



The Impact of Institutional Quality on Foreign Direct Investment in Burkina Faso

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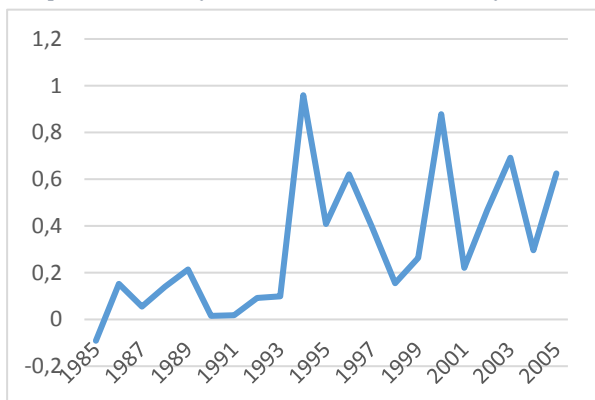
Context : The analyze of FDI data, as a percentage of GDP in Burkina Faso, shows a weakness in the country's ability to attract foreign investment (less than 1% of FDI attract on average between 1985-2015).

Objective : This study examined the impact of institutional quality on the attraction of foreign direct investment in Burkina Faso over the period 1985-2005.

Materials and Method: Institutional quality data comes from International country risk guide contains twelve (12) components. FDI data comes from Unctad database. The ADF and PP units root tests were applied and conducted to conclude on I (1) variables. And then, principal component analysis in spad helped us consider corruption (CO), external conflict (EC) and socioeconomics conditions (SC) as a better representation of institutional quality. The use of error correction modeling (Vecm) leads us find long term and short term relationships. Residuals diagnostics (normality, correlation, heteroskedascity) converged. Also, impulse response and variance decomposition were applied denoted strong of model.

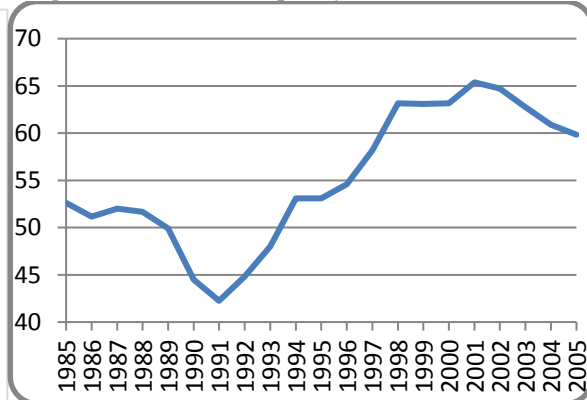
Results

Graphic 1: FDI inflows in Burkina Faso (% of GDP)



Source: Unctad data, our construction

Graphic 2: Institutional quality index in Burkina Faso



Long term causality: cointegrating equation:

$$FDI = -0.073486 * EC + 0.109756 * SC + 0.313742 * CO$$

Short term relationship: External conflict and corruption explains FDI.

Conclusion

There is a long-term relationship between foreign direct investment (FDI), corruption, external conflicts and socio-economic conditions. Corruption and external conflicts are determinants of the attractiveness of FDI in the country.

Therefore, there is a need to develop appropriate policies such as strengthening judicial governance and improving existing anti-corruption strategies in Burkina Faso. The country must also be involved in the appropriate way of resolution of external conflicts that keep potential investors away, especially in the West African sub region.