Abstract

This study examines the contribution of foreign investors to corruption in developing countries. First, an evaluation of the state of corruption in developing countries is carried out; then three model countries are chosen on the criteria that they must be developing countries and ranks highly in corruption. The countries selected include Nigeria, Kenya, and Cameroon. The three countries all lie in the sub-Saharan region in the continent of Africa. The countries have also experienced a great deal of foreign investment in the past decade (Forgha 2009). Data related to corruption is obtained from Transparency International. The study evaluates the data to determine the recent trends in corruption and FDI inflow. An evaluation of other scholarly studies is also done to identify the causes and impact of the corruption in the countries. The study singles out the contribution of foreign investors to corruption. It determines how foreign investors increase or reduce corruption. An examination of government regulations to curb corruption is done. The study also touches on the regulations regarding the activities of the foreign investors. An evaluation of the state of corruption and the impact foreign investors have in that state is done. The conclusion reflects the general opinion of the study on the subject matter and recommends measures developing countries should put in place to address the discussed issues.
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Introduction

The chair of Transparency International, Jose Ugaz stated, “In too many countries, people are deprived of their most basic needs and go to bed hungry every night because of corruption, while the powerful and corrupt enjoy lavish lifestyles with impunity.” Corruption is a vicious cycle that impacts a lot of people in the world- some of them get richer from it while others are at a disadvantage.

Studies by Transparency International show that there is an established relationship between the corruption perception index and the degree of social exclusion. The results obtained shows that those countries which scored higher on the corruption perception index (CPI) indicate that they have less corruption and have less social exclusion. However, it should be noted that correlation doesn't exactly imply causation. This being said, other determinants need to be taken into consideration while studying the effects of corruption in both developing and developed countries.

My study incorporates aspects of foreign direct investment. Statistics published by the Organization for Economic Co-Operation and Development (OECD) show that over the years, numerous developing countries have been targets of foreign direct investment. It's astonishing as to why investors would choose less economically developed countries as their targets, yet again we should question why this trend has existed over the years and how this impacts those countries receiving the foreign direct investment. A closer look into this will also show the consequences of these investments and the impact it may or may not have on corruption. Also, this depicts a clear picture as to whether corruption is a result of foreign investment or whether they are just correlated trend wise.

Corruption has different meanings associated with it, and literature shows that there are various forms of corruption. Developing countries rank the highest according to the latest world
corruption ranking done in 154 countries by the World Audit Organization. Taking a few model
countries, for example, Kenya and Cameroon both rank at 124 while Nigeria ranks at 88 "World-
Audit (World Democracy Audit). I will assess how these countries have managed to lessen or
mitigate corruption over the years and whether the country lies in a region whereby corruption is
controlled.

The literature associated with Foreign Direct Investment will give a good understanding
to the reader. An important question answered in this section is why is that over time there has
been a constant trend of foreign direct investment in less economically developed countries and
the effects this has had on those countries. According to International Monetary Fund(IMF), the
Gross Domestic Product of Kenya stands at 5.7 %, of Cameroon at 3.7 % and that of Nigeria at -
2.24 %. According to experts, these figures are below the projected growth in relation to the
direct foreign investments in the countries. The limited growth of the countries has been
attributed to factors such as bad governance, drought, and bad luck but mostly to corruption. This
is because corruption leads to poor governance, high level of illiteracy and unmanageable levels
of poverty and crime. All the three countries in my study have more than half of their population
living in poverty and illiteracy. (Ajayi 2009).

Foreign investments in these countries are quite high despite the high level of perceived
corruption in these countries. Under normal circumstance, high level of corruption would scare
away investors. Hence, my study will determine what attracts investors to these countries. How
the foreign investors contribute to corruption in the countries is also a question of the study.
Most foreign companies give bribe to the authorities of the developing countries in exchange for
favors. The favors can be in the form of contracts and licenses. A long-term evaluation will
illustrate that the company benefits at the expenses of the local community. Foreign investors
can also reduce the levels of corruption by spearheading campaigns against corruption. This can be one of the corporate social responsibilities of the company. The company should lead by example in the fight against corruption.

Government regulations are also an essential factor to consider when assessing corruption in a country. This study looks at the various efforts by the Kenyan, Nigerian and Cameroon government in fighting corruption. An example is the Anti-corruption commission created by the Kenyan government to fight corruption (Mwangi 2008). The commission has been given autonomy in its activities to avoid political influence. The other thing to look at is the governments' regulation concerning the activities of foreign investors. Regulations help to guide the activities of foreign investors so that they act in an ethical way. The government looks at factors such as the tax system, impact of the business on the environment and to the local community when formulating regulations. The loopholes in the formulated policies are also an important factor in the analysis that exists both at the formulation and implementation stage.

Countries also have regulations that govern the activities of multinational corporations. An example is the policies by the United States to regulate the activities of its companies in conducting foreign businesses. The government of US states that it has lost billions of dollars due to bribes paid to foreign companies. The US has made payment of bribes to foreign countries a criminal act. Multinational countries have also joined forces in the fight against corruption. An example is the Partnership Against Corruption policies that govern the members of the World Economic Forum. The Forum has multinational companies as its members and formulates rules to be followed by the member companies.
Overall, it is important to note that several studies, carried out by Asiedu & Freeman and Habib & Leon, that have looked at the impact corruption has had on FDI. But there rarely exists studies that look at the reverse relationship.

**Background**

The definition of corruption takes many forms. The reason being it’s hard to illustrate whether some acts are corrupt or not. The definition given by World Bank is that it is the act of abusing public office for personal benefits (Rose-Ackerman and Palifka 2016). This definition is not comprehensive because it assumes that there is no corruption in the private sector. This is not true because acts of corruption in hiring and procurement are often witnessed in the private sector. Acts of corruption can also benefit relatives, community or friends rather than be of personal benefit. The other definition of corruption is that corruption is the intentional noncompliance with the ethical code of conduct for the benefit of oneself or individuals related to the person (Mwangi 2008). This definition is more comprehensive and touches almost all aspects of corruption. An example of corruption is when a taxi driver overcharges an individual due to ignorance of the prices. Not all corrupt activities involve paying bribes. Others can be due to a violation of the code of conduct that does not include monetary value. An example is how a public servant fakes sickness so that he/she can engage in leisure activities. Foreign investors can participate in activities that either promote or discourage corruption. The following are some of the activities that promote corruption

**Acquisition of Contracts and Licenses**

Foreign investors give out bribes to the local authorities so that they can get the contracts. They form alliances with a few people in government so that they can be awarded contracts without bidding for them competitively. An example is how European, American and Japanese companies bribed the Indonesian government into being given power generation projects (Li
The companies do this without the fear of prosecution because laws in developing countries are relaxed.

**Taxation**

The goal of most companies is to maximize profits. Taxation reduces profits of a company hence it is not desirable to them. Foreign companies especially the multinational companies have tools of evading tax at their disposal. An Example is the internal transfer of funds in multinational companies to avoid paying corporate tax. Research indicates that tax evasion by multinational companies is costing developing companies billions of dollars. The recent developments have formed great partnerships in formulating regulations that govern the internal transfer of funds of multinational corporations (Gordon and Wei 2009).

**Monopoly**

Some foreign companies use their power to make sure they are the only players in the market. For example, they can use their financial power to buy out major competitors in the market or lower prices of products to get rid of the competitors. The monopoly ends up dictating the terms and conditions of their operations at the expense of the local authority. An Example is how the GT&T company has monopolized telecommunication in Guyana (Braithwaite 2006). The company dictates the service rates charged to the customers. This has seen the company make super normal profits.

Also, it is argued that foreign investors can also engage in activities that lessen the corruption level of the country if it affects their businesses in a negative way. An example is how fraudulent activities by the finance department can cost the company a lot of money (World Development Report 2002). Another example is how corruption in hiring can lead to employment of incompetent personnel who can cost the company a substantial amount of money. The following are some of the activities carried out by investors to fight corruption:
Anti-Corruption Campaigns
Companies participate in anti-corruption campaigns to sensitize its employees and the public of the vices of corruption. The company comes up with ethical codes of conducts that every employee should follow. The codes of conducts prevent the company from engaging in any corrupt activities and also protect the firm from unethical practices by employees. An example is the *Code of Business Conduct* and *Anti-Bribery policy* that was enacted in 2016 by Coca-Cola Company. Coca-Cola Company is a multinational company with most of its operations in developing countries (Drakulevski and Nakov 2016). All the employees of the company have to adhere to the stipulated rules contained in the policy. This is regarded as an effort to fight corruption.

Non-Governmental Organizations’ Involvement
Non-governmental agencies conduct surveys that show the level of corruption in a country. An example of such an agency is the World Audit Organization. The company researches the levels of corruption and democracy providing ranks for countries. Foreign investors play the role of fighting corruption by funding these agencies. For example, Coca-Cola Company collaborates with Transparency International to come up with data concerning corruption. Transparency International carries out worldwide research on cases concerning corruption (Cernea 2003).

Also, Partnership Against Corruption (PACI) under the World Economic Forum is an initiative that engages companies in the fight against corruption. It was founded in 2004 with an aim of combating corruption in multinational companies (World Economic Forum, 2005). It has codes of conduct and policies that dictate the behaviors of member companies. This is a tool that has been used in the fight against corruption by foreign investors. It has more than 150 members most of them being multinational companies. An example of member companies includes
One of the studies was that done by Asiedu & Freeman (2009). This study analyzes the effect of firm-level investment and measures the impact of corruption on the firm and country level. The study concludes that the effect of corruption on investment varies across regions. Corruption is seen to have a significant negative effect on investment growth for firms in developing countries and is the most important determinant of investment. However, corruption has no significant impact for firms in Latin America and Sub-Saharan Africa. An interesting point of this study is that it groups corruption in three categories, namely: internal, external and hybrid. Internal measures refer to the perceptions of corruption on firms that operate within the country. The second type of corruption measure is external; it is the assessment of risk analysts who typically reside outside a country. The third type of corruption measure is a hybrid, which combines internal and external corruption data from different sources into one index.

A separate study by Ahlquist and Aseem (2010) examines the relationship between foreign direct investment and contracting institutions that are existing in host countries. Taking the costs of foreign investors into context, the authors suggest that multinational corporations have the ability and incentive to influence the contracting environment in the host countries. In addition to this, they concluded by saying that host governments respond to multinational’s wishes if the country is dependent on foreign capital. Moreover, Foreign investment is associated with lower contract costs especially in cases whereby the host countries are indebted. The study brings an important aspect on the table. It differentiates two forms of globalization, namely: financial globalization from trade and foreign direct investment. Moreover, the authors also point out that the contributions of foreign investment on host countries exceed the obvious economic
advantages such as employment, balance of payment and advancement of technology. An important point that is raised is that contracts are costly to impose in developing countries. An individual's intentions and integrity fueled with greed may interfere with the economic development of that country.

Habib and Leon (2002) ‘s study examine the impact of corruption on foreign direct investment. They did this by using a three-step framework. First, they analyze the level of corruption in the host country, with that in mind the second step involves the difference in the corruption level between the host and home country. The third step utilizes the results attained in the first two stages, thereby providing support for the negative impacts of both factors. The overall conclusion by the authors suggests that foreign investors choose not to invest in countries that have a high corruption rate since it can create operational inefficiencies. One of the interesting points that this study raises is that corruption doesn't discourage FDI in absolute terms, countries with high perceived rates of corruption such as China, Brazil, Thailand and Mexico still continue to attract large inflows of FDI. More so, corruption gives some companies the first-hand advantage of accessing superior profitable markets, thereby creating a sense of nepotism in the economy. It is important to note that this study only reflects data collected over the past three years (2000-2002) to establish the connection between corruption and foreign direct investment. While this may show a connection, it doesn't establish a trend or rather it doesn't support the conclusions over a long period.

Olken and Rohini (2012)’s study analyzes the expansion in economists' ability to measure corruption in the recent years. This resulted in a new generation of well-identified, microeconomic studies. The study mainly focuses on three questions: how much corruption is there, what are the efficiency consequences of corruption, and what determines the level of
corruption. The conclusion states that there is robust evidence that corruption responds to standard economic incentive theory, but that the effects of anti-corruption policies are often weakened as officials find alternate strategies to get money illegally, like bribery. More so, corrupt officials respond to incentives and the threat of punishment, even in corrupt environments. Strategic interactions between corrupt officials affect the level of corruption – bidding down bribes if they compete against one another, and increasing bribes if multiple bribes are required and officials can’t coordinate with one another. Additionally, corrupt officials are resilient, over time they adapt to changes in their environments thereby offsetting anti-corruption policies.

An interesting concept this study raises is that that there is relatively little research on many of the main anti-corruption policy initiatives we observe in the world today. Despite the fact that many countries set up anti-corruption policies and agencies to monitor and eradicate corruption. Also, little is known as to how these types of domestic and international policy initiatives are successful and how they impact those in charge.

Through the review of different literature, it is evident that there is a broad range of research that focusses on the impact of corruption on foreign investment, whereas the reverse effect is usually ignored. Thus my research incorporates many of the elements that are existent in previous studies, that is the background information on corruption and FDI. But it will look at a different angle and assess the impact of foreign investors on corruption in developing countries.

Analysis

The main purpose of this report is to determine the contribution of foreign investors to corruption in developing countries. The study will narrow down to three countries: Nigeria, Kenya and Cameroon and later on try to assess if the theory applies across countries. The first
step of the study is the collection of data concerning corruption in the three countries. The other step is determining the causes of corruption in the countries. Data from the bureau of statistics and other scholarly articles will help in identifying the different causes of corruption in the countries. The data from the bureau of statistics of the countries concerning foreign investment is analyzed in detail. The questions of why, how and when foreign investors engage in corrupt practices is a concern in the study. Data of the contribution of foreign investors in fighting corruption is obtained from government and non-governmental sources. The study will then focus on those regulations that concern foreign investors. A look at how these regulations are implemented to reduce corruption will help in determining policies that can be implemented.

**Nigeria**

Nigeria is Africa’s most populous country and the number one economy of the content (George 2006). Despite the large economy, 112.47 million Nigerians live in absolute poverty; this is about 69% of the total population of the country (International Monetary Fund 2015). It is evident that there is a huge disparity in the distribution of wealth which can be attributed to the high levels of corruption in the country. Corruption in Nigeria manifests itself in the form of extortion and bribery, fraud, misappropriation and embezzlement of funds, under-remittance and non-remittance of revenue, tax negotiation, pension funds scandals and non-remittance of funds by Nigeria National Petroleum Corporation (NNPC). The government of Nigeria estimates that it has lost approximately USD $150 billion in the last ten years due to corruption.

**Corruption in Public Sector**

Political corruption takes the biggest portion of public funds. This is the use of political power for personal benefits. In Nigeria, politicians rig elections, embezzle public funds and receive bribes. A former president Sani Abacha is said to have embezzled up to $100 million in a gas plant construction project (Ajayi 2009). Other public sectors mostly affected by corruption
include education, police force, and sports. The education levels in Nigeria are substandard due to corruption. Government officials embezzle money set aside for improvement of education facilities. The public entrusts the police to maintain law and order, and instead, the police take bribes and set free offenders. Corruption in sports is mainly reflected in the football governing body in Nigeria. The leadership frequently exchanges hands with the leaders accused of corruption. Acts such as not using merit to call up players and claims of match fixing. Additionally, the lack of the Nigerian national football team to qualify for the African Cup of Nation in 2015 was attributed to corruption.

Private Sector
The sector can be divided into local and foreign investors. Corruption in the private sector is the number one cause of income disparities in Nigeria.

Corruption in Oil and Gas Sector
Nigeria is the leading producer of oil and gas in Africa and among the top ten producers in the world (George 2006). In the year 2013, 850,000 tons of Liquefied Petroleum Gas (LPG) set aside for domestic consumption (Fisman, Ray, Edward, Miguel 120). Pipelines and Products Marketing Company (PPMC) estimated that only 250,000 tons of the reserve were consumed. This was attributed to high prices and unavailability of the product (Forgha 2009). This is despite the government setting aside massive amounts of money to subsidize the product. Most Nigerians use kerosene and firewood as sources of energy, yet it is a petroleum producing country.

Foreign investors Engagement in Corruption
It is hard to monitor all the corrupt cases in Nigeria, but evidence shows that a number of foreign companies have engaged in corruption in Nigeria. The following are some of the corruption cases in Nigeria by foreign Investors. In 2003, some officials of Halliburton, which is a multinational, were accused of defrauding tax revenue. The Federal Inland Revenue Services
(FIRS) uncovered some irregularities in the financial statements of the company which evaded tax (George 2006). A British lawyer working for Halliburton agreed to pay a sum of US$ 75,000 to two government officials. These payments were due to a contract awarded to the company by the government (George 2006).

These are examples of the cases of corruption in Nigeria which have drawn a lot of public attention. However, there are other cases which are reported that do not draw a lot of public attention and others that are not reported. Corruption cases that are not recorded account for the huge percentage of the cases.

Foreign Investors Efforts to Reduce Corruption
Foreign investors have drafted rules and regulations that guide employees in company's operations. In 2004, Shell Petroleum announced through BBC that it had averted corruption practices through company's regulations. Companies such as Coca-Cola which are members of World Economic Forum that operate in Nigeria also have limited corruption practices by their code of conduct and Anti-bribery policies.

Government’s Efforts to Fight Corruption
Corruptions impacts negatively on the economy and image of Nigeria. The Nigerian government has, in the last two decades launched programs to combat corruption. Some of these programs include Independent Corrupt Practice Practices, Codes of Conduct Bureau and Economic and Financial Crimes Commission. The other programs include reforms in the Judiciary and the Police service which resulted in the adoption of new international treaties and anti-corruption rules. Officials involved in corruption were also prosecuted and those found guilty sacked. Although the government has shown intentions in fighting corruption, the anti-corruption programs formed have not made much progress. The corruption situation in Nigeria is still high.
Kenya

Kenya is the largest economy in East Africa and ranks in the top ten in Africa. The country ranks slightly higher in corruption than Nigeria. Corruption in Kenya takes many forms. Some of the forms include bad governance, non-enforcement of laws, inefficient public sector, tribalism and political patronage.

Public Sector

Corruption by government officials in Kenya accounts for the highest percentage of corruption cases. An example is when the country experienced post-election violence in 2007. The opposition accused the president at that time, Mwai Kibaki, of rigging the elections (Mwangi 2008). This led to tribal violence that saw property destroyed and lives lost. The violence also slowed down the economic growth rate of the country. Other corruption practices include embezzlement of funds by the government officials.

The other public sectors affected by corruption include the police service, public administration, land services and the judiciary. The police are one of the most corrupt government institutions in Kenya. Criminals pay hefty bribes when caught by the police. Historical land injustices are rampant in Kenya. Land grabbing by politicians led to the displacement of hundreds of thousands of people in Kenya. Resettlement of the displaced people has led to the allocation of land to the wrong people.

Private Sector

The focus on the private sector is the foreign investors acting in Kenya. The following are some of the corruption practices by multinational companies reported in Kenya: The case that drew a lot of public attention was one referred to as "Chicken-gate scandal." The case involved a UK printing firm and the government of Kenya officials. The company was accused of paying US$680,000 to the chairperson of electoral commission for being awarded a printing contract. The company was to print the election papers of the 2013 national elections (Fisman, Ray,
Edward Miguel (2010). Windward Trading Limited paid bribes amounting to US$ 540,330 to the former minister of energy Chris Okemo and former CEO of Kenya Power Company James Gichuru as kickbacks for contracts offered. The two are facing money laundering and fraud cases in New Jersey courts (Fisman, Ray, Edward, Miguel 2010).

These are only a small fraction of the reported corruption cases by the multinational companies. Research by International transparency indicates that 80% of private companies in Kenya have participated in corrupt practices either directly or indirectly.

**Efforts by Multinationals to Fight Corruption**

Foreign investors in Kenya have partnered with the government and the local private sectors in fighting corruption. An example is the efforts of a group of companies under the Kenya Association of Manufacturers (KAM) to fight corruption. The group trains its members in codes of conducts that prevent corruption. Multinational companies have also signed international treaties and pacts concerning anti-corruption policies.

**Efforts by the Government to Fight Corruption**

The government of Kenya formed the Ethics and Anti-Corruption Commission (KACC) in 2003 to spearhead the fight against corruption. The commission is mandated to investigate corrupt practices, charge the perpetrators and recover public funds. Although the commission has successfully recovered public money lost due to corruption, critics indicate that the political influence on the commission is undermining its performance.

**Cameroon**

Corruption in Cameroon is said to be increasing the risks and costs of doing business. Corruption in the country mostly takes the form of nepotism and bribery. Corruption in the public sector in Cameroon is more rampant in the following systems:
Judicial System
Corruption in the judicial system in Cameroon is rampant and takes the form of bribery and corruption. The system is characterized by lengthy court cases as a result of the poor system for tracking cases, ineffective judiciary and lack of transparency in the judiciary. Reports indicate that judges are bound to delay the proceedings of the court or be influenced when put under pressure. The reports also suggest that the time used to solve cases in Cameroon exceeds the average time used to solve cases in the sub-Saharan region. The judicial system is rated as the most corrupt public institution by the Cameroonians.

Public Services
The public services of Cameroon are said to be filled with corrupt officials who are only interested in personal gains other than serving the public. Most companies suggest that corruption is the number one barrier that prevents smooth operations of businesses. This is attributed to a licensing system that is not clear and also a revenue system that is not transparent.

Corruption of the Multinationals
Cameroon being a French colony, most of the foreigner investors are French companies. These foreign companies have demonstrated high levels of corruption hence adversely affecting the economy of Cameroon. One example of such company is the French investment group Bollore (Pineau 2005). This group carries out logistics services and is the largest group involved in such business in Cameroon. The government is accused of protecting the company enabling it to enjoy privileges of a monopoly. The government has given the company power to control the activities of two ports in the country. This has made the company collaborate with a Danish company that deals with shipping called the Maersk. Thus the two companies control imports in the country. They charge highly for services they offer hence enjoy abnormal profits at the expense of the people of Cameroon. The company through the government has also been able to
lock out other logistics companies from operating in the country, especially companies from China.

Another example of corruption in foreign investments in Cameroon is by the Bouygues French group company. The company deals with the distribution of electricity. The company was given the contract to distribute electricity throughout Cameroon (Pineau, Pierre-Olivier 2005). Bouygues Company was the only company that was awarded the tender making it a monopoly. The method through which the company was awarded the tender remains questionable to the people of Cameroon.

French Companies have been accused of controlling the key sectors of the economy in Cameroon. Industries such as Telecommunication, transport, power generation and distribution and insurance are being controlled by French companies as monopolies with the protection of the Cameroonian government. These companies are said to be having a close relationship with the French government which links up with the Cameroonian government to protect the companies. These companies operate to serve their interests at the expense of the interests of the people of Cameroon. This has limited the growth of the Cameroon as a country hence reducing the standards of living of the people.

**Government's Efforts in Fighting Corruption**

The government through the National Anti-Corruption Commission (CONAC) is against corruption in the country (Tacconi, et, al 2009). The members of the commission are appointed by the president and act independently to fight corruption (George 2006). The commission was formed in 2006 when levels of corruption were very high and were tarnishing the image of Cameroon hence hindering direct foreign investments in the country. The charges of corruption would be a jail term of 5 years to life. The other efforts to fight corruption include the special powers of the anti-fraud police that involve investigations of suspicious bank accounts. The
Cameroon Tax Code also ensures that both the local and foreign investors pay tax to the government. This was after companies evaded paying tax quite easily which prompted the formulation of the tax code.

**Controlling Corruption in Foreign Investment**

The formation of Cameroon Investment Promotion Agency has helped in the reduction of corruption due to foreign investments. The agency promotes foreign investments through the provision of data on the sectors that need foreign investment. The agency also provides the legal regulations involved in licensing and operation of businesses (Lambsdorff, Graf, Cornelius 2010). Another agency that affects foreign investments is the National Investment Corporation of Cameroon. The difference is that the latter controls both foreign and local investments in the country. It helps create a balance between the foreign and local investments. The government also has created the public procurement regulation agency and the Ministry of Public Contracts to screen government tenders given to both the local and foreign companies. The ministries are mandated to bring transparency and accountability to awarding of tenders (Lambsdorff, Graf, Cornelius 2010). Bids granted in a competitive manner helps in the delivery of high standards goods and services at reasonable costs.

**Data Analysis**

One of the ways to assess whether foreign investors do contribute or lessen corruption in developing countries is by comparing the inflow of foreign investment to the corruption perception index. Consequently, this will indicate if the two are correlated or not. An important factor to consider in this is that correlation doesn’t necessarily mean causation. However, a strong theory supported by a significant correlation can suggest causation.

My hypothesis is that for the most part, foreign investors would contribute to corruption in developing countries. I am assuming they are seeking more emerging markets to explore, and
considering these markets may not have sufficient financial funding this is where foreign investors come in. Secondly, considering there are loopholes in any system, foreign investors may engage in corrupt activities such as bribery in customs to quicken the process.

Using the data from the United Nations Conference on Trade and Development (UNCTAD), which is the principal organization of the United Nations that oversees trade, development, and investments in a wide range of countries in the world. Figure 2\(^1\), shows the measure the regional contribution of global foreign inflows of foreign investment. It can be noted that as of the end of 2016, the majority of the developing nations in Asia, Latin America and Africa experienced a decreased in foreign investments relative to 2015. However, it is important to note that Africa had the smallest decline in foreign investment inflows.

There is an established trend in the inflows of foreign investment. It is seen that there is an increasing trend in the inflow of foreign investment in developing economies till the end of 2015\(^2\). It is important to note that as of the past three years the inflows of investment have roughly been the same in African developing economies.

To test my hypothesis holds true, I narrowed down my first test to the three model countries: Nigeria, Cameron, and Kenya. First, I compared the inflow of foreign investment in these three countries during the year 2012 to 2015. The chart below shows the FDI inflow in Kenya has been increasing during the four-year gap.

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\(^1\) Refer to Figure 2 in Appendix  
\(^2\) Refer to Figure 2B in Appendix

Source: Graph from UNCTD

However, the inflow of foreign investment has been steadily decreasing over time in Nigeria; as seen in the chart below.


Source: Graph from UNCTD
Meanwhile, in Cameroon, the inflow of foreign direct investment has been fluctuating over time. As seen, in the chart below foreign investment took a sharp decrease in the year 2012 to 2013. However, it is slowly increasing by 2015.

**Inflow of FDI in Cameroon (2012-2015)**

![Inflow of FDI in Cameroon (2012-2015)](chart.png)

*Source: Graph from UNCTD*

Secondly, I analyzed the trend in corruption in these three model countries in the same period between 2012-2015. I used the Corruption Perception Index (CPI) as a measure. Transparency International is a non-governmental organization that strives to reduce and combat corruption in different areas of the world. Every end of the year, Transparency International publishes CPI which is measured through the use of expert assessments and surveys. This measure is graded on a scale of 0 to 100, whereas those countries that are highly corrupt have a low score, generally a score below 50. Whereas, those countries that have less corruption have high scores close to a 100.
Corruption Perception Index of Kenya, Cameroon, and Nigeria (2012-2016)

Thus by looking at the CPI index across the three countries, the scores range between 23 to 28, suggesting these three developing countries do fall in the high corruption region. In Kenya’s case, the CPI has decreased over the four-year gap from 27 to 25, suggesting an increase in the corruption level. In Nigeria, the CPI has fluctuated during the four-year gap. However, it is safe to say that Nigeria has a slight increase in corruption level as it lands with a score of 26 in the year 2015. The CPI for Cameroon has also fluctuated in the four-year gap; therefore it has had a decrease in corruption level as it lands with a score of 27 in the year 2015.

Based on step one and two carried above, it can be deduced that Kenya has a positive relationship between corruption and inflow of foreign investment. As seen, this country has had an increase in the inflow of FDI and an increase in corruption level as per the CPI. Nigeria has had an overall decrease in the inflow of foreign investment, however, its corruption level has a slight increase as per the CPI. Cameroon, on the other hand, had a sharp decrease in FDI between 2012 to 2013. During the same time, the corruption level increased as per the CPI. Between 2013 to 2015, FDI inflow is seen to slightly increase while the corruption level has decreased as per the CPI.

Source: Data from Transparency International
While my hypothesis holds in Kenya's case, it isn't true in the case of Nigeria and Cameroon. Based on these results it is hard to establish a relationship between these two variables by just relying on the results of these three countries. However, what is certain is that other factors need to be considered while establishing the relationship between foreign investment and corruption.

**Statistical Analysis**

Since my hypothesis of foreign investors contributing to corruption didn’t hold for the three model countries, I ran a regression with a wide range of countries to test my hypothesis. The regression is based on two years: 2012 and 2015. In 2012 the number of observations used is 165 while 152 observations were used in 2015. The dependent variable will be the corruption perception index (CPI), and the independent will be the inflow of foreign direct investment (FDI). The null hypothesis, in this case, is that foreign investors do not contribute to corruption. The alternative hypothesis is that foreign investors do contribute to corruption.

**Regression one looks at the impact of FDI inflow on CPI in the base year 2012.**

**Table 1**

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<th>Regression Statistics</th>
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<td>4.736511389</td>
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3Refer to Figure 4 in Appendices
By looking at the results, based on the R-square it can be deduced that there exists a weak relationship between the two variables: FDI and CPI since only 12% of the variation in CPI data are explained by the inflow of FDI. The value of Adjusted R square is much lower suggesting the poor relationship between the variables. By looking at the P-values, they are significantly low and therefore it is safe to say that in this case, foreign investment impacts corruption however not that strongly. The positive coefficients of the variables suggest a positive relationship between FDI and CPI, thereby suggesting that corruption is lowered.

Regression two looks at the impact of FDI inflow and GDP/capita on CPI in the base year 2012. 4

Table 2

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<tbody>
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<tr>
<td>Intercept 2012 GDP per Capita</td>
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<td>27.69643791</td>
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<tr>
<td>0.000724601</td>
<td>5.11231E-05</td>
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<td>FDI 2012</td>
<td>2.68742E-11</td>
<td>2.87818E-11</td>
<td>0.933719688</td>
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</table>

A new independent variable, GDP/Capita in real US dollars, is added. This variable serves to give a better understanding of the welfare in a given country. By comparing these results to the previous ones, R-squared has significantly increased from 0.347 to 0.607. Moreover, adjusted R-squared increased significantly from 0.12 to 0.602; this thereby suggested that GDP/capita has had significant impacts on the CPI. Also, considering the p-values for CPI

4 Refer to Figure 5 in Appendices
and GDP/capita, in this case, are significantly less than 0.05, we can reject the null. However, the third variable, FDI, has a p-value greater than 0.05. The overall verdict, in this case, is there is evidence that foreign investors may impact corruption however whether it is strong or not depends on further investigation.

**Regression three had the same independent and dependent variables as regression one. However, it was based on data from 2015.**

*Table 3*

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<td>1.40404E-10</td>
<td>3.42097E-11</td>
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The results in Table 3 show that only 10% of the variation in CPI is explained by FDI inflow. The value of Adjusted R square is much lower too suggesting the poor relationship between the variables. By looking at the P-values, they are significantly low and therefore it is safe to say that in this case, foreign investment does impact corruption however not that strongly.

**Regression four, similar to regression two, looks at the impact of FDI inflow and GDP/capita on CPI in the year 2015.**

---

5 Refer to Figure 6 in Appendices  
6 Refer to Figure 7 in Appendices
By comparing these results to the regression three, R-squared has significantly increased from 0.10 to 0.684. Moreover, adjusted R-squared increased significantly from 0.09 to 0.679; this thereby suggested that GDP/capita as a variable has had significant impacts on the CPI. Also, considering that two out of the three p-values, in this case, are significantly less than 0.05, we will have to reject the null. The overall verdict, in this case, is there is evidence that foreign investors impact corruption however whether it is strong or not is up for further investigation.

**Regression five analyzes the impact of the changes of FDI inflow to the changes in CPI.**

**This accounts for the differences in the two years: 2012 and 2015.**

---

### Table 4

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### Table 5

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7 Refer to Figure 8 in Appendices
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<tr>
<td>Change in inflow of FDI</td>
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Less than 0.5% of the variation in the CPI data is accounted for by the FDI inflow. Adjusted R-squared is about the same. The P values are higher than 0.05, which means that we accept the null that foreign investors do not contribute to corruption. As seen in table 5 above, change in GDP/Capita is not statistically significant however the coefficient has the correct sign. As GDP increases, corruption tends to decrease.

**Conclusion**

*Based on the outcome from these five regressions, it is safe to say that the data shows evidence that foreign investors do contribute to corruption, however, the extent to which they impact corruption in a given country is yet to be studied. Additionally, it is deduced that foreign investors’ impact on corruption is positive, as in they help diminish corruption in the countries. This is seen due to the positive coefficients in most of the regression analysis. The positive coefficient indicates that as FDI increases, the CPI index increase too, which suggest that the corruption level in the country decreases.*

The time frame I used was between 2012-2015, while this was quite short I had to use this considering that there was a change in the method used to collect the CPI data. To be consistent, I had to use data starting from 2012 to the most the recent year 2016. Additionally, the World Bank had a similar problem; the latest data set was 2015. Thus, I had to use the data between 2012 to 2015. Also, it is important to note that the number of observations varies across regressions and this is due to missing information. To be consistent, I had to omit those countries that were missing data. Also, the CPI range is limited compared to that of FDI which has a larger range.
If I had enough time to further this research, I would like to continue studying the contribution of foreign investors in different continents and compare and contrast between the various regions.

Overall, from a logical standpoint, it can also be argued that the ability to corrupt attracts foreign investors in the first place. In addition to this, there are other factors that are believed to induce corruption. For example, if a country employs strict trade policies such as high tariffs, taxes, and import quotas. Some might argue that this leads people to smuggle goods into the country; as a result, the customs officials are more susceptible to bribes as a form of corruption.

While foreign investment is crucial in the development of a country, especially those countries in the African continent, it is argued that the ultimate goal for the foreign investors should be to invest and help that country grow and not indulge in corrupt activities that may affect the country. Policies that I would recommend are that governments should soften trade regulations and employ freer trade options. Not only will this encourage local investors to import goods from abroad but it will lessen corruption in a given country. This is because if you have freer trade what’s there to smuggle and what need is there to bribe. This is also applicable to infrastructure contracts.

Government officials should also regulate foreign investors before allowing them to invest in the country. The government should ensure that the citizens of that country are given employment opportunities, and they should be trained and educated by the foreign investors so as to increase efficiency. Secondly, governments should launch a no tolerance for corruption campaign that should be strictly in place. Also, foreign investors should be notified on the no tolerance for corruption. If an investor is caught in corrupt activities, crucial actions should be
taken against him/her to serve as an example for the rest. The company should follow the ethical
codes of conduct and declare its operations as corruption free.

Lastly, the government should serve as an example and be transparent in its actions. By
doing so, it will positively impact the foreign investors and the general public in engaging in
transparent activities. I believe that by employing these three changes, countries will be able to
significantly lower if not eradicate corruption.

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Appendices

Figure 2. Regional contribution to global FDI flows, 2015–2016
(Billions of US dollars)

Source: ©UNCTAD.
*Preliminary estimates.
Note: Excludes Caribbean offshore financial centres. Percent changes are calculated for each region relative to 2015.
Figure 2B. Inflow of FDI in developing economies 1970-2014

Source: Data from UNCTD

Figure 3. Estimated FDI inflows: top 10 host economies, 2016
(Billions of US dollars)

United States 385
United Kingdom 179
China 139
Hong Kong, China 92
Singapore 50
Brazil 50
France 46
Netherlands 46
Australia 44
India 42

Source: ©UNCTAD.
Note: FDI estimations in this Trends Monitor are based primarily on quarterly FDI data derived from the (extended) directional principle, though there are some countries for which the asset/liability data are used for estimation.
### Figure 4 - SUMMARY OUTPUT OF FDI VS CPI (2012)

**Regression Statistics**
- Multiple R: 0.34782698
- R Square: 0.12098361
- Adjusted R Square: 0.11559087
- Standard Error: 18.2843191
- Observations: 165

**ANOVA**

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### Figure 5 - SUMMARY OUTPUT OF FDI & GDP/CAPITA VS CPI (2012)

**Regression Statistics**
- Multiple R: 0.77948415
- R Square: 0.60759554
- Adjusted R Square: 0.60275104
- Standard Error: 12.2541606
- Observations: 165

**ANOVA**

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### FIGURE 6 - SUMMARY OUTPUT OF FDI VS CPI (2015)

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### FIGURE 7 - SUMMARY OUTPUT OF, FDI & GDP/CAPITA VS CPI(2015)

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FIGURE 8: SUMMARY OUTPUT OF PERCENTAGE CHANGES IN CPI VS FDI & GDP/CAPITA (2012-2015)

### Regression Statistics
- Multiple R: 0.07203562
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- Adjusted R Square: -0.00816404
- Standard Error: 0.10241293
- Observations: 152

### ANOVA

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<td>Residual</td>
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<td>0.01048841</td>
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<td>Total</td>
<td>151</td>
<td>1.570924509</td>
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### Coefficients

<table>
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<tr>
<th>Coefficients</th>
<th>Standard Error</th>
<th>t Stat</th>
<th>P-value</th>
<th>Lower 95%</th>
<th>Upper 95%</th>
<th>Lower 95.0%</th>
<th>Upper 95.0%</th>
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<tr>
<td>Intercept</td>
<td>0.01025245</td>
<td>1.20408121</td>
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<td>0.02707772</td>
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<tr>
<td>Change in GDP per Capita</td>
<td>-0.01718939</td>
<td>0.054602887</td>
<td>-0.3148073</td>
<td>-0.1250854</td>
<td>0.09070664</td>
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<tr>
<td>Change in inflow of FDI</td>
<td>0.00021556</td>
<td>0.000264352</td>
<td>0.81543187</td>
<td>-0.0003068</td>
<td>0.00073792</td>
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