Transparency and foreign direct investment into Sub-Saharan Africa: An econometric investigation

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Citation:

Abstract:

Purpose
– The financial economics literature points to the likelihood that transparency affects the inflows of direct foreign investments. The purpose of this paper is to examine the relationship between degree of transparency in an economy and the level of foreign direct investment (FDI) inflows using cross-section and time series data from 13 Sub-Saharan African countries from 1998 through 2008.

Design/methodology/approach
– The paper employed a panel unit root and panel cointegration tests to data from 13 Sub-Saharan countries from 1998 through 2008. The long-run equilibrium relationship is estimated by the fully modified ordinary least squares (FMOLS) method. The cointegration framework employed in this study accounts for individual as well as time effects by adjusting for potential heterogeneity and serial correlation existing in the data panel.

Findings
– The results imply that the level of transparency and size of FDI inflows into Sub-Saharan Africa have a long-run equilibrium relationship.
Research limitations/implications
– The role of multinational corporations in increasing the levels of corruption in host countries is supported in this study.

Practical implications
– The role of multinational corporations in contributing to the absence of transactional transparency in host countries is supported in this study. The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions should be endorsed by African countries. African countries should make efforts to transform their domestic political and economic environments in order to enhance transparency and allow rule of law to apply.

Originality/value
– This paper is the first to empirically test the aforementioned long-run equilibrium relationship by isolating the role of transparency in international capital flows.

Keywords:

Foreign direct investment, Corruption, Capital flows, Transparency, Sub-Saharan Africa, Panel cointegration