

The Impact of Infrastructure on FDI Inflows :

A Sub-sahara Africa Perspective

Mbugua Michael Mwaniki Githaka

The over all objective of this study was to investigate the nature of influence that infrastructure possess over FDI in SSA countries. Many arguments and prior investigations have found that infrastructure has a very positive influence upon FDI. Deeper studies into the various individual sectors of infrastructure have however been less than unanimous in their results. There have been instances of negative correlations in some of these components with FDI inflow. It is worth noting that the dynamic nature of political regimes, economic conditions and levels of development all contribute to these varying results in different regions and countries. Therefore, FDI is fundamentally unique in whatever particular regions it is being assessed.

As such, for the SSA region, FDI has been recorded consistently lower than in other regions of the world. The inferior levels of infrastructure have been playing a significant role in this dilemma. Firms that are actively making investments have cited the constant disruptions to power and water supply as well as poor transport conditions as some of their complications. Electric energy productions are low and heavily reliant on hydro-production, transport and connectivity fails to adequately penetrate into the remote regions and governments have not been spending enough on developing new systems or upgrading existing ones in a majority of the countries. Not all of them. With this in mind, this research was aimed at investigating the influences that gross capital formation, energy, and communication had on FDI inflow for SSA. That is ;

1. Does gross capital formation, energy, and communication factors influence FDI?
2. What is the nature of the correlation, if any, that they have to FDI?

A panel data approach was employed in the analysis of this issue. The population of the data consisted of 26 countries and all within a time period from 1993-2013. A significant challenge at this instance was the imperfection of data as a result of availability challenges. As such selection criteria of the population was very considerate of this and so this was the logic behind selection. This led, also to the consequent omission of roads and railways as worthy measures of infrastructure in the data set. Random effects was the choice of analysis method as from the Hausman test.

As expected, the results were positive for the relationships between the variables selected. Gross capital formation was highly significant in its correlation to FDI. It The discovery according to this paper is that if there is an increased commitment by SSA countries to apportion more finances into gross capital formation, then the levels of FDI would also increase. This is of course entirely dependent on the governance, laws and financial might of the countries. Those with higher levels of revenues may achieve this much sooner. Increasing spending on gross capital formation gives more spending might on machinery, and construction projects which add on to increasing infrastructure levels.

Communication too is positive and significant. The analysis finds that the density of communication connec-

tions is wanting as indicated by values of the data variable for communication. However, since all nations in the study were not lacking in availability of useable connections, the positive relationship could be an indicator of how critical available links are to supporting information exchange. However, the variable did not consider cell phone connections which surged in use over the years. Regardless, communication over either or both mediums would be expected to be positive to FDI inflow in SSA.

Energy was also found to have a positive correlation to FDI inflows. The find is that if there are more people who can access the electricity grid, then the availability of electric energy to serve businesses is also, by extension, increased in availability. If the human capital factor cannot access electricity both effectively and sufficiently, then production is limited as energy is required. This means that the SSA region has to explore new forms of energy production and increase power production beyond current capacities. The more distributed and increased the power production is, the more FDI can be brought into SSA.