
Review Article

Foreign Direct Investment and Sustainable Economic Development in Africa

Emerem Jennifer Obidiebube¹, Azowue Emmanuel², Jude Chidi Ozumba^{3*}

¹ Peace and Conflict Studies, School of General Studies, University of Nigeria, Nsukka and Department of Public Administration and Local Government, University of Nigeria, Nsukka, Nigeria.

² Peace and Conflict Studies, School of General Studies, University of Nigeria, Nsukka, Nigeria.

³ Department of Education Foundation, Federal College of Education, (Tech), Umuze, Nigeria.

Correspondence should be addressed to Jude Chidi Ozumba: jude.ozumba@fcteumunze.edu.ng

Article No: 012 | **Accepted:** 18 September 2026 | **Published:** 10 October 2026

Abstract: Foreign Direct Investment (FDI) is crucial for the economic development of African countries, as it enables capital inflows, technology transfer, and job creation. Nonetheless, the connection between foreign direct investment and sustainable economic development is intricate and layered. This study explores the effects of foreign direct investment on sustainable development in Africa, focusing on its contributions to economic growth, social inclusion, and environmental sustainability. This study employs a secondary research methodology to examine existing data sourced from academic articles, international reports, and government publications, focusing on the impact of foreign direct investment on significant development outcomes throughout the continent. The results indicate that although foreign direct investment plays a crucial role in driving economic growth, its impact on alleviating poverty and promoting social inclusion varies, with certain sectors experiencing greater advantages than others. The analysis further emphasises the environmental issues linked to specific forms of foreign investment, especially in the realm of natural resource extraction. The study suggests that to improve the developmental impact of foreign direct investment, it is essential to reinforce institutional frameworks, prioritise sustainable investment initiatives, enhance human capital, promote public-private partnerships, and support regional integration efforts. The analysis highlights the necessity of synchronising foreign direct investment with the overarching sustainable development objectives of African nations, guaranteeing that such investments foster inclusive growth and long-term environmental sustainability.

Keywords: Foreign, Direct, Investment, Sustainable, Economic, Development, Africa

Introduction

Foreign Direct Investment (FDI) has consistently been recognised as a vital catalyst for economic development, especially in emerging markets such as those in Africa. Foreign Direct Investment involves the allocation of capital by a company or individual from one nation into the assets or business activities of another nation. These investments may involve the creation of new enterprises, the growth of current operations, or the purchase of local firms. In Africa, foreign direct investment is frequently regarded as a crucial pathway for enhancing growth, expanding employment opportunities, facilitating technology transfer, and upgrading infrastructure.

Over the last twenty years, Africa has experienced a notable increase in foreign direct investment inflows. The United Nations Conference on Trade and Development (UNCTAD) reports that Africa's foreign direct investment (FDI) flows exceeded USD 45 billion in recent years, with a significant focus on sectors including natural resources, telecommunications, and financial services (UNCTAD, 2020). Nations such as Nigeria, South Africa, Egypt, and Ethiopia have emerged as significant hubs for foreign investment, propelled by their abundant natural resources, extensive markets, and enhancing business climates. Nonetheless, in spite of the increase in foreign direct investment, the continent continues to encounter considerable obstacles in converting these investments into enduring and sustainable economic progress.

The potential of FDI to significantly contribute to economic growth is evident, yet its implications for sustainable development in Africa remain a topic of ongoing discussion. The concept of sustainable development, as articulated by the United Nations, emphasises the importance of addressing current needs while ensuring that future generations can also fulfil their own requirements. This principle is a central objective for numerous nations across Africa. Nonetheless, the influence of foreign direct investment on sustainability is frequently scrutinised because of apprehensions regarding environmental harm, resource depletion, and restricted value-added production. Foreign investments frequently focus on extractive industries like mining and oil, which require significant capital, pose environmental risks, and typically offer few job opportunities for local communities (UNDP, 2016).

Furthermore, foreign direct investment inflows to Africa have been inconsistent, with certain nations reaping greater rewards than others, influenced by elements like political stability, infrastructure advancement, and the quality of governance. The potential for foreign direct investment to promote inclusive and sustainable economic growth is frequently hindered by institutional challenges such as corruption, inadequate regulatory frameworks, and a shortage of skilled labour.

Sustainable economic development in Africa necessitates that foreign direct investment prioritises not just immediate profits but also supports enduring goals like alleviating poverty, generating employment, safeguarding the environment, and fostering human capital growth. The African Union's Agenda 2063 highlights the importance of fostering inclusive growth through the strategic use of both domestic and foreign

investments, aiming to enhance the living standards of every citizen (African Union, 2015). Accordingly, foreign direct investment must adhere to the principles of sustainable development, fostering industries that enhance both economic and social welfare, while reducing negative environmental effects.

This investigation aims to examine the impact of Foreign Direct Investment on the sustainable economic development of Africa. Through a thorough examination of trends, challenges, and policy frameworks related to foreign direct investment, this study seeks to evaluate how African nations can more effectively leverage FDI to attain development results that are economically sound and environmentally sustainable. This is essential for guaranteeing that foreign direct investment acts not only as a driver of growth but also supports wider development objectives that emphasise social equity, environmental sustainability, and enduring prosperity for the continent.

Statement of the Problem

Although there has been a notable rise in Foreign Direct Investment (FDI) inflows to Africa in recent decades, the continent still faces challenges in achieving sustainable economic development. Although foreign direct investment has played a role in fostering economic growth in certain African nations, the advantages have not been uniformly shared, and its enduring effects on alleviating poverty, generating employment, and ensuring environmental sustainability appear to be constrained. A number of obstacles impede the ability of FDI to foster genuine sustainable development across the continent.

The predominant focus of foreign direct investment in Africa is on industries related to the extraction of natural resources, including oil, gas, and mining. Although these sectors have played a role in stimulating short-term economic growth, they have failed to promote extensive job creation or diversify economies. Furthermore, these sectors frequently contribute to environmental harm, the exhaustion of resources, and a lack of value-added production within local communities. Consequently, the advantages of foreign direct investment do not consistently correspond with the overarching goals of sustainable development, such as alleviating poverty, generating employment, and promoting social equity (UNCTAD, 2020).

Moreover, numerous African nations persist in encountering institutional and governance obstacles that hinder the efficacy of foreign direct investment. Corruption, inadequate regulatory frameworks, political instability, and insufficient infrastructure hinder the ability of foreign investments to significantly foster inclusive economic development. In nations with weak institutions, external investors frequently focus on immediate profits rather than long-term investments that could aid local populations and foster sustainable growth (UNDP, 2016).

Although there has been an increase in FDI inflows, their distribution across the continent continues to be markedly uneven. Some nations, including Nigeria, South Africa, and Egypt, have garnered the bulk of foreign direct investment, whereas numerous others, especially in Sub-Saharan Africa, have experienced restricted investment opportunities.

This gap intensifies economic inequality, as regions with lower investment miss the benefits that foreign direct investment can provide, including technology transfer, skill enhancement, and infrastructure advancements.

Ultimately, there is an absence of thorough policies to guarantee that foreign direct investment aligns with sustainable development objectives, encompassing social inclusion, environmental sustainability, and enduring economic resilience. A number of African nations have yet to completely incorporate sustainability standards into their investment strategies or establish systems to assess and analyse the effects of foreign direct investment on developmental results. Consequently, foreign direct investment is frequently perceived as a means for rapid economic advancement instead of a driver for long-term wealth (African Union, 2015).

This investigation aims to tackle these challenges by examining how African nations can more effectively utilise foreign direct investment to promote sustainable economic growth. The study will examine the deficiencies in policy, institutional frameworks, and investment strategies that obstruct the optimal contribution of FDI to achieving long-term development objectives. This study seeks to pinpoint the obstacles to sustainable foreign direct investment and analyse effective policy frameworks. The goal is to provide insights on how Africa can synchronise foreign investment with its overarching development goals, ensuring that such investments foster not only economic growth but also environmental sustainability, social inclusion, and poverty alleviation.

Research Questions

1. What are the main factors influencing the flow of Foreign Direct Investment (FDI) into African countries?
2. How does FDI impact sustainable economic development in Africa, particularly in terms of poverty reduction, job creation, and environmental sustainability?
3. What are the key challenges that African countries face in leveraging FDI for inclusive and sustainable economic development?

Objective of the Study

The main objective of the study is to assess the role of Foreign Direct Investment (FDI) in fostering sustainable economic development in Africa, with a focus on identifying the opportunities, challenges, and policy frameworks needed to enhance its contribution to long-term prosperity. The other objectives are

1. To examine the factors that influence the inflow of FDI into African countries.
2. To evaluate the impact of FDI on poverty reduction, job creation, and economic growth in Africa.
3. To assess the environmental and social sustainability of FDI in African countries.

The Role of FDI in Economic Growth

Foreign Direct Investment (FDI) is recognised as a crucial factor in promoting economic growth in numerous developing nations, particularly in Africa. Foreign direct

investment offers crucial resources such as capital, technology, and entry into global markets, which are vital for advancing industries, infrastructure, and human capital in recipient nations. Chakraborty and Nunnenkamp (2008) indicate that foreign direct investment can improve the productivity of local companies, enable the transfer of technology, and encourage superior management practices. Africa has seen significant FDI inflows, with nations like Nigeria and South Africa emerging as key players, especially in the natural resources and telecommunications sectors, contributing to overall economic growth (UNCTAD, 2020).

Nonetheless, the impact of foreign direct investment on economic growth depends on various factors, such as the quality of governance, the state of infrastructure, and the regulatory framework. Sachs and Warner (1995) contend that although foreign direct investment can play a crucial role in fostering growth in resource-abundant nations, its advantages are not as evident in countries characterised by weak institutions or inadequate governance. Akinlo (2004) posits that African nations possessing robust institutional frameworks and conducive business environments are more likely to draw higher-quality foreign direct investment, resulting in more sustainable economic growth. On the other hand, nations with less robust institutions might find it challenging to leverage foreign direct investment, as these funds may not be optimally employed for sustainable growth.

Furthermore, Ozturk (2007) argues that foreign direct investment achieves its maximum potential when aligned with supportive domestic policies that enhance human capital development, governance quality, and infrastructure advancement. This indicates that economic growth stemming from foreign direct investment is not assured and necessitates a conducive domestic policy framework to ensure long-term sustainability.

FDI and Poverty Reduction

Foreign direct investment can play a significant role in alleviating poverty through job creation, wage increases, and promoting economic diversification. Campos and Kinoshita (2003) discovered that foreign direct investment can result in enhanced job prospects, especially in industries such as manufacturing and services, where international investments often create new production facilities and supply chains. African nations like Ethiopia and Tanzania have experienced beneficial outcomes from foreign direct investment in these sectors, which have played a role in economic growth and poverty reduction by creating formal employment opportunities and enhancing living conditions (UNCTAD, 2020).

Nonetheless, Herzer and Nowak-Lehmann (2006) contend that the relationship between FDI and poverty reduction is not always clear-cut. A number of African nations draw foreign direct investment in capital-heavy industries like mining and oil, which provide limited job prospects for the wider populace. For example, Angola and Nigeria have experienced significant foreign direct investment in the oil industry; however, this has not led to a broad reduction in poverty, primarily due to the restricted spillover effects and insufficient local job opportunities (Obi, 2009). In a similar vein, Crespo Cuaresma et al.

(2013) emphasise that foreign direct investment can worsen income inequality unless there are policies in place to guarantee that its advantages are shared among the population.

According to Fosu (2017), achieving poverty reduction via foreign direct investment requires host countries to adopt policies that encourage inclusive growth. This includes promoting local entrepreneurship, ensuring equitable labour practices, and supporting the development of human capital.

Environmental Impact of FDI in Africa

The environmental implications of foreign direct investment are a critical issue, particularly within resource-extractive sectors. Lund et al. (2013) observe that multinational corporations (MNCs) operating in Africa's oil, gas, and mining sectors frequently emphasise profit maximisation at the expense of environmental considerations, resulting in resource depletion and environmental degradation. The situation in Nigeria clearly illustrates the consequences of oil extraction, leading to significant environmental degradation, such as soil pollution, water contamination, and health issues for local communities (Obi, 2009).

Conversely, Blomström and Kokko (2003) contend that foreign direct investment can enhance environmental sustainability, especially when international investors introduce cleaner technologies and eco-friendly practices in developing nations. Kenya has successfully drawn foreign direct investment in renewable energy, especially within the wind and solar power sectors, contributing to the alleviation of certain environmental issues linked to conventional energy generation methods (IEA, 2020).

Nonetheless, Vernon (1971) posits that the environmental advantages of foreign direct investment are contingent upon the technology and sectors involved in the investment. In areas such as renewable energy and sustainable agriculture, foreign direct investment can play a significant role in enhancing environmental sustainability through the advancement of green technologies and practices. Nonetheless, in conventional industries such as mining, the environmental repercussions of foreign direct investment could surpass the advantages if sufficient environmental protections are not implemented.

FDI, Social Inclusion, and Inequality

Although foreign direct investment can play a role in driving economic growth, its effects on social inclusion and inequality present a more intricate picture. Fosu (2017) points out that foreign direct investment inflows in Africa tend to be concentrated in urban regions or capital-intensive industries, like mining and oil extraction, which provide few opportunities for marginalised groups, including women, youth, and rural communities. According to Oya and Pontara (2016), foreign direct investment frequently intensifies social inequality by benefiting elite groups and sidelining marginalised communities.

In Kenya, for example, swift urban growth fuelled by foreign direct investment in construction and real estate has resulted in escalating property prices, creating significant challenges for low-income households in securing affordable housing (Sachs et al., 2018). In a similar vein, Bigsten and Soderbom (2006) contend that foreign direct investment in

specific sectors can lead to the displacement of small local enterprises, thereby intensifying social inequalities.

Furthermore, the participation of women in the workforce continues to be constrained in numerous foreign-invested sectors. According to UNCTAD (2020), certain countries like Mauritius have made progress in incorporating women into the workforce; however, women still experience under-representation in lucrative sectors and encounter obstacles to economic growth.

Policy Frameworks and Governance

The impact of foreign direct investment on sustainable economic development is significantly influenced by the governance quality and policy frameworks present in host nations. Akinlo (2004) highlights the importance of good governance, robust legal frameworks, and transparency in fostering a conducive investment environment. Tadesse and Assefa (2015) contend that African nations with strong institutions are more capable of attracting high-quality foreign direct investment that aligns with sustainable development objectives.

Nonetheless, Amoako (2018) points out that numerous African nations experience challenges such as weak institutions, corruption, and political instability, which may diminish the beneficial effects of FDI. UNCTAD (2019) highlights that the policies in numerous African nations continue to fall short in aligning foreign direct investment inflows with long-term sustainable development goals, including poverty alleviation, environmental safeguarding, and social inclusion.

Blomström and Kokko (2003) suggest that African governments should incorporate sustainability into investment policies and establish frameworks that foster both economic and social outcomes to strengthen the impact of FDI on sustainable development. The African Union's Agenda 2063 highlights the importance of investments that are economically viable while also advancing social and environmental objectives, ensuring that the advantages of foreign direct investment are distributed equitably.

Challenges and Opportunities for FDI in Africa

Numerous studies highlight various obstacles that impede the realisation of FDI's full potential in Africa, such as inadequate infrastructure, political instability, and restricted access to financial resources. The World Bank (2020) indicates that shortcomings in infrastructure, including insufficient transport and energy systems, pose a considerable barrier to attracting foreign investment. Furthermore, Akinlo (2004) contends that political instability and corruption significantly hinder the capacity of FDI to foster long-term development.

Nonetheless, there are also considerable opportunities. Bigsten and Soderbom (2006) indicate that Africa's extensive natural resources, youthful demographic, and expanding consumer market offer significant prospects for foreign direct investment, especially in areas like renewable energy, agriculture, and technology. Establishing a more

stable and transparent investment environment enables African governments to draw in foreign direct investment that fosters sustainable economic growth and development.

Theoretical Framework

Dependency Theory

The Dependency Theory, which was created by academics such as Andre Gunder Frank (1966) and Immanuel Wallerstein (1974), contends that foreign direct investment (FDI), particularly from multinational companies (MNCs), has the potential to exacerbate the economic dependence of developing countries on wealthy ones. According to this idea, foreign direct investment (FDI) results in the exploitation of local resources and labour, with earnings frequently being returned to the nations that invested in the venture. This, in turn, impedes the economic autonomy and long-term growth of the country that is receiving the investment. In the context of Africa, this theory is particularly pertinent since many nations have witnessed little advantage from foreign direct investment (FDI) in industries such as oil, mining, and agriculture, which are dominated by foreign investors without producing significant local development or alleviating poverty (Carmody, 2016).

Modernization Theory

Unlike Dependency Theory, Modernisation Theory (Rostow, 1960) posits that foreign direct investment is essential to the development process, as it brings in new technologies, capital, and organisational practices that can stimulate industrialisation and enhance living standards. This theory posits that foreign direct investment propels the shift from traditional to modern economies, especially in regions such as Sub-Saharan Africa, where there is frequently a lack of capital, technology, and managerial skills. According to Lucas (2001), foreign direct investment results in enhancements in productivity and infrastructure, subsequently fostering comprehensive economic growth. For sustainable growth, this theory recognises the significance of government policies and the local capacity to effectively absorb and utilise foreign direct investment.

Sustainable Development Theory

The theory of sustainable development, articulated in the Brundtland Report (1987), emphasises the importance of fulfilling current requirements while ensuring that future generations can also satisfy their own needs. This theory emphasises the necessity of harmonising economic growth with social inclusion and environmental sustainability within the framework of foreign direct investment. Sachs (2004) posits that foreign direct investment can play a significant role in fostering sustainable development when it is allocated to initiatives that enhance clean energy, protect the environment, and support social welfare. Foreign direct investment can enhance sustainability by facilitating the transfer of environmentally friendly technologies and encouraging sectors that prioritise long-term ecological advantages, including renewable energy, sustainable agriculture, and eco-tourism (Blomström & Kokko, 2003). In Africa, the challenge lies in guaranteeing that foreign direct investment fosters both economic development and environmental sustainability. Countries that incorporate environmental policies into their investment

strategies, like Kenya's emphasis on renewable energy, tend to attain sustainable economic development through foreign direct investment (IEA, 2020).

Methodology

This study employed secondary research methodology to explore the connection between Foreign Direct Investment (FDI) and sustainable economic development in Africa. Secondary research entails the examination of pre-existing data and information sourced from published materials, such as scholarly articles, reports from global organisations, government publications, and other reputable documents. This method facilitates a comprehensive exploration of the subject matter while eliminating the necessity for primary data gathering, which can frequently be expensive and labour-intensive. The utilisation of secondary data proves to be especially advantageous when examining foreign direct investment in Africa, given that a significant amount of pertinent information is easily accessible through international entities like the World Bank, United Nations Conference on Trade and Development (UNCTAD), and International Monetary Fund (IMF), among others. The secondary method offers valuable insights into previously observed and documented trends, patterns, and correlations from earlier research.

Conclusion

Foreign Direct Investment (FDI) plays a vital role in fostering economic growth, generating employment opportunities, and alleviating poverty in numerous developing nations, particularly in Africa. This investigation has examined the connection between foreign direct investment and sustainable economic growth in Africa, emphasising the various opportunities and challenges associated with foreign investments in the area.

The results indicate that foreign direct investment significantly contributes to economic growth by supplying capital, facilitating technology transfer, and offering expertise that can enhance industrial modernisation and infrastructure development. Nonetheless, the advantages of foreign direct investment are not uniformly shared, and its effects on alleviating poverty, promoting social inclusion, and ensuring environmental sustainability are varied. In various African nations, foreign direct investment has resulted in significant economic development and a decrease in poverty, especially within sectors such as telecommunications, agriculture, and renewable energy. Conversely, in industries like mining and oil extraction, foreign direct investment frequently leads to environmental harm, exploitation of workers, and increased social disparities.

The effectiveness of foreign direct investment in fostering sustainable development is significantly influenced by the governance framework, institutional quality, and policy orientation of the host country. Countries characterised by robust institutions, clear regulatory frameworks, and efficient governance are more adept at leveraging foreign direct investment, thereby ensuring its positive impact on economic growth and sustainable development. On the other hand, inadequate institutions and ineffective governance may result in resource exploitation, environmental degradation, and restricted social advantages.

Given the diversity of outcomes across African nations, the study emphasizes the need for tailored approaches to FDI that align with each country's specific development needs and sustainability goals. A focus on integrating FDI with broader national development strategies is essential for maximizing its long-term positive impact.

Recommendations

Based on the findings of this study, the following recommendations are proposed to enhance the positive impact of FDI on sustainable economic development in Africa:

1. It is essential for African governments to enhance institutional frameworks to effectively attract, manage, and regulate foreign direct investment. Clear legal and regulatory structures that safeguard property rights, uphold contracts, and guarantee environmental adherence are crucial for fostering a stable and foreseeable investment landscape.
2. Foreign direct investment ought to be channelled into sectors that foster long-term sustainable development, including renewable energy, sustainable agriculture, and infrastructure development. Investments aimed at fostering environmental sustainability and social inclusion play a crucial role in alleviating the adverse impacts associated with resource extraction and other potentially detrimental sectors.
3. To enhance the developmental advantages of foreign direct investment, African nations ought to prioritise the improvement of education and training to cultivate the essential skills for local workers, enabling their participation in and benefit from foreign investment initiatives. Enhancing human capital in African nations can significantly improve their ability to integrate technology and innovation introduced by foreign investors, resulting in increased productivity and more equitable growth.

References

1. African Union. (2015). *Agenda 2063: The Africa We Want*. Addis Ababa: African Union Commission.
2. Akinlo, A. E. (2004). "Foreign Direct Investment and Growth in Nigeria: An Empirical Investigation." *Journal of Policy Modeling*, 26(5), 627-639.
3. Amoako, K. (2018). "Good Governance and the Role of Foreign Direct Investment in Africa's Development." *African Development Review*, 30(2), 243-262.
4. Borensztein, E., De Gregorio, J., & Lee, J.-W. (1998). "How Does Foreign Direct Investment Affect Economic Growth?" *Journal of International Economics*, 45(1), 115-135.
5. Bigsten, A., & Soderbom, M. (2006). "Growth and Investment in Africa: The Impact of Foreign Direct Investment." *World Bank Economic Review*, 20(3), 467-490.
6. Blomström, M., & Kokko, A. (2003). "The Economics of Foreign Direct Investment Incentives." *NBER Working Paper Series*.
7. Campos, N. F., & Kinoshita, Y. (2003). "Why Does FDI Go Where It Goes? New Evidence from the Transition Economies." *International Monetary Fund Working Paper*.
8. Chakraborty, C., & Nunnenkamp, P. (2008). "Economic Reforms, FDI, and Economic Growth in Developing Countries: A Panel Data Analysis." *World Development*, 36(7), 1207-1222.
9. Carmody, P. (2016). "The New Scramble for Africa." PoliPointPress.
10. Frank, A. G. (1966). *The Development of Underdevelopment*. Monthly Review Press.

11. Fosu, A. K. (2017). "Growth, Inequality, and Poverty in Sub-Saharan Africa: Recent Trends and Policy Challenges." *Oxford Development Studies*, 45(2), 150-171.
12. Mankiw, N. G., Romer, D., & Weil, D. N. (1992). "A Contribution to the Empirics of Economic Growth." *Quarterly Journal of Economics*, 107(2), 407-437.
13. North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge University Press.
14. Putnam, R. D. (1993). *Making Democracy Work: Civic Traditions in Modern Italy*. Princeton University Press.
15. Rodrik, D. (2007). "The New Development Economics: A Pragmatic Approach to Poverty Reduction." *Journal of Development Studies*, 43(5), 788-804.
16. Rostow, W. W. (1960). *The Stages of Economic Growth: A Non-Communist Manifesto*. Cambridge University Press.
17. Sachs, J. D. (2004). *The End of Poverty: Economic Possibilities for Our Time*. Penguin Books.
18. Solow, R. M. (1956). "A Contribution to the Theory of Economic Growth." *Quarterly Journal of Economics*, 70(1), 65-94.
19. UNCTAD. (2020). *World Investment Report 2020: International Production Beyond the Pandemic*. United Nations Conference on Trade and Development.
20. UNDP. (2016). *African Human Development Report 2016: Accelerating Gender Equality and Women's Empowerment in Africa*. United Nations Development Programme.
21. Vernon, R. (1971). *Sovereignty at Bay: The Multinational Spread of US Enterprises*. Basic Books.



© 2026 by the authors. Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license (<https://creativecommons.org/licenses/by-nc-sa/4.0/>).