literatures focus on the determinants used in the model developed in the design of the methodology. The previous literature review covers all the aspects of this study in particular focuses on corruption and its effects on inflow of FDI, this section will also review other determinants like poverty in the host countries.

2.1 The effects of corruption on inflow of FDI

According to Dahlström and Johnson (2007), corruption increases the cost of FDI by forcing the investors to pay bribes to the concern authority during registration process. Sometimes companies pay for taxes without official rates. In some countries the long and delayed operational license cost companies a lot in term of time loss.

Toby Kendall and Ying Zhou (2009 pp 1) explained that corruption could increase or reduce FDI inflow. Corruption reduces the profit from FDI and increase additional fixed cost. Therefore reducing the profitable margin of FDI related to exporting. More so, the increased costs linked with corruption do affect the market structure. For example a market that can sustain two profitable firms will end up sustaining only one firm in highly corrupt countries. Similarly corruption may favor only one firm over the others, allowing the firm to take up monopoly role. Additionally, the MNE might be forced to change its entry mode because of increased cost of corruption making it to pay higher cost that it should have avoided.

Marcos Hilding Ohlsson, (2007) urged that corruption have positive effects on inflow of FDI. Through payment of bribes, corruption reduces the time spent on bureaucratic paper work and long period of inspections. This is positive for FDI inflow. The corrupt government officials presumably issued fake receipts for the items that were not purchased and delivered. These are done in favor of some companies however not all firms will benefit from such practices so it negatively affect FDI inflow (Skanska group, Argentina 2007).

Aidt T (2003), compared corruption in a country with grabbing hand that exponentially cost business activities to be very high. Similarly in the study of Kaufmann (1997) explained that investing in highly corrupted countries is 20% higher than less corrupt nations. This shows that
high cost of investment in such corrupted countries thus, discouraging FDI. This view is also consistent with the argument of Wei (2000a, 2000b).

Contrarily, Lui (1985) and Saha (2001) stated that corruption is a helpful tool in any economic sector. They show that corruption is not harmful to business but rather a motivating factor for unchangeable economic regulations. This is true with international firms operating in developing nations. By paying bribes to the host country, MNEs will get around regulations and red-tape thus beneficial to monopoly, (Tanzi and Davoodi, 1998).

Ali Al-Sadiq (2009) put his argument of the effects on corruption in terms of analyzing the cost of operating business because investors are forced paying high bribes for getting operational licenses or state permit to operate in the country of investment, corruption increases the investment costs since the extra payment for bribes decrease the expected profit from the investment. Hence corruption is view as direct tax on expected profit.

Hakkala, Norback and Svaleryd, (2008) state that corruption is harmful to the firms that have the opportunity to put investments in the particular country, but has a positive effect on investments that have different motives. Meanwhile both Wheeler and Mody (1992) failed to find any negative risk associated with corruption on inflow of FDI. Both Egger and Winner (2005) shows corruption as a helping tool to increase FDI inflow in a corrupt host country. These mixed results still remains contradicting in the previous literature, Furthermore, Aidt (2003) viewed the impacts of corruption on firms depends on the different types of corruption.

(Bardhan 1997). More so, corruption is associated with high risk because its illegal Mauro.T (1995) shows negative effects of corruption on development. Thus, foreign investors are attracted by the low state of corruption than highly corrupted ones. However, (Bardhan 1997) urged in support of corruption as positively affecting FDI inflow where there is weak bureaucracy, it may speed up the decision making. But this view was rejected by Kaufman and Wei (1999) whose finding shows firms spending longer time in negotiating kickbacks with bureaucrats than following normal procedures.

Houston (2007), in the study on corruption of a country’s performances, discovered corruption to be positively contributing the economic growth in a country with weak laws. While it’s otherwise for the country with strong laws. Similarly, Swaleheen and Stansel (2007) explained the
effectiveness of corruption in nations with sound economic freedom but this does not work in nations with minimum economic freedom.


2.2 The review of the literatures to support other channels through which corruption can affect poverty.

There many previous literatures that support the other channels through which corruption affects poverty, this review will support the views presented in the research question.

Eric Chetwynd, Specto. B and Francis Chetwynd, (2003) argued that Corruption cannot produce poverty directly. Instead, corruption has direct effect on economic and governance indicators, this direct effect in turn cause poverty. Hence two models were developed to support their arguments.

The “economic model” shows that corruption impact poverty by first affecting the economic development indicators which later affect the poverty levels. In nutshell, prevalence of high corruption decreases development and cause various abuses of public offices for personal interest.

The “governance model” explain the effects of corruption on governance indicators, hence affecting the poverty levels. Corruption destroys the government strength to provide basic public services to the citizens, change state projects into business projects where there is kickbacks. Those holding public offices work hard to steal and loot public properties to create inequalities, putting government on pressure and increase budget. These practices resulted into poverty.
I developed the third model called “The Social Model” to supplement the two models in the previous literatures in order to fulfill the objectives of this study. The social model states that corruption first affect and paralyze the social factors for example health, education and infrastructures, when the social services are deprived due to corruptions, those who are supposed to benefit will remain in the status quo, thus lack of these social services will produce poverty themselves.

![Diagram](High_corruption -> Corruption_paralyse_the_social_factors. -> Increased_poverty)

Therefore, the literature review was arranged relevant to the above models.

2.2.1 Economic Model

The previous literatures shows that nations with high corruption tend to have less economic growth and development. In this studies, many authors addresses corruption as a means of destroying available markets.

According to Wei (2000a, 2000b) the level of corruption leads to abnormal costs in foreign investment thus, discourage FDI.

Eric C, Frances. C and B. Spector (2003) stressed that corruption is bad business sustainability, limit incentives of foreign and domestic investors, creating more fear for investments. They also argued that corruption creates a good breed for bribes and decreases taxes that help to build and improve country’s economy.

Corrupt politicians and bureaucrats can create situation for their own benefit and establish regulations for firms to pay bribes for them by controlling key state organs that are influential in terms of decision making (Breen and Gillander 2010).

Mauro (2002) in his corruption analysis, used corruption indices and multiple regression to analyses 106 countries the result showed the link that corruption reduce investments (Lambsdorff) support with evidence that corruption have negative impact on capital accumulation by discouraging capital imports.
Quibria (2002) suggests that poverty will increase when there is no economic growth. Similarly, “In the transition countries in the previous Soviet Union (FSU), the changeover to a market system was associated with a sharp initial drop in output and significantly higher levels of poverty”. (Eric C, Frances. C and B. Spector 2003 PP 11) the high level of poverty is associated with administrative corruption. Increase of poverty is caused by the collapse of GDP, (World Bank, and 2000a).

2.2.2 Governance Model

Kaufmann (1999) gave definition of governance as exercising authority of a country in the traditions and institutions. This includes the ways of selecting, monitoring and replacing government, the ability of the government to formulate appropriate systems acceptable by the citizens.

Thus, our governance model formulated by Eric C, Frances. C and B. Spector (2003) explains that increase in corruption reduces government ability to deliver services, this led to increase in poverty levels. They argued that corruption disorganizes governance practices, destroy government institutions, limit government services, led to lack of respect for judicial system, and reduces people’s respect for government institutions. Furthermore, they argued that corruption reduces public trust in government. In most case citizens relax to take part in state building when they discover corruption in the state institutions.

There are wider agreement that corruption kills peoples’ hope and trust in public discussions, destroys mutual cohesion and state leadership (Andreev 2008).

According to Johnston (2000), corruption paralyses state institutions making it weak and reduce public interest in the government. He said effective public participation is related to less corruption, this finding was confirmed even when controlled by GDP to examine the relationship over time.

The World Bank study (2000a) show that governance has great impact on corruption and poverty. Fragility of the country is accompanied by rapid increase in corruption and poverty, government capacity tend to be limited, and the reduced government capacity increase the chances for corruption and poverty. There is association between good governance and poverty reduction. Kaufmann et al. (1999) he conducted studies on the impact of governance on per capita income
for 173 countries and found that good governance is related to high development. He concluded that good governance led to increase in per capita income from 2.5 to 4.

2.2.3 Social model

The literatures in this model shows that corruption affect the basic human needs through these ways poor people are affected. Especially when the key social sectors are corrupted. Better provisions of social services are related with fast economic development. In some countries the basic services that tend to profit the poor are accorded little attention in favor of big state projects which the rich are benefiting from, lower income people lose the basic services which they depend on. As government revenues reduces due to corruption, public funds meant for poverty reduction programs become limited (Eric C, Frances. C and B. Spector 2003)

Huguette Labelle (2014), Corruption and poverty are like a child and the mother unfortunately go hand-in-hand, destroying the lives of many poor people especially in countries where people are deliberately to pay kickbacks in order to get the necessary services. Like health, education and water. Although the effects of corruption are personal, they are destructive; it leaves children without parental care, families without healthcare, citizens without food, the elderly people without social security, and businesses men without capital for investment.

Mauro (2002) shows that corruption has negative relation to education and health expenditures. He found that raise in the 10-point score on corruption, from 6 to 8, will led to raise in education expenditure by 1% of the GDP.

2.3 Effects of corruptions on growth and inequality.

In Easterly, (2001: 13-14) both Ravallion and Chen explained that poverty is less in nations that have high economic growth but concluded that "measures of inequality show no tendency to get either better or worse with economic growth." Zak and Knack (1998) showed that strong formal institutions can influence growth rates For instance income inequality and corruption are linked with lower growth rates.

Gupta et al. (1998) in his study to analyze corruption for 56 nations, argued through corruption income inequality is increased and reduces growth and thus widen poverty. Corruption exacerbate poverty through increasing inequality since lower income households are forced to pay high bribes
to have basic services. He concluded that corruption destroy economic growth, increase income inequality and increase poverty.

Meon and Sekkat (2005) justified that corruption is economically vital since it help to bypass the inefficient regulations by removing bureaucratic barriers and allowing companies to enter at lower costs.

Many researchers associated corruption with the countries previous record for instance, some findings recorded that effectively practice of corruption in a country without good institutions can positively increase productivity and entrepreneurship. (Houston 2007) Méon and Weill 2008) also agreed with this argument. However, Dreher and Gasserbner (2011) in their view claimed that corruption can reduce the weak institutions and regulations rather than improving its economic development.

Furthermore, (Gupta 2002) mention that corruption can cause income gap by lowering weakening systems, establishing bias monetary regulations favoring the rich class people, inappropriate social expenditures, and discriminations in the social services areas.

Corruption has rooted deep in the poor nations than in the rich nations. Where the dead and killers cannot be differentiated, the financial institutions are weak and not trustworthy, those in power develop plans to loot from the national treasury inform of borrowing money without repay, the import is much intended to serve the rich, employment is based on tribalism and other social affliction, Not forgetting that those in power considerably avoid tax payments, to create social differences they normally send their children to good schools abroad and use oversea medical services all this created poverty trap for many poor nations while driving far away the rich nations (Herbert Werlin, 2012). Such devastating effect of corruption can decrease economic growth and development.
CHAPTER III

HYPOTHESIS DEVELOPMENT

The proposed model (figure 1) was to establish corruption and its effects on inflow of FDI. The results and findings in this study confirm the stated hypothesis and former studies. The panel data analysis was used due to its distinctive advantages and availability. The Panel data, covered large samples size, so there was more efficient result in the estimate of the regression coefficient (Baltagi 2005:5)

Figure 2: Proposed theoretical Model of research: A frame work to determine the effect of corruption on FDI in-flow and poverty. (Modified from Marcos Hilding Ohlsson, 2007)

3.1 The impact of corruption on FDI inflow.

Before proposing any hypothesis on this research question, I first want to look at the views of the previous authors; Hakkala, Norback and Svaleryd, (2008) state that corruption limit firm’s opportunity for a firm to set up business, but has a positive effect on investments that have different motives. Meanwhile both Wheeler and Mody (1992) failed to find any damage cause by corruption. Egger and Winner (2005) argued that corruption helps to increase inflow of FDI in a corrupt host
country. These mixed results still remain contradicting in the previous literature, due to lack of scientific proof.

Thus, my arguments will be based on the empirical evidence that will be tested in this hypothesis and the views of the previous studies that found FDI provides capital that are lacking in the host country to help their economic growth. In this paper, I also attempt to empirically establish the link between corruption, inflow of FDI and its consequent effect on poverty by using a sample of 34 countries from 2005 to 2015. The hypothesis was organized as follows;

H1a: *Corruption has effect on FDI inflow*

H1b: Lack of *Voice and accountability have effect on FDI inflow.*

H1c: *Regulatory quality has effect on FDI inflow.*

H1d: *Government effectiveness has effect on FDI inflow.*

H1e: *Corruption on the rule of law has effect on FDI inflow.*

H1f: *GNI per capita has effect on FDI inflow.*
CHAPTER IV
RESEARCH DESIGN AND METHODOLOGY

This chapter explains the way in which the effects of corruption on inward FDI can be measured. In order to satisfy this study an economic model was constructed, which represents the macroeconomic variables that have effects on FDI inflow. Then we shall state the sources of our data and show the ways in which those variables were measured, both quantitative and qualitative methods were used to analysis collected information. In some cases direct theoretical discussion were employed to discuss the views of the previous literatures. Furthermore, the sample of countries and the years we are comparing were utilized.

4.1 Description of Variables and Data source

4.1.1 Data source and collection

This study used panel data for 34 nations (see appendix Table 6) from 2005 to 2015 for selected countries from Sub-Saharan Africa with available data. Primary income on FDI, payments (current US$) was the dependent variable, while corruption index With respect to other control variables, “Government Effectiveness: Estimate, Regulatory Quality: Estimate, Rule of Law: Estimate, Voice and Accountability estimate, GNI per capita, PPP (current international $)”, The data on Poverty ratio at $1.90 per day (2011 PPP) (% of population) used as a raw form to draw analysis on the effects of corruption on inflow of FDI and poverty. (Modeled ILO estimate) gives clear relationship between FDI in-flow and prevalence of poverty.

4.1.2 Variables

4.1.2.1. FDI inflow as Dependent Variable

In this study we used Primary income on FDI, payments (current US$) as dependent variable covering payments for direct investment’s money, all data are in US dollars.

4.1.2.2. Independent Variables: Corruption index

Corruption index in the “public sector rating (1=low to 6=high)” (World Bank development indicators, 2016)
The three dimensions of accountability, Transparency, and corruption mostly in the government departments are assessed where office bearers in the public office are responsible for their deeds. It should be understood that the criteria designed for this assessment are in neutral way. Therefore, higher scores can be obtained by a nation that has a policy and institutional framework that aim at fostering strong growth. In the World bank data set, corruption index was coded on six-point scale, in which the low value, one was given to the more corrupt nations, while the highest value six, is assigned for less corrupted nations. The financial corruption deals with bribes connected with import and export registration or license, etc are measured in the index.

4.1.2.3. Control Variables

Voice and Accountability estimates is concerned with people’s ability to choose and decide freely the choice of their leadership. Its unit ranging from -2.5 to 2.5.

Regulatory Quality Estimates deals with government’s capability to put in place policies and implementing in them in a manner that promote private investment and development. Its unit score range from -2.5 to 2.5

Government Effectiveness estimates focus on the commitments to credibly implement the designed policies. The score units are given between -2.5 and 2.5.

Rule of Law estimates deals with the trust people have in abiding by the rule of law by the people. Including rights to own property, the judiciary system etc. the units are given between -2.5 and 2.5.

GNI per capita, PPP in US dollar. (World Bank data, 2006)

4.1.2.4 Dummy variable

Battle-related deaths is death caused by war between warring parties. These death occur in war including indiscriminative bombardments of towns and cities or villages. But mostly targeting government installations the deaths in such situation is counted as battle-related deaths.

4.2 Econometric Model Specification

This paper identified corruption and its effects on inflow of FDI. So, our dependent variable was each country’s FDI inflow (current US$) while other independent variables were corruption index, Voice and Accountability estimates, Regulatory Quality Estimates, Government Effectiveness
estimates, Rule of Law estimates, Gross National Income (GNI) in log form and battle related death as a dummy variable were the explanatory variables. The data were based on the World Bank data, 2016, Journals, Seminar Papers, and the Internet as the major sources. Therefore, our multiple regressions model can be specified as below;

**Panel data specification**

\[ Y_{it} = \alpha_i + \beta_1 D_{it} + \beta_2 X_{it} + Z_{it}' \gamma + \epsilon_{it} \]

Where;

\( Y_{it} = \) FDI inflow for country i at time t. Primary income on FDI, payments (current US$) as dependent variable covering payments for direct investment’s money, all data are in US dollars.

\( \alpha_i = \) Corruption for country i at time t. corruption in the government departments scoring (1=low to 6=high) high index means least corrupt, low index means otherwise.

\( D_{it} = \) Dummy variable for country i at time t. Battle-related deaths is death caused by war between warring parties. The dummy variable Battle-related deaths (number of people) representing the binary independent variable. Therefore it takes two values: ‘1’ if the Battle related deaths (number of people) greater than (\( > = \)) 1000 reduces FDI inflow and 0 if otherwise. Thus, this dummy variable represents a variable with two levels, Yes or No.

\( X_{it} = \) Country i; fixed effect. The levels of corruption in each host country at specific period.

\( Z_{it}' = \) Vectors of control factors for country i at time t. lack of Voice and Accountability estimates, Regulatory Quality Estimates, Government Effectiveness estimates, Rule of Law estimates, Gross National Income (GNI) in log form.

\( \epsilon_{it} = \) Error terms.

The ordinary least squares OLS regression help to explain the variables that constantly get dropped in the Fixed Effect regression these variables may be of great interest to explaining the variation that may affect the dependent variable.

In the equation, it was anticipated that corruption level to have positive relationship with host nation’s FDI inflow. However, the coefficients of corruption (CI), lack of voice and accountability were anticipated to be negative. While other coefficients like for government effectiveness
(GVEF), Regulatory quality (REG), Rule of law (ROL) and Gross National Income (GNI) are expected to be positive.

**OLS regression;**

\[ Y_{it} = \alpha_i + \beta_1 D_{it} + \beta_2 X_{it} + Z_{it}' \gamma + \epsilon_{it} \]

**Fig 3: Scattered plot**

*Figure 3: Corruption and inward FDI with fitted line*

Figure 3 has provided visual evidence to the claim that corruption have effects on inflow of FDI. First, the above graph showed that most sample countries are corrupt ranging from 1 to 3 on corruption index. Furthermore, many of the sample countries received less FDI inflow as evidenced by more FDI figure below the fitted line.

However, this claim does not have scientific proof but rather now have to turn to regression results in Table 2 that explains how corruption affect inward FDI and provided a clear relationship.
between the two variables. On the table, the standard OLS regressions result was reported and the error terms were robust to heteroscedasticity.

### 4.3 Method of Estimation

We used Hausman test, to give appropriate model to be employed, result obtained from fixed effect $R^2$ (within) was 0.0953, and random effect $R^2$ (within) was 0.923 while OLS recorded $R^2$ of 0.4462. According to this Hausman test, the large test statistic indicated errors-in-variables (EIV) or wrong specification. So OLS with smaller test statistic is the specified appropriate model for this study.

The OLS is desirable due to its popularity and simplicity (Gujarati, 2006). Additionally we assume that the errors are distributed equally.

### 4.4 Research design

This study was conducted using both quantitative and qualitative methods, through the use of quantitative method, the researcher was able to test the retrieved data to give scientifically proved results. Additionally, a descriptive method was used to analyze the views of the previous authors. The researcher used descriptive research method because it was considered to be most appropriate in analyzing the information without data.

### 4.5 Data analysis

Both qualitative and quantitative analysis were used. In qualitative analysis, data was collected edited and analyzed. On the other hand data was coded and regressed using a OLS model that enabled easy interpretation and analysis of findings.

### 4.6 Quality control

Data was pre-tested and by doing so a careful review into the collected data was carried out to find out whether it corresponded with the objectives of study. It involved data editing and proof reading to enable analysis. This enabled the control of the quality of data.
CHAPTER V
DATA ANALYSIS AND INTERPRETATION

5.1 Test of hypothesis

This paper used factor analysis to check if the proposed methods were valid, with principal components analysis as the extraction method and varimax rotation as the rotation method, a total of 34 groups were used for 11 factors, this study applied linear regression analysis. Table 2 showing the result of multiple regression for the effects of corruption on inflow of FDI.

5.2 Table 2: The impact of corruption on FDI inflow.

<table>
<thead>
<tr>
<th>Factor (LFDI)</th>
<th>OLS Coef (Std error)</th>
<th>RE Coef (Std. Error)</th>
<th>FE Coef (Std. Error)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption Index</td>
<td>-.84842 (.176)***</td>
<td>-.10988 (.246)</td>
<td>.04831 (.261)</td>
</tr>
<tr>
<td>Voice and accountability</td>
<td>-.00416 (.001)***</td>
<td>.00006 (.001)</td>
<td>.00111 (.001)</td>
</tr>
<tr>
<td>Regulatory quality</td>
<td>.00193 (.001)</td>
<td>.00145 (.000)</td>
<td>.00156 (.000)</td>
</tr>
<tr>
<td>Government effectiveness</td>
<td>-.00243 (.002)</td>
<td>-.00058 (.001)</td>
<td>-.00042 (.000)</td>
</tr>
<tr>
<td>Rule of law</td>
<td>-.00249 (.001)</td>
<td>-.00009 (.001)</td>
<td>.00032 (.001)</td>
</tr>
<tr>
<td>Gross National Income (LGNI)</td>
<td>2.8300 (.224)***</td>
<td>1.9826 (.337)</td>
<td>1.9528 (862)</td>
</tr>
</tbody>
</table>

P < 0.05; *** Significant.

A linear regression was run to utilize FDI inflow as the dependent variable being affected by corruption and other variables as predictors to determine whether FDI inflow can be affected by corruption and its predictors.

The linear regression result showed corruption affect FDI inflow negatively and with a significant result, with $F (6,262) = 30.03$ and $R^2 = 0.4462$. The result found was negative and significant on
corruption index. Meaning that, 1 point raise in corruption in concern nation will decrease FDI inflow by .848%. The finding in this study is consistent and relevant with the findings of Mohsin and Leon (2009); and Al-Sadiq (2009) who found that corruption increases investment cost and hence discourage FDI inflow. This study found out that corruption and Lack of voice and accountability affect FDI inflow negatively, they all showed significant relationship towards FDI inflow. Therefore, H1a and H1b were accepted.

Additionally, the study found that the GNI per capita could increase the FDI inflow and shows a significant relationship with FDI inflow. Thus, H1f was accepted.

The study found that the Regulatory quality has positive relations with FDI inflow but there was insignificant relationship with the FDI inflow. Hence, H1c was rejected.

Contrary, the study found that Government effectiveness and Rule of law have negative effect on FDI inflow but there was no significant relationship with FDI inflow. Therefore H1d and H1e were rejected. This discovery is consistent with Houston’s finding which stressed corruption as helpful for nations with weak institutions (Houston. D, 2007)

5.3 Estimation improvements

We included dummy variable in this section to show how our results can be improved. In order to give clear difference between the different treatment groups, this dummy variable represented an attribute of the different categories towards FDI inflow. During the Linear regression, FDI inflow was treated as a dependent variable.

The dummy variable Battle-related deaths (number of people) representing the binary independent variable. Therefore it takes two values: ‘1’ if the Battle related deaths (number of people) greater than (> =) 1000 reduces FDI inflow and 0 if the battle related deaths (number of people) greater than (> =) 1000 increases FDI inflow. Thus, this dummy variable represents a variable with two levels, Yes or No.

I decided to take figure ‘1000’ because it is easy to represent population in thousands than in hundred or tens. Thus, it’s best for representing population.
Table 3. Observations

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes (1)</td>
<td>304</td>
<td>81.28</td>
<td>81.28</td>
</tr>
<tr>
<td>No (0)</td>
<td>70</td>
<td>18.72</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>374</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>

Note:
(a) “Yes or 1” is assigned if the Battle related deaths (number of people) greater than (> =) 1000 reduces FDI inflow.
(b) “No or 0” is assigned if the battle related deaths (number of people) greater than (> =) 1000 increases FDI inflow.

Table 4. Fixed-effect regression on the dummy variable

<table>
<thead>
<tr>
<th>LFDI</th>
<th>Coef.</th>
<th>Std. Err.</th>
<th>t</th>
<th>Sign. P&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption Index (CI)</td>
<td>−.0590</td>
<td>.2783</td>
<td>−0.21</td>
<td>0.832</td>
</tr>
<tr>
<td>Voice and accountability(VAA)</td>
<td>.0007</td>
<td>.0015</td>
<td>0.45</td>
<td>0.652</td>
</tr>
<tr>
<td>Regulatory Quality(REG)</td>
<td>.0015</td>
<td>.0010</td>
<td>1.56</td>
<td>0.120</td>
</tr>
<tr>
<td>Government effectiveness(GEF)</td>
<td>−.0006</td>
<td>.0011</td>
<td>−0.54</td>
<td>0.592</td>
</tr>
<tr>
<td>Rule of law(RoL)</td>
<td>.0001</td>
<td>.0001</td>
<td>0.09</td>
<td>0.925</td>
</tr>
<tr>
<td>Gross National Income(GNI)</td>
<td>1.938</td>
<td>.4235</td>
<td>4.58</td>
<td>0.000***</td>
</tr>
<tr>
<td>Battle related deaths(D)</td>
<td>−.3643</td>
<td>.1843</td>
<td>−1.98</td>
<td>0.049***</td>
</tr>
<tr>
<td>Cons_</td>
<td>4.418</td>
<td>3.430</td>
<td>1.29</td>
<td>0.199</td>
</tr>
</tbody>
</table>

***Significant***P> = 0.5

The fixed-effect regression on predicted dummy variable gave the following model;

Predicted result: −.0590 + .0007*VAA + .0015*REG + −.0006*GEF + .0001*RoL + 1.938*GNI + −.3643*D.

Where, VAA is voice and accountability, REG is Regulatory quality, GEF is the government effectiveness, GNI is Gross National Income and D stands for dummy.
The interception value at \(-0.0590\) indicates that corruption affect FDI negatively irrespective of the type of corruption, the year and the country where it’s commonly practiced, 1% increase in corruption negatively affect FDI inflow by \(-0.0590\). Same view is represented at coefficient of Government effectiveness (GEF). However, other coefficients of Voice and accountability (VAA), Regulatory quality (REG), and Rule of law (RoL) increases FDI inflow.

The dummy coefficient of \(-0.3643\) mean that if the Battle-related deaths (number of people) is greater than 1000, it negatively affect the FDI inflow by \(-0.3643\) and it showed a significant relationship at 0.049*** (P< 0.5) otherwise the coefficient will read positive if the battle related death number of people greater than 1000 can increase FDI inflow.

5.4 Additional analysis

This analysis was based on a direct observation and description of the raw secondary data obtained on corruption, FDI inflow and poverty, this analysis helped to establish the relationship between corruption, FDI inflow and poverty. (See appendix table 5)

5.4.1 Corruption and FDI inflow

The result showed that highly corrupted countries do received low FDI inflow for example, Central African Republic = 2.5: 138771.451, Congo, Dem. Rep. = 2: 5050000, Djibouti 2.5: 5495651.224, Guinea-Bissau 2.3: 3215523.51, Zimbabwe 1.4: 12165833.99, Madagascar 2.8:57523121.78.

The figures of the above selected countries shows that high corruption level tend to discourage and reduce FDI inflow. Therefore this finding is agreement with the view of (Skanska group, Argentina 2007) which concluded that corruption have negative effects to FDI inflow. Kaufmann (1997) explained the high investment cost in corrupted nations is 20% higher than that in less corrupt nations.

Contrarily, Sudan 1.7: 763134264.7 is one of the highly corrupted country in Africa but it received high FDI inflow compared to some of the least corrupted country like Rwanda 3.4: 6489583.056. This contradiction is pointing at the views of Toby Kendall and Ying Zhou (2009) explained that corruption could increase FDI in flow, Marcos Hilding Ohlsson, (2007) urged that it has positive effects on FDI. Saha (2001) argue that corruption is a helpful tool in the economy. They show that corruption is not harmful to business but rather a motivating factor for unchangeable economic regulations.
5.4.2 Corruption and poverty

The above data shows that highly corrupted countries have larger population living in poverty for example; Burundi 2.8: 80.96%, Central African Republic 2.5: 71.76%, Congo, Dem. Rep. 2: 85.56%, Madagascar 2.8: 71.67%, Mozambique 2.9: 78.15%. I saw there is evidence that corrupted countries ended into corruption trap, this argument is supported by many previous authors like; Gupta (1998) agreed with the view that government capacity is reduced by corruption to spend on health and education. Highly corrupted countries tend to have less expenditures on social services that is meant to elevate poverty; Huguette Labelle (2014) explained corruption and poverty as a child and the mother unfortunately go hand-in-hand, destroying the lives of many poor people especially in countries where people are to pay bribes to get necessary government services like health, education and water. Although the effects of corruption are personal, they are destructive; it leaves children without parental care, families without healthcare and citizens without food. Jong-sung and Khagram (2005) stressed that corruption can make the poor more vulnerable because they cannot hold the rich accountable, this is likely to create permanent circle of corruption- inequality-poverty. Hence, as inequality increases, more people are trapped into poverty.

5.4.3 FDI inflow and poverty

From table 5; shows the ratio of FDI inflow to poverty; there is evidence that countries which have low FDI inflow have more population living in poverty for example; Burundi 2938768.173: 80.96%, Central African Republic 138771.451: 71.76%, Chad 5050000: 50.68%, Congo, Dem. Rep. 431997.34: 85.56%, and Madagascar 57523121.78: 71.67% are the few selected nations in Sub-Saharan Africa that receive minimum FDI inflow compared to other countries within the region and hence they have larger population living in poverty. This finding is confirm by World Bank, (2000a). Increase of poverty is caused by the collapse of GDP and low inflow of FDI.

However, there are some countries like Nigeria 765566132: 56.87%, Uganda 149965621.1: 54.76% and Tanzania 216777533.7: 63.62% that have relatively received higher FDI inflow but have larger population living in poverty according to their FDI and poverty ratio.
CHAPTER VI
DISCUSSION, CONCLUSION, LIMITATIONS AND RECOMMENDATIONS

6.0 DISCUSSIONS AND CONCLUSION

6.1 Effect of corruption on FDI inflow

Today policy-makers and world leaders take much time to discuss about corruption and its effects on different economic activities. The institutional quality in the host countries matters a lot in the real choose of FDI inflow. The argument is find out if corruption is curse or blessing to the society, scholars gave conflicting theoretical arguments about corruption and its effects on FDI inflow. This conflict was only solved by providing empirical evidence to provide the link between corruption and FDI inflow. Much Literature came up with mixed results on views whether corruption can affect FDI inflow. Where some papers reached a conclusion that corruption reduces FDI inflows, (Wei, 2000a, 2000b). While others argued that there is lack of significant relationship between these two, additionally, some authors debated that corruption attract FDI for host country by paying bribes to the concern authorities to minimize bureaucracy, the reports from those countries indicated that corruption and FDI inflow are interrelated (Marcos Hilding Ohlsson, 2007 and Saha 2001). In this paper, I based my arguments and conclusion on the evidence gathered through cross-section data analysis which the result showed that corruption affect FDI inflow negatively. 1% increase of corruption affects FDI inflow by −.848 and it has significant relationship with FDI inflow, hence validating the finding of Mauro. T (1995) and Eric C, Frances. C and B. Spector (2003) however, my findings based on empirical evidence rendered the arguments of previous scholars like Saha (2001), Bardhan (1997) and Houston (2007) who all argued positive effects of corruption on FDI inflow and economic development null and void.

Therefore, we conclude corruption to be significantly a problem for FDI inflow in Sub-Saharan African countries because corruption obstruct FDI inflow by increasing economic risks and uncertainties, thereby Killing and destroying investors’ confidence in investing in the existing market.
6.2. Other analysis - corruption-FDI inflow and poverty

On the other hand, I tried to base my argument on the linkage between corruption and FDI inflow and Poverty prevalence in various countries. The result from table 5 raw data collected from World Bank data, 2016 showed that corrupted countries tend to receive less FDI inflow and there are quite larger population in those countries living in poverty for example, DRC, Burundi, CAR, and Madagascar have large population poor. However, Sudan and Zimbabwe are corrupt countries but have relatively high FDI inflow compare to the least corrupt countries, this FDI inflow could be due to attractiveness of natural resources in those host countries. But if these countries (Sudan and Zimbabwe) which are highly corrupt and received remarkable FDI at the same time could even receive this FDI twice as much they received if the level of corruption could be reduced. This study from 34 countries for 11 years concluded that corruption is harmful to FDI inflow which provide quick opportunity to fight poverty, corruption deprived citizens from those corrupt countries to participate in profit from foreign investors. Therefore, corruption must not only be controlled for political reasons but also for economic growth and prosperity for those host countries.

6.3 Limitation of the study

This study has limitations which can be filled by the future researchers on the same theme. First, the study did not focus much on the relations between corruption and poverty. The result of this study was concerned with the effects of corruption on FDI inflow and gave assumed conclusion that poverty is indirectly affected by corruption. So stating conclusion that corruption have effects on poverty level without empirical evidence is bias and unfair.

Secondly, there was limitation in getting all the data for the Sub-Saharan countries for long period, most of the data for required variables are lacking. Thus it was not possible for the researcher to cover all the countries in the region for a long period.

6.4 Recommendations

The governments should introduce appropriate legislation measures to deal with corruption and provide all the required ways to make sure that right steps are taken to establish a trusted and consistent rule of law in order to attract more FDI. Among the Sub-Saharan African countries, Rwanda and Botswana demonstrated an appropriate way of fighting against corruption, the
established trusted and independent Anti-corruption bodies, and reaffirmed the politician’s commitment to combat corruption at all levels. In line with establishment of proper legislation to minimize corruption, there is need to involve the citizens in building integrity and confidence in the existing institutions. I know corruption cannot be stopped overnight, but government’s role to take proper measures to reduce corruption by building strong institutions and infrastructures will be a workable and long-lasting solution to combat corruption in those countries under study. Similarly, in Asia, Quah (1982) explained that both Hong Kong and Singapore have demonstrated political willingness to combat corruption by institutionalizing appropriate anti-corruption measures to minimize corruption. The government should take the responsibility for cracking down the top government officials and other stakeholders who encourage bribery in order to give favor over others. Furthermore, the government should create politically stable situation to attract foreign investors. It’s obvious that the politicians are taking unstable situation to encourage corruption as the country’s institutions are weaken by civil wars, regional conflicts, and tribal conflicts. The evidence from table 2 shows that politically instable countries are highly corrupt, receive less FDI inflow and have large population living in poverty (1.90$ per day) hence, favorable political climate should be the key focus of the government to encourage inward FDI. In addition, the government and other stakeholders in the development sectors should focus on improving socio-economic sectors like education, health, agriculture, mining and infrastructural development, and keeping clean track records of economic growth as these are the key factors necessary to attract foreign investors. The mentioned socio-economic sectors have high potentials to attract FDI in Asian economics because skilled and semi-skilled labor force are seen to have attracted more foreign investors.

6.5 Future research areas

I admitted that more research is required in this field because the result in this paper gave scientific evidence only on corruption and FDI inflow while the link between corruption and poverty was not proof scientifically, the theoretical explanation remains suggestions to the policy-makers. I believe that a potential for the future research to find out the direct effects of corruption on poverty is warranted.
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APPENDIX

LIST OF ABBREVIATIONS

BBC: British broadcasting cooperation
CAR: Central African Republic
CONGO, DEM: Congo Democratic.
DRC: Democratic Republic of Congo.
EIV: Errors-In-Variables.
FDI: Foreign Direct Investment.
GDP: Gross Domestic Product.
GNI: Gross National Income
HDI: Human Development Index.
ILO: International Labor Organization
JIBS: Jonkoping International Business School.
KDI: Korea Development Institute.
MNE: Multinational Enterprise.
ODA: Official Development Assistant.
OLS: Ordinary Least Squares.
SDG: Sustainable Development Goals.
SIDA: Swedish International Development Agency.
UN: United Nations.
US: United State
### Table 1: Summary of literature review.

<table>
<thead>
<tr>
<th>Author</th>
<th>Title</th>
<th>Year</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dahlström and Johnson</td>
<td>“Bureaucratic Corruption, MNEs and FDI, Jönköping International Business School (JIBS)”</td>
<td>2007</td>
<td>Corruption can increase the cost of FDI, leading to bribes and extra tax.</td>
</tr>
<tr>
<td>Toby Kendall and Ying Zhou</td>
<td>“The impact of corruption on FDI”</td>
<td>2009</td>
<td>Corruption reduces the profit from FDI and increase additional fixed cost</td>
</tr>
<tr>
<td>Marcos Hilding Ohlsson</td>
<td>“Impact of corruption on FDI – Across country analysis”</td>
<td>2007</td>
<td>“corruption can also have some positive effects on FDI”</td>
</tr>
<tr>
<td>Skanska group, Argentina</td>
<td>“Skanska’s statement on the Argentina corruption scandle”</td>
<td>2007</td>
<td>Corruption has negative impact on FDI.</td>
</tr>
<tr>
<td>Beck and Marher</td>
<td>“A comparison of bribery and bidding in thin markets. Economic Letters</td>
<td>1986</td>
<td>Corruption is a helpful tool in the economy and a motivating factor for unchangeable economic regulations</td>
</tr>
<tr>
<td>Authors</td>
<td>Title</td>
<td>Year</td>
<td>Summary</td>
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<td>Saha, B</td>
<td>“Red tape, incentive bribe and the provision of subsidy. Journal of Development Economics”</td>
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<td>Tanzi, V. and Davoodi, H.</td>
<td>“Corruption, Public Investment and Growth”. International Monetary Fund Working Paper,</td>
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<td>corruption is beneficial to monopoly</td>
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<td>Hakkala, Norback and Svaleryd,</td>
<td>“Asymmetric effects of corruption on FDI: evidence from Swedish multinational firms.” The Review of Economics and Statistics</td>
<td>2008</td>
<td>“Corruption reduces the opportunity for a firm to invest in a country”, but has a positive effect on investments that have different motives.</td>
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<td>Egger and Winner</td>
<td>“Evidence on corruption as an incentive for foreign direct investment”. “European Journal of Political Economy”</td>
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<td>“corruption help to increase FDI inflow in a corrupt host country”</td>
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<td>“Corruption has a negative effects on the investment and economic growth”</td>
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<td>Bardhan. P</td>
<td>“Corruption and Development: A Review of Issues.” “Journal of Economic Literature”</td>
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<td>Kaufman and Wei</td>
<td>“Does ‘Grease Money’ Speed Up the Wheels of Commerce?” NBER Working Paper No. 7093</td>
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<td>“Firms spend more time in negotiating bribes with bureaucrats than following normal procedures”.</td>
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<td>Houston. D</td>
<td>“Can Corruption Ever Improve an Economy?” Cato Journal 27</td>
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<td>“Corruption has positive effects on economic growth in countries with a weak rule of law, while it has negative effects in countries with sound institutions”.</td>
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<td>Eric C, Frances. C and B. Spector</td>
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<td>Breen and Gillander</td>
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<td>“Targeted efforts to curb corruption can yield significant benefits to improve the regulation of the business”</td>
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<td>2003</td>
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<td>World Bank, 2000a</td>
<td>“Anti-Corruption in Transition: A Contribution to the Policy Debate.”</td>
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<td>Andreev</td>
<td>“Corruption, Legitimacy and the Quality of Democracy in Central and Eastern Europe and Latin America.”</td>
<td>2008</td>
<td>Corruption kills citizens’ confidence and trust in public institutions, and undermine social cohesion, trust and the legitimacy of state institutions, and have great impact on the rule of law, democratic processes and state leadership</td>
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<td>Johnston, Michael. 2000a</td>
<td>&quot;The New Corruption Rankings: Implications for Analysis and Reform.&quot;</td>
<td>2000</td>
<td>Corruption threatens democracy and governance through making the political institutions weak and reduce public participation in the government, and destroy the economic development needed to support and sustain democracy</td>
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<td>The World Bank study (2000a)</td>
<td>“Anti-Corruption in Transition: A Contribution to the Policy Debate.”</td>
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<td>The fragility of the country is accompanied by rapid increase in corruption and poverty, government capacity tend to be limited, and the reduced government capacity increase the chances for corruption and poverty</td>
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<td>Eric C, Frances. C and B. Spector</td>
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<td>2003</td>
<td>As government revenues reduces due to corruption, public funds meant for poverty reduction programs become limited</td>
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<td>Huguette Labelle</td>
<td>“To end poverty, you have to end corruption”</td>
<td>2014</td>
<td>Corruption and poverty are like a child and the mother unfortunately go hand-in-hand, destroying the lives of many poor people especially in countries where people are deliberately forced to pay bribes to access the basic services like health, education and water.</td>
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<td>Mauro</td>
<td>“The Effects of Corruption on Growth and Public Expenditure”</td>
<td>2002</td>
<td>shows that corruption has negative relation to education and health expenditures</td>
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| Zak and Knack               | “Trust and Growth."  
“IRIS Center Working Paper No. 219”                                 | 1998 | Strong formal institutions can influence growth rates For instance income inequality and corruption are linked with lower growth rates.                                                                 |
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<td>Meon and Sekkat</td>
<td>“Does Corruption Grease or Sand the Wheels of Growth?”</td>
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<td>Corruption is economically vital since it help to bypass the inefficient regulations by removing bureaucratic barriers and allowing companies to enter at lower costs.</td>
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<td>Méon and Weill</td>
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<td>Dreher and Gasserbner</td>
<td>“Greasing the Wheels? The Impact of Regulations and Corruption on Firm Entry.”</td>
<td>2011</td>
<td>Corruption can reduce the effect of weak institutions and regulations.</td>
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<td>Gupta</td>
<td>&quot;Corruption and the Provision of Health Care and Education Services.&quot; “IMF Working Paper 00/116”.</td>
<td>2002</td>
<td>“Corruption can increases income inequality by lowering economic growth and inappropriate social spending, and unequal access to social services like education and health”.</td>
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<td>Herbert Werlin</td>
<td>Poor nations-rich nations: why the difference?</td>
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<td>corruption decreases economic growth and development</td>
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Table 5: Data analysis to establish the linkages between corruption, FDI in-flow and poverty ratio.

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<tr>
<th>COUNTRIES</th>
<th>Corruption Index(Average)</th>
<th>Primary income on FDI, payments (current US$)(average)</th>
<th>“Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population)”(average)</th>
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Descriptions: corruption index (1 to 6 scale, 1 highly corrupt and 6 least corrupt), FDI inflow (low figure represents less inflow), Poverty (in 100%, 1% means low poverty ratio and 100% high poverty ratio)
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