# The Relativity of FDI Flows to Sub-Saharan Africa: Impact of Finance, Institution and Natural Resource Endowment

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In absolute terms, foreign direct investment (FDI) flows to the Sub-Sahara African (SSA) region have increased since the start of 1990s. According to the 2009 World Investment Report (UNCTAD, 2009), the value of foreign direct investment to the region rose from US$36.7 billion in 1990 to a level of US$108.5 billion in 2000, and stood at US$336.8 billion as at 2008. This modest achievement notwithstanding, Africa still lags far behind in terms of capacity of attracting FDIs and the required conducive environment for investment to thrive. Majority of the countries are still characterised by restrictive features that inhibit trade and investment. There are still cases of persistent political conflicts, macroeconomic instability and highly inefficient financial systems. Unfortunately, empirical evidence to guide pro-FDI policies in the region is still remains very limited.

Motivated by the above research problem, this study uses a panel data set spanning from 1995 to 2008 and drawn from 30 SSA countries, and the robust Baltagi and Wu's (1999) generalized least square estimator that allows for a variety of patterns of missing data and serially correlated errors of the AR(1) type, to examine the relative impact of financial development, macroeconomic and institutional factors on the flow of foreign direct investments to the region. The preliminary outcome reveals that financial development, the size of a country's market, infrastructural development and urban agglomeration have strong positive impact on FDI flows in the SSA region; that contrary to the findings of previous studies, inflation and corruption equally have significantly positive effects on FDI flows in SSA; and that financial development, infrastructural development and trade openness play more role in attracting FDI to non-resource endowed countries than they do for resource endowed countries. Ironically, the positive impact of corruption is found to be higher in resource endowed countries than in non-resource endowed countries. The policy implications from these preliminary findings point at the need for SSA countries to focus on improving and stability the monetary system; opening their markets by entering into the right kind of bilateral and multilateral trade agreements; and applying more political will in the fight against corruption so as to be able to attract the right kinds of FDI.