

Stefan Kratzsch

# Forms and Performance of Foreign Direct Investments in Sub-Saharan Africa



Nomos

Stefan Kratzsch

# **Forms and Performance of Foreign Direct Investments in Sub-Saharan Africa**



**Nomos**

**The Deutsche Nationalbibliothek** lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data are available on the Internet at <http://dnb.d-nb.de>

a.t.: Leipzig, Univ., Diss., 2017

ISBN 978-3-8487-4948-5 (Print)  
978-3-8452-9160-4 (ePDF)

**British Library Cataloguing-in-Publication Data**

A catalogue record for this book is available from the British Library.

ISBN 978-3-8487-4948-5 (Print)  
978-3-8452-9160-4 (ePDF)

**Library of Congress Cataloging-in-Publication Data**

Kratzsch, Stefan

Forms and Performance of Foreign Direct Investments in Sub-Saharan Africa

Stefan Kratzsch

347 p.

Includes bibliographic references.

ISBN 978-3-8487-4948-5 (Print)  
978-3-8452-9160-4 (ePDF)

1st Edition 2018

© Nomos Verlagsgesellschaft, Baden-Baden, Germany 2018. Printed and bound in Germany.

This work is subject to copyright. All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or any information storage or retrieval system, without prior permission in writing from the publishers. Under § 54 of the German Copyright Law where copies are made for other than private use a fee is payable to "Verwertungsgesellschaft Wort", Munich.

No responsibility for loss caused to any individual or organization acting on or refraining from action as a result of the material in this publication can be accepted by Nomos or the author.

## Annotation

This Book represents a Doctoral Thesis submitted to and accepted by the Leipzig University, Faculty of History, Arts and Oriental Studies – Institute of African Studies (Universität Leipzig, Fakultät für Geschichte, Kunst- und Orientalwissenschaften – Institut für Afrikastudien) for granting the degree of PhD (Dr. phil.). The Thesis was successfully defended on 3 November 2017 in Leipzig, Germany and received a degree of “magna cum laude”.

The two reviewers were Prof. Dr. Helmut Asche (first reviewer) and Prof. Dr. Katja Werthmann (second reviewer).



## Acknowledgements

I take this opportunity to express my gratitude to the many individuals whose support has been essential for the completion of the PhD Thesis which forms the basis of this Book. My deep appreciation goes to my supervisor, Professor Helmut Asche who has relentlessly supported me with his wisdom and insights and who has provided the necessary reassurance and guidance to bring this academic journey of mine to a successful termination.

I also wish to thank Leipzig University, particularly the Institute of African Studies at the Faculty of History, Arts and Oriental Studies, for accepting me as an external doctorate student and for providing me with the means to undertake the research for my PhD Thesis. I owe gratitude to my employer, the United Nations Industrial Development Organisation (UNIDO), including former and current colleagues at UNIDO, for creating a professional framework that enabled me to learn and eventually apply my acquired knowledge in the thematic area of my PhD Thesis.

Most of all, however, I am indebted to all members of my family without whom I would never have reached this point in my life. All of them contributed in their own individual way and pushed me to go beyond what I thought would be possible. I am conscious of all the sacrifices they had to make in encouraging and supporting me over such a long period of time while selflessly subordinating their own expectations and needs – in me as husband, father, son and son-in-law. Especially my wife Šárka has never ceased to believe in my ability to finish what I started and she has provided continued moral encouragement and generous understanding during the most difficult periods of writing this Thesis. I will forever be grateful for that. Needless to say, I am also thankful to many others who in one way or another have contributed in no small measure to the successful completion of this Thesis.

I dedicate this Book to my family.



## Abstract

This Book sheds light on different forms of foreign direct investment (FDI) in Sub-Saharan Africa (SSA) at the macro-level as well as the micro-level. The understanding of these different FDI forms provides the foundation for a detailed analysis of the multifaceted dimensions of FDI performance through an OLS regression model. The Book posits that the understanding of FDI performance determinants is indispensable in the debate about the contribution of FDI to SSA's economic development and its technological transformation. It claims that the formulation of ambitious FDI impact targets would be futile unless the foreign investor experiences subjectively acceptable growth and profit levels and sees a business rationale in maintaining the longevity and stability of its operations in SSA.

An extensive literature review provides the basis for the formulation of eleven hypotheses drawing primarily from resource-based, institutional and transaction cost theories. The sample is derived from the UNIDO 2010/11 Africa Investor Survey database and comprises 2,692 foreign subsidiaries. The results are at odds with the majority of the macro-level literature on FDI inflow determinants to SSA in that they bring into question the exclusive focus on institutional and business climate determinants. Instead, firm-level results point to the relevance of R&D intensity, brands, prior or parallel experience in SSA, cultural proximity and product diversification in explaining FDI performance. Being an older and larger foreign subsidiary also has a positive impact on FDI performance as well as local market orientation. JVs perform better than greenfield foreign investors.

Another contribution is made in the detailed analysis of macro-level FDI flow and stock statistics from the four main sources IMF, UNCTAD, the World Bank and OECD. The Book divulges deviations between different data sources and provides an account of the main reasons for the under- and overestimation in FDI statistics. It concludes that SSA's national statistics offices and central banks require further capacity building. In this context, FDI surveys in SSA should be continued in order to build up a firm-level panel database to advance research on FDI typology, FDI performance and other related topics.



*Abstract*

**Keywords:** Sub-Saharan Africa, foreign direct investment, determinants, performance, entry mode

**JEL Classifications:** F21, F23, L22, L25.

## Table of Contents

List of Figures	15
List of Tables	17
List of Boxes	23
Abbreviations	25
1. Introduction	29
1.1 The foreign direct investment (FDI) scenario in Sub-Saharan Africa	29
1.2 Research objective	35
1.3 Structure of the Book	40
2. A macro-economic perspective of FDI in SSA	42
2.1 Definitions	42
2.2 The state of FDI statistics in SSA	45
2.3 Aggregated FDI statistics in SSA from different sources	53
2.3.1 SSA FDI statistics reported by the IMF	53
2.3.2 SSA FDI statistics reported by the World Bank	59
2.3.3 SSA FDI statistics reported by UNCTAD	63
2.3.4 SSA FDI statistics reported by OECD	71
2.3.5 Comparison between World Bank, IMF, UNCTAD and OECD	75
2.3.6 Factors influencing variations in FDI flow and stock statistics	81
2.4 Disaggregated FDI statistics in SSA	90
2.4.1 Industry subsectors of FDI	90
2.4.2 FDI countries of origin	94
2.4.3 Entry mode of FDI	107
2.4.4 Size of FDI	115

*Table of Contents*

2.5	Summary of findings and Chapter 2 conclusions	117
3.	A firm-level perspective of different FDI forms in SSA	120
3.1	Available resources and foreign firm-level samples	120
3.2	Industry subsectors of FDI	123
3.3	FDI origin	127
3.4	FDI establishment and ownership mode	131
3.5	Perceived partner contributions to joint venture success	140
3.6	Size of FDI	145
3.7	Organizational structure of FDI	148
3.8	Age of FDI	155
3.9	Market orientation of FDI	156
3.10	Summary of findings and Chapter 3 conclusions	161
4.	The theoretical underpinnings of FDI performance	163
4.1	FDI entry mode	164
4.1.1	Definitional issues	165
4.1.2	FDI entry mode and performance	169
4.2	FDI Performance	174
4.3	Transaction cost determinants of FDI performance	176
4.4	Institutional and host country determinants of FDI performance	181
4.5	Industry and corporate determinants of FDI performance	193
4.6	Cultural and institutional distance determinants of FDI performance	197
4.7	Firm resource and internationalization determinants of FDI performance	200
4.8	Governance and subsidiary integration determinants of FDI performance	208
5.	Empirical analysis of FDI performance in SSA	211
5.1	Data and sample	211

5.2	Methodology	212
5.2.1	Dependent variables	213
5.2.2	Independent variables	217
5.2.3	Control variables	224
5.2.3.1	Subsidiary age	224
5.2.3.2	Subsidiary size	225
5.2.3.3	Entry mode	227
5.2.3.4	Export orientation	229
5.2.3.5	Industry sector	230
5.2.3.6	Host country	232
5.3	Analysis and results	233
5.3.1	Descriptive results	233
5.3.2	Principal component analysis of the location factor change matrix	239
5.3.3	Regression results	249
5.4	Summary of findings and Chapter 5 conclusions	272
6.	Conclusions, limitations and outlook	275
6.1	Summary of findings and contributions	275
6.2	Limitations and outlook	283
	Annex Tables and Figures	289
	Bibliography	309



## List of Figures

Figure 2.1:	Direct investment presentation in the financial account of the BOP following BPM-6	44
Figure 2.2:	FDI inflows into SSA countries between 2000 and 2013	60
Figure 2.3:	FDI inflows into SSA, comparing UNCTAD vs. World Bank data, 2000–2013	65
Figure 2.4:	FDI inflows into SSA, disaggregated by regions, 2000–2013	66
Figure 2.5:	FDI inward stocks of SSA subregions in relation to SSA's total FDI inward stocks, 1995–2013	70
Figure 2.6:	OECD countries outward FDI stock in selected SSA countries, 2006–2012	74
Figure 2.7:	Determinants of over- under underestimation of FDI flow and stock statistics	90
Figure 2.8:	Breakdown of inward FDI stocks by country of origin, 2012/2013	101
Figure 2.9:	SSA host country breakdown of cumulative announced greenfield project volume for the period 2006–2013	113
Figure 3.1:	Proportion of selected subsectors in different FDI age cohorts	126
Figure 3.2:	Proportion of foreign investors from different countries of origin in different age cohorts	128

*List of Figures*

Figure 3.3:	Occurrence of JV ownership mode in different subsidiary size groups	137
Figure 3.4:	The importance of foreign and local partner's contribution to JV success	141
Figure 3.5:	Perceived importance gap of foreign vs. local partner contributions for JV's upgrading of staff quality	144
Figure 3.6:	Size distribution of foreign subsidiaries in SSA	146
Figure 3.7:	Proportion of JV formation in large SSA subsidiaries of TNCs and FEs	155
Figure 5.1:	Perceived change of 12 location factor variables in SSA	240
Box Figure 1:	Scatter plot of host country factor scores of <i>STABILITY</i> and <i>INT_CONNECT</i>	249
Figure 5.2:	The complete regression model of FDI performance	251
Annex Figure 1:	Comparing SSA's FDI inflows with FDI greenfield and M&A databases, 2006 to 2013	297

## List of Tables

Table 2.1:	BOP reporting of SSA countries on the direct investment components of FDI liabilities (FDI inflows)	47
Table 2.2:	Main facts on BOP statistics in SSA	51
Table 2.3:	Aggregated BOP direct investment liability positions (FDI inflows) for SSA, 2006–2013, in billions of USD	54
Table 2.4:	Aggregated IIP direct investment liability positions (FDI inward stocks) for SSA, 2009–2013, in billions of USD	55
Table 2.5:	Inward direct investment positions of SSA countries participating in CDIS	57
Table 2.6:	Net FDI in SSA, 2005–2013, in billions of USD	62
Table 2.7:	FDI inward stocks (in billions of USD) and shares, 1992–2013	68
Table 2.8:	OECD outflows to SSA, 2006–2013, in billions of USD	72
Table 2.9:	FDI inflows to SSA from different sources, 2006–2013, maximum coverage of countries	76
Table 2.10:	FDI inflows to SSA from different sources, 2006–2013, country coverage adjusted to BOP availability	77
Table 2.11:	Net FDI flows to SSA from different sources, 2006–2013, maximum coverage of countries	79



*List of Tables*

Table 2.12:	FDI inward stocks in SSA from different sources, 2009–2013, maximum coverage of countries	80
Table 2.13:	Main sector disaggregation of FDI stocks in selected SSA countries, different reporting years	91
Table 2.14:	Discrepancies between 2006 FDI inflows for selected SSA countries, reported at aggregated levels and according to country of origin	95
Box Table 1:	Mirroring inward and outward FDI stock in selected SSA countries, 2009–2011	96
Table 2.15:	FDI inflows to Africa 1995–2006, country of origin perspective	98
Table 2.16:	Top ten FDI stock owners in Africa from OECD countries	99
Table 2.17:	Net cumulative M&A transaction volumes in SSA, 2006–2013	109
Table 2.18:	The largest cross-border M&A deals in SSA LDCs, 2002–2010	110
Table 3.1:	UNIDO FDI survey sample breakdown by subsector	124
Table 3.2:	UNIDO FDI Survey sample breakdown by manufacturing subsector	125
Table 3.3:	Size structure of subsidiaries owned by foreign investors from different countries of origin	129
Table 3.4:	Distribution of FDI entry modes in SSA	132
Table 3.5:	Ownership mode choice in different FDI categories	133

Table 3.6:	Mean foreign equity share in FDI subsidiaries of varying sizes	136
Table 3.7:	Ownership changes in FDI firms in SSA within the past 5 years	139
Table 3.8:	Median size (employment, fixed assets and annual output) of different FDI subsectors in SSA	147
Table 3.9:	Subsectors in SSA with dominance of TNCs vs. FEs	151
Table 3.10:	Degree of FDI internationalization and subsidiary sizes in SSA	154
Table 3.11:	Median subsidiary size (employment, fixed assets, annual output) in different FDI age cohorts	156
Table 3.12:	FDI market orientation in different subsectors	157
Table 4.1:	Configurations of establishment and ownership modes	167
Box Table 2:	FDI ownership restrictions in different industry subsectors in SSA	186
Table 4.2:	Top ten SSA signatories of BITs and other IIAs	190
Table 5.1:	Correlations of performance variables <i>PROFIT</i> , <i>CAPUTIL</i> and <i>SELFEVAL</i>	216
Table 5.2:	Summary of hypotheses and associated variables	219
Table 5.3:	Descriptive statistics of variables employed in the regression model	235
Table 5.4:	Analysis of variance (ANOVA) of mean performance outcomes of categorical variables	236

*List of Tables*

Table 5.5:	Explained total variance after component extraction	242
Table 5.6:	Pattern matrix, oblique rotation, Direct Oblimin Method	244
Table 5.7:	Pairwise correlation coefficients between <i>PROFIT</i> , <i>CAPUTIL</i> , <i>SELFEVAL</i> and control and independent variables	252
Table 5.8:	Regression results for dependent variable <i>PROFIT</i> , model specifications M1–M3	257
Table 5.9:	Regression results for dependent variable <i>CAPUTIL</i> , model specifications M1–M3	258
Table 5.10:	Regression results for dependent variable <i>SELFEVAL</i> , model specifications M1–M3	259
Table 5.11:	Influence of control variables on dependent variables <i>PROFIT</i> , <i>SELFEVAL</i> and <i>CAPUTIL</i>	266
Table 5.12:	Influence of manufacturing subsector control variables on <i>PROFIT</i> , <i>CAPUTIL</i> and <i>SELFEVAL</i> in level-one model specification M3	269
Table 5.13:	Influence of SSA host country control variables on <i>PROFIT</i> , <i>CAPUTIL</i> and <i>SELFEVAL</i> in level-one model specification M3	271
Table 5.14:	Summary of results in relation to the set of hypotheses	273
Annex Table 1:	IMF–CDIS Survey coverage in SSA during different years	289
Annex Table 2:	Meta-analysis of the main data sources of FDI in SSA from 2006 to 2012	290

Annex Table 3: BOP reporting of SSA countries on the direct investment components of FDI assets (FDI outflows)	293
Annex Table 4: The 10 largest greenfield projects in SSA LDCs, 2003–2010	294
Annex Table 5: FDI inward stock breakdown according to countries of origin	295
Annex Table 6: World Bank Enterprise Surveys in SSA and breakdown of domestic and foreign firms in the sample	298
Annex Table 7: Top five investment subsectors in SSA by different countries of origin	300
Annex Table 8: Industrial output statistics in SSA	301
Annex Table 9: Industrial establishment statistics in SSA	302
Annex Table 10: Analysis of variance (ANOVA) of manufacturing subsector performance	303
Annex Table 11: Analysis of variance (ANOVA) of FDI performance in SSA host countries	304
Annex Table 12: Correlation matrix of changes in 12 locational factors in SSA	305
Annex Table 13: Analysis of variance (ANOVA) of component scores of <i>RAW_SUPP</i> , <i>INT_CONNECT</i> and <i>STABILITY</i> in SSA host countries	306
Annex Table 14: Correlation matrix of control and independent variables	307
Annex Table 15: Regression results for model specification M4 of dependent variables <i>PROFIT</i> , <i>CAPUTIL</i> , <i>SELFEVAL</i>	308



## List of Boxes

Box 1:	Mirror data analysis between inflow and outflow data, 2009–2011	96
Box 2:	FDI ownership restrictions and minimum capital requirements of FDI entry in SSA	186
Box 3:	Assessing the likelihood of “forced JVs” in the UNIDO 2010/11 Investor Survey sample	189
Box 4:	The scenario of industrial statistics in SSA	195
Box 5:	ANOVA results of principal components’ scores	248



## Abbreviations

AGOA	African Growth and Opportunity Act
ANOVA	Analysis of Variance
BIT	Bilateral Investment Treaty
BPM	Balance of Payments and International Investment Position Manual
BOP	Balance of Payments
CDIS	Coordinated Direct Investment Survey
CEO	Chief Executive Officer
DAC	Development Assistance Committee (of the OECD)
DRC	Democratic Republic of the Congo
DSBB	Dissemination Standards Bulletin Board
EAC	East African Community
EBA	Everything But Arms
ECOWAS	Economic Community of West African States
EDDI	Enhanced Data Dissemination Initiative
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FE	Foreign Entrepreneur
FIFA	Fédération Internationale de Football Association
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
GTZ	Gesellschaft für Technische Zusammenarbeit (now GIZ)
GVC	Global Value Chain
ICT	Information and Communications Technology
IIA	International Investment Agreement
IIP	International Investment Position



## *Abbreviations*

IMF	International Monetary Fund
INV	International New Venture
IO	International Organization
IPA	Investment Promotion Agency
ISIC	International Standard Industrial Classification
IT	Information Technology
ITRS	International Transaction Reporting System
IZ	Industrial Zone
JV	Joint Venture
KMO	Kaiser–Meyer–Olkin Measure
LDC	Least Developed Country
M&A	Merger & Acquisition
MDGs	Millennium Development Goals
MF	Manufacturing
MNC	Multinational Corporation
MNE	Multinational Enterprise
NIP	New Industrial Policy
NSO	National Statistics Office
OECD	Organisation for Economic Cooperation and Development
OLI	Ownership–Location–Internalization (Paradigm)
OLS	Ordinary Least Squares
PCA	Principals Component Analysis
R&D	Research & Development
REC	Regional Economic Community
ROA	Return On Assets
ROI	Return On Investments
ROS	Return On Sales
SA	South Africa
SADC	Southern African Development Community
SDDS	Special Data Dissemination Standard
SDGs	Sustainable Development Goals
SEZ	Special Economic Zone

SIMSDI	Survey of Implementation of Methodological Standards for Direct Investment
SME	Small and Medium-sized Enterprises
SPE	Special Purpose Entity
SSA	Sub-Saharan Africa
TNC	Transnational Corporation
UBO	Ultimate Beneficial Ownership
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
US	United States
USD	United States Dollar
VIF	Variance Inflation Factor
WDI	World Development Indicators (of the World Bank)
WIR	World Investment Report (of UNCTAD)
WOS	Wholly-Owned (Foreign) Subsidiary



## 1. Introduction

### *1.1 The foreign direct investment (FDI) scenario in Sub-Saharan Africa*

Classical development theories consider the scarcity of capital and resulting low levels of investments into productivity-enhancing technological progress as a fundamental impediment to economic development. From a developing country perspective, the process of catching up with the developed part of the world requires continued expenditures on knowledge accumulation, product and process innovation and human capital formation (UNCTAD 1999b, UNIDO 2005). Since the conversion of domestic savings into domestic investments alone is insufficient to accomplish ambitious economic development goals, developing countries have put additional emphasis on the attraction of various types of foreign direct investments (FDI) (Wells and Wint 2000, Harding and Javorcik 2007, Harding and Javorcik 2011). Compared to cross-border bank lending or portfolio investments, FDI constitutes a lasting investment interest and is, under normal circumstances, the least volatile form of transferring foreign savings from one country to another (Lipsey 1999, Morrissey and Osei 2004, IMF 2009). This characteristic makes FDI in principle an ideal conduit for bridging technological and know-how gaps between developed and developing countries thus contributing to the achievement of developing countries' social and economic development objectives.

Sub-Saharan Africa (SSA), the region with the world-wide largest number of least developed countries (LDCs) and the focus of this Book, is perhaps in the direst need of attracting "quality" FDI. SSA is not alone in this endeavour. The purported positive impact of FDI on economic development has paved the way for the emergence of different actors and stakeholders whose principal mandate is FDI attraction and promotion. Investment promotion has become a tough and competitive business in which developed and developing countries, spearheaded by specialized investment promotion agencies (IPAs), are vying for the attention of a growing but nonetheless finite number of multinational enterprises (MNE) in order to persuade them to invest in their own country and not in another. SSA is now an active player in the investment promotion arena as indicated by a remarkable increase of ratified bilateral investment treaties (BITs) as well

## 1. Introduction

as the proliferation of IPAs and special economic zones (SEZs) across the continent (UNCTAD 2008b, Farole 2011, UNIDO 2012a).

The extent to which a developing country is able to attract or retain more of “quality” FDI as opposed to another will ultimately determine the aggregated impact that the group of foreign-owned companies has on the local economy. A frequent policy recommendation for developing countries has been to improve the conditions for attracting the “right” mix of FDI along different desirable dimensions of economic impact in terms of capital formation, employment creation, skills enhancements, global value chain integration, infrastructural or ICT development, linkages, local content development and others. In this environment of stiff competition, there is a strong temptation for SSA countries to adopt an almost cynical stance over such selective investor targeting following the adage of “*Beggars can’t be choosers*”. Within this reasoning, the neoliberal investment policy paradigms of the 1990’s fell on fertile grounds and have prompted SSA countries to deregulate their local markets and actively tout the most visible national business reforms in accordance with the World Bank’s “Doing Business” logic, thereby often masking the lack of a genuine policy resolve to address the underlying structural and intertwined challenges of the African continent. While most SSA countries have most likely surpassed the peak of neoliberal investment policy-making, the continent continues to have one of the world’s most relaxed FDI entry or local content regulations (OECD 2005b, UNCTAD 2006a, World Bank et al. 2010, De la Medina Soto and Ghossein 2013). Very rarely will investment laws force foreign investors to choose a suboptimal mode of entry or to utilize a certain proportion of input factors such as locally available human resources or local supply chains.

The global financial crisis of 2008/2009 evidently led to a global contraction of FDI volumes during the following few years (UNCTAD 2009f, UNCTAD 2009e). Developing countries were relatively less affected by the global financial crisis and recorded a decline of FDI inflows of 24 per cent in 2009 as opposed to a 44 per cent drop in FDI inflows to developed countries (UNCTAD 2010b). FDI inflows to Africa decreased by even less, namely 19 per cent in 2009. This nurtured optimism that the crisis could mark the beginning of a sustained catching-up process and turn the essence of the Official 2010 FIFA World Cup Song “*Waka Waka (This Time for Africa)*” into concrete action once and for all. According to this thinking, multinational enterprises would undertake a global business risk re-assessment resulting in closing the perceived risk gap between SSA and

hitherto misleadingly perceived “low”-risk locations in developed countries. At the same time, the emergence of MNEs from developing countries resulted in a higher proportion of South-South FDI flows (Akyut and Ratha 2003, Akyut and Goldstein 2006, UNCTAD 2006b, UNCTAD and UNDP 2007, Henley et al. 2008, Saunders 2008, Draper et al. 2010, Gómez-Mera et al. 2015). This nurtured further optimism that investors from developing countries would be more tolerant with regard to imperfections in the host country’s investment climate as they would be used to operating in such conditions in their own country of origin (UNIDO 2007, Cuervo-Cazurra and Genc 2008, Desbordes et al. 2011).

For the period 2014 to 2016, 15.9 per cent of international investors consider SSA as a “very important” or “extremely important” investment destination compared to 14.1 per cent of international investors during the period from 2012 to 2014 (UNCTAD 2012a, UNCTAD 2014c). Moreover, relaxed FDI entry regulations promise minimal interference by government authorities hence making it easier for MNEs to choose from a list of potential investment locations in SSA. At the same time, most countries in SSA were able to show robust improvements of the set of macro-economic fundamentals (AFDB 2014). Since the beginning of the millennium, real annual GDP has grown at an average of 5 per cent and real income per capita has increased by 2.1 per cent. An African middle class, estimated at 34 per cent of Africa’s population (AFDB 2011b) has presumably emerged as an engine of transformation of the urban parts of Africa into attractive consumer markets. The proportion of people living below the poverty line has fallen from over 50 per cent to less than 45 per cent. Of the 20 economies narrowing the gap with the Doing Business regulatory frontier the most since 2009, nine are in SSA (World Bank 2013).

SSA’s economic performance and its robustness even during the global financial crisis, its relative improvements in the Doing Business rankings and the continent’s liberal FDI regulations were sufficient ingredients for papers and press to pitch a chorus of praise on Africa’s staggering transformation from “The Hopeless Continent” (The Economist 2000) to “The Hopeful Continent” (The Economist 2013a). By the same token, the continent’s future investment potential was compared to “Lions on the move” (McKinsey Global Institute 2010), “A Sea of Opportunities” (UNECA 2014) or the “African growth miracle” (McMillan and Harttgen 2014). As a matter of fact, soaring nominal FDI inflows to SSA seem to somehow confirm the euphoria. In 2013 and according to the database of the United Nations Conference on Trade and Development (UNCTAD), FDI inflows